

Securities And Exchange Commission

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

VECTOR GROUP LTD.

(Exact name of registrant as specified in its charter)

DELAWARE

1-5759

65-0949535

(State or other jurisdiction
of incorporation)

Commission File Number

(I.R.S. Employer
Identification No.)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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Vector Group Ltd.

Common Stock, par value \$.10 per share	New York Stock Exchange
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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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, as amended (the "Exchange Act"), 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes No

The aggregate market value of the voting stock held by non-affiliates of Vector Group Ltd. as of March 23, 2001 was approximately \$309,000,000. Directors and officers and ten percent or greater stockholders of Vector Group Ltd. are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

At March 23, 2001, Vector Group Ltd. had 25,667,018 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III (Items 10, 11, 12 and 13) from the definitive Proxy Statement for the 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year covered by this report.

VECTOR GROUP LTD.

FORM 10-K

T A B L E O F C O N T E N T S

	PAGE

PART I	
Item 1. Business.....	1
Item 2. Properties.....	27
Item 3. Legal Proceedings.....	27
Item 4. Submission of Matters to a Vote of Security Holders; Executive Officers of the Registrant.....	28
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	30
Item 6. Selected Financial Data.....	31
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	32
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	45
Item 8. Financial Statements and Supplementary Data.....	45
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.....	45
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	46
Item 11. Executive Compensation.....	46
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	46
Item 13. Certain Relationships and Related Transactions.....	46
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	47
SIGNATURES.....	54

PART I

ITEM 1. BUSINESS

GENERAL

Vector Group Ltd., a Delaware corporation, is a holding company for a number of businesses. It is engaged principally in the manufacture and sale of cigarettes in the United States through its subsidiary Liggett Group Inc.; in the development of new less hazardous cigarette products through its Vector Tobacco subsidiaries; and in the investment banking and brokerage business in the United States and the real estate business in Russia through its majority-owned subsidiary New Valley Corporation. Vector holds these businesses through its wholly-owned subsidiary, BGLS Inc., a Delaware corporation.

Vector is controlled by Bennett S. LeBow, the Chairman and Chief Executive Officer of Vector, BGLS and New Valley, who beneficially owns approximately 41% of Vector's common stock. The principal executive office of Vector is located at 100 S.E. Second Street, Miami, Florida, and the telephone number is (305) 579-8000.

Effective May 24, 2000, Vector changed its name from Brooke Group Ltd. to Vector Group Ltd.

LIGGETT GROUP INC.

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

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

Liggett manufactures and sells cigarettes primarily in the United States. Liggett believes, based on published industry sources, that Liggett's domestic shipments of approximately 6.5 billion cigarettes during 2000 accounted for 1.5% of the total cigarettes shipped in the United States during such year. This market share percentage represents an increase of 0.3% from 1999 and 0.2% from 1998. Liggett produces both premium cigarettes as well as discount cigarettes (which include among others, control label, branded discount and generic cigarettes). Premium cigarettes are generally marketed under well-recognized brand names at full retail prices to adult smokers with strong preference for branded products, whereas discount cigarettes are marketed at lower retail prices to adult smokers who are more cost conscious. Liggett's cigarettes are produced in approximately 210 combinations of length, style and packaging.

Liggett's premium cigarettes represented approximately 11.4% in 2000, 18.8% in 1999 and 31.4% in 1998 of Liggett's net sales (excluding federal excise taxes). Liggett's management believes, based on published industry sources, that Liggett's share of the premium market segment was approximately 0.2% for 2000, 0.3% for 1999 and 0.5% for 1998. Until May 1999, Liggett produced four premium cigarette brands: L&M, CHESTERFIELD, LARK and EVE. As part of the Philip Morris brand transaction which closed on May 24, 1999, Liggett transferred the L&M, CHESTERFIELD and LARK brands, which represented approximately 16.1% in 1998 of Liggett's net sales (excluding federal excise taxes).

In 1980, Liggett was the first major domestic cigarette manufacturer to successfully introduce discount cigarettes as an alternative to premium cigarettes. In 1989, Liggett established a new price point within the discount market segment by introducing PYRAMID, a branded discount product which, at that time, sold for less than most other discount cigarettes. Liggett's management believes, based on published industry sources, that Liggett held a share of approximately 5.3% of the discount market segment for 2000 compared to 3.9% for 1999 and 3.5% for 1998.

In November 1999, Liggett acquired an industrial facility in Mebane, North Carolina. Liggett completed the relocation of its tobacco manufacturing operations from its old facility in Durham, North Carolina to the Mebane facility in October 2000.

At the present time, Liggett has no foreign operations. Liggett does not own the international rights to its remaining premium cigarette brand, EVE, which is marketed by Philip Morris in foreign markets, thereby adversely affecting Liggett's ability to penetrate those markets. Through 2000, Liggett did export other cigarette brands primarily to Eastern Europe and the Middle East. Export sales of approximately 124.3 million cigarettes accounted for approximately 2.0% of Liggett's 2000 total unit sales volume. Revenues from export sales were \$1.2 million for 2000, compared to \$1.2 million for 1999 and \$0.6 million for 1998. Operating losses attributable to export sales in 2000 amounted to approximately \$0.3 million compared to operating income of \$0.1 million in 1999 and \$0.07 million in 1998. Liggett has now effectively terminated its export business as domestic margins, on even the lowest priced brands, exceed those of its export sales.

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

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

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Liggett offers its customers discount payment terms, traditional rebates and promotional incentives. Customers typically pay for purchased goods within two weeks following delivery from Liggett, and approximately 60% of customers pay more rapidly through electronic funds transfer arrangements. Liggett's largest single customer, Speedway SuperAmerica LLC, accounted for approximately 33.8% of its net sales in 2000, 30.7% of its net sales in 1999 and approximately 26.9% of its net sales in 1998. Sales to this customer were primarily in the private label discount segment and constituted approximately 38.1% in 2000, 38.2% in 1999 and 38.3% in 1998 of Liggett's discount segment sales.

Liggett's marketing and sales functions are performed by approximately 144 direct sales representatives calling on national and regional customer accounts, together with approximately 62 part-time retail sales consultants who service retail outlets.

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

MANUFACTURING. Liggett purchases and maintains leaf tobacco inventory to support its cigarette manufacturing requirements. Liggett believes that there is a sufficient supply of tobacco within the worldwide tobacco market to satisfy its current production requirements. Liggett stores its leaf tobacco inventory in warehouses in North Carolina and Virginia. There are several different types of tobacco, including flue-cured leaf, burley leaf, Maryland leaf, oriental leaf, cut stems and reconstituted sheet. Leaf components of American style cigarettes are generally the flue-cured and burley tobaccos. While premium and discount brands use many of the same tobacco products, input ratios of tobacco products account for the differences between premium and discount products. Domestically grown tobacco is an agricultural commodity subject to United States government production controls and price supports which can substantially affect its market price. Foreign flue-cured and burley tobaccos, some of which are used in the manufacture of Liggett's cigarettes, are generally 30% to 35% less expensive than comparable domestic tobaccos. Liggett normally purchases all of its tobacco requirements from domestic and foreign leaf tobacco dealers, much of it under long-term purchase commitments. As of December 31, 2000, approximately 100% of Liggett's commitments were for the purchase of foreign tobacco.

Liggett's new cigarette manufacturing facilities are designed for the execution of short production runs in a cost-effective manner, which enables Liggett to manufacture and market a wide variety of cigarette brand styles. Liggett's cigarettes are produced in approximately 210 different brand styles under Eve's and Cigarette Exporting's trademarks and brand names as well as private labels for other companies, typically retail or wholesale distributors who supply supermarkets and convenience stores. Liggett believes that its existing facilities are sufficient to accommodate a substantial increase in production.

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

COMPETITION. Liggett's competition is now divided into two segments. The first segment is made up of the four largest manufacturers of cigarettes in the United States: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company, Inc. The four largest manufacturers, while primarily premium cigarette based companies, also produce and sell discount cigarettes. The second segment of competition is comprised of a group of smaller companies, most of which are producing lower quality, deep discount cigarettes. The largest of these smaller manufacturers, Commonwealth Brands, Inc., is now the fifth largest cigarette manufacturer.

Historically, there have been substantial barriers to entry into the cigarette business, including extensive distribution organizations, large capital outlays for sophisticated production equipment, substantial inventory investment, costly promotional spending, regulated advertising and, for premium brands, strong brand loyalty.

Recently, during the phase-in payment period under the Master Settlement Agreement, these smaller manufacturers have generally not yet been impacted to a significant degree by the agreement and have primarily focused on the deepest discount segment of the market. Liggett's management believes, while these companies have increased market share through competitive discounting in this segment, they will lose their cost advantage over time as their payment obligations under the Master Settlement Agreement increase.

In the cigarette business, Liggett must now compete on a dual front. The four major manufacturers compete among themselves and with Liggett for premium brand market share on the basis of brand loyalty, advertising and promotional activities, and trade rebates and incentives. These four competitors all have substantially greater financial resources and most of their brands have greater sales and consumer recognition than Liggett's premium brand. Liggett's discount brands must also compete in the marketplace with the four major manufacturers' discount brands as well as the smaller manufacturers' deep discount brands.

Liggett's management believes, based on published industry sources, that Philip Morris' and RJR's sales together accounted for approximately 73.5% of the domestic cigarette market in 2000. Liggett's domestic shipments of approximately 6.50 billion cigarettes during 2000 accounted for 1.5% of the approximately 419.8 billion cigarettes shipped in the United States during that year, compared to 5.24 billion cigarettes in 1999 (1.2%) and 5.91 billion cigarettes (1.3%) during 1998.

Industry-wide shipments of cigarettes in the United States have been declining for a number of years, although published industry sources estimate that domestic industry-wide shipments actually increased by approximately 0.1% (0.5 billion units) in 2000. Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors, including health considerations, diminishing social acceptance of smoking, legislative limitations on smoking in public places and federal and state excise tax increases which have contributed to cigarette price increases.

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

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

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

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

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

On May 24, 1999, Trademarks borrowed \$134.9 million from a lending institution. The loan is guaranteed by Eve and is collateralized by a pledge by Trademarks of the three brands and Trademarks' interest in the trademark license

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

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

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

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

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

Since 1966, federal law has required that cigarettes manufactured, packaged or imported for sale or distribution in the United States include specific health warnings on their packaging. Since 1972, Liggett and the other cigarette manufacturers have included the federally required warning statements in print advertising, on billboards and on certain categories of point-of-sale display materials relating to cigarettes. The Comprehensive Smoking Education Act, which became effective in October 1985, requires that packages of cigarettes distributed in the United States and cigarette advertisements (other

than billboard advertisements) in the United States bear one of the following four warning statements on a quarterly rotating basis: "SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, and May Complicate Pregnancy"; "SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health"; "SURGEON GENERAL'S WARNING: Smoking by Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight"; and "SURGEON GENERAL'S WARNING: Cigarette Smoke Contains Carbon Monoxide". By a limited eligibility amendment to the Comprehensive Smoking Education Act, for which Liggett qualifies, Liggett is allowed to display all four required package warnings for the majority of its brand packages on a simultaneous basis (such that the packages at any time may carry any one of the four required warnings), although it rotates the required warnings for advertising on a quarterly basis in the same manner as do the other major cigarette manufacturers. The law also requires that each person who manufactures, packages or imports cigarettes annually provide to the Secretary of Health and Human Services a list of ingredients added to tobacco in the manufacture of cigarettes. Annual reports to the United States Congress are also required from the Secretary of Health and Human Services as to current information on the health consequences of smoking and from the Federal Trade Commission on the effectiveness of cigarette labeling and current practices and methods of cigarette advertising and promotion. Both federal agencies are also required annually to make such recommendations as they deem appropriate with regard to further legislation. In addition, since 1997, Liggett has included the warning "Smoking is Addictive" on its cigarette packages.

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

Since the Supreme Court decision, various proposals have been made for federal and state legislation to regulate cigarette manufacturers. Recently, a Presidential commission appointed by former President Clinton issued a preliminary report recommending that the FDA be given authority by Congress to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health. In addition, Congressional advocates of FDA regulation have introduced such legislation for consideration by the 107th Congress. The ultimate outcome of these proposals cannot be predicted.

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

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

In February 1996, the United States Trade representative issued an "advance notice of rule making" concerning how tobaccos imported under a previously established tobacco rate quota should be allocated. Currently, tobacco imported under the quota is allocated on a "first-come, first-served" basis, meaning that entry is allowed on an open basis to those first requesting entry in the quota year. Others in the cigarette industry have suggested an "end-user licensing"

system under which the right to import tobacco under the quota would be initially assigned on the basis of domestic market share. Such an approach, if adopted, could have a material adverse effect on Liggett.

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

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise five cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.87 per pack in a given locality in the United States. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and increases in excise and other cigarette-related taxes have been proposed at the state and local levels.

In June 2000, the New York state legislature passed legislation charging the state's Office of Fire Prevention and Control with developing standards for "fire safe" or self-extinguishing cigarettes. The OFPC has until July 1, 2002 to issue final regulations. Six months from the issuance of the standards, but no later than January 1, 2003, all cigarettes offered for sale in New York state will be required to be manufactured to those standards. Similar legislation is being considered by other state legislatures.

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

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

The cigarette industry continues to be challenged on numerous fronts. The industry is facing increased pressure from anti-smoking groups and an extraordinary increase in smoking and health litigation, including private class action litigation and health care cost recovery actions brought by governmental entities and other third parties, the effects of which, at this time, Vector is unable to evaluate. As of December 31, 2000, there were approximately 317 individual suits, approximately 43 purported class actions or actions where

class certification has been sought and approximately 90 governmental and other third-party payor health care recovery actions pending in the United States in which Liggett is a named defendant. In addition to these cases, during the third quarter of 2000, an action against cigarette manufacturers involving approximately 1,200 named individual plaintiffs has been consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. These cases are referred to herein as though commenced against Liggett (without regard to whether such cases were actually commenced against Liggett or against Brooke Group Holding, Vector's predecessor, and a wholly-owned subsidiary of BGLS). The plaintiffs' allegations of liability in those cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act, state racketeering statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including treble/multiple damages, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statutes of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

The claims asserted in the health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of health care costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20 billion annually. The action asserts claims under three Federal statutes: the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide a basis for the relief sought. In a September 2000 ruling, the court dismissed the government's claims based on the Medical Care Recovery Act and the Medicare Secondary Payor provisions, on the ground, among others, that these statutes do not provide a basis for the relief sought. The government filed a motion seeking the court's reconsideration of this ruling, which remains pending. In the September 2000 ruling, the court also determined not to dismiss the government's claims based on RICO, under which the government continues to seek court relief to restrain the defendant tobacco companies from allegedly engaging in fraud and other unlawful conduct and to compel disgorgement. This action is now moving into the discovery phase. Trial is scheduled for July 2003, although trial dates are subject to change.

Approximately 38 purported state and federal class action complaints have been filed against the cigarette manufacturers for alleged antitrust violations. The actions allege that the cigarette manufacturers have engaged in a nationwide and international conspiracy to fix the price of cigarettes in violation of state and federal antitrust laws. Plaintiffs allege that defendants' price-fixing conspiracy raised the price of cigarettes above a competitive level. Plaintiffs in the 31 state actions purport to represent classes of indirect purchasers of cigarettes in 16 states; plaintiffs in the seven federal actions purport to represent a nationwide class of wholesalers who purchased cigarettes directly from the defendants. The federal actions have been consolidated and, on July 28, 2000, plaintiffs in the federal consolidated action filed a single consolidated complaint that did not name Liggett or Brooke Group Holding as defendants. Fourteen California actions have been consolidated and the consolidated complaint did not name Liggett or Brooke Group Holding as defendants. In Nevada, an amended complaint was filed that did not name Liggett or Brooke Group Holding as defendants. The Arizona action was dismissed, but the plaintiffs are expected to appeal that ruling.

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

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

The Master Settlement Agreement is subject to final judicial approval in each of the settling states and territories, which approval has been obtained, as of December 31, 2000, in 51 of the 52 settling jurisdictions.

Liggett has no payment obligations under the Master Settlement Agreement unless its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. Liggett believes, based on published industry sources, that its domestic shipments accounted for 1.5% of the total cigarettes shipped in the United States during 2000. In the year following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the original participating manufacturers under the annual and strategic contribution payment provisions of the Master Settlement Agreement, subject to applicable adjustments, offsets and reductions. Under the annual and strategic contribution payment provisions of the Master Settlement Agreement, the original participating manufacturers (and Liggett to the extent its market share exceeds the base share) are required to pay the following annual amounts (subject to certain adjustments):

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

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

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

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

In May 1994, an action entitled ENGLE, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court, Eleventh Judicial Circuit, Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. Phase I of the trial commenced in July 1998 and in July 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that: smoking cigarettes causes 20 diseases or medical conditions, cigarettes are addictive or dependence producing, defective and unreasonably dangerous, defendants made materially false statements with the intention of misleading smokers, defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. On April 7, 2000, the jury awarded compensatory damages of \$12.7 million to the three plaintiffs, to be reduced in proportion to the respective plaintiff's fault. The jury also decided that the claim of one of the plaintiffs, who was awarded compensatory damages of \$5.8 million, was not timely filed. On July 14, 2000, the jury awarded approximately \$145 billion in the punitive damages portion of Phase II against all defendants including \$790 million against Liggett. The court entered a final order of judgment against the defendants on November 6, 2000. The court's final judgment also denied various of defendants' post-trial motions, which included a motion for new trial and a motion seeking reduction of the punitive damages award. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on Vector. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998,

the parties filed an amended class action settlement agreement which was preliminarily approved by the court in December 1998. In July 1999, the court denied approval of the settlement. The parties' motion for reconsideration is still pending.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict was returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. Recently, the jury awarded \$790 million in punitive damages against Liggett in the second phase of the trial, and the court has entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on Vector. Liggett has filed the \$3.45 million bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. The complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

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

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

See Note 23 to Vector's consolidated financial statements for a description of legislation, regulation and litigation and of the Master Settlement Agreement and Brooke Group Holding's and Liggett's other settlements.

VECTOR TOBACCO

Vector Tobacco (USA) Ltd., a wholly-owned subsidiary of BGLS, owns all of the outstanding shares of Vector Tobacco Ltd., a Bermuda corporation. The two entities (collectively, "Vector Tobacco") are engaged in development projects in the tobacco industry.

In February 2001, Vector Tobacco announced that it has developed a new proprietary technology which significantly reduces carcinogenic polycyclic aromatic hydrocarbon (PAH) compounds from cigarette smoke. As a result of the

proprietary process, which employs the use of a complex catalytic system, the PAHs are reduced below the level that is known to initiate carcinomas in mouse skin-painting tests. PAHs are considered by many in the health community to be the most severe cancer-causing agent in cigarettes. Management believes, based on a recognized medical journal, that PAHs are prominent among the causative agents for lung cancer in smokers and that avoiding exposure to PAHs is an important key to decreasing lung cancer incidence.

The new cigarettes are lighted, smoked and taste the same as conventional cigarettes. Subject to independent laboratory verification, Vector Tobacco expects to introduce this product to market in late 2001.

The new technology is intended to compliment Vector Tobacco's rights to a proprietary process that enables the production of a tobacco cigarette that is virtually free of nicotine and virtually free of tobacco specific nitrosamines (TSNAs), another potent carcinogen found in tobacco. This process genetically modifies the tobacco seed to produce a virtually nicotine-free and TSNA-free tobacco. Cigarettes produced with this process have been tested in focus groups in the United States and overseas, with such tests confirming that these cigarettes also smoke and taste like conventional cigarettes. Vector Tobacco expects to introduce this product to market in 2002.

Management believes that, while there is no "safe" cigarette, Vector Tobacco's new products may address the two greatest concerns of the health community about smoking - cancer causing agents and addiction. Vector Tobacco plans to combine its significantly PAH-reduced technology with its virtually nicotine-free and TSNA-free tobacco.

These new products will be marketed by Vector Tobacco. Vector Tobacco has agreed to purchase an existing manufacturing plant in Roxboro, North Carolina, which it will convert into a modern cigarette manufacturing facility.

Vector Tobacco's new product initiatives are subject to substantial risks, uncertainties and contingencies which include, without limitation, the challenges inherent in new product development initiatives, the ability to raise capital and manage the growth of its business, potential disputes concerning Vector Tobacco's intellectual property, potential delays in obtaining any necessary government approvals of Vector Tobacco's proposed new tobacco products, potential delays in obtaining the tobacco, other raw materials and any technology needed to produce Vector Tobacco's proposed new products, market acceptance of Vector Tobacco's proposed new products, competition from companies with greater resources and the dependence on key employees. See additional discussion under "Risk Factors" below.

LIGGETT-DUCAT LTD.

On August 4, 2000, Brooke (Overseas) Ltd., a wholly-owned subsidiary of BGLS, completed the sale of all of the membership interests of Western Tobacco Investments LLC to Gallaher Overseas (Holdings) Ltd. Brooke (Overseas) held its 99.9% equity interest in Liggett-Ducat Ltd., a Russian joint stock company, through its subsidiary Western Tobacco Investments LLC. Liggett-Ducat, one of Russia's leading cigarette producers since 1892, produced or had rights to produce 26 different brands of cigarettes, including Russian brands such as PEGAS, PRIMA, NOVOSTI and BELOMORKANAL, and American blend cigarettes under the names "DUKAT" and "LD".

The purchase price for the sale consisted of \$334.1 million in cash and \$64.4 million in assumed debt and capital commitments. The proceeds generated from the sale were divided among Brooke (Overseas) and Western Realty Development LLC, a joint venture of New Valley and Apollo Real Estate Investment

Fund III, L.P., in accordance with the terms of the participating loan. Of the cash proceeds from the transaction after estimated closing expenses, Brooke (Overseas) received \$197.1 million, New Valley received \$57.2 million and Apollo received \$68.3 million. Vector recorded a gain of \$161.0 million (including Vector's share of New Valley's gain), net of income taxes and minority interests, in connection with the sale in the third quarter of 2000.

BGLS used a total of \$106.8 million of the proceeds of the sale to retire its 15.75% Senior Secured Notes.

NEW VALLEY CORPORATION

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

BGLS currently holds, either directly or indirectly through BGLS' wholly-owned subsidiary, New Valley Holdings, Inc., approximately 56.2% of the Common Shares of New Valley.

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

In October 1999, New Valley's Board of Directors authorized the repurchase of up to 2,000,000 Common Shares from time to time in the open market or in privately negotiated transactions. As of March 23, 2001, New Valley had repurchased 412,000 shares for approximately \$1,423.

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

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

The recapitalization had a significant effect on New Valley's financial position and results of operations. As a result of the exchange of the outstanding preferred shares for common shares and warrants in the recapitalization, New Valley's stockholders' equity increased by \$343.4 million from the elimination of the carrying value and dividend arrearages on the redeemable preferred stock. Furthermore, the recapitalization resulted in the elimination of the on-going dividend accruals on the existing redeemable preferred shares of New Valley, as well as the redemption obligation for the Series A Preferred Shares in January 2003. Also as a result of the recapitalization, the number of outstanding Common Shares more than doubled, and

additional Common Shares were reserved for issuance upon exercise of the Warrants, which have an initial exercise price of \$12.50 per Common Share. In addition, Vector increased its ownership of the Common Shares from 42.3% to 55.1%, and its total voting power from 42% to 55.1%. At December 31, 2000, Vector owned 56.1% of New Valley's Common Shares. If all outstanding Warrants were exercised, the percentage of the Common Shares that Vector owns would decline to 39.0%.

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

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

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

On February 8, 2001, New Valley entered into a stock purchase agreement under which New Valley will acquire a controlling interest in GBI Capital Management Corp. and its operating subsidiary, GBI Capital Partners, Inc., a securities and trading firm. Upon completion of the transaction, New Valley will own approximately 50.1% of the outstanding shares of GBI, an American Stock Exchange-listed company, which will be renamed Ladenburg Thalmann Financial Services, Inc. Under the terms of the agreement, New Valley and Berliner will sell all of their outstanding shares of Ladenburg to GBI for 18,181,818 shares of GBI common stock, \$10 million of cash and \$10 million principal amount of convertible notes (convertible at \$2.60 per share). Upon closing, New Valley will acquire for \$1.00 per share an additional 3,945,060 shares of GBI from Joseph Berland, the Chairman and Chief Executive Officer of GBI.

Howard M. Lorber, President and Chief Operating Officer of New Valley, will become Chairman of Ladenburg Thalmann Financial Services. Victor M. Rivas, Chairman and Chief Executive Officer of Ladenburg, will retain his role and become President and CEO of Ladenburg Thalmann Financial Services. Richard J. Rosenstock, President and Chief Operating Officer of GBI, will become Vice Chairman and COO of Ladenburg Thalmann Financial Services and continue to oversee GBI Capital Partners.

The transaction, which is expected to close in the second quarter of 2001, is subject to customary closing conditions, including regulatory approval and approval by GBI shareholders. Holders of a majority of the outstanding shares of GBI have committed to vote in favor of the transaction.

BROOKEMIL LTD. In January 1997, New Valley entered into a purchase agreement with Brooke (Overseas) under which New Valley acquired 10,483 common shares of BrookeMil, which is engaged in the real estate development business in Moscow, Russia. These shares comprised 99.1% of the outstanding shares of BrookeMil and, in August 2000, the remaining 100 shares of BrookeMil were redeemed in connection with the sale of Western Tobacco Investments. New Valley paid Brooke (Overseas) a purchase price of \$55 million for the BrookeMil shares, consisting of \$21.5 million in cash and a \$33.5 million 9% note. The note, which was collateralized by the BrookeMil shares, was paid during 1997.

BrookeMil is developing a three-phase complex on 2.2 acres of land in downtown Moscow, for which it has a 49-year lease. In 1993, the first phase of the project, Ducat Place I, a 46,500 sq. ft. Class-A office building, was successfully built and leased. In April 1997, BrookeMil sold Ducat Place I to one of its tenants, Citibank, for approximately \$7.5 million. This price had been reduced to reflect approximately \$6.2 million of rent prepayments by Citibank. In 1997, BrookeMil completed construction of Ducat Place II, a premier 150,000 sq. ft. office building. Ducat Place II has been leased to a number of leading international companies including Motorola, Conoco and Morgan Stanley. Ducat Place II is one of the leading modern office buildings in Moscow due to its design and full range of amenities. The third phase, Ducat Place III, has been planned as an office tower. The site of the proposed third phase of the project was formerly used by Liggett-Ducat Ltd., an indirect subsidiary of Vector, as the site for its former tobacco factory under a use agreement with BrookeMil. Liggett-Ducat completed construction of a new factory on the outskirts of Moscow in 1999.

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

In August 1997, BrookeMil refinanced all amounts due under the construction loan with borrowings under a new credit facility with the Russian bank SBS-Agro. The new credit facility bears interest at 16% per year, matures no later than August 2002, with principal payments commencing after the first year, and is collateralized by a mortgage on Ducat Place II and guaranteed by New Valley. At December 31, 2000, borrowings under the new credit agreement totaled \$8.2 million.

WESTERN REALTY DEVELOPMENT. In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. organized Western Realty Development to make real estate and other investments in Russia. New Valley agreed to contribute the real estate assets of BrookeMil, including Ducat Place II and the site for Ducat Place III, to Western Realty Development, and Apollo agreed to contribute up to \$72.0 million, including the \$28.3 million investment in Western Realty Repin discussed below.

Western Realty Development has three classes of equity: Class A interests, representing 30% of the ownership of Western Realty Development, and Class B and Class C interests, which collectively represent 70% of the ownership of Western Realty Development. Prior to December 29, 2000, Apollo owned the Class A interests, New Valley owned the Class B interests and BrookeMil owned the Class C interests. On December 29, 2000, WRD Holding Corporation, a wholly-owned subsidiary of New Valley, purchased for \$4 million 29/30ths of the Class A interests of Western Realty Development previously held by Apollo. WRD Holding paid the purchase price of \$4 million with a promissory note due November 30, 2005. The note, which is secured by a pledge of the purchased Class A interests, bears interest at rate of 7% per annum, compounded annually; interest is payable to the extent of available cash flow from distributions from

Western Realty Development. In addition, upon the maturity date of the note or, if earlier, upon the closing of various liquidity events, including sale of interests in or assets of, or a business combination or financing involving, Western Realty Development, additional interest will be payable under the note. The additional interest would be in an amount equal to 30% of the excess, if any, of the proceeds from a liquidity event occurring prior to the maturity of the note or the appraised fair market value of Western Realty Development, at maturity, over \$13.75 million. Apollo and New Valley also agreed to loan Western Realty Development on an equal basis any additional funds required to pay off its existing indebtedness at an interest rate of 15% per annum.

As a result of the purchase of the Class A interests, New Valley and its subsidiaries will be entitled to 99% of subsequent distributions from Western Realty Development and Apollo will be entitled to 1% of subsequent distributions. Accordingly, New Valley will no longer account for its interests in Western Realty Development using the equity method of accounting. Effective December 29, 2000, Western Realty Development became a consolidated subsidiary of New Valley.

Prior to December 29, 2000, the ownership and voting interests in Western Realty Development were held equally by Apollo and New Valley. Apollo was entitled to a preference on distributions of cash from Western Realty Development to the extent of its investment of \$43.75 million, of which \$42.6 million had been funded, \$41.3 million was returned in connection with the sale of Western Tobacco Investments and \$1.3 million was outstanding at December 29, 2000, together with a 15% annual rate of return. New Valley was then entitled to a return to the extent of its investment commitment of \$23.75 million of BrookeMil-related expenses incurred and cash invested by New Valley since March 1, 1997, of which \$22.6 million had been funded, \$21.3 million was returned in connection with the sale of Western Tobacco Investments and \$1.3 million was outstanding at December 29, 2000, together with a 15% annual rate of return. Subsequent distributions were made 70% to New Valley and 30% to Apollo. Prior to December 29, 2000, New Valley accounted for its interest in Western Realty Development on the equity method.

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

Western Realty Development made a \$30 million participating loan to, and payable out of a 30% profits interest in, Western Tobacco Investments which held Brooke (Overseas)'s interest in Liggett-Ducat and its new factory. As a result of the sale of Western Tobacco Investments, Western Realty Development was entitled to receive the return of all amounts advanced on the loan, together with a 15% annual rate of return, and 30% of subsequent distributions. The loan, together with the 15% annual rate of return thereon, was repaid and terminated in connection with the sale of Western Tobacco Investments in August 2000.

The cash proceeds from the August 2000 sale of Western Tobacco Investments after estimated closing expenses were divided among Vector and Western Realty Development in accordance with the participating loan, which was terminated at the closing. Through their investments in Western Realty Development, New Valley received \$57.2 million in cash proceeds from the sale and Apollo received \$68.3 million. New Valley recorded a gain of \$52.5 million in connection with the transaction in the third quarter of 2000.

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

WESTERN REALTY REPIN. In June 1998, New Valley and Apollo organized Western Realty Repin to make a loan to BrookeMil. The proceeds of the loan will be used by BrookeMil for the acquisition and preliminary development of the Kremlin sites, two adjoining sites totaling 10.25 acres located on the Sofiskaya Embankment of the Moscow River. The sites are directly across the river from the Kremlin and have views of the Kremlin walls, towers and nearby church domes. BrookeMil is planning the development of a hotel, office, retail and residential complex on the Kremlin sites. BrookeMil owned 100% of both sites at December 31, 2000.

Western Realty Repin has three classes of equity: Class A interests, of which \$18.75 million were outstanding at December 31, 2000 and are owned by Apollo; Class B interests, of which \$6.25 million were outstanding at December 31, 2000 and are owned by New Valley; and Class C interests, of which Apollo had subscribed for \$9.5 million (\$7.8 million funded) and New Valley had subscribed for \$5.7 million (\$4.7 million funded) at December 31, 2000. Apollo and New Valley are entitled to receive on a pro-rata basis an amount equal to each party's investment in Class C interests, together with a 20% annual return. After the distributions to the Class C interests have been made, Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of \$18.75 million in Class A interests, together with a 20% annual rate of return. New Valley will then be entitled to a return of its investment of \$6.25 million in Class B interests, together with a 20% annual rate of return. Subsequent distributions will be made 50% to New Valley and 50% to Apollo.

Through December 31, 2000, Western Realty Repin had advanced \$37.5 million, of which \$26.5 million was funded by Apollo to BrookeMil. The loan bears no fixed interest and is payable only out of distributions by the entities owning the Kremlin sites to BrookeMil. Such distributions must be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of BrookeMil. BrookeMil used a portion of the proceeds of the loan to reimburse New Valley for expenditures on the Kremlin sites previously incurred. The loan is due and payable upon the dissolution of BrookeMil and is collateralized by a pledge of New Valley's shares of BrookeMil.

As of December 31, 2000, BrookeMil had invested \$35.7 million in the Kremlin sites and held approximately \$462,000 in cash and receivables from an affiliate, both of which were restricted for future investment in the Kremlin sites. In acquiring its interest in one of the Kremlin sites, BrookeMil agreed with the City of Moscow to invest an additional \$22 million in 2000 in the development of the property. In April 2000, Western Realty Repin arranged short-term financing to fund the investment. Under the terms of the investment, BrookeMil is required to utilize such financing amount to make construction expenditures on the site by June 2002. Failure to make the expenditures could result in the forfeiture of a 34.8% interest in the site.

In connection with the sale of Western Tobacco Investments, Gallaher also agreed for \$1.5 million to purchase from a subsidiary of BrookeMil additional land adjacent to the Liggett-Ducat manufacturing facility outside Moscow, Russia. Closing of the sale is scheduled for the second quarter of 2001 following satisfaction of various regulatory requirements.

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

obtain sufficient capital for the projects would force Western Realty Development and BrookeMil to curtail or delay the planned development of Ducat Place III and the Kremlin sites.

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

In September 1998, New Valley completed the sale to institutional investors of the office buildings for an aggregate purchase price of \$112.4 million and recognized a gain of \$4.7 million on the sale. New Valley received approximately \$13.4 million in cash from the transaction before closing adjustments and expenses. The office buildings were subject to approximately \$99.3 million of mortgage financing which was retired at closing.

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

In November 1997, New Valley sold its Marathon, Florida shopping center for \$5.4 million and recognized a gain of \$1.2 million on the sale. In August 1999, New Valley sold to entities affiliated with P.O'B. Montgomery & Company five shopping centers for an aggregate purchase price of \$46.1 million before closing adjustments and expenses. The shopping centers were subject to approximately \$35 million of mortgage financing, which was assumed by the purchasers at closing. New Valley recorded a gain of \$3.8 million on the sale of the five centers. In February 2001, New Valley sold its Royal Palm Beach, Florida shopping center for \$9.5 million before closing adjustments and expenses.

Space in New Valley's remaining shopping center in Kanawha, West Virginia is leased to a variety of commercial tenants and, as of December 31, 2000, the aggregate occupancy of the center was 90%. The property is subject to approximately \$11.3 million of an underlying mortgage in favor of its senior lender and a second mortgage in favor of the original sellers.

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

In June 1999, Thinking Machines sold substantially all of its assets, consisting of its Darwin(R) software and services business, to Oracle Corporation. The purchase price was \$4.7 million in cash at the closing of the sale and up to an additional \$20.3 million, payable in cash on January 31 in each of the years 2001 through 2003, based on sales by Oracle of Darwin product above specified sales targets. Oracle has informed Thinking Machines that it did not achieve the specified sales target for the 2000 period. In June 2000, Thinking Machines recognized a \$150,000 gain related to Oracle's payment of the first installment of \$150,000 from the \$400,000 of the purchase price escrowed in connection with the sale.

MISCELLANEOUS INVESTMENTS. At December 31, 2000, New Valley owned approximately 48% of the outstanding shares of CDSI Holdings, Inc., which completed an initial public offering in May 1997. CDSI holds a minority interest in an Internet application service provider that develops and distributes direct marketing and customer relationship products and services.

As of December 31, 2000, long-term investments consisted primarily of investments in limited partnerships of \$4.7 million, including investments in various Internet-related businesses that were carried at \$321,000 at December 31, 2000.

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

CORPORATE DEVELOPMENTS

Effective October 1, 1999, Vector was reorganized into a holding company form of organizational structure. The new corporate structure was implemented by the merger of a wholly-owned indirect subsidiary of the former Brooke Group Ltd., the predecessor of the current Vector, with the predecessor, which was the surviving corporation. As a result of this merger, each share of the common stock of the predecessor issued and outstanding or held in its treasury was converted into one share of common stock of the current Vector (originally known as BGL Successor Inc.). The current Vector became the holding company for the business and operations previously conducted by the predecessor and its subsidiaries, and the predecessor became an indirect wholly-owned subsidiary of Vector. On the effective date of the merger, the name of the current Vector was changed to Brooke Group Ltd. and the name of the predecessor was changed to Brooke Group Holding Inc. Effective May 24, 2000, Vector changed its name from Brooke Group Ltd. to Vector Group Ltd.

In connection with the merger, BGLS Inc., a subsidiary of the predecessor, sold the stock of all of its direct wholly-owned subsidiaries, other than Liggett, to BGLS Holding Inc., a Delaware corporation which is a wholly-owned subsidiary of Vector. In consideration for such shares, BGLS transferred and assigned to BGLS Holding, and BGLS Holding assumed and agreed to perform and discharge, pursuant to a supplemental indenture, all of BGLS' obligations under the Indenture for BGLS' 15.75% Series B Senior Secured Notes due 2001, which were retired in September 2000. In addition, BGLS Holding assumed all of BGLS' liability as plan sponsor of three pension plans. Following these transactions, BGLS merged into the predecessor and the name of BGLS Holding was changed to BGLS Inc.

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

All information in this report concerning Vector's common stock has been adjusted to give effect to the 5% stock dividends paid to stockholders on September 30, 1999 and September 28, 2000.

EMPLOYEES

At December 31, 2000, Vector had approximately 885 full-time employees, of whom approximately 454 were employed by Liggett and approximately 400 were employed by New Valley. Approximately 22% of Vector's employees are hourly employees and are represented by unions. Vector has not experienced any significant work stoppages since 1977, and Vector believes that relations with its employees and their unions are satisfactory.

RISK FACTORS

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

Vector is a holding company and has no operations of its own. Vector's ability to pay dividends on its common stock depends primarily on the ability of Liggett and New Valley, in which Vector indirectly holds an approximately 56% interest, to generate cash and make it available to Vector. Liggett's revolving credit agreement prohibits Liggett from paying cash dividends to Vector unless Liggett's adjusted net worth and borrowing availability exceed specified levels.

As the controlling New Valley stockholder, Vector must deal fairly with New Valley, which may limit its ability to enter into transactions with New Valley that result in the receipt of cash from New Valley and to influence New Valley's dividend policy. In addition, since Vector owns only approximately 56% of the common shares of New Valley, a significant portion of any cash and other assets distributed by New Valley will be received by persons other than Vector and its subsidiaries.

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

LIGGETT FACES INTENSE COMPETITION IN THE DOMESTIC TOBACCO INDUSTRY

Liggett is considerably smaller and has fewer resources than all its major competitors and has a more limited ability to respond to market developments. Published industry sources indicate that the three largest manufacturers control approximately 85.2% of the United States cigarette market. Philip Morris Companies Inc. is the largest and most profitable manufacturer in the market, and its profits are derived principally from its sale of premium cigarettes. Based on published industry sources, Liggett's management believes that Philip Morris had more than 60.7% of the premium segment and more than 50.5% of the total domestic market during 2000. Philip Morris and RJR, the two largest cigarette manufacturers, have historically, because of their dominant market share, been able to determine cigarette prices for the various pricing tiers within the industry. The other cigarette manufacturers historically have brought their prices into line with the levels established by the two major manufacturers.

LIGGETT'S BUSINESS IS HIGHLY DEPENDENT ON THE DISCOUNT SEGMENT

Liggett depends more on sales in the discount segment of the market, relative to the full-price premium segment, than its major competitors. Approximately 89% of Liggett's net sales in 2000 were generated in the discount segment. The discount segment is highly competitive with consumers having less brand loyalty and placing greater emphasis on price. While the four major manufacturers all compete with Liggett in the discount segment of the market, the strongest competition for market share has recently come from a group of small manufacturers, most of which are producing low quality, deep discount cigarettes. While Liggett's share of the discount market increased from 3.9% in 1999 to 5.3% in 2000, published industry sources indicate that these smaller manufacturers' total market share increased from 8.8% to 13.8% due to their increased competitive discounting. If the discount market pricing continues to be impacted by these smaller manufacturers, margins in Liggett's largest market segment could be negatively affected, which in turn could negatively affect the value of Vector's common stock.

LIGGETT'S MARKET SHARE HAS DECLINED IN RECENT PERIODS

Liggett has suffered a substantial decline in unit sales and associated market share in recent years, although Liggett's unit sales and market share actually increased during 2000. This market share erosion results in part from its highly leveraged capital structure that existed until December 1998 and Liggett's limited ability to match other competitors' wholesale and retail trade programs, obtain retail shelf space for its products and advertise its brands. The decline in recent years also resulted from adverse developments in the tobacco industry, intense competition and changes in consumer preferences. Based on published industry sources, Liggett's management believes that Liggett's overall market share during 2000 was 1.5%, compared with 1.2% for 1999 and 1.3% for 1998. Based on published industry sources, Liggett's management believes that Liggett's share of the premium segment during 2000 was .2%, down from .3% in 1999 and .5% in 1998, and its share of the discount segment during 2000 was 5.3%, up from 3.9% in 1999 and 3.5% for 1998. As adjusted for the Philip Morris brand transaction, Liggett's share of the premium segment during 1998 was .2%. If Liggett's market share declines, Liggett's sales volume, operating income and cash flows could be negatively affected, which in turn could negatively affect the value of Vector's common stock.

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

Industry-wide shipments of cigarettes in the United States have been steadily declining for a number of years, although published industry sources estimate that domestic industry-wide shipments increased by approximately .1% in 2000. Published industry sources estimate that domestic industry-wide shipments decreased by approximately 9.0% in 1999 compared to 1998. While Liggett's domestic shipments increased 24.0% in 2000, Liggett's unit sales volume in 1999 decreased more significantly (11.3%) than the overall domestic market without giving effect to the Philip Morris transaction. Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking and legislative limitations on smoking in public places, federal and state excise tax increases and settlement-related expense which have contributed to large cigarette price increases. If this decline in industry shipments continues and Liggett is unable to capture market share from its competitors, or if the industry is unable to offset the decline in unit sales with price increases, Liggett's sales volume, operating income and cash flows could be negatively affected, which in turn could negatively affect the value of Vector's common stock.

LITIGATION AND REGULATION WILL CONTINUE TO HARM THE TOBACCO INDUSTRY

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of December 31, 2000, there were approximately 317 individual suits, 43 purported class actions and 90 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. In addition to these cases, during the third quarter of 2000, an action against cigarette manufacturers involving approximately 1,200 named individual plaintiffs has been consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. Approximately 38 other purported class action complaints have been filed against the cigarette manufacturers for alleged antitrust violations. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. An unfavorable verdict was returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. Recently, the jury awarded \$790 million in punitive damages against Liggett in the second phase of the trial, and the court entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially

reduced by the court, it could have a material adverse effect on Vector. Liggett has filed the \$3.45 million bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. In recent years, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. Vector is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but Vector's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any of such smoking-related litigation.

LIGGETT HAS SIGNIFICANT SALES TO A SINGLE CUSTOMER

In 2000, 33.8% of Liggett's net sales, 38.1% of Liggett's net sales in the discount segment and 24.6% of Vector's consolidated revenues were to Liggett's largest customer. If this customer were to discontinue its relationship with Liggett or experience financial difficulties, Liggett's results of operations could be adversely affected.

EXCISE TAX INCREASES MAY ADVERSELY AFFECT CIGARETTE SALES

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise five cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.87 per pack in a given locality in the United States. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and increases in excise and other cigarette-related taxes have been proposed at the state and local levels. A substantial federal or state excise tax increase could accelerate the trend away from smoking and could have an unfavorable effect on Liggett's sales and profitability.

VECTOR TOBACCO IS SUBJECT TO RISKS INHERENT IN NEW PRODUCT DEVELOPMENT INITIATIVES

Vector plans to make significant investments in Vector Tobacco's development projects in the tobacco industry. Vector Tobacco is currently involved with the development of new cigarette products designed to both reduce cancer causing agents in cigarettes to below the level that initiates carcinomas in mouse skin-painting tests and to be virtually free of nicotine. These initiatives are subject to a high level of risks, uncertainties and contingencies, including the challenges inherent in new product development. There is a risk that investments in Vector Tobacco will harm Vector's profitability (if any) or liquidity or cash flow.

The substantial risks facing Vector Tobacco include:

RISKS OF MARKET ACCEPTANCE OF THE NEW PRODUCTS. Vector Tobacco has conducted limited testing of cigarettes produced from tobacco genetically modified to produce a virtually nicotine-free and TSNA-free cigarette, and has been encouraged by the initial results. However, virtually nicotine-free and TSNA-free or low PAH cigarettes may not be accepted ultimately by adult

smokers. Adult smokers may decide not to purchase cigarettes made with virtually nicotine-free and TSNA-free or low PAH tobaccos due to taste or other preferences, or due to the use of genetically modified tobacco or the virtual absence of nicotine.

COMPETITION FROM OTHER CIGARETTE MANUFACTURERS WITH GREATER RESOURCES.

The cigarette industry is highly competitive. Vector Tobacco's competitors generally have substantially greater resources than Vector Tobacco has, including, financial and personnel resources. While other major tobacco companies have stated that they are working on reduced risk, "safer" cigarette products, limited additional information is publicly available concerning their activities at this time. There is a substantial likelihood that other major tobacco companies will introduce products that are designed to compete directly with Vector Tobacco's virtually nicotine-free and TSNA-free and low PAH products.

POTENTIAL DISPUTES CONCERNING INTELLECTUAL PROPERTY. Vector Tobacco's success in commercially exploiting its proprietary technology for its virtually nicotine-free and TSNA-free and low PAH products depends in large part on its ability to defend issued patents, to obtain further patent protection for the technology in the United States and other jurisdictions, and to operate without infringing upon the patents and proprietary rights of others. Additionally, it must be able to obtain appropriate licenses to patents or proprietary rights held by third parties if infringement would otherwise occur, both in the United States and in foreign countries.

Intellectual property rights, including Vector Tobacco's patents (owned or licensed), involve complex legal and factual issues. Any conflicts resulting from third party patent applications and patents could significantly limit Vector Tobacco's ability to obtain meaningful patent protection or to commercialize its technology. If necessary patents currently exist or are issued to other companies that contain competitive or conflicting claims, Vector Tobacco may be required to obtain licenses to these patents or to develop or obtain alternative technology. Such licensing agreements, if required, may be unavailable on acceptable terms or at all. If such licenses are not obtained, Vector Tobacco could be delayed in or prevented from pursuing the development or commercialization of its new cigarette products. Any new technology, if feasible, could take several years to develop.

Litigation which could result in substantial cost may also be necessary to enforce any patents to which Vector Tobacco has rights, or to determine the scope, validity and unenforceability of other parties' proprietary rights which may affect its rights. U.S. patents carry a presumption of validity and generally can be invalidated only through clear and convincing evidence. Vector Tobacco may also have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of an invention, which could result in substantial costs. There can be no assurance that its licensed patents would be held valid by a court or administrative body or that an alleged infringer would be found to be infringing. The mere uncertainty resulting from the institution and continuation of any technology-related litigation or interference proceeding could have a material and adverse effect on Vector Tobacco's business, operating results and prospects.

Vector Tobacco may also rely on unpatented trade secrets and know-how to maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with employees, consultants, suppliers and others. There can be no assurance that these agreements will not be breached or terminated, that Vector Tobacco will have adequate remedies for any breach, or that its trade secrets will not otherwise become known or be independently discovered by competitors.

DEPENDENCE ON KEY SCIENTIFIC PERSONNEL. Vector Tobacco's business depends for its continued development and growth on the continued services of key scientific personnel. The loss of Dr. Robert Bereman, Vice President of Chemical Research, or Dr. Mark A. Conkling, Vice President of Genetic Research, could have a serious negative impact upon Vector Tobacco's business, operating results and prospects.

ABILITY TO RAISE CAPITAL AND MANAGE GROWTH OF BUSINESS. If Vector Tobacco is successful in introducing to market and increasing consumer acceptance for its new cigarette products, Vector Tobacco will be required to obtain significant amounts of additional capital and manage substantial volume from its customers. There can be no assurance that adequate amounts of additional capital will be available to Vector Tobacco to fund the growth of its business. To accommodate any such growth and compete effectively, Vector Tobacco will also be required to attract, integrate, motivate and retain additional highly skilled sales, technical and other employees. Vector Tobacco will face competition for these people. Its ability to successfully manage such volume also will be dependent on its ability to scale up its tobacco processing and production operations. There can be no assurance that it can overcome the challenge of scaling its processing and production operations or that its personnel, systems, procedures and controls will be adequate to support its future operations.

POTENTIAL DELAYS IN OBTAINING ANY NECESSARY GOVERNMENT APPROVALS.

Vector Tobacco's business may become subject to extensive government regulation. Various proposals have been made for federal and state legislation to regulate cigarette manufacturers. The ultimate outcome of these proposals cannot be predicted. It is possible that laws and regulations may be adopted covering such issues as the manufacture, sale, distribution and labeling of tobacco products as well as any health claims associated with new less hazardous cigarette products and the use of genetically modified tobacco. A system of regulation by agencies such as the Food and Drug Administration, the Federal Trade Commission or the United States Department of Agriculture may be established. Any new laws or regulations of this type could delay Vector Tobacco's introduction of its new products to market or may require it to incur significant expense in complying with any new regulation or in obtaining any necessary government approvals.

POTENTIAL DELAYS IN OBTAINING TOBACCO, OTHER RAW MATERIALS AND ANY TECHNOLOGY NEEDED TO PRODUCE NEW PRODUCTS. Vector Tobacco is dependant on third parties to produce tobacco and other raw materials that Vector Tobacco will require to manufacture its new products. In addition, Vector Tobacco may need to obtain licenses to technology subject to patents or proprietary rights of third parties to produce its products. The failure by such third parties to supply Vector Tobacco with tobacco, other raw materials and technology on commercially reasonable terms, or at all, in the absence of readily available alternative sources, would have a serious negative impact on Vector Tobacco's business, operating results and prospects. There is also a risk that interruptions in the supply of these materials and technology may occur in the future. Any interruption in their supply could have a serious negative impact on Vector Tobacco.

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

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

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

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

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

- o diplomatic developments;
- o decisions of international lending organizations;
- o regional tensions;
- o currency repatriation restrictions;
- o foreign exchange fluctuations;
- o an undeveloped system of commercial laws, including laws on real estate titles and mortgages, and a relatively untested judicial system;
- o an evolving taxation system subject to constant changes which may be applied retroactively and subject to varying interpretations by tax authorities which may not coincide with that of management and can result in assessments of additional taxes, penalties and interest, which can be significant; and
- o other legal developments and, in particular, the risks of expropriation, nationalization and confiscation of assets and changes in legislation relating to foreign ownership.

As a result of the recent economic difficulties in the Russian economy, New Valley took a charge of \$11.6 million in 1999 for a permanent impairment in the value of the site for the proposed Ducat Place III office building and related goodwill. The uncertainties in Russia may also impair New Valley's ability to complete planned financing and investing activities. The development of certain Russian properties will require significant amounts of debt and other financing. In acquiring its interest in the Kremlin sites, New Valley agreed with the City of Moscow to invest an additional \$22 million by May 2000 in the development of the property. In April 2000, Western Realty Repin arranged short-term financing to fund the investment. Under the terms of the investment, New Valley is required to utilize such financing amount to make construction expenditures on the site by June 2002. Failure to make the expenditures could result in the forfeiture of a 34.8% interest in one of the sites. New Valley is considering potential financing alternatives on behalf of the joint ventures. However, given the recent economic turmoil in Russia, there is a risk that financing will not be available on acceptable terms. Failure to obtain sufficient capital for the projects would force the joint ventures to curtail or delay their projects.

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

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

VECTOR DEPENDS ON ITS KEY PERSONNEL

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

VECTOR AND NEW VALLEY HAVE MANY POTENTIALLY DILUTIVE SECURITIES OUTSTANDING

In March 1998, in connection with agreements to amend the terms of BGLS' senior secured notes then outstanding, Vector issued five-year warrants, of which warrants to purchase 2,205,000 shares of Vector's common stock, at a price of \$4.53 per share, are currently outstanding and exercisable. In 1998, Vector granted options for shares of Vector's common stock, at a price of \$5.45 per share, to a law firm that represents Vector, Liggett and New Valley, of which options for 1,063,125 shares are currently outstanding and exercisable. At December 31, 2000, Vector had outstanding options granted to employees and a consultant to purchase 8,918,503 shares of its common stock, at prices ranging from \$.91 to \$18.63 per share, of which options for 4,212,240 shares are exercisable during 2001. The issuance of these shares will cause dilution which may adversely affect the market price of Vector's common stock. The availability for sale of significant quantities of Vector's common stock could adversely affect the prevailing market price of the stock.

As part of New Valley's recapitalization, a total of 17,898,629 warrants to purchase common shares were issued to New Valley's stockholders. The potential issuance of common shares on exercise of the warrants would increase the number of New Valley's common shares outstanding by more than 80%.

VECTOR'S STOCK PRICE HAS BEEN VOLATILE

The trading price of Vector's common stock has fluctuated widely, ranging between \$10.13 and \$23.50 per share over the past 52 weeks. The overall market and the price of its common stock may continue to fluctuate greatly. The trading price of its common stock may be significantly affected by various factors, including:

- o the depth and liquidity of the trading market for Vector's common stock;
- o quarterly variations in its actual or anticipated operating results;
- o changes in investors' and analysts' perceptions of the business and legal risks facing Vector and the tobacco industry;
- o changes in estimates of its earnings by investors and analysts; and
- o announcements or activities by its competitors.

ITEM 2. PROPERTIES

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

Substantially all of Liggett's tobacco manufacturing facilities, consisting principally of factories, distribution and storage facilities, are located in or near Mebane and Durham, North Carolina. Such facilities are both owned and leased. As of December 31, 2000, the principal properties owned or leased by Liggett are as follows:

TYPE	LOCATION	OWNED OR LEASED	APPROXIMATE TOTAL SQUARE FOOTAGE
Office and Manufacturing Complex	Durham, NC	Owned	836,000
Warehouse	Durham, NC	Owned	203,000
Storage Facilities	Danville, VA	Owned	578,000
Office and Manufacturing Complex	Mebane, NC	Owned	240,000
Warehouse	Mebane, NC	Owned	60,000

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

In November 1999, 100 Maple Lane LLC, a newly formed entity owned by Liggett, purchased for \$8.4 million an industrial facility in Mebane, North Carolina. The Mebane facility is an approximately 240,000 square foot manufacturing facility located on 42 acres. Liggett completed the relocation of its tobacco manufacturing operations from Durham, North Carolina to the Mebane facility, which is approximately 30 miles from Durham, in October of 2000.

In February 2001, Liggett sold the Smith Warehouse in Durham to Duke University for a sale price of \$2 million and will recognize a gain of approximately \$542,000 during the first quarter of 2001.

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

In February 2001, Vector Tobacco agreed to purchase for \$8.4 million an industrial facility in Roxboro, North Carolina which it will convert to a modern cigarette manufacturing facility. Closing of the purchase is subject to customary closing conditions.

ITEM 3. LEGAL PROCEEDINGS

Liggett (and, in certain cases, Brooke Group Holding) and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and class actions predicated on the theory that they should be liable for damages from adverse health effects alleged to have been caused by

cigarette smoking or by exposure to secondary smoke from cigarettes. See Item 1. "Business -- Liggett Group Inc. -- Legislation, Regulation and Litigation." Reference is made to Note 23 to Vector's consolidated financial statements, which contains a general description of certain legal proceedings to which Brooke Group Holding, BGLS, New Valley or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1, Material Legal Proceedings, incorporated herein, for additional information regarding the pending smoking-related material legal proceedings to which Brooke Group Holding and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of Vector and its subsidiaries without charge upon written request to Vector at its principal executive offices, 100 S.E. Second Street, Miami, Florida 33131, Attn: Investor Relations.

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

During the last quarter of 2000, no matter was submitted to stockholders for their vote or approval, through the solicitation of proxies or otherwise.

EXECUTIVE OFFICERS OF THE REGISTRANT

The table below, together with the accompanying text, presents certain information regarding all current executive officers of Vector as of March 23, 2001. Each of the executive officers of Vector serves until the election and qualification of such individual's successor or until such individual's death, resignation or removal by the Board of Directors of the respective company.

NAME ----	AGE ---	POSITION -----	YEAR INDIVIDUAL BECAME AN EXECUTIVE OFFICER -----
Bennett S. LeBow	63	Chairman of the Board and Chief Executive Officer of Vector	1990
Howard M. Lorber	52	President and Chief Operating Officer of Vector	2001
Richard J. Lampen	47	Executive Vice President of Vector	1996
Joselynn D. Van Siclen	60	Vice President, Chief Financial Officer and Treasurer of Vector	1996
Marc N. Bell	40	Vice President, General Counsel and Secretary of Vector	1998
Ronald J. Bernstein	47	President and Chief Executive Officer of Liggett	2000

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

HOWARD M. LORBER has been President and Chief Operating Officer of Vector and BGLS since January 2001. Since November 1994, Mr. Lorber has served as President and Chief Operating Officer of New Valley, where he also serves as a director. Mr. Lorber has been Chairman of the Board and Chief Executive Officer of Hallman & Lorber Assoc., Inc., consultants and actuaries to qualified

pension and profit sharing plans, and various of its affiliates since 1975. Mr. Lorber has been a stockholder and a registered representative of Aegis Capital Corp., a broker-dealer and a member firm of the National Association of Securities Dealers, since 1984; Chairman of the Board of Directors since 1987 and Chief Executive Officer since November 1993 of Nathan's Famous, Inc., a chain of fast food restaurants; a consultant to Vector and Liggett from January 1994 to January 2001; a director and member of the Audit Committee of United Capital Corp., a real estate investment and diversified manufacturing company, since May 1991; a director and member of the Audit Committee of Prime Hospitality Corp., a company doing business in the lodging industry, since May 1994; and a director of PLM International Inc., a leasing company, since January 1999.

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

JOSELYNN D. VAN SICLEN has been Vice President, Chief Financial Officer and Treasurer of Vector and of BGLS since May 1996, and currently holds various positions with certain of BGLS' subsidiaries, including Vice President and Treasurer of Eve since April 1994 and May 1996, respectively. Prior to May 1996, Ms. Van Siclen served as Director of Finance of Vector and was employed in various accounting capacities with subsidiaries of Vector since 1992. Since before 1990 to November 1992, Ms. Van Siclen was an audit manager for the accounting firm of Coopers & Lybrand L.L.P.

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

RONALD J. BERNSTEIN has served as President and Chief Executive Officer of Liggett since September 1, 2000. Since April 1995, Mr. Bernstein has been President of Brooke (Overseas) and, from July 1996 to December 1999, Mr. Bernstein served as General Director and, from December 1999 to September 2000, as Chairman of Liggett-Ducat. Prior to that time, Mr. Bernstein served in various positions with Liggett commencing in 1991, including Executive Vice President and Chief Financial Officer.

PART II

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

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

YEAR - - - -	HIGH - - - -	LOW - - -	CASH DIVIDENDS - - - - -
2000:			
Fourth Quarter	\$ 17.38	\$ 13.19	\$.40
Third Quarter	19.53	12.73	.38
Second Quarter	19.05	10.30	.24
First Quarter	16.91	10.13	.24
1999:			
Fourth Quarter	\$ 17.50	\$ 12.91	\$.24
Third Quarter	21.49	15.71	.24
Second Quarter	24.15	12.47	.07
First Quarter	22.11	14.12	.07

At March 23, 2001, there were approximately 381 holders of record of Vector's common stock.

The declaration of future cash dividends is within the discretion of the Board of Directors of Vector and is subject to a variety of contingencies such as market conditions, earnings and the financial condition of Vector as well as the availability of cash. The payment of dividends and other distributions to Vector by BGLS may be limited by the terms of debt incurred by BGLS. Liggett's revolving credit agreement prohibits Liggett from paying cash dividends to Vector unless Liggett's adjusted net worth and borrowing availability exceed specified levels.

Vector paid a 5% stock dividends on September 30, 1999 and September 28, 2000 to the holders of Vector's Common Stock. All information presented above is adjusted for the stock dividends.

RECENT SALES OF UNREGISTERED SECURITIES

No securities of Vector which were not registered under the Securities Act of 1933 have been issued or sold by Vector during the year ended December 31, 2000, except (i) for the grant of stock options to employees of Vector and/or its subsidiaries as described in Note 20 to Vector's consolidated financial statements; (ii) 2,362,947 shares of Vector's common stock issued upon exercise of warrants, with an exercise price of \$.10 per share, paid by the surrender of 7,428 warrants and cash; and (iii) 215,019 shares of Vector's common stock issued upon exercise of options granted to a law firm, with an exercise price of \$5.45 per share, paid by the surrender of 99,981 options. The foregoing transactions were effected in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 or did not involve a "sale" under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

VECTOR GROUP LTD.

	YEAR ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
(dollars in thousands, except per share amounts)					
STATEMENT OF OPERATIONS DATA:					
Revenues(1).....	\$739,631	\$567,045	\$444,566	\$389,615	\$460,356
Income (loss) from continuing operations.	169,570	236,084	24,219	(51,421)	(65,515)
Gain from discontinued operations.....	6,469	1,249	3,208	1,536	2,982
Loss from extraordinary items(3).....	(1,821)	(1,660)	--	--	--
Net income (loss).....	174,218	235,673	27,427	(49,885)	(62,533)
Per basic common share:					
Income (loss) from continuing operations(2) (4).....	7.21	10.22	1.08	(2.57)	(3.12)
Gain from discontinued operations.....	0.28	0.05	0.14	0.08	0.14
Loss from extraordinary items.....	(0.08)	(0.07)	--	--	--
Net income (loss) applicable to common shares.....	7.41	10.20	1.22	(2.50)	(2.98)
Per diluted common share:					
Income (loss) from continuing operations.....	6.12	8.39	0.89	(2.57)	(3.12)
Gain from discontinued operations.....	0.23	0.04	0.12	0.08	0.14
Loss from extraordinary items.....	(0.07)	(0.06)	--	--	--
Net income (loss) applicable to common shares.....	6.28	8.37	1.01	(2.50)	(2.98)
Cash distributions declared per common share.....	1.26	0.61	0.27	0.27	0.27
BALANCE SHEET DATA:					
Current assets.....	\$269,942	\$188,732	\$122,560	\$ 66,759	\$ 80,552
Total assets	461,975	504,448	228,982	125,234	177,677
Current liabilities.....	138,775	226,654	273,441	139,278	204,463
Notes payable, long-term debt and other obligations, less current portion	39,890	148,349	262,665	399,835	378,243
Noncurrent employee benefits, minority interests and other long-term liabilities	270,861	262,543	87,051	74,518	49,960
Stockholders' equity (deficit).....	12,449	(133,098)	(394,175)	(488,397)	(454,989)

(1) Revenues include excise taxes of \$116,166, \$66,698, \$82,613, \$87,683 and \$112,218, respectively.

(2) Per share computations include the impact of New Valley's repurchase of Class A Preferred Shares in 1996.

(3) In 2000 and 1999, extraordinary items represent loss resulting from the early extinguishment of debt.

(4) Per share computations include the impact of 5% stock dividends on September 28, 2000 and September 30, 1999.

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OVERVIEW

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

- o the manufacture and sale of cigarettes in the United States through its subsidiary Liggett Group Inc.;
- o the development of new less hazardous cigarette products through its Vector Tobacco subsidiaries; and
- o the investment banking and brokerage business in the United States and the real estate business in Russia through its majority-owned subsidiary New Valley Corporation.

Vector's domestic cigarette business, Liggett, shipped approximately 6.50 billion cigarettes during 2000 which accounted for 1.5% of the total cigarettes shipped in the United States during that year. Approximately 89% of Liggett's net sales in 2000 were generated in the discount segment.

Vector believes that Liggett has gained a sustainable cost advantage over its competitors through its various settlement agreements. Under the Master Settlement Agreement reached in November 1998 with 46 state attorneys general and various territories, Liggett's four major competitors must make settlement payments to the states and territories based on how many cigarettes they sell annually. Liggett, however, is not required to make any payments unless its market share exceeds approximately 1.65% of the U.S. cigarette market.

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

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

Ladenburg operates as a full service broker-dealer which provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals.

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

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

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

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

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

RECENT DEVELOPMENTS

SALE OF WESTERN TOBACCO INVESTMENTS. On August 4, 2000, Brooke (Overseas) completed the sale of all of the membership interests of Western Tobacco Investments to a subsidiary of Gallaher Group Plc. Brooke (Overseas) held its 99.9% equity interest in Liggett-Ducat, one of Russia's leading cigarette producers, through Western Tobacco Investments.

The purchase price for the sale consisted of \$334,100 in cash and \$64,400 in assumed debt and capital commitments. Of the cash proceeds from the transaction after estimated closing expenses, Brooke (Overseas) received \$197,098 and New Valley received \$57,208 in accordance with the terms of the participating loan. Vector recorded a gain of \$161,000 (including Vector's share of New Valley's gain), net of income taxes and minority interests, in connection with the transaction in the third quarter of 2000.

ACQUISITION OF GBI CAPITAL MANAGEMENT. On February 8, 2001, New Valley entered into a stock purchase agreement under which New Valley will acquire a controlling interest in GBI Capital Management Corp. and its operating subsidiary, GBI Capital Partners, Inc., a securities and trading firm. Upon completion of the transaction, New Valley will own approximately 50.1% of the outstanding shares of GBI, an American Stock Exchange-listed company, which will be renamed Ladenburg Thalmann Financial Services, Inc. Under the terms of the agreement, New Valley and Berliner will sell all of their outstanding shares of Ladenburg to GBI for 18,181,818 shares of GBI common stock, \$10,000 of cash and \$10,000 principal amount of convertible notes (convertible at \$2.60 per share). Upon closing, New Valley will acquire for \$1.00 per share an additional 3,945,060 shares of GBI from Joseph Berland, the Chairman and Chief Executive Officer of GBI.

The transaction, which is expected to close in the second quarter of 2001, is subject to customary closing conditions, including regulatory approval and approval by GBI shareholders. Holders of a majority of the outstanding shares of GBI have committed to vote in favor of the transaction.

RECENT DEVELOPMENTS IN LEGISLATION, REGULATION AND LITIGATION

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of December 31, 2000, there were approximately 317 individual suits, 43 purported class actions and 90 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. In addition to these cases, during the third quarter of 2000, an action against cigarette manufacturers involving approximately 1,200 named individual plaintiffs has been consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. Approximately 38 other purported class action complaints have been filed against the cigarette manufacturers for alleged antitrust violations. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. An unfavorable verdict was returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. Recently, the jury awarded \$790,000 in punitive damages against Liggett in the second phase of the trial, and the court entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on Vector. Liggett has filed the \$3,450 bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. In recent years, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. Vector is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but Vector's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any of such smoking-related litigation. See Note 23 to Vector's consolidated financial statements for a description of legislation, regulation and litigation.

In March 1996, March 1997 and March 1998, Brooke Group Holding and Liggett entered into settlements of tobacco-related litigation with the Attorneys General of 45 states and territories. The settlements released Brooke Group Holding and Liggett from all tobacco claims including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors. See the discussions of the tobacco litigation settlements appearing in Note 23 to Vector's consolidated financial statements.

RESULTS OF OPERATIONS

The following discussion provides an assessment of the results of operations, capital resources and liquidity of Vector and should be read in conjunction with Vector's consolidated financial statements and related notes included elsewhere in this report. The consolidated financial statements include the accounts of BGLS, Liggett, Brooke (Overseas), Liggett-Ducat (through July 31, 2000) and other less significant subsidiaries. As of June 1, 1999, New Valley became a consolidated subsidiary of Vector as a result of New Valley's recapitalization in which Vector's interest in New Valley's common shares increased to 55.1%. New Valley's stock repurchase program, which began in late 1999, increased Vector's interest to 56.1% at December 31, 2000.

For purposes of this discussion and other consolidated financial reporting, Vector's significant business segments for the years ended December 31, 2000 and 1999 were tobacco sold in the United States and Russia, broker-dealer transactions and real estate. Vector's significant business segment for the year ended December 31, 1998 was tobacco sold in the United States and Russia.

2000 COMPARED TO 1999 AND 1999 COMPARED TO 1998

	FOR THE YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(Dollars in Thousands)		
NET REVENUES:			
Liggett.....	\$539,059	\$422,748	\$347,129
Liggett-Ducat(1).....	107,263	100,059	97,437
Total tobacco.....	646,322	522,807	444,566
Broker-dealer(2).....	90,111	40,852	--
Real estate(2).....	3,198	3,386	--
Total revenues.....	\$ 739,631	\$ 567,045	\$444,566
OPERATING INCOME:			
Liggett.....	\$ 71,434	\$ 76,700	\$ 54,422
Liggett-Ducat(1).....	(5,667)	5,215	13,234
Total tobacco.....	65,767	81,915	67,656
Broker-dealer(2).....	6,212	369	--
Real estate(2).....	(5,335)	(776)	--
Corporate and other(2).....	(20,245)	(9,505)	3,938
Total operating income.....	\$ 46,399	\$ 72,003	\$ 71,594

(1) Liggett-Ducat's revenues and operating income are included through the seven months ended July 31, 2000, and the years ended December 31, 1999 and 1998.

(2) New Valley became a consolidated subsidiary of Vector on June 4, 1999. Broker-Dealer, Real Estate and New Valley's portion of Corporate and other are included for the year ended December 31, 2000 and seven months ended December 31, 1999.

2000 COMPARED TO 1999

REVENUES. Total revenues were \$739,631 for the year ended December 31, 2000 compared to \$567,045 for the year ended December 31, 1999. This 30.4% (\$172,586) increase in revenues was due to a \$116,311 or 27.5% increase in revenues at Liggett, a \$7,204 or 7.2%

increase at Liggett-Ducat and twelve months of revenues from Ladenburg of \$90,111, a difference of \$49,259 when compared to seven months of revenue in the prior year. This was offset by a decrease in real estate revenues of 5.5% or \$188.

TOBACCO REVENUES. During 2000, the major cigarette manufacturers, including Liggett, announced list price increases of \$16.50 per carton. In August 1999, the major cigarette manufacturers, including Liggett, announced a list price increase of \$1.50 per carton.

Tobacco revenues at Liggett increased for both the premium and discount segments due to a 22.8% (\$96,587) increase in unit sales volume (approximately 1,152.9 million units) and to price increases of \$23,131 partially offset by \$3,407 in unfavorable sales mix.

Premium sales at Liggett for the year ended December 31, 2000 amounted to \$58,892 and represented 10.9% of total Liggett sales, compared to \$78,182 and 18.5% of total sales for 1999. In the premium segment, revenues declined by 24.7% (\$19,290) in the year ended December 31, 2000 compared to 1999, due to an unfavorable volume variance of \$26,344, reflecting a 33.7% decline in unit sales volume (approximately 272.7 million units), primarily due to the closing of the Philip Morris brand transaction on May 24, 1999, which was partially offset by price increases of \$7,054. As adjusted for the contribution of the three brands in the Philip Morris brand transaction, the decline in Liggett's premium segment from the prior year period was 7.5% (approximately 43.8 million units). This compared to an overall industry increase in the premium segment of approximately 0.23% (approximately 700 million units) during 2000 versus the prior year.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for 2000 amounted to \$480,167 and represented 89.1% of total Liggett sales, compared to \$344,566 and 81.5% of total Liggett sales in 1999. In the discount segment, revenues grew by 39.4% (\$135,601) in the year ended December 31, 2000 compared to 1999, due to a 33.6% increase in unit sales volume (approximately 1,425.6 million units) accounting for \$115,940 in positive volume variance, price increases of \$16,077 and a favorable product mix among the discount brand categories of \$3,584.

For the year ended December 31, 2000, fixed manufacturing costs on a basis comparable to 1999 at Liggett were \$305 higher, although costs per thousand units of \$2.62 declined from the previous year's \$2.97 (an 11.8% decrease), against a 15.2% increase in production volume. On a per-thousand-units basis, fixed payroll expense and indirect labor of \$1.11 for the year just ended fell from \$1.27 in 1999 (a decline of 12.6%), while fixed non-payroll expenses similarly declined to \$1.52 from the prior year's \$1.69 (a 10.1% decrease).

The increase in tobacco revenues at Liggett-Ducat, which was sold on August 4, 2000, was attributable to increased volume at the new factory and a favorable product mix of \$3,672 offset by a continuing decline in prices compared to the prior period. Liggett-Ducat's sales volume during the 1999 period was adversely affected by the move to the new factory and price declines in Russia following the continued decline in the value of the ruble.

TOBACCO GROSS PROFIT. Tobacco consolidated gross profit was \$389,009 for the year ended December 31, 2000 compared to \$333,179 for the year ended December 31, 1999, an increase of \$55,830 or 16.8% over 1999, due primarily to volume and price increases at Liggett offset by the price declines and the sale of Liggett-Ducat on August 4, 2000 discussed above. Liggett's premium brands contributed 11.2% to Vector's gross profit, the discount segment contributed 85.0% and Liggett-Ducat contributed 3.8% for the year ended December 31, 2000. In 1999, Liggett's premium brands contributed 17.7% to Vector's gross profit, the discount segment contributed 75.9% and Liggett-Ducat contributed 6.4%.

Liggett's gross profit of \$374,079 for the year ended December 31, 2000 increased \$63,115 or 20.3% from gross profit of \$310,964 in 1999, due primarily to the volume and price increases discussed above. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 85.8% for the year ended December 31, 2000 compared to 85.5% in 1999, with gross profit for the premium segment at 87.2% in 2000 and 85.8% in 1999 and gross profit for the discount segment at 85.7% in 2000 and 85.4% in 1999. This increase was primarily the result of the 2000 volume and list price increases and, to a lesser degree, improved production variances.

BROKER-DEALER AND REAL ESTATE REVENUES. New Valley's broker-dealer revenues were \$90,111 for the year ended December 31, 2000 compared with \$40,852 for the seven months ended December 31, 1999. Ladenburg's revenues for 2000 increased due to an expansion of its trading and brokerage activities and increased revenues from private placement and advisory activities, partially offset by a decrease in commissions as a result of a less active market in the fourth quarter 2000 versus the fourth quarter 1999.

Real estate revenues were \$3,198 for the year ended December 31, 2000 compared to \$3,386 for the seven months ended December 31, 1999. The decline in real estate revenue was primarily due to the sale of the shopping centers in August 1999.

EXPENSES. Operating, selling, general and administrative expenses were \$437,453 for the year ended December 31, 2000 compared to \$306,228 in 1999. The increase of \$131,225 was due primarily to a \$68,860 increase at Liggett and additional expenses of \$49,555 at New Valley reflecting a full twelve months results in consolidation, and also includes new product development costs at Vector Tobacco. The increase in operating expenses at Liggett was due primarily to an increase in spending primarily for promotional and marketing programs slightly offset by a net reversal of legal settlement charges of \$934 which were previously accrued. In 1999, such expenses were offset by the reversal of charges for the Attorneys General settlements of \$1,051.

OTHER INCOME (EXPENSES). For the year ended December 31, 2000, other income of \$261,155 resulted primarily from the sale of Western Tobacco Investments with Vector realizing a gain of \$192,065 and New Valley gaining income of \$52,589 from its joint venture through the participating loan to Western Tobacco Investments. Interest and dividend income increased as a result of cash realized in the transaction.

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

Interest expense was \$30,610 for the year ended December 31, 2000 compared to \$54,378 in 1999. The decrease of \$23,768 is largely due to the retirement by BGLS of its senior secured notes during the third quarter 2000 and lower interest expense at Brooke (Overseas) slightly offset by an increase at Liggett resulting from debt financing for the factory acquisition in Mebane, N.C. and the purchase of new production machinery. In 1999, BGLS realized a savings of \$14,185 in interest expense due to the repurchase of a portion of BGLS' senior secured notes. This was offset by additional interest expense at Brooke (Overseas) of \$8,753 and interest at New Valley of \$5,060.

Equity in earnings of affiliates for 2000 was a loss of \$5,597 associated with losses from certain of New Valley's investees accounted for on the equity method. Equity in earnings of affiliate in 1999 was a loss of \$11,315 and includes Vector's loss in New Valley which was accounted for on the equity

method for the five months ended May 31, 1999 as well as losses at New Valley on its equity method investees. The loss in joint venture of \$12,082 in 1999 resulted primarily from an impairment charge of \$11,561 associated with Western Realty Development.

INCOME FROM CONTINUING OPERATIONS. The income from continuing operations for the year ended December 31, 2000 was \$169,570 compared to income of \$236,084 for 1999. Income tax expense for the year ended December 31, 2000 was \$82,867 compared to an expense of \$82,458 for the year ended December 31, 1999.

OTHER. Vector recorded a gain on disposal of discontinued operations of \$6,469 in 2000 relating to New Valley's adjustments of accruals established during its bankruptcy proceedings in 1993 and 1994. The reversal of the accruals reduced restructuring, employee benefit and various tax accruals previously established. In 1999, Vector recorded a gain of \$1,249 related to the settlement of a lawsuit originally initiated by New Valley's former Western Union telegraph business.

The loss on extraordinary items in 2000 and 1999 pertains to the early extinguishment of debt.

1999 COMPARED TO 1998

REVENUES. Total revenues were \$567,045 for the year ended December 31, 1999 compared to \$444,566 for the year ended December 31, 1998. This 27.6% increase in revenues was due to a \$75,619 or 21.8% increase in revenues at Liggett, a \$2,622 or 2.7% increase at Liggett-Ducat and the addition of revenues from New Valley of \$44,238.

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

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

Premium sales at Liggett for the year ended December 31, 1999 amounted to \$78,182 and represented 18.5% of total Liggett sales, compared to \$105,422 and 30.4% of total sales for 1998. In the premium segment, revenues declined by 25.8% (\$27,240) in the year ended December 31, 1999 compared to 1998, due to an unfavorable volume variance of \$48,789, reflecting a 46.3% decline in unit sales volume (approximately 697.2 million units), primarily due to the closing of the Philip Morris brand transaction on May 24, 1999, which was partially offset by price increases of \$21,549. As adjusted for the contribution of the three brands in the Philip Morris brand transaction, the decline in Liggett's premium segment from the prior year period was 21.5% (approximately 232.7 million units). Although this decline compared unfavorably to an overall industry decline in the premium segment of approximately 8.5% during 1999, Liggett's management believes that the percentage decline was consistent with other, smaller premium brands.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for 1999 amounted to \$344,566 and represented 81.5% of total

Liggett sales, compared to \$241,707 and 69.6% of total Liggett sales in 1998. In the discount segment, revenues grew by 42.6% (\$102,859) in the year ended December 31, 1999 compared to 1998, due to price increases of \$107,742, and a favorable product mix among the discount brand categories of \$560 partially offset by a 2.3% decline in unit sales volume (approximately 97.6 million units) accounting for \$5,443 in volume variance.

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

The increase in tobacco revenues at Liggett-Ducat was attributable to a 20.9% increase in unit sales volume of \$20,387 and a favorable product mix of \$3,585 offset by decreased prices of \$21,350. Although volume increased by approximately 4,265 million units in 1999, Liggett-Ducat's sales volume was adversely affected by the move to the new factory and price declines in Russia due to the full impact of the 1998 ruble devaluation.

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

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

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

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

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

OTHER INCOME (EXPENSES). For the year ended December 31, 1999, Liggett recognized a gain of \$294,078 in connection with the closing of the Philip Morris brand transaction. In addition, Vector recognized a gain of \$11,883 from the sales by New Valley of five U.S. shopping centers, Thinking Machines' assets

and a 19.9% interest in Ladenburg. Vector also recognized in March 1999 a deferred gain of \$7,050 relating to the expiration of the put obligation on Ducat Place III (the site of the old cigarette factory in Russia) in connection with the 1997 sale of the BrookeMil common shares.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Net cash and cash equivalents increased \$137,390 in 2000, \$12,727 in 1999 and \$2,642 in 1998.

Net cash used in operations in 2000 was \$4,897 compared to net cash provided by operations of \$58,903 in 1999. Although there was a reduction in debt service of \$23,768 over the prior year, operating income declined due to the sale of Western Tobacco Investments, lower operating income at Liggett and expenses of new product development at Vector Tobacco. In addition, there was the non-cash impact of the gain on the sale of assets, the gain in the joint venture and the impact of discontinued operations offset by depreciation and amortization, stock option expense and minority interest expense.

Net cash used in operations in 1999 was \$4,897 compared to net cash used in operations of \$3,289 in 1998. The increase of \$61,382 in net cash provided by operating activities in 1999 over the prior year was due primarily to an increase in operating income at Liggett, a reduction in debt service resulting from Liggett's bond redemption on December 28, 1998 and an increase in deferred taxes and non-cash expenses including certain interest expenses, loss in joint venture and loss in equity of affiliate. In the 1998 period, cash payments included interest payments by BGLS and Liggett of approximately \$50,000. In addition, increases in inventories were partially offset by decreases in receivables, payables and other long-term liabilities.

Net cash provided by investing activities of \$315,685 in 2000 compared to net cash provided of \$127,968 in 1999 and net cash provided of \$131,327 in 1998. In 2000, the majority of the proceeds were from the sale of Western Tobacco Investments, from which Vector realized \$323,266 in cash, and \$58,811 from the sale or maturity of investment securities. These transactions were offset principally by capital expenditures of \$27,603 which primarily relate to Liggett's new facilities in Mebane, North Carolina and, earlier in the year, to the new tobacco factory in Russia and the purchase of investment securities for \$32,320.

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

Net cash used in financing activities of \$173,288 in 2000 compared to net cash used of \$172,169 in 1999. In 2000, cash was used primarily to retire the BGLS notes in principal amount of \$88,070 with deferred interest of \$23,435. Net borrowings on revolving credit facilities were \$27,473 in 2000 of which \$19,374 is attributable to Liggett and \$8,099 is attributable to Liggett-Ducat. This compared to net borrowings of \$16,765 in 1999. Net distributions on common stock were \$30,759 in 2000 compared to \$13,945 in 1999 due to an increase in Vector's dividend in the third quarter 2000. Further cash was used to repay the participating loan to Western Realty Development on the sale of Western Tobacco Investments.

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

LIGGETT. Liggett has a \$35,000 credit facility under which \$19,374 was outstanding at December 31, 2000. Availability under the credit facility was approximately \$9,608 based on eligible collateral at December 31, 2000. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above First Union's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate. The facility's interest rate was 10.5% at December 31, 2000. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At December 31, 2000, Liggett was in compliance with all covenants under the facility; Liggett's adjusted net worth was \$14,832 and net working capital was \$24,169, as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, 100 Maple Lane LLC, a new company formed by Liggett to purchase an industrial facility in Mebane, North Carolina, borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 including annual interest at 1% above the prime rate

with a final payment of \$1,500. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility. Liggett completed the relocation of its manufacturing operations to this facility in October 2000.

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase. The loan, which is collateralized by the equipment and guaranteed by BGLS and the Company, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550. In March 2000, Liggett purchased equipment for \$1,000 under a capital lease which is payable in 60 monthly installments of \$21 with an effective annual interest rate of 10.14%. In April 2000, Liggett purchased equipment for \$1,071 under two capital leases which are payable in 60 monthly installments of \$22 with an effective interest rate of 10.20%.

Liggett (and, in certain cases, Brooke Group Holding, Vector's predecessor and a wholly-owned subsidiary of BGLS) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke from cigarettes. Vector believes, and has been so advised by counsel handling the respective cases, that Brooke Group Holding and Liggett have a number of valid defenses to claims asserted against them. Litigation is subject to many uncertainties. An unfavorable verdict was returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. Recently, the jury awarded \$790,000 in punitive damages against Liggett in the second phase of the trial, and the court entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on Vector. Liggett has filed the \$3,450 bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. In recent years, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither Vector nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See Note 23 to Vector's consolidated financial statements.

Management 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 Brooke Group Holding or Liggett or the costs of defending such cases. It is possible that Vector's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

BROOKE (OVERSEAS). On August 4, 2000, Brooke (Overseas) completed the sale of Western Tobacco Investments to a subsidiary of Gallaher Group Plc. (See Recent Developments.) In connection with the sale, all of the credit facilities, notes payable and other obligations of Western Tobacco Investments and Liggett-Ducat were assumed by the purchaser.

BGLS. On August 4, 2000, with the proceeds of the Western Tobacco Investments sale, BGLS repurchased \$24,850 principal amount of its 15.75% Senior Secured Notes, together with accrued interest of \$11,531, for \$36,381. On

September 5, 2000, BGLS redeemed the remaining Notes for 100% of the principal amount thereof plus accrued interest. BGLS used \$106,821 of the proceeds of the sale to retire the Notes.

THE COMPANY. Vector believes that it will continue to meet its liquidity requirements through 2001. Corporate expenditures (exclusive of Liggett and New Valley) over the next twelve months for current operations include dividends on Vector's shares (currently at an annual rate of approximately \$41,600) and corporate expenses. Vector anticipates funding its expenditures for current operations with the proceeds from the Western Tobacco Investments sale, public and/or private debt and equity financing, management fees from subsidiaries and tax sharing and other payments from Liggett or New Valley. New Valley may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

MARKET RISK

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

FOREIGN MARKET RISK

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

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

DOMESTIC MARKET RISK

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

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

EQUITY PRICE RISK. Ladenburg maintained inventories of trading securities at December 31, 2000 with fair values of \$18,348 in long positions and \$3,570 in short positions. Ladenburg performed an entity-wide analysis of its financial instruments and assessed the related risk and materiality. Based on this analysis, in the opinion of management the market risk associated with the Ladenburg's financial instruments at December 31, 2000 will not have a material adverse effect on the consolidated financial position or results of operations of Vector.

New Valley held investment securities available for sale totaling \$29,331 at December 31, 2000. Adverse market conditions could have a significant effect on the value of New Valley's investments.

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

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Originally, the statement had been effective for all quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities", which postponed the adoption of SFAS No. 133 until fiscal years beginning after June 15, 2000. Vector adopted SFAS No. 133 on January 1, 2001, which did not have a material impact on its consolidated financial position.

Staff Accounting Bulletin No. 101, "Revenue Recognition," issued by the Securities and Exchange Commission, did not have an impact on the Company's operating revenues for any of the years presented.

During 2000, the Emerging Issues Task Force issued EITF No. 00-14, "Accounting for Certain Sales Incentives." EITF Issue No. 00-14 addresses the recognition, measurement and statement of earnings classification for certain sales incentives and will be effective in the second quarter of 2001. As a result, certain items previously included in operating, selling, general and administrative expense in the consolidated statement of earnings will be recorded as a reduction of operating revenues. Vector has determined that the impact of adoption or subsequent application of EITF Issue No. 00-14 will not have a material effect on its consolidated financial position or results of operations. Upon adoption, prior period amounts, which are not expected to be significant, will be reclassified to conform to the new requirements. In addition, the EITF issued EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF No. 00-10 addresses the statement of earnings classification of shipping and handling costs billed to customers and was effective for the fourth quarter of 2000. EITF No. 00-10 did not have an impact on Vector's consolidated financial statements for any of the years presented.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Vector's Consolidated Financial Statements and Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 30, 2001, are set forth beginning on page F-1 of this report.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information is contained in Vector's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders, to be filed with the SEC not later than 120 days after the end of the registrant's fiscal year covered by this report pursuant to Regulation 14A under the Securities Exchange Act of 1934, and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(a)(1) INDEX TO 2000 CONSOLIDATED FINANCIAL STATEMENTS:

Vector's Consolidated Financial Statements and the Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 30, 2001, appear beginning on page F-1 of this report. Financial statement schedules not included in this report have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or the Notes thereto.

(a)(2) FINANCIAL STATEMENT SCHEDULES:

Schedule II - Valuation and Qualifying AccountsPage F-51

(a)(3) EXHIBITS

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

INDEX OF EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
*2.1	Stock Purchase Agreement dated as of January 31, 1997 among BrookeMil Ltd. ("BrookeMil"), Brooke (Overseas) Ltd. ("Brooke (Overseas)"), BGLS Inc. ("BGLS") and New Valley Corporation ("New Valley") (incorporated by reference to Exhibit 2.1 in New Valley's Form 8-K dated January 31, 1997, Commission File No. 1-2493).
*2.2	Agreement and Plan of Merger, dated as of September 30, 1999, by and among Brooke Group Ltd., BGL Successor Inc. and BGL Merger Inc. (incorporated by reference to Exhibit 2.1 in Vector's Form 8-K dated October 1, 1999, Commission File No. 1-5759).
*3.1	Amended and Restated Certificate of Incorporation of Vector (formerly known as Brooke Group Ltd.) ("Vector") (incorporated by reference to Exhibit 3.1 in Vector's Form 10-Q for the quarter ended September 30, 1999).
*3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Vector (incorporated by reference to Exhibit 3.1 in Vector's Form 8-K dated May 24, 2000).
*3.3	By-Laws of Vector (incorporated by reference to Exhibit 3.2 in Vector's Form 10-Q for the quarter ended June 30, 2001).
*4.1	Loan and Security Agreement, dated as of March 8, 1994, between Liggett and Congress Financial Corporation (incorporated by reference to Exhibit 10(xx) in Vector's Form 10-K for the year ended December 31, 1993).

EXHIBIT NO. -----	DESCRIPTION -----
*10.1	Corporate Services Agreement, dated as of June 29, 1990, between Vector and Liggett (incorporated by reference to Exhibit 10.10 in Liggett's Registration Statement on Form S-1, No. 33-47482).
*10.2	Corporate Services Agreement, dated June 29, 1990, between Vector and Liggett (incorporated by reference to Exhibit 10.11 in Liggett's Registration Statement on Form S-1, No. 33-47482).
*10.3	Services Agreement, dated as of February 26, 1991, between Brooke Management Inc. ("BMI") and Liggett (the "Liggett Services Agreement") (incorporated by reference to Exhibit 10.5 in BGLS' Registration Statement on Form S-1, No. 33-93576).
*10.4	First Amendment to Liggett Services Agreement, dated as of November 30, 1993, between Liggett and BMI (incorporated by reference to Exhibit 10.6 of BGLS' Registration Statement on Form S-1, No. 33-93576).
*10.5	Second Amendment to Liggett Services Agreement, dated as of October 1, 1995, between BMI, Vector and Liggett (incorporated by reference to Exhibit 10(c) in Vector's Form 10-Q for the quarter ended September 30, 1995).
*10.6	Corporate Services Agreement, dated January 1, 1992, between BGLS and Liggett (incorporated by reference to Exhibit 10.13 of Liggett's Registration Statement on Form S-1, No. 33-47482).
*10.7	Employment Agreement, dated February 21, 1992, between Vector and Bennett S. LeBow (incorporated by reference to Exhibit 10(xx) in Vector's Form 10-K for the year ended December 31, 1991).
*10.8	Amendment to Employment Agreement, dated as of July 20, 1998, between Vector and Bennett S. LeBow (incorporated by reference to Exhibit 10.8 in Vector's Form 10-K for the year ended December 31, 1998).
*10.9	Tax-Sharing Agreement, dated June 29, 1990, among Brooke Group Holding Inc. ("Brooke Group Holding"), Liggett and certain other entities (incorporated by reference to Exhibit 10.12 in Liggett's Registration Statement on Form S-1, No. 33-47482).
*10.10	Tax Indemnity Agreement, dated as of October 6, 1993, among Brooke Group Holding, Liggett and certain other entities (incorporated by reference to Exhibit 10.2 in SkyBox International Inc.'s Form 10-Q for the quarter ended September 30, 1993).
*10.11	Expense Sharing Agreement, dated as of January 18, 1995, between Vector and New Valley (incorporated by reference to Exhibit 10(d) in Vector's Form 10-Q for the quarter ended September 30, 1995).
*10.12	Stock Option Agreement, dated January 25, 1995, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10(g) in Vector's Form 10-K for the year ended December 31, 1994).

- *10.13 Settlement Agreement, dated March 12, 1996, by and between Dianne Castano and Ernest Perry, the putative representative plaintiffs in Dianne Castano, et al. v. The American Tobacco Company, Inc. et al., Civil No. 94-1044, United States District Court for the Eastern District of Louisiana, for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett, as supplemented by the agreement dated March 14, 1996 (the "Settlement Agreement") (incorporated by reference to Exhibit 13 in the Schedule 13D filed by, among others, Vector with the SEC on March 11, 1996, as amended, with respect to the common stock of RJR Nabisco Holdings Corp. (the "Schedule 13D")).
- *10.14 Addendum to Settlement Agreement (incorporated by reference to Exhibit 10.30 in Vector's Form 10-K/A No. 1 for the year ended December 31, 1996).
- *10.15 Settlement Agreement, dated March 15, 1996, by and among the State of West Virginia, State of Florida, State of Mississippi, Commonwealth of Massachusetts, and State of Louisiana, Brooke Group Holding and Liggett (incorporated by reference to Exhibit 15 in the Schedule 13D).
- *10.16 Addendum to Initial States Settlement Agreement (incorporated by reference to Exhibit 10.43 in Vector's Form 10-Q for the quarter ended March 31, 1997).
- *10.17 Settlement Agreement, dated March 20, 1997, by and between the named and representative plaintiffs in Fletcher, et al. v. Brooke Group Ltd., et al., for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.41 in Vector's Form 10-K for the year ended December 31, 1996).
- *10.18 Settlement Agreement, dated March 12, 1998, by and among the States listed in Appendix A thereto, Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.35 in Vector's Form 10-K for the year ended December 31, 1997).
- *10.19 Amended Settlement Agreement, dated July 2, 1998, by and between the named representative plaintiffs in Fletcher, et al., v. Liggett Group Inc., et al., for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.32 in Vector's Form 10-K for the year ended December 31, 1998).
- *10.20 Master Settlement Agreement made by the Settling States and Participating Manufacturers signatories thereto (incorporated by reference to Exhibit 10.1 in Philip Morris Companies Inc.'s Form 8-K dated November 25, 1998).
- *10.21 General Liggett Replacement Agreement, dated as of November 23, 1998, entered into by each of the Settling States under the Master Settlement Agreement, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.34 in Vector's Form 10-K for the year ended December 31, 1998).

DESCRIPTION

- *10.22 Class Settlement Agreement, dated January 14, 1999, by and between the named representative plaintiffs in Iron Workers Union No. 17 Insurance Fund, et al., v. Philip Morris Inc., et al., for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.35 in Vector's Form 10-K for the year ended December 31, 1998).
- *10.23 Stock Option Agreement, dated December 16, 1996, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.34 in Vector's Form 10-K for the year ended December 31, 1996).
- *10.24 Stock Option Agreement, dated January 1, 1997, between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.35 in Vector's Form 10-K for the year ended December 31, 1996).
- *10.25 Stock Option Agreement, dated January 1, 1997, between Vector and Marc N. Bell (incorporated by reference to Exhibit 4.3 in the Vector's Registration Statement on Form S-8, No. 333-24217).
- *10.26 Stock Option Agreement, dated January 1, 1998, between Vector and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.43 in Vector's Form 10-K for the year ended December 31, 1997).
- *10.27 Warrant to purchase common stock of Vector, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.2 in Vector's Form 8-K dated March 2, 1998).
- *10.28 Warrant to purchase common stock of Vector, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.3 in Vector's Form 8-K dated March 2, 1998).
- *10.29 Registration Rights Agreement, dated as of March 2, 1998, among Vector and the Apollo Holders (incorporated by reference to Exhibit 10.6 in Vector's Form 8-K dated March 2, 1998).
- *10.30 Registration Rights Agreement, dated as of March 2, 1998, among Vector and the Apollo Holders (incorporated by reference to Exhibit 10.7 in Vector's Form 8-K dated March 2, 1998).
- *10.31 Amended and Restated Stock Option Agreement, dated as of October 12, 1998, by and between Vector and Kasowitz, Benson, Torres & Friedman LLP, Marc E. Kasowitz and Daniel R. Benson (incorporated by reference to Exhibit 10.4 in Vector's Form 10-Q for the quarter ended September 30, 1998).
- *10.32 Amended and Restated Limited Liability Company Agreement (Second Restatement) dated as of February 20, 1998 by and among Western Realty Development LLC, New Valley, BrookeMil and Apollo Real Estate Investment Fund III, L.P. ("Apollo") (incorporated by reference to Exhibit 10.1 in New Valley's Form 10-Q for the quarter ended June 30, 1998).
- *10.33 Limited Liability Company Agreement, dated as of June 18, 1998, by and among Western Realty Repin LLC, Apollo and New Valley (incorporated by reference to Exhibit 10.3 in New Valley's Form 10-Q for the quarter ended June 30, 1998).

DESCRIPTION

- *10.34 Participating Loan Agreement, dated as of June 18, 1998, by and between Western Realty Repin LLC and BrookeMil (incorporated by reference to Exhibit 10.4 in New Valley's Form 10-Q for the quarter ended June 30, 1998).
- *10.35 Consulting Agreement, dated as of May 1, 1998, between Vector and J. Sauter Enterprises, Inc. (incorporated by reference to Exhibit 4.1 in Vector's Registration Statement on Form S-8, No. 333-59615).
- *10.36 Vector Group Ltd. 1998 Long-Term Incentive Plan (incorporated by reference to the Appendix to Vector's Proxy Statement dated September 15, 1998).
- *10.37 Stock Option Agreement, dated July 20, 1998, between Vector and Bennett S. LeBow (incorporated by reference to Exhibit 6 in the Amendment No. 5 to the Schedule 13D filed by Bennett S. LeBow on October 16, 1998 with respect to the common stock of Vector).
- *10.38 Stock Option Agreement, dated July 20, 1998, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.3 in in Vector's Form 10-Q for the quarter ended September 30, 1998).
- *10.39 Letter Agreement, dated November 20, 1998, by and among Philip Morris Incorporated ("PM"), Brooke Group Holding, Liggett & Myers Inc. ("L&M") and Liggett (incorporated by reference to Exhibit 10.1 in Vector's Report on Form 8-K dated November 25, 1998).
- *10.40 Amended and Restated Formation and Limited Liability Company Agreement of Trademarks LLC, dated as of May 24, 1999, among Brooke Group Holding, L&M, Eve Holdings Inc. ("Eve"), Liggett and PM, including the form of Trademark License Agreement (incorporated by reference to Exhibit 10.4 in Vector's Form 10-Q for the quarter ended June 30, 1999).
- *10.41 Class A Option Agreement, dated as of January 12, 1999, among Brooke Group Holding, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.61 in Vector's Form 10-K for the year ended December 31, 1998).
- *10.42 Class B Option Agreement, dated as of January 12, 1999, among Brooke Group Holding, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.62 in Vector's Form 10-K for the year ended December 31, 1998).
- *10.43 Pledge Agreement dated as of May 24, 1999 from Eve, as grantor, in favor of Citibank, N.A., as agent (incorporated by reference to Exhibit 10.5 in Vector's Form 10-Q for the quarter ended June 30, 1999).
- *10.44 Guaranty dated as of June 10, 1999 from Eve, as guarantor, in favor of Citibank, N.A., as agent (incorporated by reference to Exhibit 10.6 in Vector's Form 10-Q for the quarter ended June 30, 1999).
- *10.45 Employment Agreement dated as of June 1, 1995, as amended, effective as of January 1, 1996, between New Valley and Bennett S. LeBow (incorporated by reference to Exhibit 10(b)(i) in New Valley's Form 10-K for the year ended December 31, 1995).

- *10.46 Employment Agreement ("Lorber Employment Agreement") dated as June 1, 1995, as amended, effective as of January 1, 1996, between New Valley and Howard M. Lorber (incorporated by reference to Exhibit 10(b)(ii) in New Valley's Form 10-K for the year ended December 31, 1995).
- *10.47 Amendment dated January 1, 1998 to Lorber Employment Agreement (incorporated by reference to Exhibit 10(b)(iii) in New Valley's Form 10-K for the year ended December 31, 1997).
- *10.48 Employment Agreement dated September 22, 1995, between New Valley and Richard J. Lampen (incorporated by reference to Exhibit 10(a) in New Valley's Form 10-Q for the quarter ended September 30, 1995).
- *10.49 Employment Agreement dated April 15, 1994, between Vector and Marc N. Bell (incorporated by reference to Exhibit 10.67 in Vector's Form 10-K for the year ended December 31, 1998).
- *10.50 Employment Agreement dated as of August 1, 1999, between Vector and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.8 in Vector's Form 10-Q for the quarter ended June 30, 1999).
- *10.51 Purchase Agreement, dated as of September 30, 1999, between BGLS Inc. and BGLS Holding Inc. (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated October 1, 1999).
- *10.52 Vector Group Ltd. 1999 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.58 in Vector's Form 10-K for the year ended December 31, 1999).
- *10.53 Stock Option Agreement, dated November 4, 1999, between Vector and Bennett S. LeBow (incorporated by reference to Exhibit 10.59 in Vector's Form 10-K for the year ended December 31, 1999).
- *10.54 Stock Option Agreement, dated November 4, 1999, between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.60 in Vector's Form 10-K for the year ended December 31, 1999).
- *10.55 Stock Option Agreement, dated November 4, 1999, between Vector and Marc N. Bell (incorporated by reference to Exhibit 10.61 in Vector's Form 10-K for the year ended December 31, 1999).
- *10.56 Stock Option Agreement, dated November 4, 1999, between Vector and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.62 in Vector's Form 10-K for the year ended December 31, 1999).
- *10.57 Stock Option Agreement, dated November 4, 1999, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.63 in Vector's Form 10-K for the year ended December 31, 1999).

DESCRIPTION

- *10.58 Stock Option Agreement, dated November 24, 1999, between Vector and Ronald S. Fulford (incorporated by reference to Exhibit 10.64 in Vector's Form 10-K for the year ended December 31, 1999).
- *10.59 Purchase and Sale Agreement, dated as of June 14, 2000, between Gallaher Overseas (Holdings) Ltd. and Brooke (Overseas) (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated June 14, 2000).
- *10.60 Guaranty, dated as of June 14, 2000, by Vector in favor of Gallaher Overseas (Holdings) Ltd. (incorporated by reference to Exhibit 10.2 in Vector's Form 8-K dated June 14, 2000).
- *10.61 Amendment to Purchase and Sale Agreement, dated as of August 4, 2000, between Gallaher Overseas (Holdings) Ltd. and Brooke (Overseas) (incorporated by reference to Exhibit 10.3 in Vector's Form 8-K dated August 4, 2000).
- 10.62 Letter Agreement, dated September 1, 2000, between Ronald J. Bernstein and Liggett.
- 10.63 Stock Option Agreement, dated October 26, 2000, between Vector and Ronald J. Bernstein.
- 10.64 Severance Agreement and Release, dated January 1, 2001, between Ronald S. Fulford and Vector Tobacco (USA) Ltd.
- 21 Subsidiaries of Vector.
- 23 Consent of PricewaterhouseCoopers LLP relating to Vector's Registration Statements on Form S-8 (No. 333-24217, No. 333-50189 and No. 333-59615) and Registration Statements on Form S-3 (No. 333-46055, No. 33-38869, 33-63119, 333-45377 and 333-56873).
- 99.1 Material Legal Proceedings.

- - - - -
* Incorporated by reference

Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) is listed in exhibit nos. 10.7, 10.8, 10.12, 10.23 through 10.26, 10.36, 10.37, 10.38, 10.45 through 10.50, 10.52 through 10.58, 10.62, 10.63 and 10.64.

(B) REPORTS ON FORM 8-K:
None

SIGNATURES

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

VECTOR GROUP LTD.

(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President, Chief Financial Officer and
Treasurer

Date: March 30, 2001

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 30, 2001.

SIGNATURE
-----TITLE
-----/s/ Bennett S. LeBow

Bennett S. LeBow

Chairman of the Board
(Principal Executive Officer)/s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen

Vice President and Chief
Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)/s/ Robert J. Eide

Robert J. Eide

Director

/s/ Howard M. Lorber

Howard M. Lorber

Director

/s/ Jeffrey S. Podell

Jeffrey S. Podell

Director

/s/ Jean E. Sharpe

Jean E. Sharpe

Director

VECTOR GROUP LTD.
 FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2000
 ITEMS 8, 14(a) (1) AND (2), AND 14(d)

INDEX TO FINANCIAL STATEMENTS
 AND FINANCIAL STATEMENT SCHEDULE

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

	PAGE

FINANCIAL STATEMENTS:	
VECTOR GROUP LTD. CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Certified Public Accountants.....	F-2
Vector Group Ltd. Consolidated Balance Sheets as of December 31, 2000 and 1999.....	F-3
Vector Group Ltd. Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998.....	F-4
Vector Group Ltd. Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2000, 1999 and 1998.....	F-5
Vector Group Ltd. Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1998 and 1998.....	F-6
Notes to Consolidated Financial Statements.....	F-8
FINANCIAL STATEMENT SCHEDULE:	
Schedule II -- Valuation and Qualifying Accounts.....	F-51

Financial Statement Schedules not listed above have been omitted because they are not applicable or the required information is contained in Vector's Consolidated Financial Statements or accompanying Notes.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
of Vector Group Ltd.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page F-1 present fairly, in all material respects, the financial position of Vector Group Ltd. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14 (a)(2) on page F-1 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
March 30, 2001

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

	DECEMBER 31, 2000	DECEMBER 31, 1999
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 157,513	\$ 20,123
Receivables from clearing brokers	10,126	10,903
Investment securities available for sale	29,337	48,722
Trading securities owned	18,348	15,707
Accounts receivable - trade	9,748	19,658
Other receivables	1,669	1,290
Inventories	29,752	45,205
Restricted assets	4,489	3,239
Deferred income taxes	3,304	21,374
Other current assets	5,656	2,511
	-----	-----
Total current assets	269,942	188,732
Property, plant and equipment, net	48,539	154,260
Investment in real estate, net	120,272	53,353
Long-term investments, net	4,654	8,730
Investment in joint venture	--	38,378
Restricted assets	3,060	5,195
Deferred income taxes	7,094	45,631
Other assets	8,414	10,169
	-----	-----
Total assets	\$ 461,975	\$ 504,448
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 17,850	\$ 41,547
Margin loans payable	4,675	983
Accounts payable	9,547	36,456
Cash overdraft	501	--
Securities sold, not yet purchased	3,570	7,625
Accrued promotional expenses	19,683	22,473
Accrued taxes payable	32,133	42,408
Deferred income taxes	2,587	2,274
Accrued interest	--	8,488
Prepetition claims and restructuring accruals.....	10,229	12,279
Other accrued liabilities	38,000	52,121
	-----	-----
Total current liabilities	138,775	226,654
Notes payable, long-term debt and other obligations, less current portion.....	39,890	148,349
Noncurrent employee benefits	7,313	18,696
Deferred income taxes	129,887	117,285
Other liabilities	61,627	81,196
Minority interests	72,034	45,366
Commitments and contingencies.....		
Stockholders' equity (deficit):		
Preferred stock, par value \$1.00 per share, authorized 10,000,000 shares		
Common stock, par value \$0.10 per share, authorized 100,000,000 shares, issued 31,791,664 and outstanding 25,667,018	2,567	2,199
Additional paid-in capital	184,807	192,952
Deficit	(148,789)	(302,155)
Accumulated other comprehensive income	1,337	1,379
Less: 6,124,646 shares of common stock in treasury, at cost	(27,473)	(27,473)
	-----	-----
Total stockholders' equity (deficit)	12,449	(133,098)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 461,975	\$ 504,448
	=====	=====

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

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

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Revenues:			
Tobacco*	\$ 646,322	\$ 522,807	\$ 444,566
Broker-dealer transactions	90,111	40,852	--
Real estate leasing	3,198	3,386	--
Total revenues	739,631	567,045	444,566
Expenses:			
Cost of goods sold*	256,713	189,865	200,996
Operating, selling, administrative and general expenses	437,453	306,228	186,904
Settlement charges	(934)	(1,051)	(14,928)
Operating income	46,399	72,003	71,594
Other income (expenses):			
Interest and dividend income	6,301	2,840	1,169
Interest expense	(30,610)	(54,378)	(79,704)
Equity in loss of affiliate	(5,597)	(11,315)	(28,717)
Recognition of deferred gain on sale of assets	--	7,050	--
Income (loss) in joint venture	52,589	(12,082)	--
Gain on sale of investments, net	7,271	741	--
Sale of assets	192,923	12,172	5,975
Gain on brand transaction	--	294,078	--
Other, net	2,071	1,966	(5,711)
Income (loss) from continuing operations before provision (benefit) for income taxes and minority interests	271,347	313,075	(35,394)
Provision (benefit) for income taxes	82,867	82,458	(59,613)
Minority interests	(18,910)	5,467	--
Income from continuing operations	169,570	236,084	24,219
Gain on disposal of discontinued operations, net of minority interests	6,469	1,249	3,208
Loss from extraordinary items	(1,821)	(1,660)	--
Net income	\$ 174,218	\$ 235,673	\$ 27,427
Per basic common share:			
Income from continuing operations	\$ 7.21	\$ 10.22	\$ 1.08
Gain from discontinued operations	\$ 0.28	\$ 0.05	\$ 0.14
Loss from extraordinary items	\$ (0.08)	\$ (0.07)	--
Net income applicable to common shares	\$ 7.41	\$ 10.20	\$ 1.22
Basic weighted average common shares outstanding	23,514,630	23,089,271	22,518,567
Per diluted common share:			
Income from continuing operations	\$ 6.12	\$ 8.39	\$ 0.89
Gain from discontinued operations	\$ 0.23	\$ 0.04	\$ 0.12
Loss from extraordinary items	\$ (0.07)	\$ (0.06)	--
Net income applicable to common shares	\$ 6.28	\$ 8.37	\$ 1.01
Diluted weighted average common shares outstanding	27,700,958	28,151,836	27,336,657

* Revenues and Cost of goods sold include excise taxes of \$116,166, \$66,698 and \$82,613 for ended the years ended December 31, 2000, 1999 and 1998, respectively.

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

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

	Common Stock		Additional Paid-In Capital	Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance, December 31, 1997	18,097,096	\$ 1,850	\$ 84,540	\$ (538,791)	\$ (34,139)	\$ (1,857)	\$ (488,397)
Net income	--	--	--	27,427	--	--	27,427
Unrealized holding gain on investment in New Valley	--	--	--	--	--	30,902	30,902
Effect of New Valley capital transactions	--	--	--	--	--	(3,383)	(3,383)
Pension-related minimum liability adjustment	--	--	--	--	--	(888)	(888)
Total other comprehensive income	--	--	--	--	--	--	26,631
Total comprehensive income	--	--	--	--	--	--	54,058
Distributions on common stock	--	--	(6,123)	--	--	--	(6,123)
Effectiveness fee on debt	483,002	48	1,666	--	2,391	--	4,105
Issuance of options and warrants	--	--	24,825	--	--	--	24,825
Issuance of common stock	1,500,000	150	11,342	--	--	--	11,492
Issuance of treasury stock	863,632	46	319	(818)	4,275	--	3,822
Amortization of deferred compensation	--	--	2,043	--	--	--	2,043
Balance, December 31, 1998	20,943,730	2,094	118,612	(512,182)	(27,473)	24,774	(394,175)
Net income	--	--	--	235,673	--	--	235,673
Unrealized gain on investment securities	--	--	--	--	--	565	565
Other New Valley capital transactions	--	--	--	--	--	342	342
Effect of New Valley recapitalization on other comprehensive loss	--	--	--	--	--	(24,647)	(24,647)
Pension-related minimum liability adjustment	--	--	--	--	--	345	345
Total other comprehensive loss	--	--	--	--	--	--	(23,395)
Total comprehensive income	--	--	--	--	--	--	212,278
Effect of stock dividend	1,046,052	105	25,541	(25,646)	--	--	--
Recapitalization of New Valley	--	--	58,390	--	--	--	58,390
New Valley purchase of preferred stock in subsidiary	--	--	850	--	--	--	850
Distributions on common stock	--	--	(13,945)	--	--	--	(13,945)
Amortization of deferred compensation	--	--	3,504	--	--	--	3,504
Balance, December 31, 1999	21,989,782	2,199	192,952	(302,155)	(27,473)	1,379	(133,098)
Net income	--	--	--	174,218	--	--	174,218
Unrealized gain on investment securities	--	--	--	--	--	(63)	(63)
Pension-related minimum liability adjustment	--	--	--	--	--	21	21
Total other comprehensive income	--	--	--	--	--	--	(42)
Total comprehensive income	--	--	--	--	--	--	174,176
Exercise of options and warrants	2,455,206	246	(156)	--	--	--	90
Effect of stock dividend	1,222,030	122	20,730	(20,852)	--	--	--
Effect of New Valley share repurchase	--	--	413	--	--	--	413
Distributions on common stock	--	--	(30,759)	--	--	--	(30,759)

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

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Cash flows from operating activities:			
Net income	\$ 174,218	\$ 235,673	\$ 27,427
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	12,647	7,672	8,610
Non-cash stock-based expense	2,763	5,360	9,394
Gain on brand transaction	--	(294,078)	--
Gain on sale of assets	(200,730)	(260)	(5,003)
Deferred income taxes	69,522	102,172	(59,613)
Currency translation (gain) loss	(2,085)	(1,352)	4,294
Gain on sale of securities	--	(21,103)	--
Loss on retirement of debt	2,780	--	--
Non-cash interest expense	4,940	21,612	11,797
Impact of discontinued operations	(10,030)	(1,708)	(3,208)
(Gain) loss in joint venture	(52,589)	12,082	--
Minority interests	18,910	(5,467)	--
Equity in loss of affiliates	--	8,981	28,717
Changes in assets and liabilities (net of effect of recapitalization and dispositions):			
Receivables	(5,114)	1,590	(3,782)
Due from clearing broker	777	5,237	--
Inventories	(9,011)	(9,589)	2,997
Accounts payable and accrued liabilities	11,267	(11,905)	(5,496)
Securities sold but not yet purchased	(4,055)	4,671	--
Deferred gain	--	(5,331)	--
Other assets and liabilities, net	(19,107)	3,836	(19,423)
Net cash (used in) provided by operating activities	(4,897)	58,093	(3,289)
Cash flows from investing activities:			
Proceeds from sale of businesses and assets, net	323,266	932	2,333
Proceeds from brand transaction	--	145,000	150,000
Sale or maturity of investment securities	58,811	5,422	--
Purchase of investment securities	(32,320)	(8,585)	--
Purchase of long-term investments	(4,504)	(3,606)	--
Investment in joint venture	(2,573)	--	--
Decrease in restricted assets	984	--	--
Proceeds from sale of real estate, net	--	46,867	--
Sale of preferred stock in subsidiary, net	--	3,434	--
Payment of prepetition claims	(376)	(85)	--
Capital expenditures	(27,603)	(61,411)	(21,006)
Net cash provided by investing activities	315,685	127,968	131,327

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

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

	Year Ended December 31,		
	2000	1999	1998
Cash flows from financing activities:			
Proceeds from debt	700	16,585	4,425
Repayments of debt	(107,868)	(195,354)	(146,701)
Borrowings under revolver	433,075	375,394	282,004
Repayments on revolver	(405,602)	(358,629)	(296,731)
Effect of New Valley recapitalization	--	8,874	--
Increase (decrease) in margin loan payable	3,692	(5,017)	--
Increase (decrease) in cash overdraft	501	(77)	(868)
Distributions on common stock	(30,759)	(13,945)	(6,123)
(Repayment) Proceeds from participating loan	(67,027)	--	30,000
Issuance of common stock	--	--	9,970
Net cash used in financing activities	(173,288)	(172,169)	(124,024)
Effect of exchange rate changes on cash and cash equivalents	(110)	(1,165)	(1,372)
Net increase in cash and cash equivalents	137,390	12,727	2,642
Cash and cash equivalents, beginning of year	20,123	7,396	4,754
Cash and cash equivalents, end of year	\$ 157,513	\$ 20,123	\$ 7,396

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

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION:

The consolidated financial statements of Vector Group Ltd. (the "Company" or "Vector") include the accounts of BGLS Inc. ("BGLS"), Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("Brooke (Overseas)"), Vector Tobacco (USA) Ltd. ("Vector Tobacco"), through July 31, 2000 Liggett-Ducat Ltd. ("Liggett-Ducat"), and other less significant subsidiaries. As of June 1, 1999, New Valley Corporation ("New Valley") became a consolidated subsidiary of the Company as a result of New Valley's recapitalization in which the Company's interest in New Valley's common shares increased to 55.1%. (Refer to Note 4.) All significant intercompany balances and transactions have been eliminated. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's presentation.

Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Vector Tobacco is engaged in the development of new less hazardous cigarette products. Prior to its sale in August 2000, Liggett-Ducat was engaged in the manufacture and sale of cigarettes in Russia. New Valley is engaged primarily in the investment banking and brokerage business through its ownership of Ladenburg Thalmann & Co. Inc. ("Ladenburg") and in the real estate business in Russia.

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

At the Company's annual meeting held on May 24, 2000, stockholders approved a corporate name change to Vector Group Ltd. The New York Stock Exchange symbol for the Company's common stock was changed from "BGL" to "VGR".

(b) RISKS AND UNCERTAINTIES:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

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

(c) ESTIMATES AND ASSUMPTIONS:

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

(d) CASH AND CASH EQUIVALENTS:

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

(e) FINANCIAL INSTRUMENTS:

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

The carrying amounts of short-term debt reported in the Consolidated Balance Sheets are a reasonable estimate of fair value. The fair value of long-term debt for the year ended December 31, 2000 approximates fair value. Long-term debt for the year ended December 31, 1999 was estimated based on current market quotations, where available.

The methods and assumptions used by the Company's management in estimating fair values for financial instruments presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

(f) INVESTMENT SECURITIES:

The Company classifies investments in debt and marketable equity securities as either trading, available for sale, or held to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

(g) SIGNIFICANT CONCENTRATIONS OF CREDIT RISK:

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its temporary cash in money market securities (investment grade or better) with what management believes are high credit quality financial institutions. (Refer to Note 25).

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. One customer accounted for approximately 33.8% of Liggett's net sales in 2000, 30.7% of Liggett's net sales in 1999 and 26.9% of its net sales in 1998. Sales to this customer were primarily in the private label discount segment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers, located primarily throughout the United States, comprising Liggett's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. Liggett maintains reserves for potential credit losses and such losses, in the aggregate, have generally not exceeded management's expectations.

(h) ACCOUNTS RECEIVABLE:

The allowance for doubtful accounts and cash discounts was \$1,073 and \$1,002 at December 31, 2000 and 1999, respectively.

(i) INVENTORIES:

Domestic tobacco inventories, which comprised 100% and 60% of total inventory in 2000 and 1999, respectively, are stated at the lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method. All other inventories were determined primarily on a first-in, first-out (FIFO) basis. Although portions of leaf tobacco inventories may not be used or sold within one year because of the time required for aging, they are included in current assets, which is common practice in the industry. It is not practicable to determine the amount that will not be used or sold within one year.

(j) RESTRICTED ASSETS:

Restricted assets at December 31, 2000 consisted primarily of a bond in the amount of \$3,450 required by Florida law in order to stay execution of the ENGLE judgment and the amount of \$2,598 pledged as collateral for a letter of credit which serves as collateral for a long-term lease of commercial office space. (Refer to Note 23).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

(k) PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which are 20 to 40 years for buildings and 3 to 10 years for machinery and equipment.

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

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

(l) INTANGIBLE ASSETS:

Intangible assets, consisting principally of trademarks and goodwill, are amortized using the straight-line method over 10-12 years. Amortization expense for the years ended December 31, 2000, 1999 and 1998 was \$28, \$73 and \$2,473, respectively. Management periodically reviews the carrying value of such assets to determine whether asset values are impaired.

(m) IMPAIRMENT OF LONG-LIVED ASSETS:

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

(n) SECURITIES SOLD, NOT YET PURCHASED:

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

(o) EMPLOYEE BENEFITS:

Liggett sponsors self-insured health and dental insurance plans for all eligible employees. As a result, the expense recorded for such benefits involves an estimate of unpaid claims as of December 31, 2000, 1999 and 1998 which are subject to significant fluctuations in the near term.

(p) POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

(q) STOCK OPTIONS:

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

(r) INCOME TAXES:

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

(s) REVENUE RECOGNITION:

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

During 2000, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, "Accounting for Certain Sales Incentives." EITF Issue No. 00-14 addresses the recognition, measurement and statement of operations classification for certain sales incentives and will be effective in the second quarter of 2001. As a result, certain items previously included in operating, selling, general and administrative expenses in the consolidated statement of operations will be recorded as a reduction of operating revenues. The Company has determined that the impact of adoption or subsequent application of EITF Issue No. 00-14 will not have a material effect on its consolidated financial position or results of operations. In addition, the EITF issued EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF No. 00-10 addresses the statement of earnings classification of shipping and handling costs billed to customers and was effective for the fourth quarter of 2000. EITF No. 00-10 did not have an impact on the consolidated financial statements of the Company for any of the years presented.

Staff Accounting Bulletin No. 101, "Revenue Recognition," issued by the Securities and Exchange Commission, did not have an impact on the Company's operating revenues for any of the years presented.

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

(t) ADVERTISING AND PROMOTIONAL COSTS:

Advertising and promotional costs are expensed as incurred. Advertising and promotional expenses were \$95,584, \$69,079 and \$44,540 for the years ended December 31, 2000, 1999 and 1998, respectively.

(u) LEGAL COSTS:

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

(v) EARNINGS PER SHARE:

Information concerning the Company's common stock has been adjusted to give effect to the 5% stock dividends paid to Company stockholders on September 28, 2000 and September 30, 1999. The dividends were charged to retained earnings in the net amount of \$20,852 in 2000 and \$25,646 in 1999 and were based on the fair value of the Company's common stock. In connection with each 5% dividend, the Company increased the number of warrants and stock options by 5% and reduced the exercise prices accordingly. All share amounts have been presented as if the stock dividends had occurred on January 1, 1998.

Basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options, vested restricted stock grants and warrants. Basic and diluted EPS were calculated using the following for the years ended December 31, 2000, 1999 and 1998:

	2000 ----	1999 ----	1998 ----
Weighted average shares for basic EPS.....	23,514,630	23,089,271	22,518,567
Plus incremental shares from exercises:			
Stock options and warrants.....	4,186,328	5,062,565	4,818,090
Weighted average shares for diluted EPS.....	----- 27,700,958 =====	----- 28,151,836 =====	----- 27,336,657 =====

(w) FOREIGN CURRENCY TRANSLATION:

The Company's Russian tobacco subsidiary, which was sold on August 4, 2000, operated in a highly inflationary economy and used the U.S. dollar as the functional currency. Therefore, certain assets of this entity (principally inventories and property and equipment) were translated at historical exchange rates with all other assets and liabilities translated at year end exchange rates and all translation adjustments being reflected in the consolidated statements of operations for the seven months ended July 31, 2000 and the twelve months ended December 31, 1999 and 1998.

(x) COMPREHENSIVE INCOME:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

Total comprehensive income was \$174,176 for the year ended December 31, 2000, \$212,278 for the year ended December 31, 1999 and \$54,058 for the year ended December 31, 1998.

2. SALE OF WESTERN TOBACCO INVESTMENTS

On August 4, 2000, Brooke (Overseas) completed the sale of all of the membership interests of Western Tobacco Investments LLC ("Western Tobacco Investments") to Gallaher Overseas (Holdings) Ltd. ("Gallaher Overseas"). Brooke (Overseas) held its 99.9% equity interest in Liggett-Ducat, one of Russia's leading cigarette producers, through Western Tobacco Investments.

The purchase price for the sale consisted of \$334,100 in cash and \$64,400 in assumed debt and capital commitments. The proceeds generated from the sale were divided among Brooke (Overseas) and Western Realty Development LLC ("Western Realty Development"), a joint venture of New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo"), in accordance with the terms of the participating loan. (Refer to Note 7.) Of the cash proceeds from the transaction after estimated closing expenses, Brooke (Overseas) received \$197,098, New Valley received \$57,208 and Apollo received \$68,338. The Company recorded a gain of \$161,000 (including the Company's share of New Valley's gain), net of income taxes and minority interests, in connection with the sale in the third quarter of 2000.

On August 4, 2000, with the proceeds of the sale, BGLS repurchased \$24,850 principal amount of its 15.75% Senior Secured Notes (the "Notes"), together with accrued interest of \$11,531, for \$36,381. On September 5, 2000, BGLS redeemed the remaining Notes for 100% of the principal amount thereof plus accrued interest. BGLS used a total amount of \$106,821 of the proceeds of the sale to retire the Notes. (Refer to Note 14.)

Gallaher Overseas has also agreed to purchase for \$1,500 additional land adjacent to the Liggett-Ducat manufacturing facility outside Moscow, Russia. The seller is a subsidiary of BrookeMil Ltd. ("BrookeMil"), a wholly-owned subsidiary of New Valley. Closing of the sale is scheduled for the second quarter of 2001 following satisfaction of various regulatory requirements.

3. PHILIP MORRIS BRAND TRANSACTION

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

On May 24, 1999, Trademarks borrowed \$134,900 from a lending institution. The loan is guaranteed by Eve and collateralized by a pledge by Trademarks of the three brands and Trademarks' interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B interest. In connection with the closing of the Class A option, Trademarks distributed the loan proceeds to Eve as the holder of the Class B interest. The cash exercise price of the Class B option and Trademarks' redemption price were reduced by the amount distributed to Eve. Upon Philip Morris' exercise of the Class B option or Trademarks' exercise of its redemption right, Philip Morris or Trademarks, as relevant, will be required to obtain Eve's release from its guaranty. The Class B interest will be entitled to a guaranteed payment of \$500 each year with the Class A interest allocated all remaining income or loss of Trademarks. The proceeds of the loan and the exercise of the Class A option were used to retire a portion of BGLS' Notes. (Refer to Note 14.)

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

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

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

Upon the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999, Philip Morris obtained control of Trademarks, and the Company recognized a pre-tax gain of \$294,078 in its consolidated financial statements to the extent of the total cash proceeds received from the payment of the option fees, the exercise of the Class A option and the distribution of the loan proceeds.

4. NEW VALLEY CORPORATION

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

In connection with New Valley's recapitalization on June 4, 1999, New Valley's preferred shares were reclassified and changed into Common Shares and Warrants to purchase Common Shares. The Company's ownership of the Common Shares of New Valley increased from 42.3% to 55.1%, and its total voting power increased from 42.3% to 55.1%. As a result of the increase in ownership, New Valley became a consolidated subsidiary of the Company as of June 1, 1999.

The recapitalization had a significant effect on the Company's financial position and results of operations. The recapitalization resulted in the elimination of the existing redeemable preferred shares of New Valley and the on-going dividend accruals thereon, as well as the redemption obligation for the Series A Senior Preferred Shares in January 2003. As a result of the recapitalization, the Company's equity in New Valley increased by \$59,263 which, presented net of tax, is \$38,331.

On October 5, 1999, New Valley's Board of Directors authorized the repurchase of up to 2,000,000 Common Shares from time to time on the open market or in privately negotiated transactions depending on market conditions. As of December 31, 2000, New Valley had repurchased 344,400 shares for approximately \$1,354. At December 31, 2000, the Company owned 56.1% of New Valley's Common Shares.

5. ACQUISITIONS AND DISPOSITIONS - NEW VALLEY

On February 8, 2001, New Valley entered into a stock purchase agreement under which New Valley will acquire a controlling interest in GBI Capital Management Corp. ("GBI") and its operating subsidiary, GBI Capital Partners, Inc., a securities and trading firm. Upon completion of the transaction, New Valley will own approximately 50.1% of the outstanding shares of GBI, an American Stock Exchange-listed company, which will be renamed Ladenburg Thalmann Financial Services, Inc. Under the terms of the agreement, New Valley and Berliner will sell all of their outstanding shares of Ladenburg to GBI for 18,181,818 shares of GBI common stock, \$10,000 of cash and \$10,000 principal amount of convertible notes (convertible at \$2.60 per share). Upon closing, New Valley will acquire for \$1.00 per share an additional 3,945,060 shares of GBI from Joseph Berland, the Chairman and Chief Executive Officer of GBI. The transaction, which is expected to close in the second quarter of 2001, is subject to customary closing conditions, including regulatory approval and approval by GBI shareholders. Holders of a majority of the outstanding shares of GBI have committed to vote in favor of the transaction.

In December 1999, New Valley completed the sale of a 19.9% interest in its subsidiary Ladenburg, Thalmann & Co. Inc. ("Ladenburg") to Berliner Effektengesellschaft AG ("Berliner"). New Valley received \$10,200 in cash and Berliner shares valued in accordance with the purchase agreement. Pursuant to the agreement, Berliner also acquired a three-year option to purchase additional interests in Ladenburg subject to certain conditions. In connection with this transaction, New Valley recorded a gain of \$4,256 for the year ended December 31, 1999.

On August 30, 1999, New Valley completed the sale of five of its shopping centers for an aggregate purchase price of \$46,125 before closing adjustments and expenses. The shopping centers were subject to approximately \$35,023 of mortgage financing, which was assumed by the purchasers at closing. In connection with the transaction, New Valley recorded a gain of \$3,849 for the year ended December 31, 1999. In February 2001, New Valley sold its Royal Palm Beach, Florida shopping center for \$9,500 before closing adjustments and expenses.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

In June 1999, Thinking Machines, New Valley's 73% owned subsidiary, sold substantially all of its assets, consisting of its Darwin(R) software and services business, to Oracle Corporation. The purchase price was \$4,700 in cash at the closing of the sale and up to an additional \$20,300, payable in cash on January 31 in each of the years 2001 through 2003, based on sales by Oracle of Darwin product above specified sales targets. Oracle has informed Thinking Machines that it did not achieve the specified sales target for the 2000 period. New Valley recorded a gain of \$3,801 in connection with the sale. In June 2000, Thinking Machines recognized a \$150 gain related to Oracle's payment of the first installment of \$150 from the \$400 of the purchase price escrowed in connection with the sale. The operations and related gain associated with Thinking Machines have not been classified as discontinued operations based on the fact that substantial revenues were not realized from the Darwin(R) product.

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

BROOKEMIL LTD. In connection with the sale by Brooke (Overseas) of the common shares of BrookeMil to New Valley in 1997, a portion of the gain was deferred in recognition of the fact that Vector retained an interest in BrookeMil through its 42% equity ownership of New Valley prior to recapitalization and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BrookeMil, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. (Refer to Note 8).

6. PRO FORMA RESULTS

The following table presents unaudited pro forma results of operations as if the Philip Morris brand transaction, the sale of Western Tobacco Investments, New Valley's recapitalization, the sale of five of New Valley's shopping centers and the Thinking Machines assets and the acquisition of Class A interests in Western Realty Development LLC (refer to Note 7) had occurred immediately prior to January 1, 1999. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had these transactions been consummated as of such date.

	YEAR ENDED	
	DECEMBER 31, 2000	DECEMBER 31, 1999
Revenues.....	\$642,150	\$492,968
Operating income.....	\$ 45,622	\$ 48,615
Income from continuing operations before taxes and minority interests.....	\$ 98,429	\$ 53,181
Income from continuing operations.	\$ 40,532	\$ 54,567
Income from continuing operations per common share:		
Basic.....	\$1.72	\$2.36
Diluted.....	\$1.46	\$1.94

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

7. INVESTMENT IN WESTERN REALTY

WESTERN REALTY DEVELOPMENT LLC. In February 1998, New Valley and Apollo organized Western Realty Development to make real estate and other investments in Russia. New Valley agreed to contribute the real estate assets of BrookeMil, including Ducat Place II and the site for Ducat Place III, to Western Realty Development and Apollo agreed to contribute up to \$72,021, including the investment in Western Realty Repin discussed below.

Western Realty Development has three classes of equity: Class A interests, representing 30% of the ownership of Western Realty Development, and Class B and Class C interests, which collectively represent 70% of the ownership of Western Realty Development. Prior to December 29, 2000, Apollo owned the Class A interests, New Valley owned the Class B interests and BrookeMil owned the Class C interests. On December 29, 2000, WRD Holding Corporation ("WRD Holding"), a wholly-owned subsidiary of New Valley, purchased for \$4,000 29/30ths of the Class A interests of Western Realty Development previously held by Apollo. WRD Holding paid the purchase price of \$4,000 with a promissory note due November 30, 2005. The note, which is secured by a pledge of the purchased Class A interests, bears interest at rate of 7% per annum, compounded annually; interest is payable to the extent of available cash flow from distributions from Western Realty Development. In addition, upon the maturity date of the note or, if earlier, upon the closing of various liquidity events, including sale of interests in or assets of, or a business combination or financing involving, Western Realty Development, additional interest will be payable under the note. The additional interest would be in an amount equal to 30% of the excess, if any, of the proceeds from a liquidity event occurring prior to the maturity of the note or the appraised fair market value of Western Realty Development, at maturity, over \$13,750. Apollo and New Valley also agreed to loan Western Realty Development on an equal basis any additional funds required to pay off its existing indebtedness at an interest rate of 15% per annum.

As a result of the purchase of the Class A interests, New Valley and its subsidiaries will be entitled to 99% of subsequent distributions from Western Realty Development and Apollo will be entitled to 1% of subsequent distributions. Accordingly, New Valley will no longer account for its interests in Western Realty Development using the equity method of accounting. Effective December 29, 2000, Western Realty Development became a consolidated subsidiary of New Valley.

Prior to December 29, 2000, the ownership and voting interests in Western Realty Development were held equally by Apollo and New Valley. Apollo was entitled to a preference on distributions of cash from Western Realty Development to the extent of its investment of \$43,750, of which \$42,574 had been funded, \$41,266 was returned in connection with the sale of Western Tobacco Investments and \$1,308 was outstanding at December 29, 2000, together with a 15% annual rate of return. New Valley was then entitled to a return to the extent of its investment commitment of \$23,750 of BrookeMil-related expenses incurred and cash invested by New Valley since March 1, 1997, of which \$22,574 had been funded, \$21,266 was returned in connection with the sale of Western Tobacco Investments and \$1,308 was outstanding at December 29, 2000, together with a 15% annual rate of return. Subsequent distributions were made 70% to New Valley and 30% to Apollo.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

Prior to December 29, 2000, New Valley accounted for its interest in Western Realty Development on the equity method. New Valley recognized losses incurred by Western Realty Development to the extent that cumulative earnings of Western Realty Development were not sufficient to satisfy Apollo's preferred return.

Summarized financial information as of December 31, 1999 and for the period from January 1, 2000 to December 29, 2000 and the year ended December 31, 1999 for Western Realty Development follows:

	DECEMBER 31, 1999	

Current assets.....	\$ 3,557	
Participating loan receivable.....	37,849	
Real estate, net.....	77,988	
Furniture and fixtures, net.....	249	
Other noncurrent assets.....	320	
Goodwill, net.....	722	
Notes payable - current.....	6,445	
Other current liabilities.....	7,067	
Notes payable - long-term.....	8,211	
Other long-term liabilities.....	752	
Members' equity.....	98,210	
	JANUARY 1, 2000 TO	YEAR ENDED
	DECEMBER 29, 2000	DECEMBER 31, 1999
	-----	-----
Revenues.....	\$ 9,782	\$11,537
Costs and expenses.....	8,678	15,708
Real estate impairment charge.....	--	11,561
Accretion of return on participating loan.....	3,460	5,858
Gain on sale of Western Tobacco Investments.....	84,417	--
Income tax expense.....	207	--
	-----	-----
Net income (loss).....	\$88,774	\$ (9,874)
	=====	=====

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

Western Realty Development made a \$30,000 participating loan to Western Tobacco Investments, which held the interests of Brooke (Overseas) in Liggett-Ducat and its new factory. As a result of the sale of Western Tobacco Investments, Western Realty Development was entitled to receive the return of all amounts advanced on the loan, together with a 15% annual rate of return, and 30% of subsequent distributions. Brooke (Overseas) recognized net interest expense of \$3,460 through August 4, 2000, which represented a 15% cumulative adjustment to realizable value on the loan

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

and 30% of any net expense applicable to common interests in Western Tobacco Investments. The loan, together with the 15% annual rate of return thereon, was repaid and terminated in connection with the sale of Western Tobacco Investments in August 2000. (Refer to Note 2.)

WESTERN REALTY REPIN LLC. In June 1998, New Valley and Apollo organized Western Realty Repin to make a loan to BrookeMil, a wholly-owned subsidiary of New Valley. The proceeds of the loan have been used by BrookeMil for the acquisition and preliminary development of the Kremlin sites, two adjoining sites totaling 10.25 acres located in Moscow across the Moscow River from the Kremlin. BrookeMil is planning the development of a hotel, office, retail and residential complex on the Kremlin sites. BrookeMil owned 100% of both sites at December 31, 2000.

Western Realty Repin has three classes of equity: Class A interests, of which \$18,750 were outstanding at December 31, 2000 and are owned by Apollo; Class B interests, of which \$6,250 were outstanding at December 31, 2000 and are owned by New Valley; and Class C interests, of which Apollo had subscribed for \$9,521 (\$7,788 funded) and New Valley had subscribed for \$5,712 (\$4,672 funded) at December 31, 2000. Apollo and New Valley are entitled to receive on a pro-rata basis an amount equal to each party's investment in Class C interests, together with a 20% annual return. After the distributions to the Class C interests have been made, Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of \$18,750 together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment of \$6,250, together with a 20% annual rate of return. Subsequent distributions will be made 50% to New Valley and 50% to Apollo.

Through December 31, 2000, Western Realty Repin has advanced \$37,460, of which \$26,538 was funded by Apollo under the loan. The loan bears no fixed interest and is payable only out of 100% of the distributions by the entities owning the Kremlin sites to BrookeMil. Such distributions will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of BrookeMil. BrookeMil used a portion of the proceeds of the loan to repay New Valley for certain expenditures on the Kremlin sites previously incurred. The loan is due and payable upon the dissolution of BrookeMil and is collateralized by a pledge of New Valley's shares of BrookeMil.

As of December 31, 2000, BrookeMil had invested \$35,665 in the Kremlin sites and held approximately \$462 in cash and receivables from an affiliate, both of which were restricted for future investment in the Kremlin sites. In acquiring its interest in one of the Kremlin sites, BrookeMil agreed with the City of Moscow to invest an additional \$22,000 by May 2000 in the development of the property. In April 2000, Western Realty Repin arranged short-term financing to fund the investment. Under the terms of the investment, BrookeMil is required to utilize such financing amount to make construction expenditures on the site by June 2002. Failure to make the expenditures could result in forfeiture of the 34.8% interest in the site. Based on the distribution terms contained in the Western Realty Repin LLC agreement, the 20% annual rate of return preference to be received by Apollo on funds advanced to Western Realty Repin is treated as interest cost in the consolidated statement of operations to the extent of New Valley's net investment in the Kremlin sites. BrookeMil's historical cost in the Kremlin sites is \$36,127, which is the amount of the participating loan recorded in the Company's consolidated balance sheet at December 31, 2000. Apollo is entitled to additional preferences of approximately \$3,600 related to the Kremlin sites at December 31, 2000.

The development of Ducat Place III and the Kremlin sites will require significant amounts of debt and other financing. New Valley is considering potential financing alternatives on behalf of Western Realty Development

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

8. INVESTMENT IN BROOKE (OVERSEAS) LTD.

At August 4, 2000, Brooke (Overseas) sold all of its interests in Western Tobacco Investments. (Refer to Note 2.)

On January 31, 1997, Brooke (Overseas) sold all its shares of BrookeMil to New Valley for \$55,000. The Company recognized a portion of the gain of \$43,700 on the sale in 1997 in the amount of \$21,300. The remaining \$22,400 was deferred in recognition of the fact that the Company then retained an interest in BrookeMil through its then equity ownership in New Valley and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BrookeMil) was subject to a put option held by New Valley. The option expired when Liggett-Ducat operations at the factory ceased in March 1999. The Company recognized that portion of the deferred gain, \$7,050, in March 1999.

As discussed in Note 7, in 1998, New Valley contributed the BrookeMil real estate assets to Western Realty Development and the Company recognized a portion of the deferred gain, \$4,246, to the extent of Apollo's interest in Western Realty Development.

9. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains included as a component of stockholders' equity, net of minority interests. The Company had realized gains on sales of investment securities available for sale of \$2,271 and \$2,446 for the twelve months ended December 31, 2000 and 1999.

The components of investment securities available for sale at December 31, 2000 and 1999 are as follows:

	COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	FAIR VALUE
	----	-----	-----	-----
2000				
Marketable equity securities	\$24,016	\$ 411	\$ 4,096	\$20,331
Marketable debt securities .	3,050	--	--	3,050
Marketable warrants	--	5,956	--	5,956
	-----	-----	-----	-----
Investment securities	\$27,066	\$ 6,367	\$ 4,096	\$29,337
	=====	=====	=====	=====
1999				
Marketable equity securities	\$45,213	\$11,024	\$12,737	\$43,500
Notes receivable	1,063	--	--	1,063
Marketable warrants	--	4,159	--	4,159
	-----	-----	-----	-----
Investment securities	\$46,276	\$15,183	\$12,737	\$48,722
	=====	=====	=====	=====

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

10. INVENTORIES

Inventories consist of:

	DECEMBER 31,	
	2000	1999
Leaf tobacco	\$ 7,911	\$ 13,599
Other raw materials	1,382	6,423
Work-in-process	2,156	3,542
Finished goods	18,924	20,662
Replacement parts and supplies	2,640	4,795
Inventories at current cost ..	33,013	49,021
LIFO adjustments	(3,261)	(3,816)
	\$ 29,752	\$ 45,205
	=====	=====

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At December 31, 2000, Liggett had leaf tobacco purchase commitments of approximately \$199.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	DECEMBER 31,	
	2000	1999
Land and improvements	\$ 1,670	\$ 415
Buildings	15,641	51,773
Machinery and equipment	71,741	129,693
Construction-in-progress	--	14,605
	89,052	196,486
Less accumulated depreciation	(40,513)	(42,226)
	\$ 48,539	\$ 154,260
	=====	=====

Depreciation expense for the years ended December 31, 2000, 1999 and 1998 was \$11,479, \$7,069 and \$4,123, respectively. Depreciation expense on real estate investments at New Valley was \$1,020 and \$890 for the year ended December 31, 2000 and the seven months ended December 31, 1999, respectively.

SUBSEQUENT EVENT:

In February 2001, Liggett contracted to purchase production machinery for approximately \$16,200. Delivery will begin in October 2001.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

12. INVESTMENT IN REAL ESTATE

The components of the Company's investment in real estate at December 31, 2000 and 1999 are as follows:

	RUSSIAN REAL ESTATE -----	SHOPPING CENTERS -----	TOTAL -----
2000			
Land	\$ 52,585	\$ 4,543	\$ 57,128
Buildings	53,053	19,052	72,105
	-----	-----	-----
Total	105,638	23,595	129,233
Less accumulated depreciation	(5,696)	(3,265)	(8,961)
	-----	-----	-----
Net investment in real estate	\$ 99,942	\$ 20,330	\$ 120,272
	=====	=====	=====
1999			
Land	\$ 32,003	\$ 4,542	\$ 36,545
Buildings	--	19,053	19,053
	-----	-----	-----
Total	32,003	23,595	55,598
Less accumulated depreciation	--	(2,245)	(2,245)
	-----	-----	-----
Net investment in real estate	\$ 32,003	\$ 21,350	\$ 53,353
	=====	=====	=====

13. LONG-TERM INVESTMENTS

Long-term investments consisted of investments in the following:

	DECEMBER 31, 2000 -----		DECEMBER 31, 1999 -----	
	CARRYING VALUE -----	FAIR VALUE -----	CARRYING VALUE -----	FAIR VALUE -----
Limited partnerships.....	\$4,654	\$10,493	\$8,730	\$13,788

The principal business of the limited partnerships is investing in investment securities. The estimated fair value of the limited partnerships was provided by the partnerships based on the indicated market values of the underlying investment portfolio. The Company's investments in limited partnerships are illiquid and the ultimate realization of these investments are subject to the performance of the underlying partnership and its management by the general partners. New Valley is not required to make additional investments in limited partnerships as of December 31, 2000. For the year ended December 31, 1999, the Company recognized gains of \$659 on liquidations of investments of certain limited partnerships.

Also included in long-term investments are various Internet-related businesses which are carried at \$321 and \$5,598 at December 31, 2000 and 1999, respectively. During the year ended December 31, 2000, an investee engaged in the online music industry ceased operations and the Company wrote down to zero the remaining \$1,054 carrying value of its investment. During the year ended December 31, 2000, the Company also determined that a permanent impairment in the value of its investments in three Internet-related businesses with a historical cost of \$2,004 had occurred and wrote down these investments to \$250.

The Company's estimate of the fair value of its long-term investments are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

subject to judgment and are not necessarily indicative of the amounts that could be realized in the current market.

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

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

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
BGLS:		
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of \$5,468	\$ --	\$ 82,602
Deferred interest on 15.75% Series B Senior Secured Notes due 2001	--	25,435
New Valley:		
Notes payable - shopping centers	19,529	19,813
Notes payable - Russia	8,187	--
Liggett:		
Revolving credit facility	19,374	--
Term loan under credit facility	4,320	5,040
Other notes payable	5,760	4,232
Brooke (Overseas):		
Foreign credit facilities	--	29,470
Notes payable	--	23,090
Other	570	214
	-----	-----
Total notes payable, long-term debt and other obligations	57,740	189,896
Less:		
Current maturities	(17,850)	(41,547)
	-----	-----
Amount due after one year	\$ 39,890	\$ 148,349
	=====	=====

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

During 1999, BGLS repurchased \$144,794 principal amount of its Notes, together with accrued interest thereon. The purchases were funded primarily with proceeds from the Philip Morris brand transaction which closed on May 24, 1999. In January 2000, BGLS repurchased an additional \$5,500 principal amount of the Notes, together with accrued interest thereon. In connection with the sale of Western Tobacco Investments on August 4, 2000, BGLS repurchased a portion of the Notes and redeemed the remaining Notes on September 5, 2000. The Company recognized an extraordinary loss in 2000 and 1999 on early extinguishment of debt primarily due to the unamortized imputed interest associated with the repurchased Notes. (Refer to Note 2).

REVOLVING CREDIT FACILITY - LIGGETT:

Liggett has a \$35,000 credit facility, under which \$19,374 was outstanding at December 31, 2000. Availability under the credit facility was approximately \$9,608 based on eligible collateral at December 31, 2000. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 10.5% at December 31, 2000. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At December 31, 2000, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$14,832 and net working capital was \$24,169, as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

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

EQUIPMENT LOAN - LIGGETT:

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase. The loan, which is collateralized by the equipment and guaranteed by BGLS and the Company, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550. In March 2000, Liggett purchased equipment for \$1,000 under a capital lease which is payable in 60 monthly installments of \$21 with an effective annual interest rate of 10.14%. In April 2000, Liggett purchased equipment for \$1,071 under two capital leases which are payable in 60 monthly installments of \$22 with an effective interest rate of 10.20%.

NOTES PAYABLE - NEW VALLEY:

In February 2001, New Valley sold a shopping center in Florida for \$9,500 before closing adjustments and expenses. This Florida shopping center was subject to notes payable of \$8,226 at December 31, 2000. New Valley's remaining shopping center in West Virginia was subject to notes payable of \$11,303 at December 31, 2000. One note bears an interest rate of 9.03% per annum and is due in 2024. A subordinated note bears interest at 9% per annum and is due in 2006.

A credit facility with a Russian bank bears interest at 16% per year, matures no later than August 2002, with principal payments commencing after the first year, and is collateralized by a mortgage on Ducat Place II and guaranteed by New Valley. At December 31, 2000, borrowings under the new credit agreement totaled \$8,187.

NOTES PAYABLE AND FOREIGN CREDIT FACILITIES - WESTERN TOBACCO INVESTMENTS AND LIGGETT-DUCAT:

In connection with the sale of Western Tobacco Investments on August 4, 2000, all of the credit facilities, notes payable and other obligations of Western Tobacco Investments and Liggett-Ducat were assumed by the purchaser.

SCHEDULED MATURITIES:

Scheduled maturities of long-term debt are as follows:

Year ending December 31:

2001	\$17,850
2002	2,339
2003	21,072
2004	3,940
2005	1,588
Thereafter	10,951

Total	\$57,740
	=====

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

15. SECURITIES OWNED AND SECURITIES SOLD, NOT YET PURCHASED

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

	DECEMBER 31, 2000		DECEMBER 31, 1999	
	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED
Common stock.....	\$14,671	\$3,170	\$13,306	\$6,522
Equity and index options.....	768	149	1,973	1,087
Other.....	2,909	251	428	16
	-----	-----	-----	-----
	\$18,348	\$3,570	\$15,707	\$7,625
	=====	=====	=====	=====

16. COMMITMENTS

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

Year ending December 31:	
2001	\$ 5,035
2002	5,121
2003	3,312
2004	3,873
2005	4,014
Thereafter	39,326

Total	\$60,681
	=====

The Company's rental expense for the years ended December 31, 2000, 1999 and 1998 was \$8,115, \$7,369 and \$3,035, respectively.

Future minimum rents to be received principally by New Valley under non-cancelable operating leases are \$7,797 in 2001, \$6,932 in 2002, \$4,402 in 2003, \$2,768 in 2004, \$1,018 in 2005 and \$995 thereafter.

17. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT RETIREMENT PLANS:

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

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

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

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Service cost - benefits earned during the period	\$ 350	\$ 350	\$ 350
Interest cost on projected benefit obligation ..	11,034	10,850	11,707
Expected return on assets	(18,157)	(15,338)	(16,724)
Amortization of net gain	(4,010)	(894)	(3,064)
Curtailment related to plan restructuring	--	1,302	--
Net pension credit	<u>\$(10,783)</u>	<u>\$ (3,730)</u>	<u>\$ (7,731)</u>

	2000	1999
Change in benefit obligation:		
Benefit obligation at January 1	\$(151,508)	\$(170,064)
Interest cost	(11,034)	(10,850)
Benefits paid	15,829	16,763
Termination, settlements and curtailment	--	(1,302)
Actuarial (loss) gain	(169)	13,945
Benefit obligation at December 31	<u>\$(146,882)</u>	<u>\$(151,508)</u>
Change in plan assets:		
Fair value of plan assets at January 1	\$ 198,787	\$ 184,079
Actual return on plan assets	28,276	31,130
Contributions	351	341
Benefits paid	(15,829)	(16,763)
Fair value of plan assets at December 31	<u>\$ 211,585</u>	<u>\$ 198,787</u>
Excess of plan assets versus benefit obligations at December 31	\$ 64,703	\$ 47,279
Unrecognized actuarial gains	(60,840)	(54,921)
Contributions or SERP benefits	88	85
Net pension asset (liability) before additional minimum liability and purchase accounting valuation adjustments	3,951	(7,557)
Additional minimum liability	(1,523)	(1,556)
Purchase accounting valuation adjustments relating to income taxes	2,035	2,383
Pension asset (liability) included in the December 31 balance sheet	<u>\$ 4,463</u>	<u>\$ (6,730)</u>

Assumptions used in the determination of net pension expense and the actuarial present value of benefit obligations for the years ended December 31, 2000 and 1999 follow:

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

	2000 ----	1999 ----
Discount rates.....	6.50 - 7.75%	5.50 - 6.75%
Accrued rates of return on invested assets.....	9.75%	8.75%
Salary increase assumptions.....	N/A	N/A

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

POSTRETIREMENT MEDICAL AND LIFE INSURANCE PLANS:

BGLS AND LIGGETT

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

The components of net periodic postretirement benefit cost for the years ended December 31, 2000, 1999 and 1998 are as follows:

	2000 -----	1999 -----	1998 -----
Service cost, benefits attributed to employee service during the year	\$ 34	\$ 45	\$ 43
Interest cost on accumulated postretirement benefit obligation	675	599	583
Charge for special termination benefits	--	240	--
Amortization of net (loss) gain	(272)	582	(284)
	-----	-----	-----
Net periodic postretirement benefit expense .	\$ 437 =====	\$1,466 =====	\$ 342 =====

The following sets forth the actuarial present value of the Accumulated Postretirement Benefit Obligation ("APBO") at December 31, 2000 and 1999 applicable to each employee group for benefits:

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

	2000	1999
	-----	-----
Change in benefit obligation:		
Benefit obligation at January 1	\$ (9,096)	\$ (9,116)
Service cost	(34)	(45)
Interest cost	(675)	(599)
Benefits paid	688	712
Actuarial gain	481	192
Charge for special termination benefits	--	(240)
	-----	-----
Benefit obligation at December 31	\$ (8,636)	\$ (9,096)
	=====	=====
Change in plan assets:		
Contributions	\$ 688	\$ 712
Benefits paid	(688)	(712)
	-----	-----
Fair value of plan assets at December 31	\$ --	\$ --
	=====	=====
Accumulated postretirement benefit obligation (in excess of plan assets)	\$ (8,636)	(9,096)
Unrecognized net gain	(3,445)	(3,236)
Purchase accounting valuation adjustments relating to income taxes	636	745
	-----	-----
Postretirement liability included in the December 31 balance sheet	\$(11,445)	\$(11,587)
	=====	=====

The APBO at December 31, 2000 and 1999 was determined using discount rates of 7.75% and 6.75%, respectively, and a health care cost trend rate of 4% in 2000 and 1999. A 1% increase in the trend rate for health care costs would have increased the APBO and net periodic postretirement benefit cost by \$22 and \$306, respectively, for the year ended December 31, 2000. The Company does not hold any assets reserved for use in the plan.

PROFIT SHARING PLAN:

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

LIGGETT

The 401(k) plans at Liggett match up to a 3% employee contribution and Liggett may contribute up to an additional 6% of salary. Liggett contributed and expensed \$553, \$527 and \$469 to the 401(k) plans for the years ended December 31, 2000, 1999 and 1998, respectively.

NEW VALLEY:

Ladenburg has a profit sharing plan for substantially all its employees. The plan includes two features: profit sharing and a deferred compensation vehicle. Contributions to the profit sharing portion of the plan are made by Ladenburg on a discretionary basis. The deferred compensation feature of the plan enables non-salaried employees to invest up to 15% of their pre-tax annual compensation. Ladenburg elected to make matching contributions for the year ended December 31, 2000 in the amount of \$259. No matching contributions were made in 1999 and 1998.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

18. INCOME TAXES

The Company files a consolidated U.S. income tax return that includes its more than 80%-owned U.S. subsidiaries. The consolidated U.S. income tax return does not include the activities of New Valley and the Company's foreign subsidiaries. New Valley files a consolidated U.S. income tax return that includes its more than 80%-owned U.S. subsidiaries. The amounts provided for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Current:			
U.S. Federal	\$10,910	\$ 1,208	\$ --
Foreign	--	429	--
State	2,435	5,076	--
	13,345	6,713	--
Deferred:			
U.S. Federal	\$67,321	\$ 66,688	\$(59,158)
Foreign	--	445	(455)
State	2,201	8,612	--
	69,522	75,745	(59,613)
Total provision (benefit)	\$82,867	\$ 82,458	\$(59,613)

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

	DECEMBER 31, 2000		DECEMBER 31, 1999	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Excess of tax basis over book basis- non-consolidated subsidiaries	\$ --	\$ 21,113	23,204	9,227
Deferral on brand transaction	--	103,100	--	103,346
Other	50,909	7,544	31,660	6,986
Russian tax loss carryforwards	--	--	6,632	--
U.S. tax loss carryforwards-Vector ...	--	--	48,007	--
U.S. tax loss carryforwards-New Valley	41,883	--	65,911	--
Valuation allowance	(81,677)	--	(108,409)	--
Reclassifications	(717)	717	--	--
	\$ 10,398	\$132,474	\$ 67,005	\$119,559

The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has established a valuation allowance against deferred tax assets of \$81,677 at December 31, 2000, which relates to the deferred assets of New Valley.

The valuation allowance of \$81,677 at December 31, 2000 consisted primarily of New Valley's net operating loss carryforwards of \$41,883. In addition, a valuation allowance was established against New Valley's additional deferred tax assets of \$39,794 primarily related to differences between book and tax accounting purposes for basis in investments and subsidiaries and restructuring accruals.

As of December 31, 2000, New Valley and its consolidated group had U.S. net operating loss carryforwards of approximately \$104,185 for tax purposes, which expire at various dates from 2002

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

through 2008. Approximately \$15,485 of net operating loss carryforwards constitute pre-change losses and are limited under Internal Revenue Code Section 382 and \$88,700 of net operating losses were unrestricted.

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

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Income (loss) from continuing operations before income taxes	\$ 252,437	\$ 318,542	\$(35,394)
Federal income tax provision (benefit) at statutory rate	88,353	111,490	(12,387)
Increases (decreases) resulting from:			
State income taxes, net of federal income tax benefits	3,013	8,897	--
Foreign taxes	--	873	(455)
Difference in basis related to disposal of foreign subsidiary	(9,837)		
Other, net	1,338	822	9,921
Changes in valuation allowance	--	(39,624)	(56,692)
Provision (benefit) for income tax	\$ 82,867	\$ 82,458	\$(59,613)

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

19. EQUITY

On December 10, 1999, each outside director of the Company was granted an option to purchase 10,500 shares of common stock at \$15.95 per share, the fair market value on the date of grant. The options vest and become exercisable in three equal annual installments commencing on January 1, 2001, but are subject to earlier vesting upon a change of control.

During April and May 1998, the Company granted 11,025 shares of common stock to each of its three outside directors. Of these shares, 8,269 vested immediately and the remaining 24,806 shares vest in three equal annual installments. At December 31, 2000, \$275 had been expensed and the remaining amount of \$27 will be recognized over the remaining vesting period.

In March 1998, the Company entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together, the "Apollo Holders") to defer the payment of interest on the BGLS Notes held by them. In connection with the agreement with the Apollo Holders, the Company issued to the Apollo Holders a five-year warrant to purchase 2,205,000 shares of the Company's common stock at a price of \$4.54 per share. The Apollo Holders were also issued a second warrant expiring October 31, 2004 to purchase an additional 2,370,375 shares of the Company's common stock at a price of \$0.10 per share. The second warrant became exercisable on October 31, 1999. During 2000, the second warrant was exercised for cash and the surrender of 7,428 warrants.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

On March 12, 1998, the Company granted an option for 1,378,125 shares of common stock to a law firm that represents the Company and Liggett originally exercisable at \$15.87 per share. The fair value of the equity instruments was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility 77.6%, risk-free interest rate of 5.47%, expected life of two years and dividend rate of 0%. The Company recognized expense of \$1,495 in the second quarter of 1998. On October 12, 1998, the Company amended the option to reduce the exercise price from \$15.87 per share to \$5.44 per share. The expense at the initial grant date was \$3,063, and the incremental expense incurred due to the modifications of the grant was \$2,050. At December 31, 1999, all such amounts had been expensed. During 2000, options for 215,019 shares were exercised by the law firm by surrender of 99,981 options.

On August 28, 1998, the Company granted 518,175 shares of common stock as part of a performance fee to members of a law firm which represents the Company and Liggett. The Company expensed \$1,687 for the year ended December 31, 1998.

20. STOCK PLANS

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

On November 4, 1999, the Company granted non-qualified stock options to six executive officers of the Company or its subsidiaries pursuant to the 1999 Plan. Under the options, the option holders have the right to purchase an aggregate of 2,320,500 shares of common stock at an exercise price of \$14.70 per share (the fair market value of a share of common stock on the date of grant). Common stock dividend equivalents are paid currently with respect to each share underlying the unexercised portion of the options. The options have a ten-year term and become exercisable on the fourth anniversary of the date of grant. However, the options will earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" or (ii) the termination of the option holder's employment with the Company due to death or disability.

On October 15, 1998, stockholders of the Company approved the adoption of the 1998 Long-Term Incentive Plan (the "1998 Plan"). The 1998 Plan, adopted on May 8, 1998, authorizes the granting of up to 5,512,500 shares of common stock through awards of stock options (which may include incentive stock options and/or nonqualified stock options), stock appreciation rights and shares of restricted Company common stock. All officers, employees and consultants of the Company and its subsidiaries are eligible to receive awards under the 1998 Plan.

On July 20, 1998, the Company granted a non-qualified stock option to each of the Chairman and a consultant to the Company who now serves as President and a director of the Company (the "Consultant"), pursuant to the 1998 Plan. Under the options, the Chairman and the Consultant have the right to purchase 2,756,250 shares and 551,250 shares, respectively, of common stock at an exercise price of \$8.85 per share (the fair market value of a share of common stock on the date of grant). The options have a ten-year term and become exercisable as to one-fourth of the shares on each of the first four anniversaries of the date of grant. However, any

then unexercisable portion of the option will immediately vest and become exercisable upon (i) the occurrence of a "Change in Control," or (ii) the termination of the option holder's employment or consulting arrangement with the Company due to death or disability.

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

On November 24, 1999, the Company granted non-qualified stock options to purchase 966,000 shares of common stock to key employees of Liggett under the 1998 Plan. Under the options, the 27 Liggett option holders have the right to purchase shares at \$14.70 per share except for the grant of 262,500 options to the retired president of Liggett whose options have an exercise price of \$17.14 per share, the fair market value on the date of grant, and are currently exercisable in full. The options become exercisable as to 25% of the shares on December 31, 2001 and as to an additional 37.5% of the shares on each of December 31, 2002 and December 31, 2003, assuming the continued employment of the option holder. Vesting is accelerated upon death or disability. The Company will recognize compensation expense of \$1,717 over the vesting period.

As of January 1, 1998 and 1997, the Company granted to employees of the Company non-qualified stock options to purchase 47,407 and 465,255, respectively, shares of the Company's common stock at an exercise price of \$4.54 per share. The options have a ten-year term and vest in six equal annual installments. The Company will recognize compensation expense of \$154 over the vesting period.

A summary of stock options granted to employees follows:

	NUMBER OF SHARES -----	EXERCISE PRICE -----	WEIGHTED AVERAGE FAIR VALUE -----
Outstanding on December 31, 1997.....	465,255	\$4.54	\$3.90
Granted.....	2,803,657	\$4.54-\$8.85	\$6.93
Exercised.....	103,779	\$4.54	--
Cancelled.....	--	--	--

Outstanding on December 31, 1998.....	3,165,133	\$4.54	\$7.03
Granted.....	997,500	\$14.70-\$17.14	\$7.25
Exercised.....	--	--	--
Cancelled.....	--	--	--

Outstanding on December 31, 1999.....	4,162,633	\$4.54-\$17.14	\$7.28
Granted.....	2,889,500	\$13.57-\$18.63	--
Exercised.....	--	--	--
Cancelled.....	(61,000)	\$14.70	\$7.32

Outstanding on December 31, 2000.....	6,991,133	\$4.54-\$18.63	\$7.67
=====			
Options exercisable at:			
December 31, 1998.....	73,884	--	--
December 31, 1999.....	737,659	--	--
December 31, 2000.....	1,549,046	--	--

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

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

	2000 -----	1999 -----	1998 -----
Net income (loss) as reported	\$174,218	\$235,673	\$27,427
Estimated fair value of the year's option grants	11,732	5,605	2,549
Net income (loss) adjusted	162,486	230,068	24,878
Adjusted net income per share - basic	6.91	9.96	1.10
Adjusted net income per share - diluted	5.86	8.17	0.91

The fair value of option grants to employees is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for options granted.

	2000 ----	1999 ----	1998 ----
Risk-free interest rate.....	5.3%-7.0%	6.1%	5.5%-5.7%
Expected volatility.....	42%-67%	47%-68%	77%-79%
Dividend yield.....	0.0%-7.4%	5-9%-5.6%	0.0%
Expected holding period.....	10 years	10 years	10 years
Weighted average fair value.....	\$3.59-\$8.85	\$4.84-\$7.52	\$7.22-\$7.82

On December 16, 1996, the Company entered into a stock option agreement with the Consultant. The agreement granted the Consultant non-qualified stock options to purchase 1,102,500 shares of the Company's common stock at an exercise price of \$0.91 per share. The options, which have a ten-year term, vest and become exercisable in six equal annual installments beginning on July 1, 1997. Under the agreement, common stock dividend equivalents are paid on each vested and unexercised option. The Company estimated the fair value of such grant on the date of grant using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 6.4%, expected option life of 10 years, volatility of 81.4% and no expected dividends or forfeiture. Under this model, the fair value of stock options granted in 1996 was \$4,750. The Company recognized expense of \$792 in each of 2000, 1999 and 1998. In 2000, 1999 and 1998, the Company also recorded charges to income of \$926, \$444 and \$330, respectively, for dividend equivalent rights.

As of January 1, 1994, the Company had granted 551,250 shares of restricted common stock to the Consultant. Of the total number of shares granted, 275,625 were immediately vested and issued during the third quarter. The remaining 275,625 shares were issued in 1995 and vested in 1997. In addition, on January 25, 1995, the Company entered into a non-qualified stock option agreement with the Consultant. Under the agreement, options to purchase 551,250 shares were granted at \$1.81 per share. The options are exercisable over a ten-year period and were fully vested in January 1999. The grant provides for dividend equivalent rights on all the shares underlying the unexercised options. During 1999 and 1998, the Company recorded charges to income of \$16 and \$188, respectively, for compensation based on estimates of the fair market value for the shares and options granted. In 2000, 1999 and 1998, the Company also recorded charges to income of \$302, \$166 and \$155, respectively, for the dividend equivalent rights.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

21. OTHER LIABILITIES

Other long-term liabilities consist of the following:

	DECEMBER 31,	
	2000	1999
Note payable for Western Realty Development Class A Interests	\$19,968	\$ --
Western Realty Repin participating loan	36,127	32,091
Western Realty Development participating loan	--	37,849
Other long-term liabilities	5,532	11,256
Total	\$61,627	\$81,196
	=====	=====

22. SUPPLEMENTAL CASH FLOW INFORMATION

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
I. Cash paid during the period for:			
Interest	\$48,437	\$48,030	\$62,339
Income taxes, net of refunds	10,701	2,942	2,751
II. Non-cash investing and financing activities:			
Issuance of stock to Liggett noteholders	--	--	4,105
Issuance of stock to consultants and law firms .	--	--	3,705
Issuance of warrants	--	--	22,421
Issuance of stock dividend	20,852	25,646	--

23. CONTINGENCIES

SMOKING-RELATED LITIGATION:

OVERVIEW. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. These cases are reported here as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Brooke Group Holding, the Company's predecessor and a wholly-owned subsidiary of BGLS, or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. For the year ended December 31, 2000, Liggett incurred counsel fees and costs totaling approximately \$7,236 compared to \$5,733 and \$7,828, respectively, for 1999 and 1998.

INDIVIDUAL ACTIONS. As of December 31, 2000, there were approximately 317 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 67 were pending in Florida, 102 in New York, 12 in Massachusetts, 14 in Texas and 21 in California. The balance of the individual cases were pending in 22 states. There are five individual cases pending where Liggett is the only named defendant. In addition to these cases, during the third quarter of 2000, an action against cigarette manufacturers involving approximately 1,200 named individual plaintiffs has been consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia.

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

Jury awards in California and Oregon have been entered against other companies in the tobacco industry. The awards in these individual actions are for both compensatory and punitive damages and represent a material amount of damages. In each case, both the verdict and damage awards are being appealed by the defendants. During 2001, as a result of a Florida Supreme Court decision upholding the award, another cigarette manufacturer paid \$1,100 in compensatory damages and interest to a former smoker and his spouse for injuries they allegedly incurred as a result of smoking. This company has indicated it intends to appeal to the U. S. Supreme Court.

CLASS ACTIONS. As of December 31, 2000, there were approximately 43 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the CASTANO case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

In March 1994, an action entitled CASTANO, ET AL. V. THE AMERICAN TOBACCO COMPANY INC., ET AL., United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint sought relief for a nationwide class of smokers based on their alleged addiction to nicotine. In February 1995, the District Court granted plaintiffs' motion for class certification. In May 1996, the Court of Appeals for the Fifth Circuit reversed the class certification order and instructed the District Court to dismiss the class complaint. The Fifth Circuit ruled that the District Court erred in its analysis of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

The extent of the impact of the CASTANO decision on smoking-related class action litigation is still uncertain. The CASTANO decision has had a limited effect with respect to courts' decisions regarding narrower smoking-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, a court in Louisiana (Liggett is not a defendant in this proceeding) has certified "addiction-as-injury" class actions that covered only citizens in those states. Two other class actions, BROIN and ENGLE, were certified in state court in Florida prior to the Fifth Circuit's decision.

In May 1994, an action entitled ENGLE, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court, Eleventh Judicial Circuit, Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. Phase I of the trial commenced in July 1998 and in July 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that: smoking cigarettes causes 20 diseases or medical conditions, cigarettes are addictive or dependence producing, defective and unreasonably dangerous, defendants made materially false statements with the intention of misleading smokers, defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. On April 7, 2000, the jury awarded compensatory damages of \$12,704 to the three plaintiffs, to be reduced in proportion to the respective plaintiff's fault. The jury also decided that the claim of one of the plaintiffs, who was awarded compensatory damages of \$5,831, was not timely filed. On July 14, 2000, the jury awarded approximately \$145,000,000 in the punitive damages portion of Phase II against all defendants including \$790,000 against Liggett. The court entered a final order of judgment against the defendants on November 6, 2000. The court's final judgment also denied various of defendants' post-trial motions, which included a motion for new trial and a motion seeking reduction of the punitive damages award. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on the Company. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

On July 14, 2000, the Southeastern Iron Workers Union filed a motion to intervene in the ENGLE case, seeking to protect its members' subrogation rights under the federal Employment Retirement Income Security Act. Based

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

on the federal question raised in that motion, defendants removed the case to federal court in Miami on July 24, 2000. On November 3, 2000, the federal court returned the case to the state court on procedural grounds. An appeal of the district court's order is pending in the federal appellate court.

Now that the ENGLE jury has awarded punitive damages and final judgment has been entered, it is unclear how the state court's order regarding the determination of punitive damages will be implemented. The order provides that the punitive damage amount should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal. The order does not address whether defendants will be required to pay the punitive damage award prior to a determination of claims of all class members, a process that could take years to conclude. In May 2000, legislation was enacted in Florida that limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict to the lesser of the punitive award plus twice the statutory rate of interest, \$100,000 or 10% of the net worth of the defendant, but the limitation on the bond does not affect the amount of the underlying verdict. Liggett has filed the \$3,450 bond required by the Florida law in order to stay execution of the ENGLE judgment. Such amount has been classified as a restricted asset in the Company's consolidated balance sheet. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. Similar legislation has been enacted in Georgia, Kentucky, North Carolina and Virginia.

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

On August 16, 2000, in BLANKENSHIP V. PHILIP MORRIS, INC., a West Virginia state court conditionally certified (only to the extent of medical monitoring) a class of present or former West Virginia smokers who desire to participate in a medical monitoring plan. The trial of this case ended on January 25, 2001, when the judge declared a mistrial. In an order issued on March 23, 2001, the court reaffirmed class certification of this medical monitoring action. The court has not scheduled a retrial.

Approximately 38 purported state and federal class action complaints have been filed against the cigarette manufacturers for alleged antitrust violations. The actions allege that the cigarette manufacturers have engaged in a nationwide and international conspiracy to fix the price of cigarettes in violation of state and federal antitrust laws. Plaintiffs allege that defendants' price-fixing conspiracy raised the price of cigarettes above a competitive level. Plaintiffs in the 31 state actions purport to represent classes of indirect purchasers of cigarettes in 16 states; plaintiffs in the seven federal actions purport to represent a nationwide class of wholesalers who purchased cigarettes directly from the defendants. The federal actions have been consolidated and, on July 28, 2000, plaintiffs in the federal consolidated action filed a single consolidated complaint that did not name Liggett or Brooke Group Holding as defendants. Fourteen California actions have been consolidated and the consolidated complaint did not name Liggett or Brooke Group Holding as defendants. In Nevada, an amended complaint was filed that did not name Liggett or Brooke Group Holding as defendants. The Arizona action was dismissed, but the plaintiffs are expected to appeal that ruling.

Liggett and plaintiffs have advised the court, in SIMON V. PHILIP MORRIS ET AL., a putative nationwide smokers class action, that Liggett and the plaintiffs have engaged in preliminary settlement discussions. There are no assurances that any settlement will be reached or that the class will ultimately be certified.

GOVERNMENTAL ACTIONS. As of December 31, 2000, there were approximately 32 Governmental Actions pending against Liggett. In these proceedings, both foreign and domestic governmental entities seek reimbursement for Medicaid and other health care expenditures. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

THIRD-PARTY PAYOR ACTIONS. As of December 31, 2000, there were approximately 58 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. Seven United States Circuit Courts of Appeal have ruled that Third-Party Payors did not have standing to bring lawsuits against the tobacco companies. In January 2000, the United States Supreme Court denied petitions for certiorari filed by several of the union health and welfare trust funds. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

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

FEDERAL GOVERNMENT ACTION. In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of health care costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, and to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20,000,000 annually. The action asserts claims under three federal statutes, the Medical Care Recovery Act ("MCRA"), the Medicare Secondary Payer provisions of the Social Security Act ("MSP") and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide the basis for the relief sought. In a September 2000 ruling, the court dismissed the government's claims based on MCRA and MSP, on the ground, among others, that these statutes do not provide a basis for the relief sought. The government filed a motion seeking the court's reconsideration of this ruling, which remains pending. In the September 2000 ruling, the court also determined not to dismiss the government's claims based on RICO, under which the government continues to seek court relief to restrain the defendant tobacco companies from allegedly engaging in fraud and other unlawful conduct and to compel disgorgement. This action is now moving into the discovery phase. Trial is scheduled for July 2003, although trial dates are subject to change.

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

In March 1996, March 1997 and March 1998, Brooke Group Holding and Liggett entered into settlements of smoking-related litigation with the Attorneys General of 45 states and territories. The settlements released both Brooke

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

Group Holding and Liggett from all smoking-related claims, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

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

The MSA has been initially approved by trial courts in all Settling States. The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained in 51 of the 52 settling jurisdictions. If final judicial approval is not obtained in a jurisdiction by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the MSA will be terminated with respect to such jurisdiction.

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

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

Liggett has no payment obligations under the MSA unless its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. Liggett believes, based on published industry sources, that its domestic shipments accounted for 1.5% of the total cigarettes shipped in the United States during 2000. In the year following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMs under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Under the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the base share) are required to pay the following annual amounts (subject to certain adjustments):

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

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

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

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

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

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

The Company accrued \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of the Company's treatment under the MSA, \$14,928 of net charges accrued for the prior settlements were reversed in 1998, \$1,051 were reversed in 1999 and \$934 were reversed in 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

TRIALS. Cases currently scheduled for trial in 2001 include a third-party action brought by Empire Blue Cross/Blue Shield, beginning March 26, 2001 in the United States District Court for the Eastern District of New York, an action brought by Owens Corning, a former asbestos manufacturer, beginning June 2001 in a Mississippi state court, and a consolidated trial that is scheduled to begin during June 2001 in the cases brought by approximately 1,200 West Virginia smokers or users of smokeless tobacco products. These cases are presently scheduled to be tried pursuant to multi-part trial plans. Trial dates, however, are subject to change.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict was returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. Recently, the jury awarded \$790,000 in punitive damages against Liggett in the second phase of the trial, and the court has entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on the Company. Liggett has filed the \$3,450 bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. The complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

LEGISLATION AND REGULATION:

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

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

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

Since the Supreme Court decision, various proposals have been made for federal and state legislation to regulate cigarette manufacturers. Recently, a Presidential commission appointed by former President Clinton issued a preliminary report recommending that the FDA be given authority by Congress to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health. In addition, Congressional advocates of FDA regulation have introduced such legislation for consideration by the 107th Congress. The ultimate outcome of these proposals cannot be predicted.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.87 per pack in a given locality in the United States. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and increases in excise and other cigarette-related taxes have been proposed at the state and local levels.

In June 2000, the New York state legislature passed legislation charging the state's Office of Fire Prevention and Control with developing standards for "fire safe" or self-extinguishing cigarettes. The OFPC has until July 1, 2002 to issue final regulations. Six months from the issuance of the standards, but no later than January 1, 2003, all cigarettes offered for sale in New York state will be required to be manufactured to those standards. Similar legislation is being considered by other state legislatures.

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

OTHER MATTERS:

In March 1997, a stockholder derivative suit was filed in Delaware Chancery Court against New Valley, as a nominal defendant, its directors and Brooke Group Holding by a stockholder of New Valley. The suit alleges that New Valley's purchase of the BrookeMil shares from Brooke (Overseas) in January 1997 constituted a self-dealing transaction which involved the payment of excessive consideration by New Valley. The plaintiff seeks (i) a declaration that New Valley's directors breached their fiduciary duties, Brooke Group Holding aided and abetted such breaches and such parties are therefore liable to New Valley, and (ii) unspecified damages to be awarded to New Valley. In December 1999, another stockholder of New Valley commenced an action in Delaware Chancery Court substantially similar to the March 1997 action. This stockholder alleges, among other things, that the consideration paid by New Valley for the BrookeMil shares was excessive, unfair and wasteful, that the special committee of New Valley's board lacked independence, and that the appraisal by the independent appraisal firm and the fairness opinion by the independent investment bank were flawed. Brooke Group Holding and New Valley believe that the allegations in both cases are without merit. By order of the court, both actions were consolidated. In January 2001, the court denied a motion to dismiss the consolidated action filed by Brooke Group Holdings and New Valley. Discovery in the case has commenced. Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

In July 1999, a purported class action was commenced on behalf of New Valley's former Class B preferred shareholders against New Valley, Brooke Group Holding and certain directors and officers of New Valley in Delaware Chancery Court. The complaint alleges that the recapitalization, approved by a majority of each class of New Valley's stockholders in May 1999, was

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

fundamentally unfair to the Class B preferred shareholders, the proxy statement relating to the recapitalization was materially deficient and the defendants breached their fiduciary duties to the Class B preferred shareholders in approving the transaction. The plaintiffs seek class certification of the action and an award of unspecified compensatory damages as well as all costs and fees. Brooke Group Holding and New Valley believe that the allegations are without merit. The Court, on the defendants' motion, recently dismissed six of plaintiff's nine claims alleging inadequate disclosure in the proxy statement. The surviving claims are plaintiff's allegations that (i) the fact that the fairness opinion did not cover the relative fairness to each class of shares should have been expressly disclosed; (ii) failure to disclose the identity of shareholders who suggested the recapitalization and their respective holdings, broken down by share class, was a material omission; and (iii) the disclosure in the proxy statement was inadequate because it did not reveal the value of the Company's lines of business or its assets. The Court speculated that facts might exist under which one or more of the foregoing alleged non-disclosures might be material and, therefore, the motion to dismiss as to these three allegations was denied. An answer has been filed as to the surviving claims. Discovery in the case has commenced. Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

In October 1999, an action was commenced against a subsidiary of Brooke Group Holding in the Supreme Court of the State of New York, County of New York. The complaint alleged that under the terms of a 1993 Put Agreement, Brooke Group Holding's subsidiary was obligated to purchase certain shares of plaintiff's stock for \$7,500. In addition, the complaint sought prejudgment interest in the amount of approximately \$4,000. In September 2000, the litigation was settled for \$6,100 and the Company recorded a gain of \$1,400 based on the prior reserves for the matter.

As of December 31, 2000, New Valley had \$10,229 of prepetition bankruptcy-related claims and restructuring accruals including claims for lease rejection damages and for unclaimed monies that certain states are seeking on behalf of money transfer customers. The remaining claims may be subject to future adjustments based on potential settlements or decisions of the court.

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

24. RELATED PARTY TRANSACTIONS

An outside director of the Company is a stockholder of and serves as the chairman and treasurer of, and an executive officer and director of the Company is a stockholder and registered representative in, a registered broker-dealer that has performed services for New Valley since before December 31, 1998. The broker-dealer received brokerage commissions and other income of approximately \$101, \$59 and \$128 from New Valley during 2000, 1999 and 1998, respectively. The broker-dealer, in the ordinary course of its business, engages in brokerage activities with New Valley's broker-dealer subsidiary on customary terms.

An outside director of New Valley serves as a managing director of an investment bank that provided advisory services to New Valley in 1999 in connection with the sale of an interest in Ladenburg to Berliner. New Valley paid this firm a fee of \$254 in cash of 8,816 Berliner shares in connection with such services. During 2000, the investment bank provided services to Brooke (Overseas) in connection with the sale of Western Tobacco Investments. Brooke (Overseas) paid this firm \$750 in connection with such services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

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

The Company granted the Consultant options to purchase 551,250 common shares in 1998 and 525,000 in 1999. (Refer to Note 20.) During 2000, 1999 and 1998, the Consultant received consulting fees of \$480 per year from the Company and a subsidiary.

25. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

LADENBURG - As a nonclearing broker, Ladenburg's transactions are cleared by other brokers and dealers in securities pursuant to clearance agreements. Although Ladenburg clears its customers through other brokers and dealers in securities, Ladenburg is exposed to off-balance-sheet risk in the event that customers or other parties fail to satisfy their obligations. In accordance with industry practice, agency securities transactions are recorded on a settlement-date basis. Should a customer fail to deliver cash or securities as agreed, Ladenburg may be required to purchase or sell securities at unfavorable market prices.

The clearing operations for Ladenburg's securities transactions are provided by several brokers. At December 31, 2000, substantially all of the securities owned and the amounts due from brokers reflected in the consolidated balance sheet are positions held at and amounts due from one clearing broker. Ladenburg is subject to credit risk should this broker be unable to fulfill its obligations.

In the normal course of its business, Ladenburg enters into transactions in financial instruments with off-balance-sheet risk. These financial instruments consist of financial futures contracts, written index option contracts and securities sold, but not yet purchased.

Financial futures contracts provide for the delayed delivery of a financial instrument with the seller agreeing to make delivery at a specified future date, at a specified price. These futures contracts involve elements of market risk in excess of the amounts recognized in the consolidated balance sheet. Risk arises from changes in the values of the underlying financial instruments or indices. At December 31, 2000, Ladenburg had commitments to purchase and sell financial instruments under futures contracts of \$0 and \$134, respectively.

Equity index options give the holder the right to buy or sell a specified number of units of a stock market index, at a specified price, within a specified time from the seller ("writer") of the option and are settled in cash. Ladenburg generally enters into these option contracts in order to reduce its exposure to market risk on securities owned. Risk arises from the potential inability of the counterparties to perform under the terms of the contracts and from changes in the value of a stock market index. As a writer of options, Ladenburg receives a premium in exchange for bearing the risk of unfavorable changes in the price of the securities underlying the option. Financial instruments have the following notional amounts at December 31, 2000:

	LONG ----	SHORT -----
Equity and index options.....	\$15,300	\$51,755
Financial futures contracts.....	--	258

The table below discloses the fair value at December 31, 2000 of these commitments, as well as the average fair value during the year ended December 31, 2000, based on monthly observations.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

	DECEMBER 31, 2000		AVERAGE	
	LONG	SHORT	LONG	SHORT
Equity and index options.....	\$768	\$149	\$1,491	\$563
Financial futures contracts.....	--	134	790	554

For the years ended December 31, 2000 and 1999, the net gain arising from options and futures contracts included in net gain on principal transactions was \$1,186 and \$1,421, respectively. The Company's accounting policy related to derivatives is to value these instruments, including financial futures contracts and written index option contracts, at the last reported sales price. The measurement of market risk is meaningful only when related and offsetting transactions are taken into consideration.

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

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments have been determined by the Company using available market information and appropriate valuation methodologies described below. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

	DECEMBER 31, 2000		DECEMBER 31, 1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash and cash equivalents.....	\$157,513	\$157,513	\$ 20,123	\$ 20,123
Investments available for sale.....	29,337	29,337	48,722	48,722
Trading securities owned.....	18,348	18,348	15,707	15,707
Restricted assets.....	7,549	7,549	8,434	8,434
Receivable from clearing brokers....	10,126	10,126	10,903	10,903
Long-term investments.....	4,654	10,493	8,730	13,788
Financial liabilities:				
Margin loans payable.....	4,675	4,674	983	983
Notes payable.....	57,740	57,740	189,896	184,494

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

27. SEGMENT INFORMATION

Financial information for the Company's continuing operations before taxes and minority interest for the years ended December 31, 2000, 1999 and 1998 follows:

	UNITED STATES TOBACCO -----	RUSSIA(1) TOBACCO -----	BROKER-(2) DEALER -----	REAL(2) ESTATE -----	CORPORATE(2) AND OTHER -----	TOTAL -----
2000						
Revenues	\$539,059	\$ 107,263	\$90,111	\$ 3,198	\$ --	\$739,631
Operating income	71,434	(5,667)	6,212	(5,335)	(20,245)	46,399
Identifiable assets	108,662	1,252	48,770	173,312	129,979	461,975
Depreciation and amortization .	4,505	5,970	1,102	1,020	50	12,647
Capital expenditures	13,387	9,000	763	3,663	790	27,603
1999						
Revenues	\$422,748	\$ 100,059	\$40,852	\$ 3,386	\$ --	\$567,045
Operating income	76,700	5,215	369	(776)	(9,505)	72,003
Identifiable assets	112,900	160,526	47,480	57,920	125,622	504,448
Depreciation and amortization .	2,878	3,323	269	890	312	7,672
Capital expenditures	17,432	43,875	104	--	--	61,411
1998						
Revenues	\$347,129	\$ 97,437	--	--	\$ --	\$444,566
Operating income	54,422	13,234	--	--	3,938	71,594
Identifiable assets	74,743	104,090	--	--	50,149	228,982
Depreciation and amortization .	6,678	1,708	--	--	224	8,610
Capital expenditures	1,859	17,784	--	--	1,363	21,006

(1) Liggett-Ducat's revenues and operating income are included through the seven months ended July 31, 2000, and the years ended December 31, 1999 and 1998.

(2) New Valley became a consolidated subsidiary of Vector on June 4, 1999. Broker-Dealer, Real Estate and New Valley's portion of Corporate and Other are included for the year December 31, 2000 and the seven months ended December 31, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

28. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Quarterly data for the year ended December 31, 2000 and 1999 are as follows:

	DECEMBER 31, 2000	SEPTEMBER 30, 2000	JUNE 30, 2000	MARCH 31, 2000
Revenues	\$ 173,742	\$ 180,910	\$ 206,764	\$ 178,215
Operating income	18,882	7,352	10,065	10,100
Income from continuing operations	6,447	158,689	2,946	1,488
Gain on disposal of discontinued operations	6,469	--	--	--
Income (loss) from extraordinary items	831	(2,422)	--	(230)
Net income applicable to common shares	<u>\$ 13,747</u>	<u>\$ 156,267</u>	<u>\$ 2,946</u>	<u>\$ 1,258</u>
*Per basic common share:				
Income from continuing operations	\$ 0.27	\$ 6.63	\$ 0.13	\$ 0.06
Gain from discontinued operations	0.28	--	--	--
Income (loss) from extraordinary items	0.04	(0.10)	--	(0.01)
Net income applicable to common shares	<u>\$ 0.59</u>	<u>\$ 6.53</u>	<u>\$ 0.13</u>	<u>\$ 0.05</u>
*Per diluted common share:				
Income from continuing operations	\$ 0.23	\$ 5.58	\$ 0.11	\$ 0.05
Gain from discontinued operations	0.23	--	--	--
Income (loss) from extraordinary items	0.03	(0.09)	--	(0.01)
Net income applicable to common shares	<u>\$ 0.49</u>	<u>\$ 5.49</u>	<u>\$ 0.11</u>	<u>\$ 0.04</u>

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

	DECEMBER 31, 1999	SEPTEMBER 30, 1999	JUNE 30, 1999	MARCH 31, 1999
	-----	-----	-----	-----
Revenues	\$ 192,522	\$ 150,219	\$ 115,895	\$ 108,409
Operating income	16,898	19,362	13,598	22,145
Income from continuing operations	6,486	6,230	215,814	7,554
Gain on disposal of discontinued operations ...				1,249
Loss from extraordinary items	(250)	(354)	(1,056)	
	-----	-----	-----	-----
Net income applicable to common shares	\$ 6,236	\$ 5,876	\$ 214,758	\$ 8,803
	=====	=====	=====	=====
*Per basic common share:				
Income from continuing operations	\$ 0.26	\$ 0.27	\$ 9.34	\$ 0.33
Gain on disposal of discontinued operations....	--	--	--	0.05
Loss from extraordinary items	(0.01)	(0.02)	(0.04)	--
	-----	-----	-----	-----
Net income applicable to common shares	\$ 0.25	\$ 0.25	\$ 9.30	\$ 0.38
	=====	=====	=====	=====
*Per diluted common share:				
Income from continuing operations	\$ 0.22	\$ 0.22	\$ 7.48	\$ 0.26
Gain on disposal of discontinued operations....	--	--	--	0.04
Loss from extraordinary items	(0.01)	(0.01)	(0.04)	--
	-----	-----	-----	-----
Net income applicable to common shares	\$ 0.21	\$ 0.21	\$ 7.44	\$ 0.30
	=====	=====	=====	=====

* Per share computations include the impact of 5% stock dividends on September 28, 2000 and September 30, 1999. Quarterly basic and diluted net income or loss per common share were computed independently for each quarter and do not necessarily total to the year to date basic and diluted net income per common share.

VECTOR GROUP LTD.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN THOUSANDS)

DESCRIPTION	ADDITIONS				BALANCE AT END OF PERIOD
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	
YEAR ENDED DECEMBER 31, 2000					
Allowances for:					
Doubtful accounts	\$ 691	\$ 253		\$ 379	\$ 565
Cash discounts	311	18,867		18,670	508
Sales returns	4,190	--		500	3,690
	-----	-----		-----	-----
Total	\$5,192	\$19,120		\$19,549	\$4,763
	=====	=====		=====	=====
YEAR ENDED DECEMBER 31, 1999					
Allowances for:					
Doubtful accounts	\$1,096	\$ 217		\$ 622	\$ 691
Cash discounts	911	14,957		15,557	311
Sales returns	7,100	--		2,910	4,190
	-----	-----		-----	-----
Total	\$9,107	\$15,174		\$19,089	\$5,192
	=====	=====		=====	=====
Provision for inventory obsolescence	\$1,965	\$ 1,124		\$ 679	\$2,410
	=====	=====		=====	=====
YEAR ENDED DECEMBER 31, 1998					
Allowances for:					
Doubtful accounts	\$ 820	\$ 613		\$ 337	\$1,096
Cash discounts	563	12,583		12,235	911
Sales returns	4,750	--	\$ 2,350	--	7,100
	-----	-----	-----	-----	-----
Total	\$6,133	\$13,196	\$ 2,350	\$12,572	\$9,107
	=====	=====	=====	=====	=====
Provision for inventory obsolescence	\$1,157	\$ 1,303	\$	\$ 495	\$1,965
	=====	=====	=====	=====	=====

LIGGETT GROUP INC.
100 MAPLE LANE, MEBANE, NC 27302
(919) 304-7700

September 1, 2000

Mr. Ronald J. Bernstein
700 West Main Street
Durham, NC 27701

Dear Ron:

This is to confirm the terms of your employment as President and Chief Executive Officer of Liggett Group Inc.

The following are the terms of our agreement:

- o START DATE - September 1, 2000
- o BASE ANNUAL SALARY - \$650,000
- o EXECUTIVE INCENTIVE PLAN - Up to 100% of Base Salary in accordance with Liggett Incentive Plan to be approved solely at my discretion.
- o BENEFITS - You will be eligible to participate in the full range of these programs including life, health, dental and disability insurance and relocation benefits.
- o COMPANY CAR - A company car valued at \$60,000 or less will be provided, or you can take a net monthly payment of \$1,100 in lieu of a car.
- o CHANGE OF CONTROL - It is agreed that you will participate in the Liggett Group Inc. Executive Termination Policy #2503 (Effective February 1, 1996).

If you are in agreement with the above, please sign both copies of this letter agreement and return one to my attention.

Sincerely,

/s/ BENNETT S. LEBOW

Bennett S. LeBow

Accepted:

/s/ RONALD J. BERNSTEIN

Ronald J. Bernstein

NON-QUALIFIED STOCK OPTION AGREEMENT

PURSUANT TO THE

VECTOR GROUP LTD.
1998 LONG-TERM INCENTIVE PLAN

* * * * *

OPTIONEE: Ronald J. Bernstein

GRANT DATE: October 26, 2000

PER SHARE EXERCISE PRICE: \$13.57

NUMBER OF OPTION SHARES SUBJECT TO THIS OPTION: 262,500

* * * * *

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Vector Group Ltd. (formerly Brooke Group Ltd.), a Delaware corporation (the "Company"), and the Optionee specified above, pursuant to the Vector Group Ltd. 1998 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"); and

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Company to grant the non-qualified stock option provided for herein to the Optionee (i) as an inducement to remain in the employment of the Company (and/or one of its Subsidiaries), and (ii) as an incentive for increased effort during such service;

NOW, THEREFORE, in consideration of the mutual covenants and premises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

1. INCORPORATION BY REFERENCE; PLAN DOCUMENT RECEIPT. This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time if such amendments are expressly intended to apply to the grant of the option hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if they were each expressly set forth herein.

Any capitalized term not defined in this Agreement shall have the same meaning as is ascribed thereto under the Plan. The Optionee hereby acknowledges receipt of a true copy of the Plan and that the Optionee has read the Plan carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.

2. GRANT OF OPTION. The Company hereby grants to the Optionee, as of the Grant Date specified above, a non-qualified stock option (this "Option") to acquire from the Company at the Per Share Exercise Price specified above the aggregate number of shares of the Common Stock specified above (the "Option Shares"). This Option is not to be treated as (and is not intended to qualify as) an incentive stock option within the meaning of Section 422 of the Code.

3. CASH PAYMENTS EQUIVALENT TO DIVIDENDS. The Optionee shall not be entitled to receive a cash payment in respect of the Option Shares underlying this Option on any dividend payment date for the Common Stock.

4. EXERCISE OF THIS OPTION.

4.1 Notwithstanding the provisions of Section 6.6 of the Plan, unless otherwise determined by the Committee, this Option shall become exercisable as to the aggregate number of shares of Common Stock underlying this Option, as determined on the Grant Date, as follows:

- o 25%, on the second anniversary of the Grant Date, provided the Optionee is then employed by the Company and/or one of its Subsidiaries;
- o 62.5%, on the third anniversary of the Grant Date, provided the Optionee is then employed by the Company and/or one of its Subsidiaries; and
- o 100%, on the fourth anniversary of the Grant Date, provided the Optionee is then employed by the Company and/or one of its Subsidiaries.

However, any then unexercised portion of this Option shall immediately become exercisable upon the termination of the Optionee's employment with the Company and/or one of its Subsidiaries due to death or Disability.

4.2 Unless earlier terminated in accordance with the terms and provisions of the Plan and/or this Agreement, this Option shall expire and shall no longer be exercisable after the expiration of ten years from the Grant Date (the "Option Period").

4.3 In no event shall this Option be exercisable for a fractional share of Common Stock.

5. METHOD OF EXERCISE AND PAYMENT. This Option shall be exercised by the Optionee by delivering to the Secretary of the Company or his designated agent on any business day (the "Exercise Date") a written notice, in such manner and form as may be required by the Company, specifying the number of the Option Shares the Optionee then desires to acquire (the "Exercise Notice"). The Exercise Notice shall be accompanied by payment of the aggregate Per Share Exercise Price for such number of the Option Shares to be acquired upon such exercise. Such payment shall be made in the manner set forth in Section 6.5 of the Plan.

6. TERMINATION. Unless otherwise determined by the Committee, this Option shall terminate and be of no force or effect in accordance with and to the extent provided by the terms and provisions of Section 11 of the Plan. In any event, this Option shall terminate upon the expiration of the Option Period.

7. NON-TRANSFERABILITY. This Option, and any rights or interests therein, shall not be sold, exchanged, transferred, assigned or otherwise disposed of in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee), other than by testamentary disposition by the Optionee or the laws of descent and distribution. This Option shall not be pledged, encumbered or otherwise hypothecated in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee) and shall not be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, pledge, transfer, assign, encumber or otherwise dispose of or hypothecate this Option, or the levy of any execution, attachment or similar legal process upon this Option, contrary to the terms of this Agreement and/or the Plan shall be null and void and without legal force or effect. This Option shall be exercisable during the Optionee's lifetime only by the Optionee.

8. ENTIRE AGREEMENT; AMENDMENT. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Board or the Committee shall have the right, in its sole discretion, to modify or amend this Agreement from time to time in accordance with and as provided in the Plan; PROVIDED, HOWEVER, that no such modification or amendment shall materially adversely affect the rights of the Optionee under this Option without the consent of the Optionee. The Company shall give written notice to the Optionee of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof. This Agreement may also be modified or amended by a writing signed by both the Company and the Optionee.

9. NOTICES. Any Exercise Notice or other notice which may be required or permitted under this Agreement shall be in writing, and shall be delivered in person or via facsimile transmission, overnight courier service or certified mail, return receipt requested, postage prepaid, properly addressed as follows.

9.1 If such notice is to the Company, to the attention of the Secretary of Vector Group Ltd., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131 or at such other address as the Company, by notice to the Optionee, shall designate in writing from time to time.

9.2 If such notice is to the Optionee, at his or her address as shown on the Company's records, or at such other address as the Optionee, by notice to the Company, shall designate in writing from time to time.

10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof.

11. COMPLIANCE WITH LAWS. The issuance of this Option (and the Option Shares upon exercise of this Option) pursuant to this Agreement shall be subject to, and shall comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act and the respective rules and regulations promulgated thereunder) and any other law or regulation applicable thereto. The Company shall not be obligated to issue this Option or any of the Option Shares pursuant to this Agreement if any such issuance would violate any such requirements.

12. BINDING AGREEMENT; ASSIGNMENT. This Agreement shall inure to the benefit of, be binding upon, and be enforceable by the Company and its successors and assigns. The Optionee shall not assign any part of this Agreement without the prior express written consent of the Company.

13. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

14. HEADINGS. The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

15. FURTHER ASSURANCES. Each party hereto shall do and perform (or shall cause to be done and performed) all such further acts and shall execute and deliver all such other agreements, certificates, instruments and documents as any party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

16. SEVERABILITY. The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction shall not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder shall be enforceable to the fullest extent permitted by law.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Optionee has hereunto set his hand, all as of the Grant Date specified above.

VECTOR GROUP LTD.

By: /s/ RICHARD J. LAMPEN

Richard J. Lampen
Executive Vice President

OPTIONEE:

/s/ RONALD J. BERNSTEIN

Ronald J. Bernstein

SEVERANCE AGREEMENT
AND RELEASE

THIS AGREEMENT made and entered into this 1st day of January, 2001 by and between Ronald S. Fulford (hereinafter referred to as "Employee"), a citizen of the United Kingdom and currently a resident of the County of Chatam, State of North Carolina and Vector Tobacco (USA) Ltd., a corporation duly organized and existing pursuant to the laws of the State of Delaware (the "Company");

W I T N E S S E T H

WHEREAS, Employee heretofore was employed by the Company as President and Chief Executive Officer and also served as a member of the Board of Directors of the Company; and

WHEREAS, it was agreed by and between Employee and Company that the employment relationship heretofore existing between Employee and Company be terminated by mutual consent effective as of January 1, 2001 (the "Termination Date").

NOW, THEREFORE, in consideration of the mutual covenants and undertakings hereinafter set forth, Employee and the Company agree as follows:

1. CONSIDERATION. The Company will make payment or provide to Employee the following payments and benefits, certain of which are in addition to those to which the Employee would be and is otherwise entitled:

- (a) The Company will pay Employee the sum of \$54,166.67 per month (payable semi-monthly) as salary continuation for the period beginning on the Termination Date and continuing through December 31, 2002, from which payments will be deducted required federal and state withholdings tax as well as any applicable Employee contributions for Company-provided benefits. Payments from the Termination Date through December 31, 2001 are not subject to mitigation for any income received by Employee for employment or consulting services. Payments from January 1, 2002 through December 31, 2002, are subject to full mitigation for any income received by Employee for employment or consulting services.
- (b) The Employee is entitled to retain all personal computer equipment previously provided to him by Company.
- (c) The termination of Employee's employment with the Company, effective as of the Termination Date, shall constitute a termination of employment due to "Disability" for the purposes of the Non-Qualified Stock Option Agreement dated November 24, 1999 by and between Vector Group Ltd. (f/k/a Brooke Group

Ltd.) and Employee (the "Option Agreement"). Accordingly, any then unexercised portion of the Option (as defined in the Option Agreement) granted thereunder will become immediately exercisable upon such termination of employment, and Employee shall have the right to exercise such Option at any time within the one (1) year period following the Termination Date.

- (d) To the extent permitted under the terms of the plans, Employee's coverage under the Company-provided group life, dental and medical insurance will continue through December 31, 2002, subject to payment by Employee of that portion of the premium for such coverage as is required of active executive employees of the Company and subject to the Company continuing such coverage for its other executives. These benefits are limited to medical expenses incurred in the United States.
- (e) As soon as practicable, the Company will either pay to the Employee a sum sufficient to result in a net after-tax payment to Employee of \$60,000 or transfer the title to the automobile provided to the Employee by the Company. If Employee elects to receive a cash payment, the cash will be due within five (5) days upon delivery of the Employee's company vehicle to the Company.
- (f) The Company's obligation to make any of the payments provided for by the terms and provisions of Section 1(a) or any benefits provided for in Section 1(d) shall cease upon the death of Employee.

2. NO ADDITIONAL PAYMENTS, BENEFITS OR EMPLOYMENT.

- (a) Except for any and all payments and benefits provided for in Section 1, the Company shall have no obligation to make any payment to or for the benefit of Employee or to provide any benefit to Employee of any kind notwithstanding that such may otherwise be available to other employees of the Company, and Employee releases the Company of and from any obligation to make any other payment or provide any other benefit arising out of or relating to Employee's former employment with the Company.
- (b) Employee hereby agrees that he will not reapply for employment with the Company and its Affiliates (as defined below). Under no circumstances will the Company and its Affiliates be obligated to re-employ Employee including based on any judicial or administrative action.
- (c) Effective as of the Termination Date, Employee hereby resigns all positions as an officer and/or a director of the Company and its Affiliates. Employee will execute any documentation requested to confirm such resignations.

3. GENERAL RELEASE. Employee, which for this Section 3, shall mean Employee, his heirs, executors, administrators, successors and assigns, hereby releases, acquits and forever discharges the Company, together with any subsidiary, parent or other affiliated corporations, and their respective present and former

officers, directors, shareholders, employees and agents and their respective executors, administrators, successors and assigns (collectively referred to hereafter in this Agreement as the "Company and its Affiliates"), of and from all claims and alleged claims by Employee, whether or not previously asserted, against the Company and its Affiliates. This release specifically includes all claims by or on behalf of Employee against the Company and its Affiliates, together with any and all claims which might have been asserted by or on behalf of Employee against the Company and its Affiliates, in any suit, claim or charge, on account of any matter or things whatsoever from the beginning of time up to and including the date of the execution of this Agreement, including any suit, claim or charge, under any federal, state or local authority or any common law theory (whether founded in tort or contract), including but not limited to, 42 U.S.C. ss. 1981, Title VII of the Civil Rights Act of 1964, the Equal Pay Act of 1963, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the North Carolina Handicapped Persons Protection Act, the Employee Retirement Income Security Act of 1974 and the Family and Medical Leave Act in connection with any act, state of facts, or occurrence or omission, whether or not previously asserted, either occurring before or existing on the date of the execution of this Agreement.

4. DUTY TO COOPERATE. Employee agrees to fully cooperate with the Company and its Affiliates in assisting in the defense of any existing or future charges, claims, demands complaints, civil actions or other proceedings filed against the Company and its Affiliates which involve facts or decisions with respect to which Employee has had involvement or knowledge.

5. NON-DISCLOSURE OF INFORMATION. Employee agrees that by February 10, 2001, he will return to the Company all files, graphs, customer and product lists and all other materials belonging to the Company. Unless required by applicable law, regulation or legal process, Employee will not disclose to anyone any of the Company's trade secrets or confidential or proprietary information (collectively, the "Information"). In the event that Employee is requested, or required by, applicable law, regulation or legal process to disclose any of the Information, Employee will notify the Company promptly so that the Company may seek a protective order or other appropriate remedy. In the event that no such protective order or other remedy is obtained, the Employee will furnish only that portion of the Information which the Employee is advised by counsel is legally required and will exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Information.

6. REMEDY. In the event of a breach of the Agreement by the Company, Employee's sole remedy shall be to institute an action for breach of this Agreement and damages therefor or specific performance of this Agreement and to recover his reasonable attorney's fees and costs. It is specifically acknowledged that in the event of a breach of this Agreement, Employee shall not be entitled to rescind this Agreement and maintain an action based upon any claims released by this Agreement.

7. NON-DISPARAGEMENT. Employee will not, directly or indirectly, make or publish any libelous or slanderous remarks about, or, through intentional or negligent action, disparage the business conduct of, the Company and its Affiliates to anyone, including specifically but not limited to parties with a business

relationship with the Company and its Affiliates. Subject to Employee's compliance with Section 5 hereof, the provisions of this Section 7 shall not apply to any truthful statement to be made by Employee in any legal proceeding or government or regulatory investigation.

8. EMPLOYEE ACKNOWLEDGMENT. Employee acknowledges the following:

- (a) That he has been given at least twenty-one (21) days in which to consider this Agreement;
- (b) That he has been advised in writing that he has the right to and may consult with an attorney before executing this Agreement and that he has had such opportunity to consult with any attorney;
- (c) That he has seven (7) days following his execution of this Agreement to revoke this Agreement, and that to so revoke this Agreement, the Company must receive in writing from the Employee, c/o Marc N. Bell, 700 West Main Street, Durham, NC 27701, his decision to revoke this Agreement prior to the end of such seven (7) day period;
- (d) That he recognizes that he is specifically releasing, among other claims, any claim under the Age Discrimination in Employment Act of 1967 and all amendments thereto;
- (e) That he is not waiving rights or claims that may arise after the date that this Agreement is executed by him.
- (f) (i) That no promise, inducement or agreement not herein expressed has been made to him; (ii) That this Agreement is the entire agreement between the parties hereto and supercedes all prior oral and written agreements; (iii) That he has read this Agreement and knows and understands its contents; and (iv) That by his execution of this Agreement, he intends to be bound by the terms and provisions of this Agreement.
- (g) That this Agreement is not and shall not be construed to be an admission of any violation of any federal, state, or local statute or regulation, or of any duty owed by the Company and its Affiliates.

9. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefits of the parties hereto and to their respective heirs, executors, administrators, successors and assigns.

10. CHOICE OF LAW. This Agreement shall be construed in accordance with the laws of the State of North Carolina without giving effect to principles governing conflicts of laws.

IN WITNESS WHEREOF, Employee and the Company have executed this Agreement as of the date first above written.

VECTOR TOBACCO (USA) LTD.

BY: /s/ BENNETT S. LEBOW

NAME: Bennett S. LeBow
TITLE: Chairman/President

/s/ RONALD S. FULFORD

RONALD S. FULFORD

SUBSIDIARIES OF THE COMPANY

The following is a list of the active subsidiaries of Vector as of December 31, 2000, indicating the jurisdiction of incorporation of each and the names under which such subsidiaries conduct business. In the case of each subsidiary which is indented, its immediate parent owns beneficially all of the voting securities, except New Valley Corporation, of which BGLS Inc. and New Valley Holdings, Inc. collectively own approximately 56% of such voting securities.

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----
BGLS Inc.	Delaware
Brooke Group Holding Inc.	Delaware
Liggett Group Inc.	Delaware
Brooke (Overseas) Ltd.	Delaware
New Valley Holdings, Inc.	Delaware
New Valley Corporation	Delaware
Vector Tobacco (USA) Ltd.	Delaware

Not included above are other subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary, as such term is defined by Rule 1-02(w) of Regulation S-X.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-24217, 333-50189 and 333-59615) and on Form S-3 (Nos. 333-46055, 33-38869, 33-63119, 333-45377 and 333-56873) of Vector Group Ltd. of our report dated March 30, 2001 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
March 30, 2001

I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

THE NAVAJO NATION V. PHILIP MORRIS, INCORPORATED, ET AL., Case No. WR-CV-449-99, District Court of the Navajo Nation, Judicial District of Window Rock, Arizona (case filed 8/11/99). The Navajo nation seeks civil penalties, damages, remediation through tobacco education and anti-addiction programs, injunctive relief, attorney's fees and cost.

PEOPLE OF THE STATE OF CALIFORNIA, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC194217, Superior Court of California, County of Los Angeles (case filed 7/14/98). People seek injunctive relief and economic reimbursement with respect to damages allegedly caused by environmental tobacco smoke (ETS).

PECHANGA BAND OF LUISENO MISSION INDIANS, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 725419, Superior Court of California, County of San Diego (case filed 10/30/98). This personal injury class action is brought on behalf of plaintiff tribe and all similarly situated American Indian smokers resident in California.

PEOPLE OF THE STATE OF CALIFORNIA, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 980-864, Superior Court of California, County of San Francisco (case filed 8/5/98). People seek injunctive relief and economic reimbursement with respect to damages allegedly caused by environmental tobacco smoke (ETS).

REPUBLIC OF GUATEMALA V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 1:98CV01185, USDC, District of Columbia (case filed 5/18/98). The Republic of Guatemala seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

UKRAINE V. AMERICAN BRANDS, ET AL., Case No. 1:99CV03080, USDC, District of Columbia (case filed 11/19/99). Ukraine seeks compensatory and injunctive relief for damages incurred by the country in paying for the healthcare expenses of resident smokers.

UNITED STATES OF AMERICA V. PHILIP MORRIS, INC., ET AL., Case No. 1:99CV02496, USDC, District of Columbia (case filed 9/22/99). The United States of America seeks to recover health care costs paid for and furnished, and to be paid for and furnished, by the federal government through Medicare and otherwise, for lung cancer, heart disease, emphysema and other tobacco-related illnesses. In October 2000, the District Court dismissed the government's claims pursuant to the Medicare Secondary Payor Act and the Medical Cost Recovery Act, but denied motions to dismiss RICO claims.

REPUBLIC OF ECUADOR V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-1951-CA-27, Circuit Court of the 11th Judicial Circuit, State of Florida, Miami-Dade County (case filed 1/21/00). The Republic of Ecuador seeks reimbursement of the funds expended on behalf of those injured by and addicted to tobacco products.

THE STATE OF ESPIRITO SANTO, BRAZIL V. BROOKE GROUP LTD., ET AL., Case No. 00-07472-CA- 03, Circuit Court of the 11th Judicial Circuit, State of Florida, Miami-Dade County. The State of Espirito Santo, Brazil seeks reimbursement for all costs and damages incurred by the State.

THE STATE OF GOIAS, BRAZIL V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 99-24202-CA 02, Circuit Court of the 11th Judicial Circuit, State of Florida-Dade County (case filed 10/19/99). The State of Goias, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

REPUBLIC OF HONDURAS V. PHILIP MORRIS COMPANIES, INC., ET AL. Case No. 0026068 CA-8, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 10/5/00). The Republic of Honduras seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

THE KYRGYZ REPUBLIC V. THE BROOKE GROUP LTD., ET AL., Case No. 01-01740 CA-25, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The Kyrgyz Republic seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

THE STATE OF MATO GROSSO DO SUL , BRAZIL, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 7/19/00). The State is Mato Grasso do Sul, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants. -

THE STATE OF PIAUI, BRAZIL V. PHILIP MORRIS COMPANIES, INC, ET AL., Case No. 00-32238 CA 30, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 12/13/00). The State of Piaui, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

THE RUSSIAN FEDERATION , ET AL. V. PHILIP MORRIS COMPANIES, INC, ET AL., Case No. 00-20918 CA 24, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 8/28/00). The Russian Federation seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

REPUBLIC OF TAJIKISTAN V. THE BROOKE GROUP LTD., ET AL., Case No. 01-01736 CA-24, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The Republic of Tajikistan seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

THE STATE OF TOCANTINS, BRAZIL, ET AL. V. THE BROOKE GROUP LTD., INC., ET AL., Case No. 00-28101 CA 05, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The State of Tocantins, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

REPUBLIC OF VENEZUELA V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 99-01943-CA-01, Circuit Court of the 11th Judicial Circuit, State of Florida, Miami-Dade County (case filed 1/27/99). The Republic of Venezuela seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

COUNTY OF COOK V. PHILIP MORRIS, ET AL., Case No. 97L04550, Circuit Court, State of Illinois, Cook County (case filed 7/21/97). County of Cook seeks to obtain declaratory and equitable relief and restitution as well as to recover money damages resulting from payment by the County for tobacco-related medical treatment for its citizens and health insurance for its employees.

COUNTY OF McHENRY, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 00L 007949, Circuit Court, Cook County, Illinois (case filed 7/13/00). County of McHenry seeks monetary damages, civil penalties, declaratory and injunctive relief, restitution, and disgorgement of profits.

REPUBLIC OF PANAMA V. THE AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. 98-17752, Civil District Court, State of Louisiana, Orleans Parish (case filed 10/20/98). The Republic of Panama seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

THE STATE OF SAO PAULO V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 20 00-02058, Civil District Court, Louisiana, Parish of Orleans (case filed 2/9/00). The State of Sao Paulo seeks reimbursement of the funds expended on behalf of those injured by and addicted to Defendants's tobacco products.

COUNTY OF WAYNE V. PHILIP MORRIS INCORPORATED, ET AL., USDC, Eastern District, Michigan., County of Wayne seeks to obtain damages, remediation through tobacco education and anti-addiction programs, injunctive relief, attorneys' fees and costs.

CITY OF ST. LOUIS, ET AL. V. AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. CV-982-09652, Circuit Court, State of Missouri, City of St. Louis, (case filed 12/4/98). City of St. Louis and area hospitals seek to recover past and future costs expended to provide healthcare to Medicaid, medically indigent, and non-paying patients suffering from tobacco-related illnesses.

COUNTY OF ST. LOUIS, MISSOURI V. AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. 982-09705, Circuit Court, State of Missouri, City of St. Louis, (case filed 12/10/98). County seeks to recover costs from providing healthcare services to Medicaid and indigent patients, as part of the State of Missouri's terms as a party to the Master Settlement Agreement.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, THE MINISTER OF HEALTH AND LONG TERM CARE V. IMPERIAL TOBACCO LIMITED, ET AL., Case No. 00CIV1593, USDC, Southern District of New York. Plaintiff brings this federal civil RICO action for the purpose of obtaining recoupment of its tobacco-related health cost, as well as such other relief as will afford a full and complete remedy.

THE SISSETON-WAHPETON SIOUX TRIBE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 030399, Tribal Court of the Sisseton-Wahpeton Sioux Tribe, State of North Dakota (case filed 2/3/99). Indian tribe seeks equitable and injunctive relief for damages incurred by the tribe in paying for the expenses of indigent smokers.

REPUBLIC OF NICARAGUA V. LIGGETT GROUP INC., ET AL., Case No. 98-2380 RLA, USDC, District of Puerto Rico (case filed 12/10/98). The Republic of Nicaragua seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

THE CROW CREEK SIOUX TRIBE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV 97-09-082, Tribal Court of The Crow Creek Sioux Tribe, State of South Dakota (case filed 9/26/97). Indian tribe seeks equitable and injunctive relief for damages incurred by the tribe in paying for the expenses of indigent smokers.

ALABAMA COUSHATTA TRIBE OF TEXAS, THE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 1: 00CV-596, USDC, Texas, Eastern District (case filed 8/30/2000). The Tribe seeks to have the tobacco companies' liability to the Tribe judicially recognized and to restore to the tribe those funds spent for smoking-attributable costs by the Tribe itself and the various State and Federal health services.

REPUBLIC OF BOLIVIA V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 6949*JG99, District Court, State of Texas, Brazoria County, State of Texas (case filed 1/20/99). The Republic of Bolivia seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

THE STATE OF RIO DE JANEIRO OF THE FEDERATED REPUBLIC OF BRAZIL V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. CV-32198, District of Angelina County, State of Texas (case filed 7/12/99). The State of Rio de Janeiro of The Federated Republic of Brazil seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

II. THIRD-PARTY PAYOR ACTIONS

UNITED FOOD AND COMMERCIAL WORKERS UNIONS, ET AL. V. PHILIP MORRIS, ET AL., Case No. CV-97-1340, Circuit Court of Tuscaloosa, Alabama (case filed 11/13/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LABORERS' AND OPERATING ENGINEERS UTILITY AGREEMENT V. PHILIP MORRIS, ET AL., Case No. CIV97-1406 PHX, USDC, District of Arizona (case filed 7/29/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

ARKANSAS CARPENTERS HEALTH & WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. LR-C-97-0754, USDC, Eastern District of Arkansas (case filed 9/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

FIBREBOARD CORPORATION, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 791919-8, Superior Court of California, County of Alameda (case filed 11/10/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

NORTHERN CALIFORNIA GENERAL TEAMSTERS SECURITY FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 798492-9, Superior Court of California, County of Alameda (case filed 5/22/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

NORTHERN CALIFORNIA TILE INDUSTRY HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 996822, Superior Court of California, County of San Francisco (case filed 5/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

PIPE TRADES DISTRICT COUNCIL NO. 36 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 797130-1, Superior Court of California, County of Alameda (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SCREEN ACTORS GUILD - PRODUCERS HEALTH PLAN, ET AL. V. PHILIP MORRIS, ET AL., Case No. DC181603, Superior Court of California, County of Los Angeles (case filed 11/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SIGN, PICTORIAL AND DISPLAY INDUSTRY WELFARE FUND V. PHILIP MORRIS, INC., ET AL., Case No. 994403, Superior Court of California, County of San Francisco (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

STATIONARY ENGINEERS LOCAL 39 HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No. C-97-1519-DLJ, USDC, Northern District of California (case filed 4/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

TEAMSTERS BENEFIT TRUST V. PHILIP MORRIS, ET AL., Case No. 796931-5, Superior Court of California, County of Alameda (case filed 4/20/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 159 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 796938-8, Superior Court of California, County of Alameda (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 343 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 796956-4, Superior Court of California, County of Alameda. Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 393 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 798474-3, Superior Court of California, County of Alameda (case filed 5/21/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

HOLLAND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:98CV01716, USDC, District of Columbia (case filed 7/9/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

S.E.I.U. LOCAL 74 WELFARE FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:98CV01569, USDC, District of Columbia (case filed 6/22/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SERVICE EMPLOYEES INTERNATIONAL UNION HEALTH AND WELFARE TRUST FUND, ET AL. V. PHILIP MORRIS, INC. ET AL., Case No. 1:98CV00704, USDC, District of Columbia (case filed 3/19/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SHEET METAL WORKERS TRUST FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:99CV02326, USDC, District of Columbia (case filed 8/31/99). Sheet Metal Workers Trust Fund seeks to obtain injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to their participants and beneficiaries suffering from smoking-related illnesses.

RAYMARK INDUSTRIES, INC. V. BROWN & WILLIAMSON, ET AL., Case No. 1:97-CV-2711-RCF, USDC, Northern District of Georgia (case filed 11/5/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

ARKANSAS BLUE CROSS AND BLUE SHIELD, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 98 C 2612, USDC, Northern District of Illinois (case filed 5/22/98). Seven Blue Cross/Blue Shield plans seek injunctive relief and economic reimbursement to recover moneys expended by healthcare plans to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CENTRAL ILLINOIS LABORERS HEALTH & WELFARE TRUST FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-L516, USDC, Southern District of Illinois (case filed 5/22/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CENTRAL STATES JOINT BOARD HEALTH & WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 97L12855, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

INTERNATIONAL BROTHERHOOD OF TEAMSTERS, LOCAL 734 HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No. 97L12852, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

TEAMSTERS UNION NO. 142, ET AL. V. PHILIP MORRIS, ET AL., Case No. 71C019709CP01281, USDC, Northern District of Indiana (case filed 9/15/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Union Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CARPENTERS & JOINERS WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 60,633-001, USDC, District of Minnesota (case filed 12/31/97). Health and Welfare Trust Plan seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

GROUP HEALTH PLAN, INC., ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-1036 DSD/JMM, USDC, Second Judicial District, Ramsey County, State of Minnesota (case filed 3/13/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

GASKET HOLDINGS, ET AL. V. RJR NABISCO, INC., ET AL. Case No. 2000-225, Chancery Court, Mississippi, Jefferson County (case filed 12/18/2000). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

KAISER ALUMINUM & CHEMICAL CORPORATION, ET AL V. RJR NABSICO, ET AL., Case No. 2000-615, Circuit Court of Mississippi, Jefferson County (case filed 12/15/00). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

THOMAS, EZELL, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 96-0065, Circuit Court of Mississippi, Jefferson County (case filed 10/9/98). Plaintiffs in this putative personal injury class action seek a judgment against both tobacco companies and asbestos companies, and represent all similarly situated adult smokers resident in the state of Mississippi. Owens Corning Fiberglass is also a plaintiff in this action and seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

CONSTRUCTION LABORERS OF GREATER ST. LOUIS WELFARE FUND, Case No. 4:97CV02030ERW, USDC, Eastern District of Missouri (case filed 12/1/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CONTRACTORS, LABORERS, TEAMSTERS & ENGINEERS HEALTH & WELFARE PLAN V. PHILIP MORRIS, INC. ET AL., Case No. 8:98CV364, USDC, District of Nebraska (case filed 8/17/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

BERGERON, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. CV 99 6142, USDC, State of New York, Eastern District (case filed 10/8/99). This action seeks is brought on behalf of the trustees and fiduciaries of the Massachusetts State Carpenters Health and Benefits Funds on behalf of themselves and other similarly situated trustees of Taft Hartley Health & Welfare funds.

BETRIEBSKRANKENKASSE AKTIV, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. CV 00 5413, USDC, New York, Eastern District (case filed 9/8/2000). Eight German health insurance provider seeks injunctive relief and economic reimbursement to recover moneys expended for treatments of tobacco related diseases.

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, ET AL. V. PHILIP MORRIS, INCORPORATED, ET AL., Case No. CV-98-3287(JBW), USDC, Eastern District of New York (case filed 4/29/98). Twenty-five health plans seek to recover moneys expended on healthcare costs purportedly attributed to tobacco-related diseases caused by Defendants.

DAY CARE COUNCIL-LOCAL 205 D.C. 1707 WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 606240/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

EASTERN STATES HEALTH AND WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 603869/97, Supreme Court of New York, New York County (case filed 7/28/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

FALISE V. THE AMERICAN TOBACCO CO., ET AL., Case No. CV 97-7640(JBW), USDC, Eastern District of New York (case filed 11/31/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

H.K. PORTER COMPANY, INC. V. B.A.T. INDUSTRIES, P.L.C., ET AL., Case No. 97-7658(JBW), USDC, Eastern District of New York (case filed 6/19/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

IBEW LOCAL 25 HEALTH AND BENEFIT FUND V. PHILIP MORRIS, ET AL., Case No. 122255/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

IBEW LOCAL 363 WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 122254/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

KEENE CREDITORS TRUST V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case no. 606479/97, Supreme Court of New York, New York County (case filed 12/19/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

LABORERS' LOCAL 17 HEALTH BENEFIT FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-7944, 2nd Circuit Court of Appeals, State of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and benefactors suffering from smoking-related illnesses.

LOCAL 1199 HOME CARE INDUSTRY BENEFIT FUND V. PHILIP MORRIS, ET AL., Case No. 606249/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LOCAL 1199 NATIONAL BENEFIT FUND FOR HEALTH & HUMAN SERVICES EMPLOYEES V. PHILIP MORRIS, ET AL., Case No. 606241/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LOCAL 138, 138A & 138B INTERNATIONAL UNION OF OPERATING ENGINEERS WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 122257/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LOCAL 840 INTERNATIONAL BROTHERHOOD OF TEAMSTERS HEALTH & INSURANCE FUND V. PHILIP MORRIS, ET AL., Case No. 122256/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LONG ISLAND REGIONAL COUNCIL OF CARPENTERS WELFARE LOCAL 840 INTERNATIONAL BROTHERHOOD OF TEAMSTERS HEALTH & INSURANCE FUND V. PHILIP MORRIS, ET AL., Case No. 122258/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

NATIONAL ASBESTOS WORKERS MEDICAL FUND, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 98-1492, USDC, Eastern District of New York (case filed 3/23/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

PUERTO RICAN ILGWU HEALTH & WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 604785-97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

RAYMARK INDUSTRIES, INC. V. BROWN & WILLIAMSON, ET AL., Case No. 98-CV-675, USDC, Eastern District of New York (case filed 5/21/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

UNITED FEDERATION OF TEACHERS WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-CIV-4676, USDC, Southern District of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UNR ASBESTOS-DISEASE CLAIMS TRUST V. BROWN & WILLIAMSON, ET AL., Case No. 105152/99, Supreme Court of the State of New York, New York County (case filed 3/15/99). The Trust brings this action to recover contribution, indemnity and/or reimbursement from the tobacco defendants.

STEAMFITTERS LOCAL UNION NO. 420 WELFARE FUND, ET AL. V. PHILIP MORRIS, INC, ET AL., Case No. 97-CV-5344, USDC, Eastern District of Pennsylvania (case filed 10/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

TEXAS CARPENTERS HEALTH BENEFIT FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 1:97C0625, USDC, Eastern District of Texas (case filed 11/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

REGENE BLUESHIELD, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. C98-559R, USDC, Western District Washington (case filed 4/29/98). Blue Cross/Blue Shield plans seek injunctive relief and economic reimbursement to recover moneys expended by healthcare plans to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

WEST VIRGINIA LABORERS' PENSION TRUST FUND V. PHILIP MORRIS, ET AL., Case No. 397-0708, USDC, Southern District of West Virginia (case filed 8/27/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

WEST VIRGINIA - OHIO VALLEY AREA I.B.E.W., ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-C-2135, USDC, Southern District of West Virginia (case filed 9/19/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

MILWAUKEE CARPENTERS' DISTRICT COUNCIL HEALTH FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98CV002394, Circuit Court of Wisconsin, Milwaukee County (case filed 3/30/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

III. CLASS ACTION CASES

FLETCHER, ET AL. V. BROOKE GROUP LTD., Civil Action No. 97-913, Circuit Court of Mobile County, Alabama (Case filed 3/19/97). Nationwide class of individuals alleging smoking-related claims. The limited fund settlement was preliminarily approved by the court in December 1998. Final approval of the limited fund settlement was denied on July 22, 1999. A motion for reconsideration of that order presently is pending.

HANSEN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. LR-C-96-881, USDC, Eastern District of Arkansas (case filed 4/4/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Arkansas.

BROWN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 711400, Superior Court of California, County of San Diego (case filed 10/1/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

SMOKERS FOR FAIRNESS, LLC, ET AL. V. THE STATE OF CALIFORNIA, ET AL., Case No. 7076751, Superior Court of California, County of San Diego (case filed 9/25/98). Plaintiffs bring this putative class action on behalf of all similarly situated adult smokers resident in the State of California.

ARNITZ, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Circuit Court of the 13th Judicial Circuit, Hillsborough County, Florida (case filed 6/30/00). Plaintiffs are seeking class action representation, similarly to ENGLE, with the exception that this class action applies to class members diagnosed after July 15, 1997 with lung cancer, throat cancer or cancer of the oral cavity.

ENGLE, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 94-08273 CA 20, Circuit Court, State of Florida, Dade County (case filed 5/5/94). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Florida. The case was certified as a class action on October 31, 1994. Trial commenced in July 1998. See Note 23, Contingencies, for a more detailed discussion of this case.

CANTER, ET AL., V. THE AMERICAN TOBACCO COMPANY, ET AL., (f/k/a PETERSON) Case No. 97-0490-02, First Circuit Court of the First Circuit, State of Hawaii (case filed 2/6/97, 9/5/2000). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Hawaii.

CLAY, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-4167-JPG, USDC, Southern District of Illinois (case filed 5/22/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in 34 states.

CLEARY, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 98 L06427, Circuit Court of the State of Illinois, Cook County (case filed 6/11/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated smokers resident in Illinois.

NORTON, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 48-D01-9605-CP-0271, Superior Court of Indiana, Madison County (case filed 5/3/96). This personal injury class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in Indiana.

BRAMMER, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 4-97-CV-10461, USDC, Southern District of Iowa (case filed 6/30/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiffs and all similarly situated allegedly addicted smokers resident in Iowa.

CASTANO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 95-30725, USDC, Eastern District of Louisiana (case filed 3/29/94). This case was settled by Liggett and Brooke on March 12, 1996. Nationwide "addiction-as-injury" class action was decertified by the Fifth Circuit in May 1996.

GRANIER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., USDC, Eastern District of Louisiana (case filed 9/29/94). This case currently is stayed pursuant to a decision in CASTANO.

SCOTT, ET AL. V. THE AMERICAN TOBACCO COMPANY, INC., ET AL., Civil District, Parish of Orleans, Louisiana (case filed 5/24/96). This personal injury class action is brought on behalf of plaintiffs seek damages for their physical and economic losses and emotional distress and all equitable relief.

YOUNG, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:97-CV-03851, Civil District Court, State of Louisiana, Orleans Parish (case filed 11/12/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Louisiana.

RICHARDSON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 96145050/CL212596, Circuit Court, Baltimore City, Maryland (case filed on 5/29/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Maryland.

LEWIS, TARJI, ET AL. V. PHILIP MORRIS, INCORPORATED, ET AL., Case No. MICV2000-03447, Superior Court, Massachusetts, Middlesex County. This class action is brought on behalf of Massachusetts residents who began smoking under the legal age and who now wish to quit.

NATIONAL TOBACCO CONSUMERS' GROUP NUMBER 1 V. PHILIP MORRIS INCORPORATED, ET AL., Demand letter and draft complaint, Superior Court, Massachusetts, Middlesex County.

NATIONAL TOBACCO CONSUMERS' GROUP NUMBER 2 V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 00CV11408RGS, USDC, Massachusetts, District of Massachusetts (case filed 7/18/00). This addiction-as-injury class action is brought on behalf of Massachusetts residents.

NATIONAL TOBACCO CONSUMERS' GROUP NUMBER 13 V. PHILIP MORRIS INCORPORATED, ET AL., Demand letter and draft complaint, Superior Court, Massachusetts, Middlesex County.

POIRIER, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court, Massachusetts, Middlesex County.

VANDERMEULEN, THERESA, ET AL. V. PHILIP MORRIS COMPANIES INC., ET AL., Case No. 00-030548 CZ, Circuit Court, Michigan, Wayne County. This class action is brought on behalf of all Michigan smokers due to defendants' negligence, violation of Michigan Consumer Protection Act, breach of contract/warranty and fraudulent concealment.

BADILLO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV-N-97-573-HDM (RAM), USDC, District of Nevada (case filed 11/4/97). This action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to environmental tobacco smoke.

DIENNO, VITO AND MARTIN N. HALLNAN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. CV-S-98-489-DWH (RLH), District Court, Clark County, Nevada (case filed 12/22/97). This action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to environmental tobacco smoke.

SELCER, ET AL. V. R. J. REYNOLDS, ET AL., Case No. CV-S-97-00334-PMP (RLH), USDC, District of Nevada (case filed 9/3/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Nevada.

AVALONE, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. MID-L-4883-98, Superior Court of New Jersey, Middlesex County (case filed 5/5/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated non-smokers allegedly injured from exposure to second hand smoke resident in New Jersey.

COSENTINO, ET AL. V. PHILIP MORRIS, ET AL., Case No. L-5135-97, Superior Court of New Jersey, Law Division, Middlesex County (case filed 5/21/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

GEIGER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Index No. 10657/97, Supreme Court of New York, Queens County (case filed 1/12/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in New York.

NWANZE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-CIV-7344, USDC, Southern District of New York (case filed 10/17/97). This action is brought on behalf of all prisoners nationwide that have allegedly been injured by exposure to environmental tobacco smoke. Liggett has not been served.

SIMON, ET AL. V. PHILIP MORRIS INC, ET AL., Case No CV 99 1998, USDC, Eastern District of New York (case filed 4/9/99), This personal injury action is brought on behalf of plaintiffs seeking certification of a nation wide class under the applicable provisions of Rule 23 of the Federal Rules of Civil Procedure, on behalf of persons who have smoked defendant's cigarettes and who presently have a claim for personal injuries or damages, or wrongful death, arising from the smoking of defendants' cigarettes.

CREEKMORE, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 98 CV 03403, Superior Court of North Carolina, Buncombe County (case filed 11/19/98). This personal injury class action is brought on behalf of plaintiffs and all similarly situated allegedly injured smokers resident in North Carolina.

SWEENEY, ET AL. V. AMERICAN TOBACCO COMPANY, ET AL., Case No. GD98-16226, Court of Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/15/98). This putative class action is brought on behalf of all current smokers who began smoking prior to the age of eighteen resident in the State of Pennsylvania.

AKSAMIT, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 6:97-3636-21, USDC, District of South Carolina, Greenville Division (case filed 11/24/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in South Carolina.

MYERS, ET AL. V. ARTHUR A. HAYES, JR., ET AL. Case No. 00C1773, Circuit Court, Davidson County, Tennessee. This action is for injunctive relief and damages. Plaintiffs allege a class action against the tobacco defendants for their smoking related medical expenses paid by Medicaid and/or Tenn care under in violation of 42 USCS 1981 et seq., 18 USCS 241 (Conspiracy against rights), and 42 USCS 1986.

BUSH, ET AL. V. PHILIP MORRIS, ET AL., Case No. 597CV180, USDC, Eastern District of Texas (case filed 9/22/97). Two individuals suing on behalf of a class of individuals. This case currently is stayed until 5/10/99.

COLE, ET AL. V. THE TOBACCO INSTITUTE, ET AL., Case No. 1:97CV0256, USDC, Eastern District of Texas (case filed 5/12/97). Two individuals suing on behalf of a class of individuals.

MASON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 7-97CV-293-X, USDC, Northern District of Texas (case filed 12/23/97). This nationwide taxpayer putative class action seeks reimbursement of Medicare expenses made by the United States government. Transferred to the Eastern District of New York.

HERRERA, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:98-CV-00126, USDC, District of Utah (case filed 1/28/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers under the age of nineteen [at time of original filing] resident in Utah.

JACKSON, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 980901634PI, 3rd Judicial Court of Utah, Salt Lake County (case filed 3/10/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Utah.

INGLE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-C-21-S, Circuit Court, State of West Virginia, McDowell County (case filed 2/4/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in West Virginia.

MCCUNE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-C-204, Circuit Court, State of West Virginia, Kanawha County (case filed 1/31/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in West Virginia.

PARSONS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 98-C-388, Circuit Court, State of West Virginia, Kanawha County (case filed 4/9/98). This personal injury class action is brought on behalf of plaintiff's decedent and all West Virginia residents having claims for personal injury arising from exposure to both cigarette smoke and asbestos fibers.

WALKER, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 2:97-0102, USDC, Southern District of West Virginia (case filed 2/12/97). Nationwide class certified and limited fund class action settlement preliminarily approved with respect to Liggett and Brooke Group on May 15, 1997. Class decertified and preliminary approval of settlement withdrawn by order of district court on August 5, 1997, which order currently is on appeal to the Fourth Circuit.

IV. INDIVIDUAL SMOKER CASES

SPRINGER V. LIGGETT GROUP INC. AND LIGGETT & MYERS, INC., Case No. LR-C-98-428, USDC, Eastern District of Arkansas (case filed 7/19/98). Two individuals suing. Liggett only defendant.

BAKER, ET AL V. SAFEWAY, INC., ET AL., Case No. 304532, Superior Court of California, County of San Francisco(case filed 6/28/99). Two individuals suing.

BROWN, D., ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC 226245, Superior Court, Los Angeles County, California (case filed 3/9/00). One individual suing. Liggett has not been served.

BROWN V., ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00AS02085, Superior Court, Sacramento County, California (case filed 4/18/00). Two individuals suing.

CHANDLER V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC226097, Superior Court of California, Los Angeles County (case filed 3/7/00). One individual suing.

CONER V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC227929, Superior Court, California, Los Angeles (case filed 3/7/00). One individual suing.

COOPER V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC227929, Superior Court, California, Los Angeles County (case filed 4/7/00). One individual suing.

CRAYTON V. SAFEWAY, INC., ET AL., Case No. RDC 820871-0, Superior Court, Alameda County, California (case filed 1/18/00). One individual suing.

DONALDSON, ET AL. V. RAYBESTOS MANHATTAN, INC., ET AL., Case No.998147, Superior Court of California, County of San Francisco (case filed 9/25/98). Two individuals suing.

ELLIS V. THE AMERICAN TOBACCO CO., ET AL., Case No. 804002, Superior Court of California, County of Orange (case filed 1/13/99). One individual suing.

JOHNSON, ET AL V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC 226246, Superior Court, Los Angeles County, California (case filed 3/9/00) Five individuals suing. Liggett has been served.

LAMB, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. RIC 343417, Superior Court, Riverside County, California (case filed 5/26/00). Two individuals suing.

MORSE V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 822825-9, Superior Court, Alameda County, California. One individual suing.

NORMADIN, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. H215192-12, Superior Court, California, Alameda County (case filed 8/25/00). One individual suing.

REIN V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 807453-1, Superior Court of California, County of Alameda (case filed 5/5/99). One individual suing.

REYNOLDS, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. SC024107, Superior Court of California, County of Ventura (case filed 10/04/99). Two individuals suing.

ROBINSON, ET AL. V. RAYBESTOS-MANHATTAN, INC., ET AL., Case No. 996378, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

ROBINSON, ET AL. V. RAYBESTOS- MANHATTAN, ET AL., Case No. 309286, Superior Court, California, County of San Francisco (case filed 1/18/00). Three individuals suing.

SELLERS, ET AL. V. RAYBESTOS-MANHATTAN, ET AL., Case No. 996382, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

SOLIMAN V. PHILIP MORRIS INCORPORATED, ET AL, Case No. 31105, Superior Court, San Francisco County, California (case filed 3/28/00). One individual suing.

STERN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. M37696, Superior Court of California, County of Monterey (case filed 4/28/97). Two individuals suing.

WILLIAMS V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC227930, Superior Court, California, Los Angeles County (case filed 4/7/00). One individual suing.

PLUMMER, BRENDA, ET AL. V. THE AMERICAN TOBACCO., Case No. 6480, Superior Court, District of Columbia. Three individuals suing.

ADAMS V. R. J. REYNOLDS, ET AL., Case No. 97 05442, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

ARMAND V. PHILIP MORRIS, ET AL., Case No. 97-31179-CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/9/97). Two individuals suing.

ATCHESON V. R. J. REYNOLDS, ET AL., Case No. 97-31148-CICU, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/29/97). One individual suing.

BAILEY, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-18056 CA15, Circuit Court of the 11th Judicial Circuit, State of Florida, Duval County (case filed 8/18/97). Two individuals suing.

BARTLEY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11153, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/21/97). Two individuals suing.

BLAIR V. R. J. REYNOLDS, ET AL., Case No. 97-31177, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/29/97). One individual suing.

BLANK V. PHILIP MORRIS, ET AL., Case No. 97-05443, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

BRONSTEIN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008769, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

BURNS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11175-27, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/3/98). One individual suing.

CLARK V. LIGGETT GROUP INC., Case No. 95-3333-CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Dade County (case filed 8/18/95). One individual suing. Liggett only defendant.

COWART V. LIGGETT GROUP INC, ET AL., Case No.98-01483CA, Circuit Court of the 11th Judicial Circuit, State of Florida, Duval County (case filed 3/16/98). One individual suing.

DAVIS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11145, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

DAVISON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008776, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

DE LA TORRE, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11161, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

DILL V. PHILIP MORRIS, ET AL., Case No. 97-05446, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). One individual suing.

DOUGHERTY V. PHILIP MORRIS INC., ET AL., Case No. 1999 32074 CICI, Circuit Court, State of Florida, Volusia County (case filed 11/17/99). One individual suing.

DOYLE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-627-CA, Circuit Court of the 7th Judicial Circuit, State of Florida, Flagler County (case filed 9/16/97). Two individuals suing.

DUECKER V. LIGGETT GROUP INC., Case No. 98-03093 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 7/5/98). One individual suing. Liggett only defendant.

EASTMAN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 01-98-1348, Circuit Court of the 13th Judicial Circuit, State of Florida, Hillsborough County (case filed 3/11/98). One individual suing.

FLAKS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008750, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

GARRETSON, ET UX. V. R.J. REYNOLDS, ET AL., Case No. 97-32441 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 10/22/96). One individual suing.

GOLDBERG, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-008780, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

GRAY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-21657 CA 42, Circuit Court of the 11th Judicial Circuit, State of Florida, Putnam County (case filed 10/15/97). Two individuals suing.

HALEN V. R.J. REYNOLDS, ET AL., Case No. CL 96005308, Circuit Court of the 15th Judicial Circuit, State of Florida, Palm Beach County (case filed 6/19/96). One individual suing.

HARRIS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-1151, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). Two individuals suing.

HART, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 9708781, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). One individual suing.

HAYES, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97-31007, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/30/97). Two individuals suing.

HENIN V. PHILIP MORRIS, ET AL., Case No. 97-29320 CA 05, Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 12/26/97). One individual suing.

HENNING. ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11159, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). Two individuals suing.

HITCHENS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008783, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97).

KATZ V. BROWN & WILLIAMSON, ET AL., Case No. 95-15307-CA-01, USDC, Southern District of Florida (case filed 8/3/95). One individual suing. Plaintiff has dismissed all defendants except Liggett Group Inc.

KALOUSTIAN V. LIGGETT GROUP INC., ET AL., Case No. 95-5498, Circuit Court for the 13th Judicial Circuit, State of Florida, Hillsborough County (case filed 8/28/95). Two individuals suing.

KRUEGER, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 96-1692-CIV-T-24A, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

LAPPIN V. R.J. REYNOLDS, ET AL., Case No. 97-31371 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). One individual suing.

LASS V. R.J. REYNOLDS, ET AL., Case No. 96-04469, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 12/23/96). Two individuals suing.

LEVINE V. R.J. REYNOLDS, ET AL., Case No. CL 95-98769 (AH), Circuit Court of the 15th Judicial Circuit, State of Florida, Palm Beach County (case filed 7/24/96). One individual suing.

LOBLEY V. PHILIP MORRIS, ET AL., Case No. 97-1033-CA-10-L, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). Two individuals suing.

LUKACS, JOHN V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court of the 11th Judicial Circuit Court, Florida, Miami-Dade County. One individual suing.

LUSTIG, ET AL. V. BROWN & WILLIAMSON TOBACCO CO., ET AL., Case No. 97 11168, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

MAGLIARISI, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008895, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/11/97). One individual suing.

MANLEY, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11173-27, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/3/98). Two individuals suing.

MECKLER, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-03949-CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 7/10/97). One individual suing.

MULLIN V. PHILIP MORRIS, ET AL., Case No. 95-15287 CA 15, Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 11/7/95). One individual suing.

O'ROURKE V. LIGGETT GROUP INC., ET AL., Case No. 97-31345-CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). One individual suing.

PEREZ, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 96-1721-CIV-T-24B, USDC, Middle District of Florida (case filed 8/20/96). One individual suing.

PHILLIPS V. R.J. REYNOLDS, ET AL., Case No. 97-31278, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 5/27/97). One individual suing.

PIPOLO V. PHILIP MORRIS, ET AL., Case No. 97-05448, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

PULLARA, RUBY M. , ET AL. V. LIGGETT GROUP, INC. , ET AL., Case No. 01-1626-Div. C, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individuals suing.

RAUCH, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11144, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). Two individuals suing.

RAWLS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-01354 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 3/6/97). One individual suing.

REBANE, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. CI0-00-0000750, Circuit Court, Orange County, Florida (case filed 2/1/00). Two individuals suing.

RIX V. R.J. REYNOLDS, ET AL., Case No. 96-1778 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 4/29/96). One individual suing.

SCHULTZ V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 99019898, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 11/24/99). One individual suing.

SHAW, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008755, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

SPOTTS V. R.J. REYNOLDS, ET AL., Case No. 97-31373 CICI, Circuit Court of the 4th Judicial Circuit, State of Florida, Volusia County (case filed 9/16/97). One individual suing.

STAFFORD V. BROWN & WILLIAMSON, ET AL., Case No. 97-7732-CI-019, Circuit Court of the 6th Judicial Circuit, State of Florida, Pinellas County (case filed 11/14/97). One individual suing.

STEWART, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97 2025 CA, Circuit Court of the 5th Judicial Circuit, State of Florida, Lake County (case filed 9/16/97). Two individuals suing.

STRICKLAND, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 98-00764, Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 1/8/98). Two individuals suing.

STROHMETZ V. PHILIP MORRIS, ET AL., Case No. 98-03787 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 7/16/98). One individual suing.

SWANK-REICH V. BROWN & WILLIAMSON, ET AL., Case No. 97008782, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). One individual suing.

THOMSON, BARRY, V. R.J. REYNOLDS, ET AL., Case No. 97-400-CA, Circuit Court of the 7th Judicial Circuit, State of Florida, Flagler County (case filed 9/2/97). One individual suing.

THOMSON, EILEEN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11170, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

VENTURA V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 97-27024 CA (09), Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 11/26/97). One individual suing.

WASHINGTON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-10575 CIDL, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 9/16/97). Two individuals suing.

WEIFFENBACH, ET UX. V. PHILIP MORRIS, ET AL., Case No. 96-1690-CIV-T-24C, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

WISCH V. LIGGETT GROUP INC., ET AL., Case No. 97-008759, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). One individual suing.

YOUNG V. BROWN & WILLIAMSON, ET AL., Case No. 96-03566, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 11/30/95). One individual suing.

BROWN-JONES V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-RCCV-28, Superior Court of Georgia, Richmond County (case filed 1/13/98). Two individuals suing.

DELUCA V. LIGGETT & MYERS, ET AL., Case No. 00L13792, Circuit Court, Cook County, Illinois (case filed 11/29/00). One individual suing.

DENBERG, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No. 97L07963, USDC, Northern District of Illinois (case filed 8/13/97). Four individuals suing. (Formerly Daley).

ROGERS V. R. J. REYNOLDS, ET AL., Case No. 49 D 02-9301-CT-0008, Superior Court of Indiana, Marion County (case filed 3/7/97). Two individuals suing.

SUMPTER V. THE AMERICAN TOBACCO CO., ET AL., Case No. IP98-0401-C-M/G, USDC, District of Indiana, Marion County (case filed 2/26/98). 15 individuals suing.

GRONBERG, ET AL. V. LIGGETT & MYERS, ET AL., Case No. LA-CV-080487, District Court, State of Iowa, Black Hawk County (case filed 3/30/98). Two individuals suing.

KOBOLD, ET AL. V. BAT INDUSTRIES, ET AL., Case No. CL-77551, District Court, State of Iowa, Polk County (case filed 9/15/98). Two individuals suing.

MASON V. AMERICAN BRANDS, INC., ET AL., Case No. CL7922, District Court, State of Iowa, Polk County (case filed 4/13/99). One individual suing.

MITCHELL, ET AL. V. LIGGETT & MYERS, ET AL., Case No. C00-3026, USDC, State of Iowa, Northern District (case filed 4/19/00). Two individuals suing.

WELCH, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. LA CV 017535, District Court, Iowa, Shelby County (case filed 10/16/2000). Two individuals suing.

WRIGHT, ET AL. V. BROOKE GROUP LIMITED, ET AL., Case No. LA CV 05867, District Court, State of Iowa, Cerro Gordo County (case filed 11/10/99). Two individuals suing.

ALEXANDER, ET UX V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 99-C-3975-A, 27th Judicial District Court, St. Landry Parish, Louisiana (case filed 9/27/99). Two individuals suing.

BADON, ET UX. V. RJR NABISCO INC., ET AL., Case No. 10-13653, USDC, Western District of Louisiana (case filed 5/24/94). Six individuals suing.

BIRD, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 507-532, 24th Judicial District Court, State of Louisiana, Jefferson Parish (case filed 4/10/97). Four individuals suing.

BRAKEL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-13672-D, USDC, Eastern District of Louisiana (case filed 8/30/96). Seven individuals suing.

DIMM, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 53919, 18th Judicial District Court, Parish of Iberville, Louisiana. Seven individuals suing.

HEBERT, ET AL. V. UNITED STATES TOBACCO, ET AL., Case No. 96-2281, 14th Judicial District Court, State of Louisiana, Calcasieu Parish (case filed 5/8/96). Two individuals suing.

HIGGINS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 96-2205, USDC, Eastern District of Louisiana (case filed 6/1/96). One individual suing.

JACKSON V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 97-441-C-MI, USDC, Middle District of Louisiana (case filed 7/3/97). One individual suing.

KENNON V. BROWN & WILLIAMSON, ET AL., Case No. 98-586, USDC, Middle District of Louisiana (case filed 12/5/97). One individual suing.

MCDOWELL, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 3:00CV0705, USDC, Western District, Louisiana (case filed 5/16/00). Four individuals suing.

NEWSOM, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 105838, 16th Judicial District Court, Parish of St. Mary, Louisiana (case filed 5/17/00). Five individuals suing.

OSER V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-9293, Civil District of the Judicial District Court, State of Louisiana, Orleans Parish (case filed 5/27/97). One individual suing.

PITRE, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 97 CA 0059, 19th Judicial District Court, State of Louisiana, East Baton Rouge Parish (case filed 8/7/92). Five individuals suing.

POTTS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 41844, 40th Judicial District, State of Louisiana, St. John the Baptist Parish (case filed 4/6/00). Seven individuals suing.

RACCA, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 10-14999, 38th Judicial District Court, State of Louisiana, Cameron Parish (case filed 7/16/98). Eleven individuals suing.

ADAMS, ESTATE OF PHYLLIS, ET AL. V. R. J. REYNOLDS, et al., Case No. 00-2636, Superior Court, Middlesex County, Massachusetts. Two individuals suing.

BISTANY V. MICHAEL T. SHANNON, D.M.D., ET AL., Case No. 00-1557, Superior Court of Massachusetts, Middlesex County. One individual suing.

CAMERON V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4960, Superior Court of Massachusetts, Middlesex County (case filed 8/3/98). One individual suing.

HEALY, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 01-0381, Superior Court of Massachusetts (case filed 1/25/2001). Nine individuals suing.

MONTY V. HARVARD PILGRIM HEALTH CARE, ET AL., Demand Letter. Superior Court, Massachusetts.

NYSKO, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. Three individual suing.

PAIGE V. MARILYN KOVANT, M.D., ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. One individual suing.

PISCIONE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. One individual suing.

REEDY, ET AL. V. R. J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-5056, Superior Court of Massachusetts, Middlesex County (case filed 8/13/98). One individual suing.

SATCHELL V. THE TOBACCO INSTITUTE, INC., ET AL., Demand Letter. Superior Court, Massachusetts.

WOODS, ESTATE OF HELEN V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-5721, Superior Court of Massachusetts, Middlesex County (case filed 11/18/98). One individual suing.

WOODS, JOSEPH V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-5723, Superior Court of Massachusetts, Middlesex County (case filed 11/18/98). One individual suing.

COLLIER, ET AL. V. PHILIP MORRIS, ET AL., Case No. 1:98 ov 246RG, USDC, Southern District of Mississippi (case filed 6/5/98). This putative class action is brought on behalf of all non-smoking policemen and seamen employed in the United States who allegedly have been injured by exposure to second hand smoke.

JACKSON, ET AL. V. R. J. REYNOLDS, ET AL., Case No., Circuit Court, State of Mississippi, Jefferson County. This action seeks judgment from both the Tobacco Defendants and the Asbestos Defendants for joint and several liability.

WHITE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 5:97-CV-91BRS, Chancery Court of Mississippi, Jefferson County (case filed 4/24/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Mississippi.

BANKS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2000-136, Circuit Court, Mississippi, Jefferson County (case filed 12/22/2000). Six individuals suing.

BLYTHE V. RAPID AMERICAN CORPORATION, ET AL., Case No. CI 96-0080-AS, Circuit Court, Mississippi, Jackson County (case filed 9/23/96). One individual suing.

COLEBERG, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 200-169, Circuit Court, Mississippi, Jefferson County (case filed 10/18/00). Twenty-eight individuals suing.

COCHRAN, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2001-0022(1), Circuit Court, Mississippi, George County (case filed 2/6/01). Twenty-six individuals suing.

ESTATE OF ED DOSS, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 99-0108, Circuit Court, State of Mississippi, Jefferson County (case filed 8/17/99). Nine individuals suing. Liggett has not been served.

GALES, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2000-170, Circuit Court, Mississippi, Jefferson County (case filed 9/18/00). Seven individuals suing.

JENNINGS, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2000-238, Circuit Court, Mississippi, Claiborne County (case filed 11/2/00). Fourteen individuals suing.

LANE, ET AL. V. R. J. REYNOLDS, ET AL., Case No. CI 00-00239, Circuit Court, Mississippi, Forrest County (case filed 2/6/01). Six individuals suing.

MCGEE, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2000-596, Circuit Court, Mississippi, Jefferson County (case filed 11/16/00). Nineteen individuals suing.

DAVIS, ET AL. V. AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:00-Cv-26-CEJ, USDC, Missouri, Eastern District (case filed 9/25/00). Two individuals suing.

ARMENDARIZ V. PHILIP MORRIS, ET AL., Case No. 999/862, District Court, Nebraska, Douglas County (case filed 11/17/00). One individual suing.

MUMIN V. PHILIP MORRIS, ET AL., Doc. 1000 No. 46, District Court, Nebraska, Douglas County (case filed 11/27/00). One Individual suing.

HOWARD, ET AL. V. PHILIP MORRIS, INC., ET AL., Superior Court, New Hampshire, Merrimack County. Two individuals suing.

FRENCH, ET AL. V. PHILIP MORRIS, ET AL., Superior Court, New Hampshire, Merrimack County. Two individuals suing.

WILLIAMSON, V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Superior Court, New Jersey, Middlesex County (case filed 2/9/2001). One individual suing.

DOOLITTLE, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Superior Court, Gloucester County, New Jersey (case filed 5/22/00). Two individuals suing.

KLEIN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. L-7798-00, Superior Court, Middlesex, New Jersey (case filed 9/21/00). Two individuals suing.

PISCITELLO, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-CIV-4613, Superior Court of New Jersey, Middlesex County (case filed 3/6/98).

STAR, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. L-11517-99, Superior Court, Middlesex County, New Jersey (case filed 12/13/99). Two individuals suing.

TEPPER AND WATKINS, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. BER-L-4983-97-E, Superior Court of New Jersey, Middlesex County (case filed 5/28/97).

HAINES (ETC.) V. LIGGETT GROUP INC., ET AL., Case No. C 6568-96B, USDC, District of New Jersey (case filed 2/2/94). One individual suing.

ALTMAN, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 97-123521, Supreme Court of New York, New York County (case filed 12/16/97). Seven individuals suing.

ANDERSON, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 42821-97, Supreme Court of New York, Kings County (case filed 11/13/97). Six individuals suing.

ARNETT, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 109416/98, Supreme Court of New York, New York County (case filed 5/29/98). Nine individuals suing.

BELLOWS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 122518/97, Supreme Court of New York, New York County (case filed 11/26/97). Five individuals suing.

BRAND, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 29017/98, Supreme Court of New York, Kings County (case filed 12/21/98). Two individuals suing.

CAIAZZO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 13213/97, Supreme Court of New York, Richmond County (case filed 10/27/97). Six individuals suing.

CAMERON V. THE AMERICAN TOBACCO CO., ET AL., Case No. 019125/97, Supreme Court of New York, Nassau County (case filed 7/18/97). Five individuals suing.

CANAAN V. PHILIP MORRIS INC., ET AL., Case No. 105250/98, Supreme Court of New York, New York County (case filed 3/24/98). One individual suing.

CARLL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112444/97, Supreme Court of New York, New York County (case filed 8/12/97). Five individuals suing.

CAVANAGH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.11533/97, Supreme Court of New York, Richmond County (case filed 4/23/97). Two individuals suing.

COLLINS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 08322/97, Supreme Court of New York, Westchester County (case filed 7/2/97). Nine individuals suing.

CONDON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 108902/97, Supreme Court of New York, New York County (case filed 2/4/97). Seven individuals suing.

CRANE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.106202-97, USDC, Southern District of New York (case filed 4/4/97). Four individuals suing.

CREECH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 106202-97, Supreme Court of New York, Richmond County (case filed 1/14/97). Four individuals suing.

CRESSER, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 36009/96, Supreme Court of New York, Kings County (case filed 10/4/96). Two individuals suing.

DA SILVA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.106095/97, Supreme Court of New York, New York County (case filed 1/14/97). Six individuals suing.

DOMERACKI V. PHILIP MORRIS, ET AL., Case No. 98/6859, Supreme Court of New York, Erie County (case filed 8/3/98). One individual suing.

DOUGHERTY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-09768, Supreme Court of New York, Suffolk County (case filed 4/18/97). Two individuals suing.

DZAK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 26283/96, Supreme Court of New York, Queens County (case filed 12/2/96). Five individuals suing.

EVANS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28926/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

FRANKSON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 24915/00, Supreme Court, New York, Kings County. Four individuals suing.

FINK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 110336/97 Supreme Court of New York, New York County (case filed 4/25/97). Six individuals suing.

GOLDEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112445/97, Supreme Court of New York, New York County (case filed 8/11/97). Six individuals suing.

GRECO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15514-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

GRUDER , ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No.48487/97, Supreme Court of New York, New York County (case filed 12/8/97). Four individuals.

GUILLOTEAU, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 46398/97, Supreme Court of New York, Kings County (case filed 11/26/97). Four individuals suing.

HANSEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.97-26291, Supreme Court of New York, Suffolk County (case filed 4/12/97). Six individuals suing.

HELLEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28927/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

INZERILLA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11754/96, Supreme Court of New York, Queens County (case filed 7/16/96). Two individuals suing.

JAUST, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 116249/97, Supreme Court of New York, New York County (case filed 10/14/97). Ten individuals suing.

JEFFERSON, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Supreme Court of New York, Richmond County. Two individuals suing.

JULIANO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 12470/97, Supreme Court of New York, Richmond County (case filed 8/12/96). Four individuals suing.

KEENAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 116545-97, Supreme Court of New York, New York County (case filed 10/6/97). Eight individuals suing.

KESTENBAUM, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 109350/97, Supreme Court of New York, New York County (case filed 6/4/97). Eight individuals suing.

KNUTSEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 36860/96, Supreme Court of New York, Kings County (case filed 4/25/97). Two individuals suing.

KOTLYAR, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28103/97, Supreme Court of New York, Queens County (case filed 11/26/97). Five individuals suing.

KRISTICH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-29078, Supreme Court of New York, Suffolk County (case filed 10/12/97). Two individuals suing.

KROCHTENDEL V. THE AMERICAN TOBACCO CO., ET AL., Case No. 24663/98, Supreme Court of New York, Kings County (case filed 7/15/98). One individual suing.

LABROILA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-12855, Supreme Court of New York, Suffolk County (case filed 7/20/97). Four individuals suing.

LEHMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112446/97, Supreme Court of New York, New York County (case filed 8/11/97). One individual suing.

LEIBSTEIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-019145, Supreme Court of New York, Nassau County (case filed 7/25/97). Six individuals suing.

LEIDERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 22691/97, Supreme Court of New York, Kings County (case filed 7/23/97). Three individuals suing.

LENNON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 120503/97, Supreme Court of New York, New York County (case filed 11/19/97). Seven individuals suing.

LE PAW V. B.A.T. INDUSTRIES, ET AL., Case No. 17695-96, USDC, Southern District of New York (case filed 8/14/96). Four individuals suing.

LEVINSON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 13162/97, Supreme Court of New York, Kings County (case filed 4/17/97). Seven individuals suing.

LIEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-9309, Supreme Court of New York, Suffolk County (case filed 4/28/97). Two individuals suing.

LITKE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15739/97, Supreme Court of New York, Kings County (case filed 5/1/97). Five individuals suing.

LOHN V. LIGGETT GROUP INC., ET AL., Case No. 105249/98, Supreme Court of New York, New York County (case filed 3/26/98). One individual suing.

LOMBARDO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16765/97, Supreme Court of New York, Nassau County (case filed 6/6/97). Five individuals suing.

LONG, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 22574-97, Supreme Court of New York, Bronx County (case filed 10/22/97). Four individuals suing.

LOPARDO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 027182/97, Supreme Court of New York, Nassau County (case filed 10/27/97). Six individuals suing.

LUCCA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 3583/97, Supreme Court of New York, Kings County (case filed 1/27/97). Two individuals suing.

LYNCH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 117244/97, Supreme Court of New York, New York County (case filed 10/22/97). Five individuals suing.

MAGNUS V. FORTUNE BRANDS, INC., ET AL., Case No. CV-98-3441, USDC, Eastern District of New York (case filed 5/6/98). Three individuals suing.

MAISONET, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 17289/97, Supreme Court of New York, Kings County (case filed 5/20/97). Three individuals suing.

MARGOLIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 120762/96, Supreme Court of New York, New York County (case filed 11/22/96). One individual suing.

MARTIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15982-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

MCGUINNESS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112447/97, Supreme Court of New York, New York County (case filed 7/28/97). Six individuals suing.

MCLANE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11620/97, Supreme Court of New York, Richmond County (case filed 5/13/97). Four individuals suing.

MEDNICK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 29140/1997, Supreme Court of New York, Kings County (case filed 9/19/97). Eight individuals suing.

MISHK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 108036/97, Supreme Court of New York, New York County (case filed May 1, 1997). Five individuals suing.

MOREY V. PHILIP MORRIS, ET AL., Case No. I1998/9921, Supreme Court of New York, Erie County (case filed 10/30/98). Two individuals suing.

NEWELL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-25155, Supreme Court of New York, New York County (case filed 10/3/97). Six individuals suing.

NOCIFORO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-16324, Supreme Court of New York, Suffolk County (case filed 7/12/96). One individual suing.

O'HARA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 103095/98, Supreme Court of New York, New York County (case filed 2/23/98). Two individuals suing.

ORNSTEIN V. PHILIP MORRIS, ET AL., Case No. 117548/97, Supreme Court of New York, New York County (case filed 9/29/97). One individual suing.

PEREZ, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 26347/97, Supreme Court of New York, Kings County (case filed 8/26/97). Seven individuals suing.

PERRI, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 029554/97, Supreme Court of New York, Nassau County (case filed 11/24/97). Six individuals suing.

PICCIONE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 34371/97, Supreme Court of New York, Kings County (case filed 10/27/97). Five individuals suing.

PORTNOY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16323/96, Supreme Court of New York, Suffolk County (case filed 7/16/96). Two individuals suing.

REITANO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28930/96, Supreme Court of New York, Kings County (case filed 8/22/96). One individual suing.

RICO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 120693/98, Supreme Court of New York, New York County (case filed 11/16/98). Nine individuals suing.

RINALDI, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 48021/96, Supreme Court of New York, Kings County (case filed 12/11/96). Five individuals suing.

ROSE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 122131/96, Supreme Court of New York, New York County (case filed 12/18/96). Eight individuals suing.

RUBINOBITZ, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15717/97, Supreme Court of New York, Nassau County (case filed 5/28/97). Five individuals suing.

SCHULHOFF, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 23737-97, Supreme Court of New York, Queens County (case filed 11/21/97). Six individuals suing.

SCHWARTZ, IRWIN V. THE AMERICAN TOBACCO CO., ET AL., Case No.14841/97, Supreme Court of New York, Nassau County (case filed 5/19/97). One individual suing.

SCHWARTZ, PEARL V. THE AMERICAN TOBACCO CO., ET AL., Case No.47239/96, Supreme Court of New York, Kings County (case filed 12/2/96). One individual suing.

SENZER, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11609/97, Supreme Court of New York, Queens County (case filed 5/13/97). Eight individuals suing.

SHAPIRO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 111179/97, Supreme Court of New York, New York County (case filed 7/21/96). Four individuals suing.

SIEGEL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.36857/96, Supreme Court of New York, Kings County (case filed 10/8/96). Two individuals suing.

SILVERMAN, ET AL. V. LORILLARD TOBACCO COMPANY. ET AL., Case No. 11328/99, Supreme Court of New York, Kings County (case filed 7/9/99) Five individuals suing.

SMITH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 020525/97, Supreme Court of New York, Queens County (case filed 9/19/97). Eight individuals suing.

SOLA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 18205/96, Supreme Court of New York, Bronx County (case filed 7/16/96). Two individuals suing.

SPRUNG, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16654/97, Supreme Court of New York, Kings County (case filed 5/14/97). Ten individuals suing.

STANDISH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 18418-97, Supreme Court of New York, Bronx County (case filed 7/28/97). Five individuals suing.

VALENTIN, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 019539/97, Supreme Court of New York, Queens County (case filed 9/16/97). Seven individuals suing.

WALGREEN, ET AL. V. THE AMERICAN TOBACCO, ET AL., Case No. 109351/97, Supreme Court of New York, New York County (case filed 5/23/97). Eight individuals suing.

WERNER, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 029071-97, Supreme Court of New York, Queens County (case filed 12/12/97). Four individuals suing.

ZARUDSKY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15773-97, Supreme Court of New York, New York County (case filed 5/28/97). Six individuals suing.

ZIMMERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Supreme Court of New York, Queens County (case filed 1997).

ZUZALSKI, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 001378/97, Supreme Court of New York, Queens County (case filed 4/3/97). Seven individuals suing.

WILSON, ET AL. V. LIGGETT & MYERS, ET AL., USDC, Middle District Court, North Carolina. One individual suing.

SANCHEZ, ESTHER E. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 00-818-BR, USDC, Oregon. One individual suing.

COTNER V. PHILIP MORRIS, INC., ET AL., Case No. CS-2000-157, District Court, Adair County, Oklahoma. One individual suing.

BUSCEMI V. BROWN & WILLIAMSON, ET AL., Case No. 002007, Court of Common Pleas, Pennsylvania, Philadelphia County (case filed 9/21/99). Two individuals suing.

CAMPANELLA, ET AL. V. LORILLARD TOBACCO COMPANY, ET AL., Case No. 003575, Court of Common Pleas, Pennsylvania, Philadelphia County (case filed 1/31/00). Two individuals suing.

DANKO, ET AL. V. LIGGETT GROUP, ET AL., Case No. 2:00CV2683, USDC Eastern District, Pennsylvania. Two individuals suing.

FLOYD V. BROWN & WILLIAMSON, ET AL., Case No. 000231, Court of Common Pleas, Pennsylvania, Philadelphia County. One individual suing.

HALL V. R. J. REYNOLDS TOBACCO CO., ET AL., Case No. 4:97-CV-01723, USDC, Pennsylvania, Middle District (case filed 2/18/98). One individual suing.

TANTUM V. AMERICAN TOBACCO CO., ET AL., Case No. 3762, Court of Common Pleas, Pennsylvania, Philadelphia County (case filed 1/26/99). Two individuals suing.

TAYLOR V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 004378, Court of Common Pleas, Pennsylvania, Philadelphia County (case filed 12/13/99). One individual suing.

BROWN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 98-5447, Superior Court, Rhode Island (case filed 10/30/98). One individual suing.

NICOLO V. PHILIP MORRIS, ET AL., Case No. 96-528 B, USDC, Rhode Island (case filed 9/24/96). One individual suing.

BABB V. PHILIP MORRIS, INC., ET AL., Case No. 6:00-2550-20BG, USDC, South Carolina (case filed 1/2/2001). One individual suing.

LABELLE V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 2-98-1879-23, USDC, South Carolina (case filed 11/4/98). One individual suing.

LITTLE V. BROWN & WILLIAMSON, ET AL., Case No. 98-CD-10-2156, USDC, South Carolina (case filed 6/26/98). Two individuals suing.

COCKER V. AMERICAN TOBACCO CO., ET AL., Case No. 1-00-0069, USDC, Middle District Tennessee (case filed 5/22/00). One individual suing.

PERRY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 2-473-95, Circuit Court, Tennessee, Knox County (case filed 7/20/95). One individual suing.

TEMPLE V. PHILIP MORRIS TOBACCO CORP., ET AL. Case No. 3:00-0126, USDC, Middle District, Tennessee. One individual suing.

ADAMS V. BROWN & WILLIAMSON, ET AL., Case No. 96-17502, District Court of the 164th Judicial District, Texas, Harris County (case filed 4/30/96). One individual suing.

COLUNGA V. AMERICAN BRANDS, INC., ET AL., Case No. C-97-265, USDC, Texas, Southern District (case filed 4/17/97). One individual suing.

HALE, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No. C-6568-96B, District Court of the 93rd Judicial District, Texas, Hidalgo County (case filed 1/30/97). One individual suing.

HAMILTON, ET AL. V. BGLS, INC., ET AL., Case No. C 70609 6 D, USDC, Texas, Southern District (case filed 2/26/97). Five individuals suing.

HARRIS, ET AL. V. KOCH REFINING CO., ET AL., Case No. 98-03426-00-0-G, District Court of the 319th Judicial District, Texas (case filed 6/10/99). Three individuals suing.

HODGES, ET VIR V. LIGGETT GROUP, INC., ET AL., Case No. 8000*JG99, District Court of the 239th Judicial District, Texas, Brazoria County (case filed 5/5/99). Two individuals suing.

JACKSON, HAZEL, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. G-01-071, USDC, Texas, Southern District (case filed 2/7/2001). Five individuals suing.

LUNA V. AMERICAN BRANDS, ET AL., Case No. 96-5654-H, USDC, Texas, Southern District (case filed 2/18/97). One individual suing.

MCLEAN, ET AL. V. PHILIP MORRIS, ET AL., Case No. 2-96-CV-167, USDC, Texas, Eastern District (case filed 8/30/96). Three individuals suing.

MIRELES V. AMERICAN BRANDS, INC., ET AL., Case No. 966143A, District Court of the 28th Judicial District, Texas, Nueces County (case filed 2/14/97). One individual suing.

MISELL, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 96-6287-H, District Court of the 347th Judicial District, Texas, Nueces County (case filed 1/3/97). Four individuals suing.

RAMIREZ V. AMERICAN BRANDS, INC., ET AL., Case No. M-97-050, USDC, Texas, Southern District (case filed 12/23/96). One individual suing.

SANCHEZ V. AMERICAN BRANDS, ET AL., Case No. 97-04-35562, USDC, Texas, Southern District (case filed 7/22/97). Two individuals suing.

THOMPSON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2981-D, District Court of the 105th Judicial District, Texas, Nueces County (case filed 12/15/97). Two individuals suing.

BOWDEN, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 98-0068-L, USDC, Virginia, Western District (case filed 1/6/99).

VAUGHAN V. MARK L. EARLEY, ET AL., Case No. 760 CH 99 K 00011-00, Circuit Court, Virginia, Richmond (case filed 1/8/99). One individual suing.

ACCORD, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 00-C-5000, Circuit Court, West Virginia, Ohio County (case filed 9/13/2000). 683 individuals suing.

ADAMS, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 00-C-5000, Circuit Court, West Virginia, Ohio County (case filed 9/6/2000). 950 individuals suing.

ADKINS, ET AL. V. THE AMERICAN TOBACCO, ET AL., Case No. 00-C-1381, Circuit Court, West Virginia, Kanawha County (case filed 5/31/00). Two individuals suing.

ALLEN, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-C-2337 through 2401, Circuit Court, West Virginia, Kanawha County (case filed 10/1/98). 118 individuals suing.

ANDERSON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-C-1773 through 1799, Circuit Court, West Virginia, Kanawha County (case filed 7/31/98). 50 individuals suing.

ANDERSON V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-1370, Circuit Court, Kanawha County, West Virginia (case filed 5/30/00). One individual suing.

BLANKENSHIP, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00C-276, Circuit Court, West Virginia, Ohio County. Two individuals suing.

BISHOP, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-C-2696 through 2713, Circuit Court, State of West Virginia, Kanawha County (case filed 10/28/98). One individual suing.

CASTO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-294, Circuit Court, West Virginia, Ohio County (case filed 7/24/00). Two individuals suing.

COUNTS, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-295, Circuit Court, West Virginia, Ohio County (case filed 7/24/2000). Two individuals suing.

CUTLIP, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-293, Circuit Court, West Virginia, Ohio County (case filed 7/24/00). Two individuals suing.

DINGESS, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-251, Circuit Court, West Virginia, Ohio County (case filed 6/22/2000). Two individuals suing.

EDWARDS, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00C-269, Circuit Court, West Virginia, Ohio County (case filed 10/06/98). Two individuals suing.

FLEMING V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 00-C-2063, Circuit Court, West Virginia, Kanawha County. One individual suing.

HARBERT V. AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-1496, Circuit Court, West Virginia, Kanawha County (case filed 6/13/2000). One individual suing.

HEMETEK V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00C-267, Circuit Court, West Virginia, Ohio County (case filed 7/3/2000). One individual suing.

HENSLEY V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00C-266, Circuit Court, West Virginia, Ohio County (case filed 7/3/2000). One individual suing.

HISSOM, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-C-1479, Circuit Court, West Virginia, Kanawha County (case filed 9/13/97). Two individuals suing.

HUFFMAN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-C-276, Circuit Court, West Virginia, Kanawha County (case filed 2/13/98). Two individuals suing.

JACKSON V. THE AMERICAN TOBACCO CO., ET AL., Case No. 00-C-289, Circuit Court, West Virginia, Ohio County (case filed 7/20/00). Two individuals suing.

JIVIDEN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-C-278, Circuit Court, West Virginia, Mason County (case filed 1/19/99). Two individuals suing.

JOHNSON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-247, Circuit Court, West Virginia, Ohio County (case filed 6/16/2000). Two individuals suing.

JONES, V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-1419, Circuit Court, West Virginia, Kanawha County (case filed 6/6/2000). One individual suing.

JORDON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-274, Circuit Court, West Virginia, Ohio County (case filed 7/10/00). Three individuals suing.

MACE, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-1411, Circuit Court, West Virginia, Kanawha County (case filed 6/22/2000). One individual suing.

MAYNARD, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00-C-1470, Circuit Court, West Virginia, Kanawha County (case filed 6/9/2000). One individual suing.

MORRIS, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00C-265, Circuit Court, West Virginia, Ohio County (case filed 7/3/2000). Two individuals suing.

NEWKIRK, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 98-C-1699, Circuit Court, West Virginia, Kanawha County (case filed 7/22/98). One individual suing.

FLOYD V. STATE OF WISCONSIN, ET AL., Case No. 99 CV 001125, Circuit Court, Wisconsin, Milwaukee County (case filed 2/10/99). One individual suing.

V. ACTIONS CHALLENGING MSA

PTI, INC., ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 99-08235 NM, USDC, Central District of California (case filed 8/13/99). Plaintiffs seek damages, declaratory, equitable, injunctive relief and to invalidate the Master Settlement Agreement between the largest manufacturers of cigarettes in the United States and the Attorneys General of forty-six states and the settlement entered into by the State of Texas settlement.

AMENT, ET AL. V. TOMMY G. THOMPSON, ET AL., Case No. 00CV1159, Circuit Court, Dane County, Wisconsin (case filed 4/28/00). This action seeks to recover damages attributable to the past, present and future tobacco-related healthcare costs and expenses of the plaintiffs.

LAPEAN, ET AL. V. TOMMY G. THOMPSON, ET AL., Case No. 00CV1162, Circuit Court, Dane County, Wisconsin (case filed 4/28/00). This action seeks to recover damages attributable to the past, present and future tobacco-related healthcare costs and expenses of the plaintiffs.

VI. PRICE FIXING CASES

GRAY, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. C2000 0781, Superior Court, Pima County, Arizona (case filed 2/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Arizona.

GREER, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 309826, Superior Court, San Francisco, California (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

MORSE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 822825-9, Superior Court, Alameda County, California (case filed 2/14/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

MUNOZ, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 309834, Superior Court, San Francisco City and County, California (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

PEIRONA, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 310283, Superior Court, San Francisco City and County, California (case filed 2/28/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

TEITLER V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 823161-9, Superior Court, County of Alameda, California (case filed 2/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

SULLIVAN V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 823162-8, Superior Court, County of Alameda, California (case filed 2/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

ULAN V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 823160-0, Superior Court, County of Alameda, California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

SAND V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. BC225580, Superior Court, County of Los Angeles, California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

BELMONTE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 825112-1, Superior Court, County of Alameda, California (case filed 4/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

BELCH V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 825115-8, Superior Court, County of Alameda, California (case filed 4/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

AGUAYO V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 826420-8, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

PHILLIPS V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 826421-7, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

CAMPE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 826425-3, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

AMSTERDAM TOBACCO CORP., ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No.1: 00CV0460, USDC, District of Columbia (case filed 3/6/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States and elsewhere in the world.

BARNES, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-0003678, Superior Court, District of Columbia (case filed 5/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the District of Columbia.

BUFFALO TOBACCO PRODUCTS, INC., ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 1:00CV00224, USDC, District of Columbia (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

HARTZ FOODS V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 1:00CV01053, USDC, District of Columbia (case filed 5/10/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

BROWNSTEIN V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00002212, Circuit Court, Broward County, Florida (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Florida.

WILLIAMSON OIL COMPANY, INC. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-CV-0447, USDC, Georgia, Northern District (case filed 2/18/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

SUWANEE SWIFTY STORES, INC. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-CV-0667, USDC, Georgia, Northern District (case filed 3/14/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

HOLIDAY MARKETS, INC. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-CV-0707, USDC, Georgia, Northern District (case filed 3/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

SMITH, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-CV-26, District Court, Kansas, Seward County (case filed 2/7/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Kansas

TAYLOR, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. CV-00-203, Superior Court, Maine (case filed 3/27/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Maine.

DEL SERRONE, ET AL. V. PHILIP MORRIS COMPANIES, INC., Case No. 00-004035 CZ, Circuit Court, Wayne County, Michigan (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Michigan.

LUDKE, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. MC 00-001954, District Court, Hennepin County, Minnesota (case filed 2/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Minnesota.

ANDERSON. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-1212, United States District Court, Minnesota (case filed 5/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Minnesota.

UNRUH, ET AL. V. R. J. REYNOLDS TOBACCO CO., Case No. CV00-2674, District Court, Washoe County, Nevada (case filed 6/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Nevada.

ROMERO, ET AL. V. PHILIP MORRIS COMPANIES, INC. ET AL., Case No. D0117 CV-00000972, District Court, Rio Arriba County, New Mexico (case filed 4/10/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New Mexico.

LENNON, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Index No. 102396, Supreme Court of New York, New York County, New York (case filed 2/14/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

SYLVESTER, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Index No. 00/601008 Supreme Court of New York, New York County, New York (case filed 3/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

NEIRMAN, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Index No. 00/102396, Supreme Court of New York, New York County, New York (case filed 3/6/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

SHAFER, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-C-1231, District Court, Morton County, North Dakota (case filed 4/18/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of North Dakota.

I. GOLDSHLACK COMPANY V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-CV-1286, USDC, Eastern District of Pennsylvania (case filed 3/9/00). In this class action plaintiff allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

SWANSON, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-144, Circuit Court, Hughes County, South Dakota (case filed 4/18/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of South Dakota.

WITHERS, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 17, 194-I, Circuit Court, Jefferson County, Tennessee (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Tennessee.

KISSEL, ET AL. V. PHILIP MORRIS, ET AL., Case No. 00-C-82, Circuit Court, State of West Virginia, Brooke County (case filed 4/13/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of West Virginia.

CUSATIS V, PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00CV003676, Circuit Court, Milwaukee County, Wisconsin (case filed 5/5/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Wisconsin.