Securities And Exchange Commission
Washington, D.C. 20549

FORM 10-K

JOINT ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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

DELAWARE	1-5759	51-0255124
(State or other jurisdiction of incorporation or organization)	Commission File Number	(I.R.S. Employer Identification No.)

BGLS INC.
(Exact name of registrant as specified in its charter)

DELAWARE	33-93576	13-3593483
(State or other jurisdiction of incorporation or organization)	Commission File Number	(I.R.S. Employer Identification No.)

100 S.E. SECOND STREET
MIAMI, FLORIDA 33131
305/579-8000
(Address, including zip code and telephone number, including area code, of the principal executive offices)

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

Title of Each Class	Name of each Exchange on which Registered
Brooke Group Ltd. Common Stock, par value $.10 per share	New York Stock Exchange

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

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

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

The aggregate market value of the voting stock held by non-affiliates of Brooke Group Ltd. as of March 26, 1999 was approximately $196,000,000. Directors and officers and ten percent or greater stockholders of Brooke Group Ltd. are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

At March 26, 1999, Brooke Group Ltd. had 20,943,730 shares of common stock outstanding, and BGLS Inc. had 100 shares of common stock outstanding, all of which are held by Brooke Group Ltd.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III (Items 10, 11, 12 and 13) from the definitive Proxy Statement for the 1999 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.

BROOKE GROUP LTD.
BGLS INC.

FORM 10-K

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PART I

ITEM 1. BUSINESS

GENERAL

Brooke Group Ltd. (the "Company"), a Delaware corporation founded in 1980, is a holding company for a number of businesses. The Company is principally engaged, through its subsidiary Liggett Group Inc. ("Liggett"), in the manufacture and sale of cigarettes in the United States; through its subsidiary Brooke (Overseas) Ltd. ("BOL"), in the manufacture and sale of cigarettes in Russia; and through its investment in New Valley Corporation ("New Valley"), in the investment banking and brokerage business, in real estate development in Russia, in the ownership and management of commercial real estate in the United States and in the acquisition of operating companies. The Company holds such businesses through its wholly-owned subsidiary, BGLS Inc. ("BGLS"), a Delaware corporation organized in 1990.

The Company is controlled by Bennett S. LeBow, the Chairman and Chief Executive Officer of the Company, BGLS and New Valley, who beneficially owns approximately 43% of the Company's common stock. The principal executive offices of the Company and BGLS are located at 100 S.E. Second Street, Miami, Florida 33131, and the telephone number is (305) 579-8000.

LIGGETT GROUP INC.

GENERAL. The Company's tobacco business in the United States is conducted through its indirect wholly-owned subsidiary Liggett, which is the operating successor to the Liggett & Myers Tobacco Company. Substantially all of Liggett's manufacturing facilities are located in or near Durham, North Carolina.

Liggett is engaged in the manufacture and sale of cigarettes, primarily in the United States. Liggett's management believes, based on published industry sources, that Liggett's domestic shipments of approximately 5.91 billion cigarettes during 1998 accounted for 1.3% of the total cigarettes shipped in the United States during such year. This market share percentage is unchanged from 1997, but represents a decline of 0.5% from 1996. 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 270 combinations of length, style and packaging.

Liggett produces four premium cigarette brands: L&M, CHESTERFIELD, LARK and EVE. Liggett's premium cigarettes represented approximately 30%, 33% and 31% of net sales (excluding federal excise taxes) in 1998, 1997 and 1996, respectively. Liggett's management believes, based on published industry sources, that Liggett's share of the premium market segment was approximately 0.5% for 1998, compared to 0.5% and 0.7% for 1997 and 1996, respectively. See "Philip Morris Brand Transaction" for information concerning a transaction involving the L&M, CHESTERFIELD and LARK brands, which represented approximately 16.1%, 18.1% and 17.5% of net sales (excluding federal excise taxes) in 1998, 1997 and 1996, respectively.

In 1980, Liggett was the first major domestic cigarette manufacturer to successfully introduce discount cigarettes as an alternative to premium cigarettes. In 1989, Liggett established a new price point within the discount market segment by introducing PYRAMID, a branded discount product which, at that time, sold for less than most other discount cigarettes. Liggett's management believes, based on published industry sources, that Liggett held a share of approximately 3.5% of the discount market segment for 1998 and 1997, compared to 4.8% for 1996. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations" for additional information concerning Liggett's premium and discount product sales.

At the present time, Liggett has no foreign operations. Liggett does not own the international rights to its premium cigarette brands, which are actively marketed by other companies in foreign markets, thereby adversely affecting Liggett's ability to penetrate such markets. Liggett does, however, export other cigarette brands primarily to Eastern Europe and the Middle East. Export sales of approximately 57 million units accounted for approximately 1% of Liggett's 1998 total unit sales volume. Revenues from export sales were $0.6 million for 1998, compared to $0.8 million and $3.3 million for 1997 and 1996, respectively. Operating loss attributable to export sales in 1998 amounted to approximately $0.07 million compared to operating losses of $0.1 million and $1.8 million in 1997 and 1996, respectively.

BUSINESS STRATEGY. Liggett's near-term business strategy is to further reduce certain operating and selling costs in order to increase the profitability of both its premium and discount products, and to reduce its investment in working capital. As part of this strategy, in 1996, Liggett continued its efforts, initiated in 1994, to reduce costs by, among other things, offering voluntary retirement programs to eligible employees and reducing headcount by an additional 38 positions.

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

Liggett's long-term business strategy in the premium segment of the market is to maintain or improve its profit margins in the face of declining unit sales and market share by improving operating efficiencies and implementing further cost reduction programs. Liggett's long-term business strategy in the discount segment of the market is to maintain its market share or improve its profit margins by consistently providing high-quality products and services at prices and on terms comparable to those available elsewhere in the market.

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

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Liggett offers its customers discount payment terms, traditional rebates and promotional incentives. Customers typically pay for purchased goods within two weeks following delivery from Liggett. Liggett's largest single customer, Speedway SuperAmerica LLC, accounted for approximately 26.9% of net sales in 1998, approximately 19.4% of net sales in 1997, and approximately 13.9% of net sales in 1996. Sales to this customer were primarily in the private label discount segment and constituted approximately 32.8%, 29.1% and 20.3% of Liggett's discount segment sales in 1998, 1997 and 1996, respectively.

Following the January 1997 restructuring, Liggett's marketing and sales functions were performed by approximately 110 direct sales representatives calling on national and regional customer accounts, together with approximately 90 part-time retail sales consultants who service retail outlets. In addition, Liggett employs food broker groups in certain geographic locations to perform these marketing and sales functions.

TRADEMARKS. All of the major trademarks used by Liggett are federally registered or are in the process of being registered in the United States and other markets where Liggett's products are sold. Trademarks 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. ("Eve") and Cigarette Exporting Company of America, Ltd. ("CECOA"). Liggett does not own the international rights to its premium cigarette brands.

MANUFACTURING. Liggett purchases and maintains leaf tobacco inventory to support its cigarette manufacturing requirements. Liggett believes that there is a sufficient supply of tobacco within the worldwide tobacco market to satisfy its current production requirements. Liggett stores its leaf tobacco inventory in warehouses in North Carolina and Virginia. There are several different types of tobacco, including flue-cured leaf, burley leaf, Maryland leaf, oriental leaf, cut stems and reconstituted sheet. Leaf components of cigarettes are generally the flue-cured and burley tobaccos. While premium and discount brands use many of the same tobacco products, input ratios of tobacco products account for the differences between premium and discount products. Domestically grown tobacco is an agricultural commodity subject to United States government production controls and price supports which can substantially affect its market price. Foreign flue-cured and burley tobaccos, some of which are used in the manufacture of Liggett's cigarettes, are generally 10% to 15% less expensive than comparable domestic tobaccos. Liggett normally purchases all of its tobacco requirements from domestic and foreign leaf tobacco dealers, much of it under long-term purchase commitments. As of December 31, 1998, approximately 62% of Liggett's commitments were for the purchase of foreign tobacco. Increasing tobacco costs due to reduced worldwide supply of tobacco and a reduction in the average discount available to Liggett from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments will have an unfavorable impact on Liggett's operations during 1999.

Liggett's cigarette manufacturing facilities are designed for the execution of short production runs in a cost-effective manner, which enables Liggett to manufacture and market a wide variety of cigarette brand styles. Liggett's cigarettes are produced in approximately 270 different brand styles under Eve's and CECOA's trademarks and brand names as well as private labels for other companies, typically retail or wholesale distributors who supply supermarkets and convenience stores. Liggett believes that its existing facilities are sufficient to accommodate a substantial increase in production.

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

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

There are substantial barriers to entry into the cigarette business, including extensive distribution organizations, large capital outlays for sophisticated production equipment, substantial inventory investment, costly promotional spending, regulated advertising and strong

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

Liggett's management believes, based on published industry sources, that Philip Morris' and RJR's sales together accounted for approximately 73.4% of the domestic cigarette market in 1998. Liggett's domestic shipments of approximately 5.91 billion cigarettes during 1998 accounted for 1.3% of the approximately 460.9 billion cigarettes shipped in the United States during such year, compared to 6.45 billion cigarettes (1.3%) and 8.95 billion cigarettes (1.9%) during 1997 and 1996, respectively.

Industry-wide shipments of cigarettes in the United States have been declining for a number of years. Consistent with published industry sources that domestic industry-wide shipments declined by approximately 4.5% in 1998, 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 augmented 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 into 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. On November 20, 1998, the Company and Liggett entered into a definitive agreement with PM which provides for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK (the "Marks"), held by Liggett's subsidiary, Eve. As contemplated by the agreement, Liggett and PM entered into additional agreements (collectively, the "PM Agreements") on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC ("LLC"), a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Voting Interest (the "Class A Interest") and the Class B Redeemable Nonvoting Interest (the "Class B Interest"). PM acquired two options to purchase such interests (the "Class A Option" and the "Class B Option"). On December 2, 1998, PM paid Eve a total of $150 million for such options, $5 million for the Class A Option and $145 million for the Class B Option. The payments were used to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity."

The Class A Option entitles PM to purchase the Class A Interest for $10.1 million. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for June 10, 1999, subject to customary closing conditions.

The Class B Option will entitle PM 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 PM 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 the LLC for $139.9 million during the same period the Class B Option may be exercised.

The LLC will seek to borrow $134.9 million (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's 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, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure 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 LLC income or loss.

The LLC will grant PM an exclusive license of the Marks for an 11 year term at an annual royalty based on sales of cigarettes under the Marks, subject to a minimum annual royalty payment equal to the annual debt service obligation on the Loan plus $1 million.

If PM fails to exercise the Class B Option, Eve will have an option to put its Class B Interest to PM, or PM's designees (the "Eve Put Option"), at a put price that is $5 million less than the exercise price of the Class B Option (and includes PM's procuring 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, the LLC's 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% LLC interest.

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 ("csea"), 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". Shortened versions of these statements are also required, on a rotating basis, on billboard advertisements. By a limited eligibility amendment to the csea, 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 ("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 has been commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The other four major cigarette manufacturers and the FDA have filed notices of appeal.

In August 1996, the Commonwealth of 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; however, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. The enactment of this legislation has encouraged efforts to enact similar legislation in other states.

In 1993, the United States 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 ("DMA") 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 ("USDA") informed Liggett that it did not satisfy the 75% domestic tobacco usage requirement in 1994 and was subject to a DMA of approximately $5.5 million. Liggett agreed to pay this assessment in quarterly installments, with interest, over a five-year period. Since the levels of domestic tobacco inventories on hand at the tobacco stabilization organizations are 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 ("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 on the basis of domestic market share. Such an approach, if adopted, could have a material adverse effect on Liggett.

In January 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of environmental tobacco smoke ("ETS") which concluded that ETS is a known human lung carcinogen in adults and, in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate ETS 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 ETS was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas.

The Company understands that a grand jury investigation is being conducted by the office of the United States Attorney for the Eastern District of New York (the "Eastern District Investigation") regarding possible fraud by the tobacco industry relating to smoking and health research undertaken or administered by The Council for Tobacco Research - USA, Inc. (the "CTR"). Liggett was a sponsor of the CTR at one time. In May 1996, Liggett received a subpoena from a Federal grand jury sitting in the Eastern District of New York, to which Liggett has responded.

In March 1996, and in each of March, July, October and December 1997, the Company and/or Liggett received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of the health consequences of smoking cigarettes; the targeting of children by the industry; and the addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas. The Company understands that the Eastern District Investigation and the DOJ Investigation have, for all intents and purposes, been consolidated into one investigation being conducted by the Department of Justice. The Company and Liggett are unable, at this time, to predict the outcome of this investigation.

In April 1998, the Company announced that Liggett had reached an agreement with the United States Department of Justice (the "DOJ") to cooperate with its ongoing criminal investigation of the tobacco industry. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation.

In September 1998, Liggett received a subpoena from a federal grand jury in the Eastern District of Philadelphia investigating possible antitrust violations in connection with the purchase of tobacco by and for tobacco companies. Liggett has responded to this subpoena. Liggett and the Company are unable, at this time, to predict the outcome of this investigation.

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 24 cents, would rise 10 cents in the year 2000 and 5 cents more in the year 2002. Additionally, in November 1998, the citizens of California voted in favor of a 50 cents per pack tax on cigarettes sold in that state.

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's operations.

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. Such 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 grow 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, the Company is unable to evaluate. As of December 31, 1998, there were approximately 270 individual suits, approximately 50 purported class actions or actions where class certification has been sought and approximately 85 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett is a named defendant. The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, special duty, voluntary undertaking, 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, indemnity, market share liability, and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO") and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including 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.

In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross/Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District courts in New York, Chicago and Seattle and seek billions of dollars in damages. Recently, the Seattle action was dismissed by the court; however, the industry's request for dismissal was denied by the court in New York. The lawsuits allege conspiracy, fraud, misrepresentation, violation of federal racketeering and antitrust laws as well as other claims.

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, violation of a voluntary undertaking or 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 March 1996, the Company and Liggett entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. The Castano Class was decertified by the court. In March 1997, the Company and Liggett entered into a comprehensive settlement, subject to court approval, of tobacco litigation with

a nationwide class of individuals and entities that allege smoking-related claims. Additionally, in 1996, 1997 and 1998, the Company and Liggett entered into settlements of tobacco-related litigation with the Attorneys General of 45 states and territories. The settlements released the Company and Liggett from all tobacco claims, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors. On November 23, 1998, Liggett, along with the other major tobacco companies, 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. Upon final judicial approval, the MSA replaces Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota.

Liggett has been involved in certain environmental and other proceedings, none of which, either individually or in the aggregate, rise to the level of materiality. Liggett's current operations are conducted in accordance with all environmental laws and regulations. Management is unaware of any material environmental conditions affecting its existing facilities. 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.

Management believes that Liggett is in compliance in all material respects with the laws regulating cigarette manufacturers.

See Item 3, "Legal Proceedings", Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments in the Cigarette Industry - Legislation, Regulation and Litigation" and Note 16 to the Company's Consolidated Financial Statements for a description of legislation, regulation and litigation and of the MSA and the Company's and Liggett's other settlements.

BROOKE (OVERSEAS) LTD.

LIGGETT-DUCAT LTD. BOL, a wholly-owned subsidiary of BGLS, is engaged in the manufacture and sale of cigarettes in Russia through Liggett-Ducat Ltd. ("Liggett Ducat"), a Russian joint stock company. BOL owns a 99.9% equity interest in Liggett-Ducat.

Liggett-Ducat, one of Russia's leading cigarette producers since 1892, manufactured and marketed 20.3 billion cigarettes in 1998. Liggett-Ducat produces or has rights to produce 26 different brands of cigarettes, including Russian brands such as PEGAS, PRIMA, NOVOSTI and BALOMORKANAL.

Liggett-Ducat manufactures three types of cigarettes: filter, non-filter and papirossi. Papirossi is a traditional type of Russian cigarette featuring a long paper filter comprising two-thirds of the cigarette with tobacco filling up the balance. In 1998, Liggett-Ducat sold 6.5 billion filter cigarettes (32%), 9.9 billion non-filter cigarettes (49%) and 3.9 billion papirossi (19%).

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

Liggett-Ducat has produced its cigarettes in a 150,000 square foot factory complex located on Gasheka Street in downtown Moscow and operates a 150,000 square foot warehouse outside of the city. Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow on land it has leased for a term of 49 years. The new factory, which will utilize Western cigarette making technology and have a capacity in excess of 30 billion units per year, will produce American and international blend cigarettes, as well as traditional Russian cigarettes. The existing factory is currently scheduled to close in March 1999 with production starting in the new factory in mid-1999.

Liggett-Ducat currently manufactures its cigarettes on 27 production lines, comprised of both Russian-made and imported machinery. In recent years, Liggett-Ducat has upgraded the equipment at the existing factory to improve its operations and all upgraded equipment will be utilized at the new factory. In 1997, Liggett-Ducat completed installation of an upgraded primary processing complex manufactured by GBE Tobacco. The upgraded primary equipment will be moved to, and expanded in the new factory, allowing Liggett-Ducat to produce American blend, international blend and traditional Russian cigarettes. In addition, Liggett-Ducat acquired a new filter-making complex from Hoechst Celanese which allows Liggett-Ducat to produce Western quality filters, previously purchased from outside vendors, and installed a new rejected cigarette tobacco reclamation machine to reduce waste. Liggett-Ducat has acquired 10 new high-speed tobacco lines which will be utilized at the new factory.

The Russian cigarette market is one of the largest and fastest growing cigarette markets in the world. Annual consumption of cigarettes is estimated at 300 billion units in Russia (1998 estimate), making the market the fourth largest in the world after the United States, China and India. The potential size of the market is estimated by management at up to 400 billion units per year. Approximately 61% of Russian men and 17% of Russian women are estimated to smoke cigarettes. The market has been growing rapidly over the past several years (particularly the female market) as imported cigarettes have become available to satisfy increasing demand.

While growth in consumption had been restrained historically by static domestic cigarette making capacity, recent increases in domestic production capacity resulted in an estimated 20% increase in domestic production to approximately 170 billion cigarettes (57% of the market) in 1997. Excess demand and demand for Western style cigarettes were satisfied by approximately 130 billion units of imported cigarettes (43% of the market) in 1997. This trend continued during the first half of 1998; however, imports declined significantly starting in August 1998 with the onset of the Russian financial crisis and the devaluation of the ruble. Initial industry estimates indicate that imports declined by approximately 30% in the September through December period of 1998 over the prior year period. The decline in imports has continued during the first quarter of 1999.

Russian customs legislation continues to support local producers. During 1996 and 1997, the Russian Government raised the duties on imported cigarettes several times to a current effective rate of 115% of cost. In the past, many imported cigarettes were sold illegally without payment of required duties. Recent efforts to improve enforcement of import duties have maintained the differential between the price of imported and domestic cigarettes. Imported cigarettes currently range in price at retail from approximately 8 to 23.5 rubles ($.35 to $1.03) per pack, as compared to domestically produced cigarettes which sell for approximately 1.8 to 7.5 rubles ($.08 to $.33) per pack.

Liggett-Ducat's brands currently compete primarily against those of other Russian cigarette makers. Liggett-Ducat as well as other Russian producers sell their cigarettes at the lowest price points in the market. Competition in this sector of the market is generally based on price and name recognition of the producing factory. There is very limited advertising of these products, typically only in trade publications and wholesale catalogs. Liggett-Ducat's brands also compete to a lesser extent against lower priced imported cigarettes from Eastern Europe and Asia.

In order to increase their presence in the Russian market and avoid import duties, several of the major international cigarette manufacturers have begun to produce American and international blend cigarettes domestically. Such activities by companies with well established, international brands will provide significant additional competition to Liggett-Ducat as its seeks to increase its sales of such higher margin products upon completion of the new factory.

In January 1997, the Company recognized a gain of $4.1 million in settlement of an arbitration proceeding relating to an expropriation and forced abandonment insurance claim. The claim arose from the actions of the Moscow City government in January 1993 repealing a January 1992 decree which had authorized the City of Moscow to lease the land underlying the Liggett-Ducat factory and the Ducat Place real estate development to BOL and sell the buildings on the land to a joint venture between BOL and Factory Ducat (the predecessor to Liggett-Ducat). Before expending substantial sums to develop the land, BOL obtained insurance coverage for political risks such as expropriation and forced abandonment. In January 1993, after the Moscow City government repealed those sections of the January 1992 decree which had authorized the lease of the land and the sale of the buildings, the local authorities and BOL negotiated a settlement proposal that was entered into effective October 1, 1993. As part of the settlement, the joint venture was transformed into a joint stock company owned 58% by BOL and 42% by its Russian employees, thereby triggering a loss to BOL of $3.7 million (based on the loss of 42% of its investment in the project). As a result, BOL tendered formal notice of loss under its insurance policy and advised the insurer of the proposed resolution. The insurer denied the claim and, in July 1994, arbitration proceedings were commenced in the United Kingdom. In January 1997, shortly after a favorable decision by the arbitrators, the parties negotiated a settlement of $4.1 million.

SALE OF BROOKEMIL LTD. Until January 31, 1997, BOL was also engaged in the real estate development business in Moscow through its subsidiary BrookeMil Ltd. ("BML"). On January 31, 1997, BOL entered into a stock purchase agreement (the "Purchase Agreement") with New Valley, pursuant to which BOL sold 10,483 shares of the common stock of BML to New Valley, comprising 99.1% of the outstanding shares of BML (the "BML Shares"). New Valley paid to BOL, for the BML Shares, a purchase price of $55 million, consisting of $21.5 million in cash and a $33.5 million 9% promissory note of New Valley (the "Note"). The Note, which was collateralized by the BML Shares, was paid during 1997. The transaction was approved by the independent members of the Board of Directors of the Company. The Company retained independent legal counsel in connection with the evaluation and negotiation of the transaction. See Notes 5 and 16 to the Company's Consolidated Financial Statements for a discussion of the transaction and information regarding a pending lawsuit relating to New Valley's purchase of the BML Shares.

The site of the proposed third phase of the Ducat Place project being developed by BML is currently used by Liggett-Ducat as the site for its existing cigarette factory. In connection with the sale of the BML Shares, Liggett-Ducat entered into a Use Agreement with BML whereby Liggett-Ducat is permitted to continue to utilize the site on the same basis as in the past. The Use Agreement is terminable by BML on 270 days' prior notice. In addition, New Valley has the right under the Purchase Agreement to require BOL and BGLS to repurchase this site for the then appraised fair market value, but in no event less than $13.6 million, during the period Liggett-Ducat operates the factory on such site. Liggett-Ducat, which is constructing a new factory on the outskirts of Moscow which is currently scheduled to be operational by mid-1999, will vacate the site upon completion of the new factory.

NEW VALLEY CORPORATION

GENERAL. New Valley is engaged, through its ownership of Ladenburg Thalmann & Co. Inc. ("Ladenburg"), in the investment banking and brokerage business, through its ownership of

BML, in the real estate development business in Russia, through its New Valley Realty division, in the ownership and management of commercial real estate in the United States, and in the acquisition of operating companies. New Valley is registered under the Securities Exchange Act of 1934 as amended (the "Exchange Act") and files periodic reports and other information with the Securities and Exchange Commission (the "SEC").

The Company indirectly holds, through BGLS and BGLS' wholly-owned subsidiary, New Valley Holdings, Inc. ("NV Holdings"), approximately 42% of the voting interest in New Valley. This approximate 42% interest consists, as of March 26, 1999, of (i) 19,748 shares of common stock (the "Common Shares") (approximately 0.2% of the class) and 250,885 shares of $3.00 Class B Cumulative Convertible Shares (the "Class B Preferred Shares") (approximately 9.0% of the class) held directly by BGLS and (ii) 3,969,962 Common Shares (approximately 41.4% of the class) and 618,326 $15.00 Class A Increasing Rate Cumulative Senior Preferred Shares (the "Class A Preferred Shares") (approximately 57.7% of the class) held by NV Holdings. See Note 3 to the Company's Consolidated Financial Statements.

Bennett S. LeBow, Chairman of the Board, President and Chief Executive Officer of the Company and of BGLS and the controlling stockholder of the Company, serves as Chairman of the Board and Chief Executive Officer of New Valley. Howard M. Lorber, a consultant to the Company and its subsidiaries and a stockholder of the Company, serves as President and Chief Operating Officer, and is a director, of New Valley. Richard J. Lampen, Executive Vice President of the Company and of BGLS, serves as Executive Vice President, and is a director, of New Valley. Marc N. Bell, Vice President, General Counsel and Secretary of the Company and of BGLS, serves as Vice President, Associate General Counsel and Secretary of New Valley.

On January 18, 1995, New Valley emerged from bankruptcy reorganization proceedings and completed substantially all distributions to creditors under its First Amended Joint Chapter 11 Plan of Reorganization, as amended (the "Joint Plan"). The Joint Plan was confirmed by the United States Bankruptcy Court for the District of New Jersey, Newark Division on November 1, 1994, and pursuant thereto, New Valley effected certain related asset dispositions.

PROPOSED RECAPITALIZATION PLAN. New Valley intends to submit for approval of its stockholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of $12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of New Valley's shares, effectiveness of the New Valley proxy statement and prospectus for the annual meeting, receipt of a fairness opinion and compliance with the Hart-Scott-Rodino Act.

The Company has agreed to vote all of its shares in New Valley in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its warrants, the Company will increase its ownership of the outstanding Common Shares of New Valley from 42.3% to 55.1% and its total voting power from 42% to 55.1%.

LADENBURG THALMANN & CO. INC. On May 31, 1995, New Valley acquired all of the outstanding shares of common stock and other equity interests of Ladenburg for $25.8 million, net of cash acquired, subject to adjustment. Ladenburg is a full service broker-dealer which has been a member of the New York Stock Exchange since 1876. Its specialties include investment banking, trading, research, market making, private client services, institutional sales and asset management.

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 include trading 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.

Ladenburg is a wholly-owned subsidiary of Ladenburg Thalmann Group Inc. ("Ladenburg Group"), which has other subsidiaries specializing in merchant banking, venture capital and investment banking activities on an international level. In July 1997, Ladenburg Thalmann International ("LTI"), a wholly-owned subsidiary of Ladenburg Group, together with Societe Generale, formed a fund with an initial capitalization of $90.5 million for investment in public and private equity securities in Ukraine. LTI's Kiev office serves as investment advisor to the fund.

BROOKEMIL LTD. On January 31, 1997, New Valley acquired the BML Shares, representing 99.1% of the outstanding shares of BML, from BOL. New Valley paid to BOL a purchase price of $55 million, consisting of $21.5 million in cash and the $33.5 million Note. The Note, which was collateralized by the BML Shares, was paid during 1997. The source of funds used by New Valley for the acquisition, including the payment of the Note, was general working capital including cash and cash equivalents and proceeds from the sale of investment securities available for sale. The amount of consideration paid by New Valley was determined based on a number of factors including current valuations of the assets, future development plans, local real estate market conditions and prevailing economic and political conditions in Russia.

New Valley retained independent legal counsel and financial advisors in connection with the evaluation and negotiation of the transaction, which was approved by a special committee of the independent directors of New Valley. In accordance with the terms of the Joint Plan, the transaction was approved by not less than two-thirds of the entire Board of Directors, including the approval of at least one of the directors elected by the holders of New Valley's preferred shares, and a fairness opinion from an investment banking firm was obtained. The shareholders of New Valley did not vote on the BML transaction (nor the acquisition of Ladenburg or the Office Buildings and Shopping Centers described below) as their approval was not required by applicable corporate law or New Valley's constituent documents.

BML is developing the three-phase Ducat Place complex on 2.2 acres of land in downtown Moscow, for which it has a 49-year lease. The first phase of the project, Ducat Place I, a 46,500 square foot Class-A office building, was successfully built and leased in 1993, and sold by BML to a tenant in April 1997. In 1997, BML completed construction of Ducat Place II, a premier 150,000 square foot office building. Ducat Place II has been leased to a number of leading international companies including Motorola, Conoco, Lukoil-Arco and Morgan Stanley. The development of the third phase, Ducat Place III, is planned as a 450,000 square foot mixed-use complex.

For further information with respect to this transaction, see "Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd.".

WESTERN REALTY DUCAT. In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to $58.75 million, including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded $32.4 million of its investment in Western Realty Ducat.

The ownership and voting interests in Western Realty Ducat are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Ducat to the extent of its investment ($40 million), together with a 15% annual rate of return, and New Valley will then be entitled to a return of $20 million of BML-related expenses incurred and cash invested by New Valley since March 1, 1997, together with a 15% annual rate of return; subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Ducat will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Ducat will generally require the unanimous consent of the Board of Managers. Accordingly, New Valley will account for its non-controlling interest in Western Realty Ducat on the equity method. See Note 4 to New Valley's Consolidated Financial Statements accompanying this report.

The Company, New Valley and their affiliates have other business relationships with affiliates of Apollo. In January 1996, New Valley acquired, from an affiliate of Apollo, the Shopping Centers for $72.5 million. New Valley and pension plans sponsored by BGLS have invested in investment partnerships managed by an affiliate of Apollo. Affiliates of Apollo have owned a substantial amount of debt securities of BGLS and hold warrants to purchase common stock of the Company. See Note 9 to the Company's Consolidated Financial Statements.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a $30 million participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interests in Liggett-Ducat and the new factory being constructed by Liggett-Ducat on the outskirts of Moscow.

WESTERN REALTY REPIN. In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a $25 million participating loan to BML (the "Repin Loan"). The proceeds of the Repin Loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres located on the Sofiskaya Embankment of the Moscow River (the "Kremlin Sites"). The sites are directly across the river from the Kremlin and have views of the Kremlin walls, towers and nearby church domes. BML is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites. BML owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment ($18.75 million), together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment ($6.25 million), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced $19.1 million (of which $14.3 million was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which

bears no fixed interest, is payable only out of 100% of the distributions, if any, made to BML by the entities owning the Kremlin Sites. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds of the Repin Loan to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of New Valley's shares of BML.

As of December 31, 1998, BML had invested $18 million in the Kremlin Sites and held approximately $252,000, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional $6 million in 1999 and $22 million in 2000 in the development of the property. BML funded $4.8 million of this amount in the first quarter of 1999.

NEW VALLEY REALTY DIVISION. In January 1996, New Valley acquired four commercial office buildings (the "Office Buildings") and eight shopping centers (the "Shopping Centers"), respectively, 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 are being operated through New Valley's New Valley Realty division. As discussed below, on September 28, 1998, New Valley sold the Office Buildings.

The Office Buildings consisted of two adjacent commercial office buildings in Troy, Michigan and two adjacent commercial office buildings in Bernards Township, New Jersey. New Valley acquired the Office Buildings in Michigan from Bellemead of Michigan, Inc. ("Bellemead Michigan") and the Office Buildings in New Jersey from Jared Associates, L.P. (each, a "Seller"), for an aggregate purchase price of $111.4 million. Each Seller was an affiliate of Bellemead Development Corporation, which was indirectly wholly-owned by The Chubb Corporation. The purchase price was paid for the Office Buildings as follows: (i) $23.5 million for the 700 Tower Drive property, located in Troy, Michigan; (ii) $28.1 million for the 800 Tower Drive property, located in Troy, Michigan; (iii) $48.3 million for the Westgate I property, located in Bernards Township, New Jersey; and (iv) $11.4 million for the Westgate II property, located in Bernards Township, New Jersey. The two Michigan buildings were constructed in 1987 and the two New Jersey buildings were constructed in 1991. The gross square footage of the Office Buildings ranged from approximately 50,300 square feet to approximately 244,000 square feet.

New Valley acquired a fee simple interest in each Office Building (subject to certain rights of existing tenants), together with a fee simple interest in the land underlying three of the Office Buildings and a 98-year ground lease (the "Ground Lease") underlying one of the Office Buildings. Under the Ground Lease, Bellemead Michigan, as lessor, is entitled to receive rental payments of a fixed monthly amount and a specified portion of the income received from the 700 Tower Drive property. Space in the Office Buildings is leased to commercial tenants and the Office Buildings were fully occupied at the time of sale.

In January 1996, New Valley acquired the Shopping Centers from various limited partnerships (the "Partnerships") affiliated with Apollo for an aggregate purchase price of $72.5 million. The Shopping Centers are located in Marathon and Royal Palm Beach, Florida; Lincoln, Nebraska; Santa Fe, New Mexico; Milwaukee, Oregon; Richland and Marysville, Washington; and Charleston, West Virginia. New Valley acquired a fee simple interest in each Shopping Center and the underlying land for each property. Space in each Shopping Center is leased to a variety of commercial tenants and, as of December 31, 1998, the aggregate occupancy of the Shopping Centers was approximately 94%. The Shopping Centers were constructed at various times during the period 1963-1988. The gross square footage of the Shopping Centers ranges from approximately 108,500 square feet to approximately 222,500 square feet.

The purchase price paid for each Shopping Center was as follows: (i) $3.9 million for the Marathon Shopping Center property, located in Marathon, Florida; (ii) $9.8 million for the Village

Royale Plaza Shopping Center property, located in Royal Palm Beach, Florida; (iii) $6.0 million for the University Place property, located in Lincoln, Nebraska; (iv) $9.6 million for the Coronado Shopping Center property, located in Santa Fe, New Mexico; (v) $7.3 million for the Holly Farm Shopping Center property, located in Milwaukee, Oregon; (vi) $10.6 million for the Washington Plaza property, located in Richland, Washington; (vii) $12.4 million for the Marysville Towne Center property, located in Marysville, Washington; and (viii) $12.9 million for the Kanawha Mall property, located in Charleston, West Virginia (the properties are subject to underlying mortgages in favor of senior lenders and second mortgages in favor of the Partnerships).

Concurrently with the acquisition of the Shopping Centers, New Valley engaged a property-management firm, whose principals were the former minority partners in the Partnerships, that had previously operated the Shopping Centers to act as the managing agent and leasing agent for the Shopping Centers. Effective December 31, 1996, such firm's engagement was terminated, and Kravco Company was engaged as managing agent and leasing agent for the Kanawha Mall and Insignia Commercial Group, Inc. as managing agent and leasing agent for the remaining Shopping Centers.

The acquisition of the Office Buildings was effected pursuant to a purchase agreement dated January 10, 1996. The acquisition of the Shopping Centers was effected pursuant to a purchase agreement dated January 11, 1996. For information concerning other business relationships with affiliates of Apollo, see "Western Realty Ducat".

In November 1997, New Valley sold its Marathon, Florida Shopping Center for $5.4 million and recognized a gain of $1.3 million on the sale.

On September 28, 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 million of mortgage financing which was retired at closing.

New Valley sold the Office Buildings in Michigan to PW/MS OP Sub I, LLC, a Delaware limited liability company (the "Michigan Purchaser"), and the Office Buildings in New Jersey to OTR, an Ohio general partnership acting as the duly authorized nominee of The State Teachers Retirement System of Ohio (the "New Jersey Purchaser"). The sale of the Office Buildings was effected pursuant to a Sale-Purchase Agreement (the "Sale-Purchase Agreement"), dated as of September 2, 1998, by and between New Valley and the Michigan Purchaser. Prior to the closing of the sale, the Michigan Purchaser assigned and delegated to the New Jersey Purchaser its rights and obligations under the Sale-Purchase Agreement pertaining to the purchase of the Office Buildings in New Jersey. The sale was negotiated on an arm's-length basis between New Valley and the Michigan Purchaser.

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

In February 1996, a subsidiary of New Valley made a $10.6 million investment and acquired a controlling interest in Thinking Machines in connection with Thinking Machines'

emergence from bankruptcy. In December 1997, New Valley acquired for $3.15 million additional shares in Thinking Machines pursuant to a rights offering by Thinking Machines to its existing stockholders which increased New Valley's ownership to approximately 73% of the outstanding Thinking Machines shares. In September 1998, New Valley made a $2 million loan due December 31, 1999 to Thinking Machines and acquired warrants to purchase additional shares pursuant to a rights offering by Thinking Machines to its existing stockholders. In the first quarter of 1999, New Valley lent Thinking Machines an additional $1.25 million.

During the fourth quarter of 1996, Thinking Machines announced its intention to dispose of its parallel processing computer sales and service business. As a result, Thinking Machines wrote-down certain assets, principally inventory, related to these operations to their net realizable value by $6.1 million. Thinking Machines sold its parallel processing software business on November 19, 1996 for $4.3 million and sold its remaining parallel processing service business in April 1997 for $2.4 million in cash and a percentage of certain future operating profits. During 1997 and 1998, Thinking Machines received profit participation payments totaling $1.2 million and $37,000, respectively.

MISCELLANEOUS INVESTMENTS. At December 31, 1998, New Valley owned approximately 48% of the outstanding shares of CDSI Holdings Inc. (formerly known as PC411, Inc.), a development stage company which completed an initial public offering with net proceeds of $5.9 million in May 1997. CDSI is engaged in the marketing of an inventory control system for tobacco products through its subsidiary, Controlled Distribution Systems, Inc., and holds a minority interest in a business engaged in the delivery of an on-line electronic directory information service.

In addition, as of December 31, 1998, New Valley's long-term investments consisted primarily of investments in limited partnerships of $9.2 million. See Note 8 to New Valley's Consolidated Financial Statements accompanying this report.

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. There can be no assurance that New Valley will be successful in targeting or consummating any such acquisitions.

JOINT PLAN PROVISIONS; DISPOSITIONS PURSUANT TO THE JOINT PLAN. The Joint Plan of New Valley places restrictions on and requires approvals for certain transactions with the Company and its affiliates to which New Valley or a subsidiary of, or entity controlled by, New Valley may be party, including the requirements, subject to certain exceptions for transactions involving less than $1 million in a year or pro rata distributions on New Valley's capital stock, of approval by not less than two-thirds of the entire Board, including at least one of the directors elected by the holders of New Valley's preferred shares, and receipt of a fairness opinion from an investment banking firm. In addition, the Joint Plan requires that, whenever New Valley's Certificate of Incorporation provides for the vote of the holders of the Class A Senior Preferred Shares acting as a single class, such vote must, in addition to satisfying all other applicable requirements, reflect the affirmative vote of either (x) 80% of the outstanding shares of that class or (y) a simple majority of all shares of that class voting on the issue exclusive of shares beneficially owned by the Company. The foregoing provisions of the Joint Plan would terminate upon consummation of the proposed Recapitalization Plan.

Pursuant to the Joint Plan, in November 1994, New Valley sold the assets and operations with which it provided domestic and international money transfer services, bill payment services, telephone cards, money orders and bank card services (collectively, the "Money Transfer Business") which included the capital stock of its subsidiary, Western Union Financial Services, Inc. ("FSI") and certain related assets, to First Financial Management Corporation ("FFMC"), and, in January 1995, it sold to FFMC all of the trademarks and trade names used in the Money Transfer Business and constituting the Western Union name and trademark. The

aggregate purchase price was approximately $1.193 billion, including $893 million in cash and $300 million representing the assumption by FFMC of substantially all of New Valley's obligations under its pension plan. Pursuant to the Joint Plan, all of New Valley's debt and allowed claims were satisfied in full and all classes of equity and other equity interests were reinstated and retained all of their legal, equitable and contractual rights.

In October 1995, New Valley completed the sale of substantially all of the assets (exclusive of certain contracts) and conveyance of substantially all of the liabilities of Western Union Data Services Company, Inc. to FFMC for $20 million, subject to certain adjustments.

EMPLOYEES

At December 31, 1998, the Company and its subsidiaries had approximately 2,141 full-time employees, of whom approximately 466 were employed by Liggett, approximately 1,208 were employed by Liggett-Ducat and approximately 460 were employed by New Valley. Approximately 11% of the Company's (including its subsidiaries) employees are hourly employees and are represented by unions. The Company and its subsidiaries have not experienced any significant work stoppages since 1977, and the Company believes that relations with its employees and their unions are satisfactory.

ITEM 2. PROPERTIES

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

Substantially all of Liggett's tobacco manufacturing facilities, consisting principally of factories, distribution and storage facilities, are located in or near Durham, North Carolina. Such facilities are both owned and leased. As of December 31, 1998, 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	932,000
Warehouse	Durham, NC	Owned	203,000
Storage Facilities	Danville, VA	Owned	578,000
Distribution Center	Durham, NC	Leased	260,000

Liggett's Durham, North Carolina complex consists of ten major structures over approximately 17 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.

Liggett leases the Durham, North Carolina distribution center pursuant to a lease which expires in May 1999. Liggett has an option to purchase the leased property at any time during the term of the lease. Liggett utilizes approximately 40% of the distribution center. Liggett also leases excess space in its research facility to third parties.

Liggett-Ducat has a 49-year land lease on a site on the outskirts of Moscow, Russia where Liggett-Ducat is building a new cigarette factory. Liggett-Ducat utilizes the site of its existing cigarette factory in Moscow pursuant to a Use Agreement with BML. See Item 1, "Business - Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd."

ITEM 3. LEGAL PROCEEDINGS

Reference is made to Note 16, incorporated herein by reference, to the Company's Consolidated Financial Statements, which contains a general description of certain legal proceedings to which the Company and/or BGLS or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1, Material Legal Proceedings, incorporated herein by reference, for additional information regarding the pending material legal proceedings to which the Company, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of the Company and its subsidiaries without charge upon written request to the Company at its principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn: Investor Relations.

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

During the fourth quarter of 1998, the Company submitted the following matters to a vote of stockholders at its Annual Meeting of Stockholders held on October 15, 1998 (the "Annual Meeting"). Proxies for the Annual Meeting were solicited pursuant to Regulation 14A under the Exchange Act.

The matters voted upon at the Annual Meeting were (i) the election of four directors, (ii) an increase in the authorized number of shares of Common Stock of the Company from 40,000,000 to 100,000,000 and (iii) approval of the Brooke Group Ltd. 1998 Long-Term Incentive Plan, and the following is a tabulation of the results:

Total shares of Common Stock outstanding as of September 14, 1998 (the record date) - 20,943,730

Total shares of Common Stock voted in person or by proxy - 19,837,035

Election of Directors:

	FOR	WITHHOLD
Robert J. Eide	19,504,891	332,144
Bennett S. LeBow	19,498,632	338,403
Jeffrey S. Podell	19,504,891	332,144
Jean E. Sharpe	19,504,891	332,144

Increase in Authorized Shares:

FOR	AGAINST	ABSTAIN
18,745,856	1,067,635	23,544

Approval of Incentive Plan:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
15,178,138	1,058,991	36,294	3,563,612

EXECUTIVE OFFICERS OF THE REGISTRANTS

The table below, together with the accompanying text, presents certain information regarding all current executive officers of the Company and of BGLS as of March 26, 1999. Each of the executive officers of the Company and of BGLS serves until the election and qualification of such individual's successor or until such individual's death, resignation or removal by the Board of Directors of the respective company.

NAME	AGE	POSITION	YEAR INDIVIDUAL BECAME AN EXECUTIVE OFFICER
Bennett S. LeBow	61	Chairman of the Board, President and Chief Executive Officer of the Company and of BGLS	1990
Richard J. Lampen	45	Executive Vice President of the Company and of BGLS	1996
Joselynn D. Van Siclen	58	Vice President, Chief Financial Officer and Treasurer of the Company and of BGLS	1996
Marc N. Bell	38	Vice President, General Counsel and Secretary of the Company and of BGLS	1998
Ronald S. Fulford	65	Chairman of the Board, President and Chief Executive Officer of Liggett	1996

BENNETT S. LEBOW has been the Chairman of the Board, President and Chief Executive Officer of the Company, a New York Stock Exchange-listed holding company, since June 1990, and has been a director of the Company since October 1986. Since November 1990, he has been Chairman of the Board, President and Chief Executive Officer of BGLS, which directly or indirectly holds the Company's equity interests in several private and public companies. Mr. LeBow has been a director of Liggett since June 1990.

Mr. LeBow has been Chairman of the Board of New Valley, in which the Company holds an indirect voting interest of approximately 42%, since January 1988, and Chief Executive Officer since November 1994. In November 1991, an involuntary petition seeking an order for relief under Chapter 11 of Title 11 of the United States Code was commenced against New Valley by certain of its bondholders. New Valley emerged from bankruptcy reorganization proceedings in January 1995. He has been Chairman of the Board, President and Chief Executive Officer of NV Holdings since September 1994.

RICHARD J. LAMPEN has served as the Executive Vice President of the Company 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. 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 the Company and of BGLS since May 1996, and currently holds various positions with certain of BGLS' subsidiaries, including Vice President and Treasurer of Eve Holdings, Inc., a wholly-owned subsidiary of Liggett, since April 1994 and May 1996, respectively. Prior to May 1996, Ms. Van Siclen served as Director of Finance of the Company and was employed in various accounting capacities for various subsidiaries of the Company 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 the Company and of BGLS since January 1998 and has served as General Counsel and Secretary of the Company and of BGLS since May 1994. Since November 1994, Mr. Bell has served as Associate General Counsel and Secretary of New Valley and since February 1998, as Vice President. Prior to May 1994, Mr. Bell was with the law firm of Zuckerman, Spaeder, Taylor & Evans, in Miami, Florida and from June 1991 to May 1993, with the law firm of Fischbein o Badillo o Wagner o Harding in New York, New York.

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

PART II

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

The Company's common stock, $.10 par value per share, is listed and traded on the New York Stock Exchange ("NYSE") under the symbol "BGL". The high and low sale prices for a share of the Company's common stock on the NYSE, as reported by the NYSE, for each fiscal quarter of 1998 and 1997 were as follows (in dollars):

Year	High	Low
1998:		
Fourth Quarter	$ 24 3/4	$ 4 11/16
Third Quarter	11 3/4	3 13/16
Second Quarter	16 5/8	8 1/2
First Quarter	17 1/4	8 11/16
1997:		
Fourth Quarter	11 1/8	5 5/8
Third Quarter	6 3/4	3 1/16
Second Quarter	5 1/4	3 1/2
First Quarter	5 3/8	4

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

HOLDERS

At March 26, 1999, there were 428 holders of record of the Company's common stock.

DIVIDENDS

During 1998 and 1997, the Company declared and paid regular quarterly cash dividends of $.075 per share on its common stock. The declaration of future cash dividends is within the discretion of the Board of Directors of the Company and is subject to a variety of contingencies such as market conditions, earnings and the financial condition of the Company as well as the availability of cash. The payment of dividends and other distributions to the Company by BGLS are subject to the Indenture for BGLS' Senior Secured Notes. See Note 9 to the Company's Consolidated Financial Statements.

RECENT SALES OF UNREGISTERED SECURITIES

No securities of the Company which were not registered under the Securities Act of 1933, as amended (the "Securities Act"), have been issued or sold by the Company during 1998, except as disclosed in the Company's Quarterly Reports on Form 10-Q and, on July 20, 1998, the Company granted to an executive officer and to a consultant of the Company stock options to purchase 2,500,000 shares and 500,000 shares, respectively, of the Company's Common Stock at a price of $9.75 per share. The foregoing transactions were effected in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act or did not involve a "sale" under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

	BROOKE GROUP LTD.				
	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands, except per share amounts)				
STATEMENT OF OPERATIONS DATA:					
Revenues(1)	$444,566	$389,615	$460,356	$461,459	$479,343
Income (loss) from continuing operations	24,219	(51,421)	(65,515)	(45,344)	(17,991)
Income from discontinued operations(2)	3,208	1,536	2,982	21,229	174,683
Loss from extraordinary items(4)				(9,810)	(46,597)
Net income (loss)	27,427	(49,885)	(62,533)	(33,925)	110,095
Per basic common share:					
Income (loss) from continuing operations(3)	1.19	(2.83)	(3.44)	(1.56)	(1.02)
Income from discontinued operations	0.16	0.09	0.16	1.16	9.92
Net loss from extraordinary items				(0.54)	(2.65)
Net income (loss) applicable to common shares	1.35	(2.74)	(3.28)	(0.94)	6.25
Per diluted common share:					
Income (loss) from continuing operations	0.98	(2.83)	(3.44)	(1.56)	(1.02)
Income from discontinued operations	0.13	0.09	0.16	1.16	9.92
Net loss from extraordinary items				(0.54)	(2.65)
Net income (loss) applicable to common shares	1.11	(2.74)	(3.28)	(0.94)	6.25
Cash distributions declared per common share	0.30	0.30	0.30	0.30	
BALANCE SHEET DATA:					
Current assets	$ 122,560	$ 66,759	$ 80,552	$ 96,615	$ 87,504
Total assets	228,982	125,234	177,677	225,620	229,425
Current liabilities	273,441	139,278	204,463	119,177	144,351
Notes payable, long-term debt and other obligations, less current portion	262,665	399,835	378,243	406,744	405,798
Noncurrent employee benefits, deferred credits and other long-term liabilities	87,051	74,518	49,960	55,803	54,128
Stockholders' equity (deficit)	(394,175)	(488,397)	(454,989)	(356,104)	(374,852)

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(1) Revenues include federal excise taxes of $82,613, $87,683, $112,218, $123,420 and $131,877, respectively.
(2) In 1998, 1997 and 1996, income from discontinued operations pertains to sale of Western Union Data Services Company Inc. ("Western Union") and in 1994 and 1995 to the sale of Western Union, SkyBox International Inc. ("SkyBox") and distribution of MAI Systems Corporation ("MAI") common stock.
(3) Per share computations include the impact of New Valley's repurchase of Class A Preferred Shares in 1996 and 1995.
(4) In 1995 and 1994, extraordinary items represent loss resulting from the early extinguishment of debt.

ITEM 6. SELECTED FINANCIAL DATA

	BGLS INC.				
	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands, except per share amounts)				
STATEMENT OF OPERATIONS DATA:					
Revenues(1)	$444,566	$389,615	$460,356	$461,459	$479,341
Operating income (loss)	74,528	8,419	(2,016)	8,311	13,746
Interest expense	84,194	65,581	64,417	61,036	(58,625)
Income (loss) from continuing operations(2)	22,358	(54,411)	(75,201)	(50,502)	(46,790)
Income from discontinued operations	3,208	1,536	2,982	21,229	174,683
Loss from extraordinary items(3)				(9,810)	(46,597)
Net income (loss)	25,566	(52,875)	(72,219)	(39,083)	106,239
Dividends/distributions to Brooke Group Ltd			3,621	5,872	9,212
BALANCE SHEET DATA:					
Current assets	$122,186	$ 67,366	$ 80,197	$ 99,643	$ 93,446
Total assets	227,396	128,916	178,108	229,242	235,426
Current liabilities	304,516	161,475	229,736	142,885	153,073
Notes payable, long-term debt and other obligations, less current portion	262,665	399,835	378,243	420,449	419,503
Noncurrent employee benefits and other long-term obligations	90,917	80,721	53,214	55,803	54,128
Stockholders' equity (deficit)	(430,702)	(513,115)	(483,085)	(389,895)	(391,278)

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

(1) Revenues include federal excise taxes of $82,613, $87,683, $112,218, $123,420 and $131,877, respectively.
(2) In 1998, 1997 and 1996, income from discontinued operations pertains to sale of Western Union and in 1994 and 1995 to the sale of Western Union, SkyBox and distribution of MAI common stock.
(3) In 1995 and 1994, extraordinary items represent loss resulting from the early extinguishment of debt.

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

INTRODUCTION

The following discussion provides an assessment of the results of operations, capital resources and liquidity of the Company and should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto included elsewhere in this report. The consolidated financial statements include the accounts of BGLS, Liggett, BOL, NV Holdings, Liggett-Ducat and other less significant subsidiaries.

The Company holds an equity interest in New Valley. At December 31, 1998, the Company accounts for its share of earnings based on its ownership of New Valley Common Shares (42%), Class B Preferred Shares (9%) and Class A Preferred Shares (58%). The Common Shares are accounted for pursuant to the equity method; the Class A Preferred Shares and the Class B Preferred Shares are classified as available for sale and carried at fair value. (See "Recent Developments - New Valley", below.)

The Company is a holding company for a number of businesses which it holds through its wholly-owned subsidiary BGLS. Accordingly, a separate Management's Discussion and Analysis of Financial Condition and Results of Operations for BGLS is not presented herein as it would not differ materially from the discussion of the Company's consolidated results of operations, capital resources and liquidity.

On January 31, 1997, BOL sold its interest in BML, a real estate development company doing business in Russia, to New Valley. (See Item 1, "Business - Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd." and Note 5 to the Company's Consolidated Financial Statements.)

For purposes of this discussion and other consolidated financial reporting, the Company's significant business segment is tobacco sold in the United States and Russia for the years ended December 31, 1998 and 1997 and tobacco and real estate for the year ended December 31, 1996.

RECENT DEVELOPMENTS

THE COMPANY AND LIGGETT

PHILIP MORRIS BRAND TRANSACTION. On November 20, 1998, the Company and Liggett entered into a definitive agreement with PM which provided for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK, held by Liggett's subsidiary, Eve. As contemplated by the agreement, Liggett and PM entered into the PM Agreements on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC, a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Interest and the Class B Interest. PM acquired two options to purchase such interests, the Class A Option and the Class B Option. On December 2, 1998, PM paid Eve a total of $150,000 for such options, $5,000 for the Class A Option and $145,000 for the Class B Option. The payments were used to fund the redemption of Liggett's 11.50% Series B Senior Secured Notes and Series C Variable Rate Notes (the "Liggett Notes"), together with accrued interest, on December 28, 1998.

(See Item 1, "Business - Liggett Group Inc. - Philip Morris Brand Transaction" and "Capital Resources and Liquidity".)

MASTER SETTLEMENT AGREEMENT. On November 23, 1998, the Company and Liggett signed the Master Settlement Agreement between the major cigarette manufacturers and the signatory states. (See "Recent Developments in the Cigarette Industry", below.)

BOL

LIGGETT-DUCAT. Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow. Production at Liggett-Ducat's existing factory is currently scheduled to cease in March 1999, with production starting at the new factory in mid-1999.

NEW VALLEY

WESTERN REALTY DUCAT. In February 1998, New Valley and Apollo organized Western Realty Ducat to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML to Western Realty Ducat and Apollo agreed to contribute up to $58,750, including the investment in Western Realty Repin. Western Realty Ducat has made a $30,000 participating loan to, and payable out of a 30% profits interest in Western Tobacco which was organized by BOL to hold BOL's interests in Liggett-Ducat.

PROPOSED RECAPITALIZATION PLAN. New Valley intends to submit the proposed Recapitalization Plan to its stockholders at the 1999 annual meeting of stockholders. The Recapitalization Plan, if implemented, will have a significant effect on New Valley's and the Company's financial position and results of operations. (See Item 1, "Business - New Valley Corporation - Proposed Recapitalization Plan" and Note 3 to the Company's Consolidated Financial Statements.)

YEAR 2000 COSTS

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

THE COMPANY, NEW VALLEY AND BOL. The Company, New Valley and BOL use personal computers for all transactions. All such computers and related systems and software are less than three years old and are Year 2000 compliant. As a result, the Company, New Valley and BOL believe they are Year 2000 compliant.

LIGGETT. Liggett utilizes management information systems and software technology that may be affected by Year 2000 issues throughout its operations. Liggett has evaluated the costs to implement century date change compliant systems conversions and is in the process of executing a planned conversion of its systems prior to the Year 2000. To date, the focus of Year 2000 compliance and verification efforts has been directed at the implementation of new customer service, inventory control and financial reporting systems at each of the three regional Strategic Business Units formed as part of Liggett's reorganization which began in January 1997. Liggett estimates that approximately $138 of the expenditures for this reengineering effort related to Year 2000 compliance, validation and testing. In January of 1998, Liggett initiated a major conversion of

factory accounting, materials management and information systems at its Durham production facility with upgrades that have been successfully tested for Year 2000 compliance. This conversion was completed in November 1998. Program upgrades to Liggett's human resources and payroll systems are scheduled for completion in July 1999. Enhancements to Liggett's finished goods inventory system are expected to be completed in September 1999. It is anticipated that all factory, corporate, field sales and physical distribution systems will be completed in sufficient time to support Year 2000 compliance and verification.

Although such costs may be a factor in describing changes in operating profit in any given reporting period, Liggett currently does not believe that the anticipated costs of Year 2000 systems conversions will have a material impact on its future consolidated results of operations. Based on the progress Liggett has made in addressing Year 2000 issues and its strategy and timetable to complete its compliance program, Liggett does not foresee significant risks associated with its Year 2000 initiatives at this time.

EXTERNAL SERVICE PROVIDERS. While modifications for Year 2000 compliance by the Company, its subsidiaries and New Valley are proceeding according to plan and are expected to be completed by 1999, the failure of the Company's service providers or vendors to resolve their own processing issues in a timely manner could result in a material financial risk. The most significant outside service provider is the clearing agent for Ladenburg, a broker-dealer subsidiary of New Valley. Ladenburg has been informed by its clearing agent that it has initiated an extensive effort to ensure that it is Year 2000 compliant and that the clearing agent will conduct system-wide testing of its Year 2000 software throughout 1999.

It is unclear whether the Russian government and other organizations who provide significant infrastructure services in Russia have addressed the Year 2000 problem sufficiently to mitigate potential substantial disruption to these infrastructure services. The substantial disruption to these services would have an adverse affect on the operations of Liggett-Ducat. Furthermore, the current financial crises in Russia could affect the ability of the government and other organizations to fund Year 2000 compliance programs.

Although the Company and its subsidiaries are in the process of confirming that their service providers are adequately addressing Year 2000 issues, there can be no complete assurance of success, or that interaction with other service providers will not impair the Company's or its subsidiaries' services.

NEW ACCOUNTING PRONOUNCEMENTS

The Company implemented Statement on Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", in the first quarter of 1998. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general financial statements. For the Company, components of comprehensive income include such items as minimum pension liability adjustments and the Company's proportionate interest in New Valley's capital transactions. Earlier periods have been restated to conform to standards established by SFAS No. 130. There was no material impact on the consolidated financial statements.

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", specifies revised guidelines for determining an entity's operating segments and the type and level of financial information to be disclosed. The adoption of this pronouncement at December 31, 1998 did not have a material effect on the Company's financial statement disclosures.

Effective December 31, 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which does not change the measurement or recognition of those plans but revises required disclosures about pensions and postretirement benefit plans for all periods presented.

RECENT DEVELOPMENTS IN THE CIGARETTE INDUSTRY

PRICING ACTIVITY. As of December 31, 1998, list price increases initiated by the industry during 1998 amounted to $6.35 per carton. Liggett announced list price increases of $.25 per carton in January, $.50 per carton in April, $.50 per carton in May, $.60 per carton in August and $4.50 per carton in December.

List price increases initiated by the industry in 1997 amounted to $1.60 per carton. Liggett announced list price increases of $.90 per carton in March and $.70 per carton in September.

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, 1998, there were approximately 270 individual suits, 50 purported class actions and 85 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. Recently, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency ("EPA") and the Food and Drug Administration ("FDA"), 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. The Company is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but 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 of such tobacco-related litigation. (See Item 3, "Legal Proceedings" and Note 16 to the Company's Consolidated Financial Statements for a description of legislation, regulation and litigation.)

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, special duty, voluntary undertaking, 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, indemnity, market share liability, and violations of deceptive trade practices laws, RICO and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including 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 or repose, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

The claims asserted in the third-party payor 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, violation of a voluntary undertaking or 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 the RICO.

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

On November 23, 1998, PM, B&W, RJR and Lorillard (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. As described below, the Company and Liggett had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 40 states and territories.

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). 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 pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

The MSA replaces Liggett's prior agreements 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 nations" protection for both

the Company and Liggett, the payments due these states by Liggett (other than to Minnesota and Mississippi) have been eliminated.

In March 1997, Liggett, the Company 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. On July 2, 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement which was preliminarily approved by the court on December 8, 1998. A hearing on final approval of the settlement is scheduled for April 27, 1999. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of $1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, the Company anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and the Company. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in FLETCHER encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution tobacco-related claims against Liggett and the Company.

The Company accrued approximately $4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and $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. (See the discussions of the tobacco litigation settlements appearing in Note 16 to the Company's Consolidated Financial Statements.)

RESULTS OF OPERATIONS

	Revenues Year Ended December 31,			Operating Income Year Ended December 31,		
	1998	1997	1996	1998	1997	1996
Liggett	$347,129	$312,268	$401,062	$54,422	$ 3,688	$ 6,753
Liggett-Ducat	97,350	77,115	54,160	13,234	8,642	(6,825)
Other	87	232	5,134	3,938	(4,301)	(3,855)
Total	$444,566	$389,615	$460,356	$71,594	$ 8,029	$(3,927)

1998 COMPARED TO 1997

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

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

Premium sales at Liggett for the 1998 year amounted to $105,422 and represented 30.4% of Liggett's total revenues, compared to $102,440 and 32.8% of total sales in 1997. In the premium segment, revenues grew by 2.9% ($2,982) for the year ended December 31, 1998, compared to the prior year, due to price increases of $14,604, which were partially offset by an 11.3% decline in unit sales volume (approximately 192.8 million units), accounting for $11,622 in volume variance. The brands to be contributed to Brands LLC, L&M, CHESTERFIELD and LARK, represented 16.1%, 18.1% and 17.5% of Liggett's net sales (excluding federal excise taxes) in 1998, 1997 and 1996, respectively. (See "Recent Developments - The Company and Liggett - Philip Morris Brand Transaction" above.)

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

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

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

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

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

As a percent of revenues (excluding Russian excise taxes), Liggett-Ducat's gross profit increased to 29.9% for the year ended December 31, 1998 compared to 20.6% for the same

period in 1997. The improved gross profit margin at Liggett-Ducat was due to higher volume and lower manufacturing costs ($3.55 per thousand units in 1998 vs. $4.36 per thousand units in 1997). The 40% growth in unit sales volume arose, in part, following a move to a four-shift, 24-hour production cycle in the Russian factory.

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

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

OTHER INCOME (EXPENSE). Consolidated other expense was $106,988 for the twelve months ended December 31, 1998 compared to overall expense of $58,327 in the prior year. In 1998, interest expense increased by $17,926 due primarily to non-cash charges for debt restructuring of approximately $10,560 at corporate and $2,600 at Liggett as well as an increase of approximately $3,200 at BOL caused by higher interest rates in Russia and the 30% preference requirement on the net income of Western Tobacco.

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

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

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

OTHER. At December 31, 1998, the Company and its consolidated group had net operating loss carryforwards for tax purposes of approximately $157 million which may be subject to certain restrictions and limitations and which will generally expire in the years 2006 to 2017. (Refer to Note 12 to the Company's Consolidated Financial Statements.)

1997 COMPARED TO 1996

REVENUES. Consolidated revenues were $389,615 for the year ended December 31, 1997 compared to $460,356 for the year ended December 31, 1996, a decrease of $70,741 primarily due to a decline in sales of $88,794 at Liggett offset by an increase in tobacco revenues at Liggett-Ducat of $22,955. Revenues in 1996 also included real estate rental income of $2,675 and sales of microfiche products of $2,459.

Net sales at Liggett decreased in total by 22.1% ($88,794) due primarily to a decline in unit sales volume of 30.9% ($124,029) partially offset by price increases of $23,237 and improved product mix of $11,998 (see "Recent Developments in the Cigarette Industry - Pricing Activity").

The decline in Liggett's sales volume was due to certain competitors' continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers. In the premium segment, revenues declined in 1997 by 16.4% ($20,158) to $102,440 as a result of a 21.4% decline in unit sales volume of $26,184 which was partially offset by price increases of $6,026. In the discount segment, revenues declined in 1997 by 24.6% ($68,636) to $209,828 due to a 33.8% decline in unit sales volume of $85,846 which was partially offset by price increases of $17,210. In 1997, fixed manufacturing costs on a basis comparable to 1996 were $1,428 lower although costs per thousand units increased $0.56 per thousand due to higher fixed costs per unit.

Net sales at Liggett-Ducat increased 42.8% ($22,955) to $77,115 over 1996 due primarily to higher unit sales volume ($13,211), price increases ($5,087) and the effect of excise tax increases ($4,667).

GROSS PROFIT. Consolidated gross profit of $187,494 for the year ended December 31, 1997 decreased $29,529 from gross profit of $217,023 for the same period in 1996, reflecting a decrease in gross profit at Liggett of $40,305 offset by an increase at Liggett-Ducat of $11,720 for the year ended December 31, 1997 compared to the same period in the prior year. The 1997 decline in consolidated gross profit was due primarily to the decline in unit sales volume discussed above. In 1997, Liggett's premium and discount brands contributed 33.8% and 58.5%, respectively, to the Company's gross profit while Liggett-Ducat contributed 7.2%. The improved performance at Liggett-Ducat during 1997 is due to lower tobacco and material prices resulting from purchases in higher volume ($6,600) and the effect of price increases ($5,500). In 1996, Liggett's premium and discount brands contributed 34.4% and 63.9%, respectively, to the Company's gross margin and Liggett-Ducat and BML contributed .7%. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 73.0% for 1997 compared to 72.0% for 1996 with gross profit for the premium segment at 77.1% both in 1997 and 1996 and gross profit for the discount segment at 70.8% and 69.4% in 1997 and 1996, respectively. This increase is the result of the March and September 1997 list price increases and improved production variances. These increases were partially offset by increased tobacco costs at Liggett due to a reduction in the average discount available to Liggett from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments. Gross profit margin was further reduced by restructuring charges of $407 in cost of sales in 1997. As a percent of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat increased to 17.0% for 1997 compared to 3.0% in 1996.

EXPENSES. Consolidated operating, selling, general and administrative expenses were $179,465 for the year ended December 31, 1997 compared to $220,950 for the same period for the prior year, a decrease of $41,485. The decrease was due primarily to Liggett's decrease in unit sales volume with corresponding reductions in spending on promotional programs and marketing programs of $43,657 as well as reductions in administrative costs of approximately $7,000 over the prior year. Such reductions were somewhat offset by increases in legal expenses of $19,368, which includes the legal settlement discussed above of $16,421 and also reflects, in part, the end of joint defense arrangements. (Refer to Note 16 of Company's Consolidated Financial Statements.) Expenses at BOL also declined approximately $4,700 primarily due to workforce reductions at Liggett-Ducat in late 1996 and the sale of BML in January of 1997.

OTHER INCOME (EXPENSE). Consolidated interest expense was $61,778 for the year ended December 31, 1997 compared to $60,556 for the same period for the prior year. The increase of $1,222 relates to additional interest expense incurred as a result of deferred payments during negotiations with BGLS Noteholders. Equity in loss of affiliate in 1997 and 1996 of $26,646 and $7,808, respectively, represents the Company's proportionate share of losses from continuing operations at New Valley and the decline in value of the New Valley Class A Preferred Shares. This is partially offset by discontinued operations in

which the Company reflected its portion of New Valley's income from discontinued operations which was $1,536 in 1997 and $2,982 in 1996 reflecting the Company's proportionate interest in the sale of the messaging service business, sold in 1995. Other income also includes the sale of assets, primarily the sale of the BML shares by BOL to New Valley in 1997 and the sale of surplus realty at Liggett and the assets of COM Products Inc. in 1996.

LOSS FROM CONTINUING OPERATIONS. The loss from continuing operations for the year ended December 31, 1997 was $51,810 compared with a loss of $64,918 for the same period in the prior year. A tax provision of $1,123 in 1997 and $1,402 in 1996 relates to foreign income taxes at the subsidiary level.

CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents increased $2,642 and $2,813 and decreased $1,429 for the twelve months ended December 31, 1998, 1997 and 1996, respectively.

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

Net cash used in 1997 of $25,063 compared to cash used in 1996 of $3,705 resulted from decreases in trade payables, promotional spending and taxes payable offset by decreasing trade receivables, decreasing inventories and increasing corporate accruals for interest charges on the BGLS Notes.

Net cash used in operations in 1996 of $3,705 was primarily due to the declining sales volume at Liggett resulting in lower working capital requirements, decreasing trade receivables and increases in accrual of promotional expense.

Net cash provided by investing activities in 1998 of $131,327 was due to the payment by PM of $150,000 for options in an entity that will acquire the Liggett Marks offset by capital expenditures of $21,006, primarily costs for construction and equipment for the new Liggett-Ducat cigarette factory in Russia. This is compared to cash provided by investing activities in 1997 of $36,327 which was principally due to the sale of the BML Shares by BOL for $55,000 on January 30, 1997 and the sale of used equipment by Liggett offset by capital expenditures of $20,142, principally for construction and equipment costs for the new Liggett-Ducat factory.

Net cash used in investing activities in 1996 of $4,279 was principally due to capital expenditures for real estate development in Russia of $29,800 by BML and expenditures at Liggett of $4,300 for equipment modernization partially offset by dividends received from New Valley on the Class A Preferred Shares held by the Company and the proceeds from the sale of assets at both Liggett and the Company.

Net cash used in financing activities in 1998 of $124,024 includes the redemption of the Liggett Notes of $144,919, net repayments on revolving credit facilities of $14,727 and distributions to the company's stockholders of $6,123. These payments were offset by the $30,000 participating loan from Western Realty Ducat and the issuance of common stock for $9,970. In 1997, cash used in financing activities of $8,532 was comprised of repurchase of $7,500 principal amount of Liggett Notes, repayment of credit facilities in Russia, repayments of Liggett's revolving credit facility (the "Facility") and distributions on the Company's common stock partially offset by proceeds from credit facilities in Russia and proceeds from the Facility at Liggett.

Net cash provided by financing activities in 1996 was $6,680, primarily due to bank loans for Russian real estate development, the sale of additional BGLS Notes and an increase in borrowings under Liggett's Facility. Cash provided was offset by redemption of BGLS' 16.125% Senior Subordinated Reset Notes Due 1997, a decrease in the cash overdraft and distributions to the Company's stockholders of $4,162.

LIGGETT. On December 28, 1998, Liggett redeemed the $144,891 principal amount of the Liggett Notes at 100% of the principal amount together with accrued interest. Proceeds of $150,000 from the purchase by PM of two options to purchase the Class A Interest and the Class B Interest in the LLC were used to fund the redemption.

The closing of the exercise by PM of the Class A Option is scheduled for June 10, 1999. Upon closing, Liggett will receive approximately $145,000 from the purchase of the Class A Interest and the distribution of the Loan proceeds by the LLC. (See Item I, "Business - Liggett Group Inc. - Philip Morris Brand Transaction".)

Liggett has the $40,000 Facility expiring March 8, 2000, under which $2,538 was outstanding at December 31, 1998. Availability under the Facility was approximately $18,607 based on eligible collateral at December 31, 1998. The Facility is collateralized by all inventories and receivables of Liggett. Borrowings under the Facility, whose interest is calculated at a rate equal to 1.5% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bear a rate of 9.25% at December 31, 1998. The Facility required Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below a deficit of $195,000 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, 1998, Liggett was in compliance with all covenants under the Facility; Liggett's adjusted net worth deficiency and net working capital, as computed in accordance with the agreement, were $141,414 and $6,168, respectively.

On May 14, 1996, Liggett sold certain surplus realty in Durham, North Carolina to the County of Durham for a sale price of $4,300. A gain of approximately $3,600 was recognized on this sale.

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

Liggett (and, in certain cases, the Company) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke (environmental tobacco smoke) from cigarettes.

The Company believes, and has been so advised by counsel handling the respective cases, that the Company and Liggett have a number of valid defenses to the claim or claims asserted against them. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Recently, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither the Company nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. (See "Recent Developments in the Cigarette Industry - Legislation, Regulation and Litigation" above and Note 16 to the Company's Consolidated Financial Statements.)

The Company 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 the Company and Liggett. 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 tobacco-related litigation.

BGLS. At December 31, 1998, BGLS had outstanding $232,864 principal amount of the BGLS Notes which mature on January 31, 2001. On March 5, 1998, BGLS entered into the Standstill Agreement whereby the Apollo Holders (and any transferees) agreed to the deferral of interest payments, commencing with the interest payment due July 31, 1997 through the interest payment due July 31, 2000. BGLS has deferred a total of $24,985 of interest as of December 31, 1998.

On February 17, 1999, BGLS entered into an agreement with a third party to purchase, during the third quarter of 1999, approximately $31,139 principal amount of the BGLS Notes, originally held by the Apollo Holders and subject to the Standstill Agreement. The purchase price is 95% of the principal amount of the notes and the accrued interest thereon. The purchase is contingent upon receipt by the Company of approximately an additional $145,000 under the PM Agreements. BGLS will fund the purchase price with tax sharing payments from Liggett.

BOL. On January 31, 1997, BOL sold its 99.1% interest in BML to New Valley for $55,000. The purchase price paid was $21,500 in cash and a 9% promissory note of $33,500, which was paid during 1997. (See Item 1, "Business - Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd.")

Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow which is currently scheduled to be operational in mid-1999. The new factory, which will utilize Western cigarette making technology and have a capacity of in excess of 30 billion units per year, will produce American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Ducat has made a $30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat and the new factory. (See "Recent Developments - New Valley".) In addition, BOL has entered into equipment purchases of approximately $35,846, of which $29,438 is being financed by the manufacturers. The Company is a guarantor on purchases for which the remaining obligation is approximately $8,500. The remaining costs for construction and equipment for the new factory will be financed by loans from Russian banks and approximately $12,000 of loans from BOL to be made during the first half of 1999.

THE COMPANY. The Company has substantial near-term consolidated debt service requirements, with aggregate required principal payments of $274,009 due in the years 1999 through 2001. Scheduled debt maturities of long-term debt for 1999, 2000 and 2001 are $21,176, $7,448 and $245,385, respectively. The Company believes that it will continue to meet its liquidity

requirements through 1999, although the BGLS Notes Indenture limits the amount of restricted payments BGLS is permitted to make to the Company during the calendar year. At December 31, 1998, the remaining amount available through December 31, 1999 in the Restricted Payment Basket related to BGLS' payment of dividends to the Company (as defined by the BGLS Notes Indenture) is $17,086. Company expenditures (exclusive of Liggett and Liggett-Ducat) in 1999 for current operations include cash interest expense of approximately $21,650 (excluding accrued interest due on the BGLS Notes discussed above that BGLS has contingently agreed to repurchase), dividends on the Company's shares (currently at an annual rate of approximately $6,300) and corporate expenses. The Company anticipates funding its 1999 expenditures for current operations with public and/or private debt and equity financing, management fees from subsidiaries and tax sharing and other payments from Liggett or New Valley. New Valley may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

MARKET RISK

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

EQUITY PRICE RISK. The Company holds investment securities available for sale with a fair market value of $65,396 at December 31, 1998. These securities represent an investment in New Valley Class A Preferred Shares, Class B Preferred Shares and Common Shares which the Company carries on its balance sheet at zero. (Refer to Note 3 of Company's Consolidated Financial Statements.)

FOREIGN MARKET RISK

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

Russia. Liggett-Ducat's and Western Tobacco's operations are conducted in Russia. During 1998, the economy of the Russian Federation entered a period of economic instability. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The Company seeks to minimize such risks by reducing its cash exposure when appropriate. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The operations of Liggett-Ducat and Western Tobacco may be significantly affected by these factors for the foreseeable future.

Russian taxation is subject to varying interpretations and constant changes. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of Liggett-Ducat and Western Tobacco may not coincide with that of management. As a result, transactions may be challenged by tax authorities and Liggett-Ducat and Western Tobacco may be assessed additional taxes, penalties and interest, which can be significant. Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations and from time to time potential exposures are identified. At any point in time,

a number of open matters may exist; however, management believes that adequate provision has been made for all material liabilities. Tax years remain open to review by the authorities for six years.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company 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 (the "Reform Act"), 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 shareholders, which reflect management's current views 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 Reform Act, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company. Liggett continues to be subject to risk factors endemic to the domestic tobacco industry including, without limitation, health concerns relating to the use of tobacco products and exposure to ETS, legislation, including tax increases, governmental regulation, privately imposed smoking restrictions, governmental and grand jury investigations and litigation. Each of the Company's operating subsidiaries, namely Liggett and Liggett-Ducat, are subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Furthermore, the performance of Liggett-Ducat's operations in Russia are affected by uncertainties in Russia which include, among others, political or diplomatic developments, regional tensions, currency repatriation restrictions, foreign exchange fluctuations, inflation, and an undeveloped system of commercial laws and legislative reform relating to foreign ownership in Russia. In addition, the Company has a high degree of leverage and substantial near-term debt service requirements, as well as a net worth deficiency. The Indenture for BGLS' Series B Notes provides for, among other things, the restriction of certain affiliated transactions between the Company and its affiliates, as well as for certain restrictions on the use of future distributions received from New Valley. 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. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

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

The Company's and BGLS' Consolidated Financial Statements and Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 30, 1999, 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 the Company's definitive Proxy Statement for its 1999 Annual Meeting of Stockholders (the "Proxy Statement"), 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 Exchange Act, 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 1998 CONSOLIDATED FINANCIAL STATEMENTS:

The Company's and BGLS' Consolidated Financial Statements and the Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 30, 1999, appears 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 Accounts .....Page F-52

(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. ("BML"), Brooke (Overseas) Ltd. ("BOL"), BGLS Inc. ("BGLS") and New Valley Corporation ("New Valley") (incorporated by reference to Exhibit 2.1 in New Valley's Current Report on Form 8-K dated January 31, 1997, Commission File No. 1-2493 (the "New Valley Form 8-K")).
* 3.1	Restated Certificate of Incorporation of Liggett Group Inc. (the predecessor to Brooke Group Ltd. (the "Company")) (incorporated by reference to the Company's Registration Statement on Form S-1, Commission File No. 33-16868).
* 3.2	Certificate of Amendment of the Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1990, Commission File No. 1-5759).
* 3.3	Certificate of Amendment of the Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1998, Commission File No. 1-5759).
* 3.4	Amended and Restated By-Laws of the Company, effective December 5, 1995 (incorporated by reference to the Company's current Report on Form 8-K dated December 5, 1995, Commission File No. 1-5759).
* 3.5	Certificate of Designations of Series A Junior Convertible Participating PIK Preferred Stock, Series B Junior Convertible Participating Reset Preferred Stock, Series C Junior Convertible Participating Reset Preferred Stock and Series D Junior Convertible Participating Reset Preferred Stock (incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1990, Commission File No. 1-5759).
* 3.6	Certificate of Designation of Series E Junior Convertible Participating Preferred Stock of the Company (incorporated by reference to the Company's Report on Form 8-K dated October 29, 1993).
* 3.7	Certificate of Designation of Series F Junior Convertible Participating Preferred Stock of the Company (incorporated by reference to the Company's Report on Form 8-K dated October 29, 1993, Commission File No. 1-5759).

EXHIBIT NO.	DESCRIPTION
* 3.8	Certificate of Designation of Series G Junior Convertible Participating Preferred Stock of the Company (incorporated by reference to the Company's Form 10-K for the fiscal year ended 1993, Commission File No. 1-5759).
* 3.9	Certificate of Incorporation of BGLS (incorporated by reference to Exhibit 3.1 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File Number 33-80593).
* 3.10	By-Laws of BGLS (incorporated by reference to exhibit 3.2 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File Number 33-80593).
* 4.1	Indenture, dated as of January 1, 1996, between BGLS Inc. ("BGLS") and Fleet National Bank of Massachusetts ("Fleet"), as Trustee, relating to the "Series A Notes" and the 15.75% Series B Senior Secured Notes due 2001 (the "Series B Notes"), including the form of Series A Note and the form of Series B Note (the "Series A and Series B Indenture") (incorporated by reference to Exhibit 4.1 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
* 4.2	Pledge and Security Agreement, dated as of January 1, 1996, between BGLS and Fleet, as Trustee, under the Series A and Series B Indenture (incorporated by reference to Exhibit 4.2 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
* 4.3	A/B Exchange and Registration Rights Agreement, dated as of November 21, 1995, among the Company, BGLS, AIF II L.P., Artemis America Partnership, Tortoise Corp., and Mainstay High Yield Corporate Bond Fund (incorporated by reference to Exhibit 4.3 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
* 4.4	Pledge and Security Agreement, dated as of January 1, 1996, between New Valley Holdings, Inc. and Fleet, as Trustee, under the Series A and Series B Indenture (incorporated by reference to Exhibit 4.4 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
* 4.5	Standstill Agreement and Consent, dated as of August 28, 1997, among BGLS, AIF II, L.P., Artemis America Partnership and Tortoise Corp. (incorporated by reference to Exhibit 99.2 in the Company's Form 8-K dated August 29, 1997, Commission No. 1-5759).
4.6	Amended and Restated Standstill Agreement, dated as of February 9, 1999, among BGLS and AIF II, L.P. ("AIF II") and Artemis America Partnership ("AAP" and collectively, with AIF and their future transferees, the "Apollo Holders").

EXHIBIT NO.	DESCRIPTION
4.7	Amended and Restated Limited Recourse Guarantee Agreement, dated as of February 9, 1999, made by BOL for the benefit of the Apollo Holders.
4.8	Amended and Restated Pledge Agreement, dated as of February 9, 1999, between BOL and the Apollo Holders.
4.9	Collateral Agency Agreement, dated as of February 9, 1999, between the Apollo Holders, U.S. Bank Trust National Association, as Collateral Agent, and BOL.
* 4.10	Loan and Security Agreement, dated as of March 8, 1994, in the amount of $40,000,000 between Liggett and Congress Financial Corporation (incorporated by reference to Exhibit 10(xx) in the Company's Form 10-K for the year ended December 31, 1993, Commission File No. 1-5759).
* 4.11	First Amended Joint Chapter 11 Plan or Reorganization for New Valley Corporation ("New Valley") dated September 27, 1994, Notice of Modification of the First Amended Joint Chapter 11 Plan of Reorganization dated October 20, 1994 and Plan Amendment dated October 28, 1994, as confirmed by the United States Bankruptcy Court for the District of New Jersey, Newark Division, on November 1, 1994 (incorporated by reference to Exhibit 2 in New Valley's Form 10-Q for the quarter ended September 30, 1994, Commission File No. 1-2493).
* 4.12	Order Confirming First Amended Joint Chapter 11 Plan of Reorganization for New Valley entered by the Bankruptcy Court on November 1, 1994 (incorporated by reference to Exhibit 99(b) in New Valley's Form 10-Q for the quarter ended September 30, 1994, Commission File No. 1-2493).
* 10.1	Corporate Services Agreement, dated as of June 29, 1990, between the Company and Liggett (incorporated by reference to Exhibit 10.10 in Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).
* 10.2	Corporate Services Agreement, dated June 29, 1990, between the Company and Liggett (incorporated by reference to Exhibit 10.11 in Liggett's Registration Statement on Form S-1, Commission File 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, Commission File 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, Commission File No. 33-93576).

EXHIBIT NO.	DESCRIPTION
* 10.5	Second Amendment to Liggett Services Agreement, dated as of October 1, 1995, between BMI, the Company and Liggett (incorporated by reference to Exhibit 10(c) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
* 10.6	Corporate Services Agreement, dated January 1, 1992, between BGLS and Liggett (the "Liggett Services Agreement") (incorporated by reference to Exhibit 10.13 of Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).
* 10.7	Employment Agreement, dated February 21, 1992, between the Company and Bennett S. LeBow (incorporated by reference to Exhibit 10(xx) in the Company's Form 10-K for the year ended December 31, 1991, Commission File No. 1-5759).
10.8	Amendment to Employment Agreement, dated as of July 20, 1998, between the Company and Bennett S. LeBow.
* 10.9	Tax-Sharing Agreement, dated June 29, 1990, among the Company, Liggett and certain other entities (incorporated by reference to Exhibit 10.12 in Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).
* 10.10	Lease with respect to Liggett's distribution center in Durham, North Carolina, including letter agreement extending term of Lease (incorporated by reference to Exhibit 10.15 in Liggett's Registration Statement on Form S-1, Commission File No. 33- 47482).
* 10.11	Tax Indemnity Agreement, dated as of October 6, 1993, among the Company, 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, Commission File No. 0-22126).
*10.12	Exchange Agreement, dated as of November 21, 1995, among the Company, BGLS, AIF, Artemis Partnership, Tortoise, Starfire Holding Corporation and Mainstay (incorporated by reference to Exhibit 10.13 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
* 10.13	Registration Rights Agreement, dated as of January 1, 1996, among the Company, New Valley, BGLS and Fleet, as Trustee (incorporated by reference to Exhibit 10.14 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).

EXHIBIT NO.	DESCRIPTION
* 10.14	Agreement among BGLS, the Company and High River Limited Partnership ("High River"), dated October 17, 1995 (incorporated by reference to Exhibit 10(b) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
* 10.15	Letter Agreement among BGLS, the Company and High River dated November 5, 1995 (incorporated by reference to Exhibit 10(a) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
* 10.16	Agreement between New Valley and the Company, dated as of December 27, 1995 (incorporated by reference to Exhibit 10.19 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
* 10.17	Expense Sharing Agreement, dated as of January 18, 1995, between the Company and New Valley (incorporated by reference to Exhibit 10(d) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
* 10.18	Stock Option Agreement, dated January 25, 1995, between the Company and Howard M. Lorber (incorporated by reference to Exhibit 10(g) in the Company's Form 10-K for the year ended December 31, 1994, Commission File No. 1-5759).
* 10.19	Amended and Restated Consulting Agreement, dated as of March 1, 1996, between the Company and Howard M. Lorber (the "Lorber Consulting Agreement") (incorporated by reference to Exhibit 10.25 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
*10.20	Amendment dated January 1, 1998 to the Lorber Consulting Agreement (incorporated by reference to Exhibit 10.23 in the Company's Form 10-K for the year ended December 31, 1997, Commission File No. 1-5759).
*10.21	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 the Company and Liggett, as supplemented by the letter agreement dated March 14, 1996 (the "Settlement Agreement") (incorporated by reference to Exhibit 13 in the Schedule 13D filed by, among others, the Company with the Commission on March 11, 1996, as amended, with respect to the common stock of RJR Nabisco Holdings Corp. (the "Schedule 13D")).
*10.22	Addendum to Settlement Agreement (incorporated by reference to Exhibit 10.30 in the Company's Form 10-K/A No. 1 for the year ended December 31, 1996, Commission File No. 1-5759).

EXHIBIT NO.	DESCRIPTION
* 10.23	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, the Company and Liggett (incorporated by reference to Exhibit 15 in the Schedule 13D).
* 10.24	Addendum to Initial States Settlement Agreement (incorporated by reference to Exhibit 10.43 in the Company's Form 10-Q for the quarterly period ended March 31, 1997, Commission File No. 1-5759).
* 10.25	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 the Company and Liggett (incorporated by reference to Exhibit 10.41 in the Company's Form 10-K for the year ended December 31, 1996, Commission File No. 1-5759).
* 10.26	Settlement Agreement, dated April 14, 1997, by and among the State of California, the Company and Liggett (incorporated by reference to Exhibit 10.44 in the Company's Form 10-Q for the quarter ended March 31, 1997, Commission File No. 1-5759).
* 10.27	Settlement Agreement, dated May 6, 1997, by and between the State of Alaska, the Company and Liggett (incorporated by reference to Exhibit 10.44 in the Company's Form 10-Q for the quarter ended March 31, 1997, Commission File No. 1-5759).
* 10.28	Class Settlement Agreement, dated May 15, 1997, by and between the named and representative plaintiff in Earl William Walker, et. al., v. Liggett Group Inc., et. al., for himself and on behalf of the plaintiff settlement class, and the Company and Liggett (incorporated by reference to Exhibit 10.1 in the Company's Form 10-Q for the quarter ended June 30, 1997, Commission File No. 1-5759).
* 10.29	Settlement Agreement, dated June 9, 1997, by and between the State of Oregon and the Company and Liggett (incorporated by reference to Exhibit 10.2 in the Company's Form 10-Q for the quarter ended September 30, 1997, Commission File No. 1-5759).
* 10.30	Settlement Agreement, dated September 15, 1997, by and among the State of Nevada and the Company and Liggett (incorporated by reference to Exhibit 10.1 in the Company's Form 10-Q for the quarter ended September 30, 1997, Commission File No. 1-5759).
* 10.31	Settlement Agreement, dated March 12, 1998, by and among the States listed in Appendix A thereto, the Company and Liggett (incorporated by reference to Exhibit 10.35 in the Company's Form 10-K for the year ended December 31, 1997, Commission File No. 1-5759).

EXHIBIT NO.	DESCRIPTION
10.32	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 the Company and Liggett.
*10.33	Master Settlement Agreement made by the Settling States and Participating Manufacturers signatories thereto (incorporated by reference to Exhibit 10.1 in Philip Morris Companies Inc.'s Report on Form 8-K dated November 25, 1998, Commission File No. 1-8940).
10.34	General Liggett Replacement Agreement, dated as of November 23, 1998, entered into by each of the Settling States under the Master Settlement Agreement, and the Company and Liggett.
10.35	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 the Company and Liggett.
*10.36	Stock Purchase Agreement, dated April 3, 1996, among Liggett-Ducat Ltd. ("Liggett-Ducat"), Belgrave Limited ("Belgrave"), Eduard Z. Nakhamkin ("Nakhamkin") and BOL (incorporated by reference to Exhibit 10.28 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
*10.37	Consulting Agreement, dated April 3, 1996, among BOL, Belgrave and Nakhamkin (incorporated by reference to Exhibit 10.29 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
*10.38	Pledge Agreement, dated April 3, 1996, between BOL and Belgrave (incorporated by reference to Exhibit 10.30 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
*10.39	Stock Option Agreement, dated December 16, 1996, between the Company and Howard M. Lorber (incorporated by reference to Exhibit 10.34 in the Company's Form 10-K for the year ended December 31, 1996, Commission File No. 1-5759).
*10.40	Letter Agreement dated September 5, 1996 between Ronald S. Fulford and Liggett (incorporated by reference to Exhibit 10.23 in Liggett's Form 10-K for the year ended December 31, 1996, Commission File No. 33-75224).
*10.41	Stock Option Agreement, dated January 1, 1997, between the Company and Richard J. Lampen (incorporated by reference to Exhibit 10.35 in the Company's Form 10-K for the year ended December 31, 1996).

EXHIBIT NO.	DESCRIPTION
* 10.42	Stock Option Agreement, dated January 1, 1997, between the Company and Marc N. Bell (incorporated by reference to exhibit 4.3 in the Company's Registration Statement on Form S-8 (No. 333-24217)).
* 10.43	Stock Option Agreement, dated January 1, 1998, between the Company and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.43 in the Company's Form 10-K for the year ended December 31, 1997, Commission File No. 1-5759).
* 10.44	Use Agreement dated as of January 31, 1997, entered into by and between BML and Liggett-Ducat Joint Stock Company (incorporated by reference to exhibit 10.3 in the New Valley Form 8-K).
* 10.45	Stock Purchase Agreement, dated as of January 16, 1998, by and between the Company and High River Limited Partnership (incorporated by reference to the Company's Form 8-K dated January 16, 1998, Commission File No. 5759).
* 10.46	Registration Rights Agreement, dated as of January 30, 1998, among the Company and the holders of record of the shares of the Company's common stock referred to therein (incorporated by reference to Exhibit 99.5 in the Company's Form 8-K dated February 2, 1998, Commission File No. 1-5759).
* 10.47	Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.2 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
* 10.48	Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.3 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
* 10.49	Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.4 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
* 10.50	Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.5 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
* 10.51	Registration Rights Agreement, dated as of March 2, 1998, among the Company and the Apollo Holders (incorporated by reference to Exhibit 10.6 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).

EXHIBIT NO.	DESCRIPTION
* 10.52	Registration Rights Agreement, dated as of March 2, 1998, among the Company and the Apollo Holders (incorporated by reference to Exhibit 10.7 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
* 10.53	Amended and Restated Stock Option Agreement, dated as of October 12, 1998, by and between the Company and Kasowitz, Benson, Torres & Friedman LLP, Marc E. Kasowitz and Daniel R. Benson (incorporated by reference to Exhibit 10.4 in the Company's Form 10-Q for the quarter ended September 30, 1998, Commission File No. 1-5759).
* 10.54	Participating Loan Agreement, dated as of April 28, 1998, by and among Western Realty Development LLC, Western Tobacco Investments LLC and Brooke (Overseas) Ltd. (incorporated by reference to Exhibit 10.2 in New Valley's Form 10-Q for the quarter ended June 30, 1998, Commission File No. 1-2493).
* 10.55	Consulting Agreement, dated as of May 1, 1998, between the Company and J. Sauter Enterprises, Inc. (incorporated by reference to Exhibit 4.1 in the Company's Registration Statement on Form S-8, No. 333-59615).
* 10.56	Brooke Group Ltd. 1998 Long-Term Incentive Plan (incorporated by reference to the Appendix to the Company's Proxy Statement dated September 15, 1998, Commission File No. 1-5759).
* 10.57	Stock Option Agreement, dated July 20, 1998, between the Company 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 the Company).
* 10.58	Stock Option Agreement, dated July 20, 1998, between the Company and Howard M. Lorber (incorporated by reference to Exhibit 10.3 in the Company's Form 10-Q for the quarter ended September 30, 1998, Commission File No. 1-5759).
* 10.59	Letter Agreement, dated November 20, 1998, by and among Philip Morris Incorporated ("PM"), the Company, Liggett & Myers Inc. ("L&M") and Liggett (incorporated by reference to Exhibit 10.1 in the Company's Report on Form 8-K dated November 25, 1998, Commission No. 1-5759).
10.60	Formation and Limited Liability Company Agreement of Brands LLC (the "Formation Agreement"), dated as of January 12, 1999, among the Company, L&M, Eve Holdings Inc. ("Eve"), Liggett and PM, including the form of Trademark License Agreement.
10.61	Class A Option Agreement, dated as of January 12, 1999, among the Company, L&M, Eve, Liggett and PM.

EXHIBIT NO.	DESCRIPTION
10.62	Class B Option Agreement, dated as of January 12, 1999, among the Company, L&M, Eve, Liggett and PM.
10.63	Amendment to the Formation Agreement, dated as of February 19, 1999, among the Company, L&M, Eve, Liggett and PM.
10.64	Purchase and Sale Agreement, dated February 17, 1999, between BGLS and U.S. Bancorp Investments, Inc.
* 10.65	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, Commission File No. 1-2493).
* 10.66	Employment Agreement dated September 22, 1995, between New Valley and Richard J. Lampen (incorporated by reference to Exhibit 10(a) in New Valley's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-2493).
10.67	Employment Agreement dated April 15, 1994, between the Company and Marc N. Bell.
21	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP relating to the Company's Registration Statements on Form S-8 (No. 333-24217, No. 333-50189 and No. 333-59615).
23.2	Consent of Arthur Anderson LLP relating to the Company's Registration Statements on Form S-8 (No. 333-24217, No. 333-50189 and No. 333-59615).
27.1	Financial Data Schedule of the Company.
27.2	Financial Data Schedule of BGLS.
99.1	Material Legal Proceedings
99.2	Liggett Group Inc.'s Consolidated Financial Statements for the fiscal year ended December 31, 1998.
99.3	New Valley Holdings, Inc.'s Financial Statements for the fiscal year ended December 31, 1998.
99.4	Brooke (Overseas) Ltd.'s Consolidated Financial Statements for the fiscal year ended December 31, 1998.

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*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, 10.40, 10.41, 10.42, 10.43, 10.56, 10.57, 10.65, 10.66 and 10.67.

(B) REPORTS ON FORM 8-K:

The Company filed the following Report on Form 8-K during the fourth quarter of 1998:

DATE	ITEMS	FINANCIAL STATEMENTS
November 25, 1998	5, 7	None

SIGNATURES

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

BROOKE GROUP LTD.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and
Chief Financial Officer

Date: April 7, 1999

BGLS INC.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and
Chief Financial Officer

Date: April 7, 1999

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on April 6th, 1999.

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

BROOKE GROUP LTD.
BGLS INC.

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998
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:

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Brooke Group Ltd. Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996	F-6
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Brooke Group Ltd. Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 1998, 1997 and 1996	F-8
BGLS Inc. Consolidated Statements of Stockholder's Equity (Deficit) for the years ended December 31, 1998, 1997 and 1996	F-9
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FINANCIAL STATEMENT SCHEDULE:	
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NEW VALLEY CORPORATION	
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Consolidated Balance Sheets as of December 31, 1998 and 1997	F-54
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Notes to Consolidated Financial Statements	F-60

LIGGETT GROUP INC.

The consolidated financial statements of Liggett Group Inc. are filed as exhibit 99.2 to this report and are incorporated herein by reference.

NEW VALLEY HOLDINGS, INC.

The financial statements of New Valley Holdings, Inc. are filed as exhibit 99.3 to this report and are incorporated herein by reference.

BROOKE (OVERSEAS) LTD.

The consolidated financial statements of Brooke (Overseas) Ltd. are filed as exhibit 99.4 to this report and are incorporated herein by reference.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Brooke Group Ltd. and Subsidiaries and BGLS Inc. and Subsidiaries, (collectively the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits 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.

Our audits of the consolidated financial statements of Brooke Group Ltd. and Subsidiaries and BGLS Inc. and Subsidiaries also included an audit of the Financial Statement Schedule listed on Item 14(a) of this Form 10-K. In our opinion the Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
March 30, 1999

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 31, 1998	December 31, 1997
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 7,396	$ 4,754
Accounts receivable - trade	15,160	10,462
Other receivables	924	1,239
Inventories	36,316	39,312
Deferred income taxes	59,613	
Other current assets	3,151	10,992
Total current assets	122,560	66,759
Property, plant and equipment, at cost, less accumulated depreciation of $33,856 and $33,187	93,504	45,943
Intangible assets, at cost, less accumulated amortization of $21,551 and $19,302	171	2,610
Other assets	12,747	9,922
Total assets	$ 228,982	$ 125,234
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 21,176	$ 6,429
Accounts payable	13,880	10,461
Cash overdraft	77	945
Accrued promotional expenses	23,760	26,993
Accrued taxes payable	14,854	19,998
Accrued interest	17,189	39,782
Proceeds received for options	150,000	
Other accrued liabilities	32,505	34,670
Total current liabilities	273,441	139,278
Notes payable, long-term debt and other obligations, less current portion	262,665	399,835
Noncurrent employee benefits	21,701	29,850
Other liabilities	65,350	44,668
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred Stock, par value $1.00 per share, authorized 10,000,000 shares		
Series G Preferred Stock, 2,184,834 shares, convertible, participating, cumulative, each share convertible to 1,000 shares of common stock and cash or stock distribution, liquidation preference of $1.00 per share		
Common stock, par value $0.10 per share, authorized 100,000,000 and 40,000,000 shares, issued 26,498,043 and 24,998,043 shares, outstanding 20,943,730 and 18,097,096	2,094	1,850
Additional paid-in capital	124,120	88,290
Deficit	(512,182)	(538,791)
Accumulated other comprehensive income	24,774	(1,857)
Other	(5,508)	(3,750)
Less: 5,554,313 and 6,900,947 shares of common stock in treasury, at cost	(27,473)	(34,139)
Total stockholders' equity (deficit)	(394,175)	(488,397)
Total liabilities and stockholders' equity (deficit)	$ 228,982	$ 125,234

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 31, 1998	December 31, 1997
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 7,396	$ 4,754
Accounts receivable - trade	15,160	10,462
Other receivables	755	1,191
Inventories	36,316	39,312
Deferred income taxes	59,613	
Other current assets	2,946	11,647
Total current assets	122,186	67,366
Property, plant and equipment, at cost, less accumulated depreciation of $33,852 and $32,760	93,481	45,775
Intangible assets, at cost, less accumulated amortization of $21,551 and $19,302	171	2,610
Other assets	11,558	13,165
Total assets	$ 227,396	$ 128,916
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT):		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 20,955	$ 6,212
Accounts payable	13,746	10,336
Cash overdraft	63	891
Due to parent	32,394	22,951
Accrued promotional expenses	23,760	26,993
Accrued taxes payable	14,854	19,998
Accrued interest	17,188	39,782
Proceeds received for options	150,000	
Other accrued liabilities	31,556	34,312
Total current liabilities	304,516	161,475
Notes payable, long-term debt and other obligations, less current portion	262,665	399,835
Noncurrent employee benefits	21,701	29,850
Other liabilities	69,216	50,871
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value $0.01 per share; 100 shares authorized, issued and outstanding		
Additional paid-in capital	69,297	39,081
Deficit	(524,773)	(550,339)
Accumulated other comprehensive income	24,774	(1,857)
Total stockholder's equity (deficit)	(430,702)	(513,115)
Total liabilities and stockholder's equity (deficit)	$ 227,396	$ 128,916

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

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

	Year Ended December 31,		
	1998	1997	1996
Revenues*	$ 444,566	$ 389,615	$ 460,356
Cost of goods sold*	200,996	202,121	243,333
Gross profit	243,570	187,494	217,023
Operating, selling, administrative and general expenses	186,904	162,938	220,950
Settlement charges	(14,928)	16,527	
Operating income (loss)	71,594	8,029	(3,927)
Other income (expenses):			
Interest income	1,169	553	220
Interest expense	(79,704)	(61,778)	(60,556)
Equity in loss of affiliate	(28,717)	(26,646)	(7,808)
Sale of assets	5,975	23,086	6,716
Other, net	(5,711)	6,458	1,242
Loss from continuing operations before income taxes	(35,394)	(50,298)	(64,113)
(Benefit) provision for income taxes	(59,613)	1,123	1,402
Income (loss) from continuing operations	24,219	(51,421)	(65,515)
Discontinued operations:			
Gain on disposal of discontinued operations	3,208	1,536	2,982
Net income (loss)	27,427	(49,885)	(62,533)
Proportionate share of New Valley capital transactions, retirement of Class A Preferred Shares			1,782
Net income (loss) applicable to common shares	$ 27,427	$ (49,885)	$ (60,751)
Per basic common share:			
Income (loss) from continuing operations	$ 1.19	$ (2.83)	$ (3.44)
Income from discontinued operations	$ 0.16	$ 0.09	$ 0.16
Net income (loss) applicable to common shares	$ 1.35	$ (2.74)	$ (3.28)
Basic weighted average common shares outstanding	20,425,005	18,168,329	18,497,096
Per diluted common share:			
Income (loss) from continuing operations	$ 0.98	$ (2.83)	$ (3.44)
Income from discontinued operations	$ 0.13	$ 0.09	$ 0.16
Net income (loss) applicable to common shares	$ 1.11	$ (2.74)	$ (3.28)
Diluted weighted average common shares outstanding	24,795,154	18,168,329	18,497,096

*Revenues and Cost of goods sold include excise taxes of $82,613, $87,683 and $112,218 for ended the years ended December 31, 1998, 1997 and 1996, respectively.

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	1998	1997	1996
Revenues*	$ 444,566	$ 389,615	$ 460,356
Cost of goods sold*	200,996	202,121	243,333
Gross profit	243,570	187,494	217,023
Operating, selling and general expenses	183,970	162,548	219,039
Settlement charges	(14,928)	16,527	
Operating income (loss)	74,528	8,419	(2,016)
Other income (expenses):			
Interest income	1,025	543	157
Interest expense	(84,194)	(65,581)	(64,417)
Equity in loss of affiliate	(28,717)	(26,646)	(7,808)
Sale of assets	5,981	27,663	6,716
Other, net	(5,878)	2,326	(2,579)
Loss from continuing operations before income taxes	(37,255)	(53,276)	(69,947)
(Benefit) provision for income taxes	(59,613)	1,135	5,254
Income (loss) from continuing operations	22,358	(54,411)	(75,201)
Discontinued operations:			
Gain on disposal of discontinued operations	3,208	1,536	2,982
Net income (loss)	$ 25,566	$ (52,875)	$ (72,219)

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*Revenues and Cost of goods sold include excise taxes of $82,613, $87,683 and $112,218 for the years ended December 31, 1998, 1997 and 1996, respectively.

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

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

	Common Stock		Additional Paid-In		Treasury		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Stock	Other	Income	Total
Balance, December 31, 1995	18,497,096	$1,850	$ 93,186	$(428,173)	$(32,339)	$ (563)	$ 9,935	$(356,104)
Net loss				(62,533)				(62,533)
Unrealized holding loss on investment in New Valley							(33,936)	(33,936)
Effect of New Valley capital transactions							1,099	1,099
Total other comprehensive loss								(32,837)
Total comprehensive loss								(95,370)
Repurchase of New Valley Class A Shares			1,782					1,782
Distributions on common stock			(5,549)					(5,549)
Amortization of deferred compensation						252		252
Stock options granted to consultant			4,750			(4,750)		
Balance, December 31, 1996	18,497,096	1,850	94,169	(490,706)	(32,339)	(5,061)	(22,902)	(454,989)
Net loss				(49,885)				(49,885)
Unrealized holding gain on investment in New Valley.							16,842	16,842
Effect of New Valley capital transactions							3,190	3,190
Pension-related minimum liability adjustment							1,013	1,013
Total other comprehensive income								21,045
Total comprehensive loss								(28,840)
Distributions on common stock			(5,504)					(5,504)
Amortization of deferred compensation						1,311		1,311
Stock options granted to consultant			(375)					(375)
Settlement of loan	(400,000)			1,800	(1,800)			
Balance, December 31, 1997	18,097,096	1,850	88,290	(538,791)	(34,139)	(3,750)	(1,857)	(488,397)
Net income				27,427				27,427
Unrealized holding gain on investment in New Valley							30,902	30,902
Effect of New Valley capital transactions							(3,383)	(3,383)
Pension-related minimum liability adjustment							(888)	(888)
Total other comprehensive income								26,631
Total comprehensive income								54,058
Distributions on common stock			(6,123)					(6,123)
Effectiveness fee on debt	483,002	48	1,666		2,391			4,105
Issuance of options and warrants			28,086			(3,261)		24,825
Issuance of common stock	1,500,000	150	11,342					11,492
Issuance of treasury stock	863,632	46	319	(818)	4,275			3,822
Amortization of deferred compensation			540			1,503		2,043
Balance, December 31, 1998	20,943,730	$2,094	$124,120	$(512,182)	$(27,473)	$(5,508)	$24,774	$(394,175)

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Common Stock		Additional Paid-In		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income	Total
Balance, December 31, 1995	100	$	$23,594	$(423,424)	$ 9,935	$(389,895)
Net loss				(72,219)		(72,219)
Unrealized holding gain on investment in New Valley					(33,936)	(33,936)
Effect of New Valley capital transactions					1,099	1,099
Total other comprehensive loss						(32,837)
Total comprehensive loss						(105,056)
Repurchase of New Valley Class A Shares			1,782			1,782
Distributions paid to parent				(3,621)		(3,621)
Forgiveness of debt by parent			13,705			13,705
Balance, December 31, 1996	100		39,081	(499,264)	(22,902)	(483,085)
Net loss				(52,875)		(52,875)
Unrealized holding gain on investment in New Valley					16,842	16,842
Effect of New Valley capital transactions					3,190	3,190
Pension-related minimum liability adjustment					1,013	1,013
Total other comprehensive income						21,045
Total comprehensive loss						(31,830)
Settlement of loan				1,800		1,800
Balance, December 31, 1997	100		39,081	(550,339)	(1,857)	(513,115)
Net income				25,566		25,566
Unrealized holding gain on investment in New Valley					30,902	30,902
Effect of New Valley capital transactions					(3,383)	(3,383)
Pension-related minimum liability adjustment					(888)	(888)
Total other comprehensive income						26,631
Total comprehensive income						52,197
Issuance of options and warrants			24,825			24,825
Effectiveness fee on debt			2,442			2,442
Payment of interest by parent			2,531			2,531
Amortization of deferred compensation			418			418
Balance, December 31, 1998	100	$	$69,297	$(524,773)	$ 24,774	$(430,702)

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

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

	Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 27,427	$(49,885)	$(62,533)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	8,610	8,135	8,819
Non-cash stock-based expense	9,394	1,311	252
Gain on sale of assets	(5,003)	(26,247)	(6,716)
Deferred income taxes	(59,613)		1,061
Currency translation loss	4,294	(81)	125
Non-cash interest expense	11,797		
Impact of discontinued operations	(3,208)	(1,536)	(2,982)
Equity in loss of affiliates	28,717	26,646	7,808
Changes in assets and liabilities (net of effect of dispositions):			
Receivables	(3,782)	8,839	6,222
Inventories	2,997	14,379	6,830
Accounts payable and accrued liabilities	(5,496)	7,585	27,716
Deferred gain		(6,459)	
Other assets and liabilities, net	(19,423)	(7,750)	9,693
Net cash used in operating activities	(3,289)	(25,063)	(3,705)
Cash flows from investing activities:			
Proceeds from sale of business and assets	2,333	56,494	8,040
Proceeds received for options	150,000		
Investments		(25)	(2,811)
Capital expenditures	(21,006)	(20,142)	(34,241)
Dividends from New Valley			24,733
Net cash provided by (used in) investing activities	131,327	36,327	(4,279)

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

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

	Year Ended December 31,		
	1998	1997	1996
Cash flows from financing activities:			
Proceeds from debt	4,425	10,305	20,702
Repayments of debt	(146,701)	(11,516)	(8,864)
Borrowings under revolver	282,004	278,442	353,365
Repayments on revolver	(296,731)	(279,435)	(350,105)
Increase (decrease) in cash overdraft	(868)	938	(4,256)
Distributions on common stock	(6,123)	(7,266)	(4,162)
Proceeds from participating loan	30,000		
Issuance of common stock	9,970		
Net cash (used in) provided by financing activities	(124,024)	(8,532)	6,680
Effect of exchange rate changes on cash and cash equivalents	(1,372)	81	(125)
Net increase (decrease) in cash and cash equivalents	2,642	2,813	(1,429)
Cash and cash equivalents, beginning of period	4,754	1,941	3,370
Cash and cash equivalents, end of period	$ 7,396	$ 4,754	$ 1,941

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 25,566	$(52,875)	$(72,219)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,524	7,993	8,677
Non-cash stock-based expense	8,878		
Gain on sale of assets	(5,733)	(26,247)	(6,716)
Deferred income taxes	(59,613)		4,861
Currency translation loss	4,294	(81)	125
Non-cash interest expense	11,797		
Impact of discontinued operations	(3,208)	(1,536)	(2,982)
Equity in loss (earnings) of affiliates	28,717	26,646	7,808
Changes in assets and liabilities (net of effect of dispositions):			
Receivables	6,613	8,838	5,863
Inventories	2,997	14,379	6,830
Accounts payable and accrued liabilities	(6,017)	1,245	34,461
Deferred gain		(3,511)	
Other assets and liabilities, net	(21,218)	(8,207)	9,587
Net cash provided by (used in) operating activities	1,597	(33,356)	(3,705)
Cash flows from investing activities:			
Proceeds from sale of business and assets	1,609	56,494	8,040
Proceeds received for options	150,000		
Investments		(25)	(2,811)
Capital expenditures	(20,980)	(20,142)	(34,241)
Dividends from New Valley			24,733
Net cash provided by (used in) investing activities	130,629	36,327	(4,279)

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,		
	1998	1997	1996
Cash flows from financing activities:			
Proceeds from debt	3,950	10,305	19,060
Repayments of debt	(146,606)	(10,436)	(8,265)
Borrowings under revolver	282,004	278,442	353,365
Repayments on revolver	(296,732)	(279,434)	(350,105)
Increase (decrease) in cash overdraft	(828)	885	(3,755)
Proceeds from participating loan	30,000		
Distribution paid to parent			(3,621)
Net cash (used in) provided by financing activities	(128,212)	(238)	6,679
Effect of exchange rate changes on cash and cash equivalents	(1,372)	81	(125)
Net increase (decrease) in cash and cash equivalents	2,642	2,814	(1,430)
Cash and cash equivalents, beginning of period	4,754	1,940	3,370
Cash and cash equivalents, end of period	$ 7,396	$ 4,754	$ 1,940

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

BROOKE GROUP LTD.
BGLS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION:

The consolidated financial statements of Brooke Group Ltd. (the "Company") include the consolidated statements of its wholly-owned subsidiary, BGLS Inc. ("BGLS"). The consolidated statements of BGLS include the accounts of Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("BOL"), New Valley Holdings, Inc. ("NV Holdings"), Liggett-Ducat Ltd. ("Liggett-Ducat") and other less significant subsidiaries. Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Liggett-Ducat is engaged in the manufacture and sale of cigarettes in Russia. All significant intercompany balances and transactions have been eliminated. Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

(b) LIQUIDITY:

The Company's anticipated sources of liquidity for 1999 include, among other things, proceeds from the exercise of an option in an entity to which a subsidiary of Liggett will contribute certain trademarks (the "Marks") and the distribution of loan proceeds from the entity (refer to Note 2), additional debt and/or equity financing, management fees and tax sharing and other payments from Liggett and certain funds available from New Valley Corporation ("New Valley") subject to limitations imposed by BGLS' indenture agreements. Liggett's and New Valley's ability to make such payments is subject to risks and uncertainties attendant to their businesses. (Refer to Notes 3 and 16.) New Valley may also acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions. In 1998, the Company used proceeds from the sale of stock, private debt and equity financing and cash received from the sale of the options on the Marks.

On December 28, 1998, Liggett redeemed all of its 11.50% Series B and 19.75% Series C Senior Secured Notes due 1999 (the "Liggett Notes"), together with accrued interest, using $150,000 in proceeds received from the sale of the options in the entity that will hold the Marks. Liggett has a $40,000 revolving credit facility expiring March 8, 2000 (the "Facility"), under which $2,538 was outstanding at December 31, 1998.

On March 2, 1998, BGLS entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together, "the Apollo Holders"), who held, at that date, approximately 41.8% of the $232,864 principal amount of the BGLS 15.75% Series B Senior Secured Notes (the "BGLS Notes"). Pursuant to the terms of the agreement, the Apollo Holders (and any transferees) have agreed to defer the payment of interest on the BGLS Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the BGLS Notes on January 31, 2001 or upon an event of default under the Indenture for the BGLS Notes. (Refer to Note 9.)

Liggett-Ducat is in the process of constructing a new tobacco factory in Moscow, Russia, currently scheduled to be operational in mid-1999. The remaining construction costs and equipment required for the new factory will be financed primarily by equipment lease financing currently in place and loans from banks and BOL. (Refer to Note 5.)

(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:

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

At December 31,	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$283,841	$267,679	$406,264	$314,108

SHORT-TERM DEBT - The carrying amounts reported in the Consolidated Balance Sheets are a reasonable estimate of fair value.

LONG-TERM DEBT - Fair value is estimated based on current market quotations, where available, or based on an evaluation of the debt in relation to market prices of the Company's publicly traded debt.

The methods and assumptions used by the Company's management in estimating fair values for financial instruments presented herein are not necessarily indicative of the amounts the 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) SIGNIFICANT CONCENTRATIONS OF CREDIT RISK:

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

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. One customer accounted for approximately 26.9% of net sales in 1998, 19.4% of net sales in 1997 and 13.9% of net sales in 1996. Sales to this customer were primarily in the private label discount segment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers, located primarily throughout the United States, comprising Liggett's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. Liggett maintains reserves for potential credit losses and such losses, in the aggregate, have generally not exceeded management's expectations.

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

During the year ended December 31, 1998, the economy of the Russian Federation entered a period of economic instability. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The operations of Liggett-Ducat may be significantly affected by these factors for the foreseeable future.

(g) ACCOUNTS RECEIVABLE:

The allowance for doubtful accounts and cash discounts was $2,007 and $1,383 at December 31, 1998 and 1997, respectively.

(h) INVENTORIES:

Domestic tobacco inventories, which comprised 71.5% and 92.6% of total inventory in 1998 and 1997, respectively, are stated at the lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method. All other inventories are determined primarily on a first-in, 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.

(i) 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 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 1998, 1997 and 1996, interest costs of $761, $693 and $6,387, 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.

(j) 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, 1998, 1997 and 1996 was $2,473, $1,845 and $1,778, respectively. Management periodically reviews the carrying value of such assets to determine whether asset values are impaired.

(k) 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.

(l) 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, 1998 and 1997 which are subject to significant fluctuations in the near term.

(m) 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.

(n) 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.

(o) 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

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

assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized.

(p) REVENUE RECOGNITION:

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.

(q) ADVERTISING AND PROMOTIONAL COSTS:

Advertising and promotional costs are expensed as incurred. Advertising expenses were $44,540, $40,534 and $74,238 for the years ended December 31, 1998, 1997 and 1996, respectively.

(r) LEGAL COSTS:

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

(s) EARNINGS PER SHARE:

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, 1998, 1997 and 1996:

	1998	1997	1996
Weighted average shares for basic EPS ..	20,425,005	18,168,329	18,497,096
Plus incremental shares from conversions:			
Stock options and warrants	4,370,149		
Weighted average shares for diluted EPS	24,795,154	18,168,329	18,497,096

In 1997 and 1996, options on 1,922,000 and 1,500,000 shares, respectively, of common stock were not included in the calculation of weighted average shares for diluted EPS because the effects would have been antidilutive.

(t) FOREIGN CURRENCY TRANSLATION:

The Company's Russian subsidiary operates in a highly inflationary economy and uses the U.S. dollar as the functional currency. Therefore, certain assets of this entity (principally

inventories and property and equipment) are translated at historical exchange rates with all other assets and liabilities translated at year end exchange rates and all translation adjustments are reflected in the consolidated statements of operations.

(u) OTHER COMPREHENSIVE INCOME:

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting Comprehensive Income" effective in the first quarter of 1998 with prior periods restated. 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. The implementation of SFAS No. 130 did not have any material effect on the consolidated financial statements.

2. PHILIP MORRIS BRAND TRANSACTION

On November 20, 1998, the Company and Liggett entered into a definitive agreement with Philip Morris Incorporated ("PM") which provided for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK (the "Marks"), held by Liggett's subsidiary, Eve Holdings Inc. ("Eve"). As contemplated by the agreement, Liggett and PM entered into additional agreements (collectively, the "PM Agreements") on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC ("LLC"), a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Voting Interest (the "Class A Interest") and the Class B Redeemable Nonvoting Interest (the "Class B Interest"). PM acquired two options to purchase such interests (the "Class A Option" and the "Class B Option"). On December 2, 1998, PM paid Eve a total of $150,000 for such options, $5,000 for the Class A Option and $145,000 for the Class B Option. The payments were used to fund the redemption of the Liggett Notes on December 28, 1998. (Refer to Note 9).

The Class A Option entitles PM to purchase the Class A Interest for $10,100. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for June 10, 1999, subject to customary closing conditions.

The Class B Option will entitle PM 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 PM 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 the LLC for $139,900 during the same period the Class B Option may be exercised.

The LLC will seek to borrow $134,900 (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's 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, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure 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 LLC income or loss.

The LLC will grant PM an exclusive license of the Marks for an 11-year term at an annual royalty based on sales of cigarettes under the Marks, subject to a minimum annual royalty payment equal to the annual debt service obligation on the Loan plus $1,000.

If PM fails to exercise the Class B Option, Eve will have an option to put its Class B Interest to PM, or PM's designees (the "Eve Put Option"), at a put price that is $5,000 less than the exercise price of the Class B Option (and includes PM's procuring 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, the LLC's 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% LLC interest.

The $150,000 in proceeds received from the sale of the Class A and B Options is presented as a liability on the consolidated balance sheet until the closing of the exercise of the Class A Option and the distribution of the Loan proceeds which is scheduled to occur during the second quarter of 1999. Upon such closing, PM will obtain control of the LLC, and the Company anticipates, based on the expected structure of the transactions, to recognize a gain in its consolidated financial statements to the extent of the total cash proceeds received from the payment of the option fees, the exercise of the Class A Option and the distribution of the Loan proceeds.

3. INVESTMENT IN NEW VALLEY CORPORATION

At December 31, 1998 and 1997, the Company's investment in New Valley consisted of an approximate 42% voting interest. At December 31, 1998 and 1997, the Company owned 57.7% of the outstanding $15.00 Class A Increasing Rate Cumulative Senior Preferred Shares ($100 Liquidation Value), $.01 par value (the "Class A Preferred Shares"), 9.0% of the outstanding $3.00 Class B Cumulative Convertible Preferred Shares ($25 Liquidation Value), $.10 par value (the "Class B Preferred Shares") and 41.7% of New Valley's common shares, $.01 par value (the "Common Shares").

The Class A Preferred Shares and the Class B Preferred Shares are 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 are classified as available-for-sale. The Common Shares are accounted for pursuant to APB No. 18, "The Equity Method of Accounting for Investments in Common Stock".

The Company determines the fair value of the Class A Preferred Shares and Class B Preferred Shares based on the quoted market price. Through September 1996, earnings on the Class A Preferred Shares were comprised of dividends accrued during the period and the accretion of the difference between the Company's basis and their mandatory redemption price. During the quarter ended September 30, 1996, the decline in the market value of the Class A Preferred Shares, the dividend received on the Class A Preferred Shares and the Company's equity in losses incurred by New Valley caused the carrying value of the Company's investment in New Valley to be reduced to zero. Beginning in the fourth quarter of 1996, the Company suspended the recording of its earnings on the dividends accrued and the accretion of the difference between the Company's basis in the Class A Preferred Shares and their mandatory redemption price.

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

The Company's and BGLS' investment in New Valley at December 31, 1998 and 1997, respectively, is summarized below:

	Number of Shares	Fair Value	Carrying Amount
1998			
Class A Preferred Shares.....	618,326	$61,833	$ 61,833
Class B Preferred Shares.....	250,885	1,693	1,693
Common Shares.....	3,989,710	1,870	(63,526)
		$65,396	$
1997			
Class A Preferred Shares.....	618,326	$59,359	$ 59,359
Class B Preferred Shares.....	250,885	941	941
Common Shares.....	3,989,710	1,995	(60,300)
		$62,295	$

In November 1994, New Valley's First Amended Joint Chapter 11 Plan of Reorganization, as amended ("Joint Plan"), was confirmed by order of the United States Bankruptcy Court for the District of New Jersey and on January 18, 1995, New Valley emerged from bankruptcy reorganization proceedings and completed substantially all distributions to creditors under the Joint Plan. Pursuant to the Joint Plan, among other things, the Class A Preferred Shares, the Class B Preferred Shares, the Common Shares and other equity interests were reinstated and retained all of their legal, equitable and contractual rights.

During 1996, New Valley repurchased 72,104 Class A Preferred Shares for a total amount of $10,530. The Company has recorded its proportionate interest in the excess of the carrying value of the shares over the cost of the shares repurchased as a credit to additional paid-in capital in the amount of $1,782 for the year ended December 31, 1996.

The Class A Preferred Shares of New Valley are required to be redeemed on January 1, 2003 for $100.00 per share plus dividends accrued to the redemption date. The shares are redeemable, at any time, at the option of New Valley, at $100.00 per share plus accrued dividends. The holders of Class A Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board of Directors, payable at the rate of $19.00 per annum. At December 31, 1998 and 1997, respectively, the accrued and unpaid dividends arrearage was $219,068 ($204.46 per share) and $163,302 ($152.41 per share). The Company received $24,733 ($40.00 per share) in dividend distributions in 1996.

Holders of the Class B Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board, at a rate of $3.00 per annum. At December 31, 1998 and 1997, respectively, the accrued and unpaid dividends arrearage was $165,856 ($59.43 per share) and $139,412 ($49.95 per share). No dividends on the Class B Preferred Shares have been declared since the fourth quarter of 1988.

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

Summarized financial information for New Valley follows:

	1998	1997	1996
Current assets, primarily cash and marketable securities..	$ 91,451	$118,642	
Noncurrent assets.....	181,271	322,749	
Current liabilities.....	83,581	125,628	
Noncurrent liabilities.....	78,251	187,524	
Redeemable preferred stock.....	316,202	258,638	
Shareholders' equity (deficit).....	(205,312)	(130,399)	
Revenues.....	102,087	114,568	$130,865
Costs and expenses.....	127,499	139,989	149,454
Loss from continuing operations.....	(23,329)	(24,260)	(14,648)
Income from discontinued operations.....	7,740	3,687	7,158
Net loss applicable to Common Shares(A).....	(96,553)	(89,048)	(65,160)
Company's share of discontinued operations.....	3,208	1,536	2,982

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(A) Considers all preferred accrued dividends, whether or not declared and, in 1996, the excess of carrying value of redeemable preferred shares over cost of shares purchased.

On January 31, 1997, New Valley acquired substantially all the common shares of BML from BOL for $55,000. (Refer to Note 5.)

In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to $58,750, including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded $32,364 of its investment in Western Realty Ducat.

The ownership and voting interests in Western Realty Ducat are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Ducat to the extent of its investment ($40,000), together with a 15% annual rate of return, and New Valley will then be entitled to a return of $20,000 of BML-related expenses incurred and cash invested by New Valley since March 1, 1997, together with a 15% annual rate of return; subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Ducat will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Ducat generally require the unanimous consent of the Board of Managers. Accordingly, New Valley has accounted for its non-controlling interest in Western Realty Ducat using the equity method of accounting.

New Valley recorded its basis in the investment in Western Realty Ducat in the amount of $60,169 based on the carrying value of assets less liabilities transferred. There was no difference between the carrying value of the investment and New Valley's proportionate interest in the underlying value of net assets of Western Realty Ducat.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a $30,000 participating loan to, and payable out of a 30% profits

interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat and the new factory being constructed by Liggett-Ducat on the outskirts of Moscow. (Refer to Note 5.)

In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a $25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment ($18,750) together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment ($6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced $19,067 (of which $14,300 was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of New Valley's shares of BML.

As of December 31, 1998, BML had invested $18,013 in the Kremlin sites and held $252, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional $6,000 in 1999 and $22,000 in 2000 in the development of the property. BML funded $4,800 of this amount in the first quarter of 1999.

The development of Ducat Place III and the Kremlin Sites will require significant amounts of debt and other financing. New Valley is actively pursuing various financing alternatives on behalf of Western Realty Ducat and BML. However, in light of the recent economic turmoil in Russia, no assurance can be given that such financing will be available on acceptable terms. Failure to obtain sufficient capital for the projects would force Western Realty Ducat and BML to curtail or delay the planned development of Ducat Place III and the Kremlin Sites.

In 1998, New Valley's United States real estate operations sold all of its office buildings, realizing a gain of $4,682. In 1997, New Valley sold one of its shopping centers, realizing a gain of $1,200.

On October 31, 1995, New Valley sold substantially all the assets of its wholly-owned subsidiary, Western Union Data Services Company, Inc. (the "Messaging Service Business"), and conveyed substantially all of the liabilities of the Messaging Service Business for $17,540 in cash and $2,460 in cancellation of intercompany indebtedness. The financial statements of the Company reflect its portion of the gain in gain on disposal of discontinued operations in 1998, 1997 and 1996.

SUBSEQUENT EVENT - Proposed Recapitalization Plan:

New Valley intends to submit for approval of its shareholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of $12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of New Valley's shares, effectiveness of the New Valley proxy statement and prospectus for the annual meeting, receipt of a fairness opinion and compliance with the Hart-Scott-Rodino Act.

The Company has agreed to vote all of its shares in New Valley in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its warrants, the Company will increase its ownership of the outstanding Common Shares of New Valley from 42.3% to 55.1% and its total voting power from 42.3% to 55.1%. New Valley would become part of the Company's consolidated group for financial statement purposes.

The Joint Plan places restrictions on and requires approvals for certain transactions with the Company and its affiliates to which New Valley or a subsidiary of, or entity controlled by, New Valley may be party, including the requirements, subject to certain exceptions for transactions involving less than $1 million in a year or pro rata distributions on New Valley's capital stock, of approval by not less than two-thirds of the entire Board, including at least one of the directors elected by the holders of New Valley's preferred shares, and receipt of a fairness opinion from an investment banking firm. In addition, the Joint Plan requires that, whenever New Valley's Certificate of Incorporation provides for the vote of the holders of the Class A Senior Preferred Shares acting as a single class, such vote must, in addition to satisfying all other applicable requirements, reflect the affirmative vote of either (x) 80% of the outstanding shares of that class or (y) a simple majority of all shares of that class voting on the issue exclusive of shares beneficially owned by the Company. The foregoing provisions of the Joint Plan will terminate upon consummation of the Recapitalization Plan.

4. RJR NABISCO HOLDINGS CORP.

New Valley expensed $100 in 1997 and $11,724 in 1996 relating to its investment in the common stock of RJR Nabisco Holdings Corp. ("RJR Nabisco"). Pursuant to a December 27, 1995 agreement between the Company and New Valley whereby New Valley agreed to reimburse the Company and its subsidiaries for certain reasonable out-of-pocket expenses in connection with RJR Nabisco, New Valley paid the Company and its subsidiaries a total of $17 and $2,370 in 1997 and 1996, respectively.

On February 29, 1996, New Valley entered into a total return equity swap transaction (the "Swap") with an unaffiliated financial institution relating to 1,000,000 shares of RJR Nabisco common stock (reduced to 750,000 shares of RJR Nabisco common stock as of August 13, 1996). During the third quarter of 1996, the Swap was terminated in connection with New Valley's reduction of its holdings of RJR Nabisco common stock, and New Valley recognized a loss on the Swap of $7,305 for the year ended December 31, 1996.

5. INVESTMENT IN BROOKE (OVERSEAS) LTD.

At December 31, 1998, BOL owned approximately 99.9% of the stock of Liggett-Ducat through its subsidiary, Western Tobacco Investments LLC ("Western Tobacco"). (Refer to Note 9 for information concerning pledges of interests in Western Tobacco.)

Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow. Production at Liggett-Ducat's existing factory is currently scheduled to cease in March 1999, with production starting in the new factory in mid-1999. A 49-year land lease was renegotiated in 1996 for the new factory site. Liggett-Ducat has entered into a construction contract for the plant. The remaining liability under that contract, as amended, at December 31, 1998 is approximately $7,825. Equipment purchase agreements in place at December 31, 1998 total $35,846, of which $29,438 is being financed by the manufacturers.

Western Realty Ducat has made a $30,000 participating loan to Western Tobacco which holds BOL's interest in Liggett-Ducat and the new factory. The loan, which bears no fixed interest, is payable only out of 30% of distributions, if any, made by Western Tobacco to BOL. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to BOL 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 Western Tobacco. For the year ended December 31, 1998, preference requirement equal to 30% of Western Tobacco's net income, $1,991, has been charged to interest expense. The loan is classified in other long-term liabilities on the consolidated balance sheet at December 31, 1998. (Refer to Note 3.)

On January 31, 1997, BOL sold all its shares of BML to New Valley for $21,500 in cash and a promissory note of $33,500 payable $21,500 on June 30, 1997 and $12,000 on December 31, 1997 with interest at 9%. The note was paid in full as of December 31, 1997. The consideration received exceeded the carrying value of its investment in BML by $43,700. The Company recognized a gain on the sale in 1997 in the amount of $21,300. The remaining $22,400 was deferred in recognition of the fact that the Company retains an interest in BML through its 42% equity ownership in New Valley

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

and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BML, which is currently used by Liggett-Ducat for its existing cigarette factory) is subject to a put option held by New Valley. The option allows New Valley to put this site back to the Company at the greater of the appraised fair value of the property at the date of exercise or $13,600, during the period Liggett-Ducat operates the factory on such site. During the second quarter 1997, BML sold one of its office buildings, Ducat Place I, to a third party. Accordingly, the Company recognized $1,240 of its deferred gain. As discussed in Note 3, in 1998, New Valley contributed the BML real estate assets to Western Realty Ducat, and the Company recognized a further portion of the deferred gain, $4,246, to the extent of Apollo's interest in Western Realty Ducat.

In connection with the sale of its BML shares to New Valley, certain specified liabilities aggregating $40,800 remained with BML, including a Russian bank loan with a balance of $20,418, which was paid in full during the third quarter of 1997.

During the second quarter of 1996, BOL entered into stock purchase agreements with the former chairman of Liggett-Ducat and the former Director of Liggett-Ducat's tobacco operations (the "Sellers"). Under the stock purchase agreements, BOL acquired 142,558 shares held by the Sellers for $2,143.

Concurrently, the Company entered into consulting and non-compete agreements with the Sellers. Under the terms of these agreements, the Company will pay the Sellers a total of approximately $8,357 over five years. At December 31, 1998, the liability remaining under these agreements was $3,099.

In 1996, Russian tax authorities assessed Liggett-Ducat $7,600 for outstanding tax liabilities relating to 1995. The liability is payable in two parts, 50% within 2-1/2 years, the remaining 50% over the succeeding five years. The remaining liability at December 31, 1998 was $396.

6. INVENTORIES

Inventories consist of:

	December 31,	
	1998	1997
Leaf tobacco	$13,882	$20,392
Other raw materials	4,629	4,103
Work-in-process	2,001	1,976
Finished goods	15,446	13,273
Replacement parts and supplies	4,130	4,466
Inventories at current cost	40,088	44,210
LIFO adjustments	(3,772)	(4,898)
	$36,316	$39,312

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

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

quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At December 31, 1998, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately $6,721 and $9,137, respectively. In addition, Liggett-Ducat had leaf tobacco prepayments of $1,232.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	December 31,	
	1998	1997
Land and improvements	$ 412	$ 411
Buildings	5,823	6,521
Machinery and equipment	54,144	53,717
Leasehold improvements		302
Construction-in-progress	66,981	18,179
	127,360	79,130
Less accumulated depreciation	(33,856)	(33,187)
	$ 93,504	$45,943

Depreciation expense for the years ended December 31, 1998, 1997 and 1996 was $4,123, $4,513 and $4,412, respectively. Capitalized interest included in property, plant and equipment was $761 and $693 in 1998 and 1997, respectively.

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

As discussed in Note 3, in connection with the construction of the new factory in Russia, equipment purchase agreements in place at December 31, 1998 total $35,846 of which $29,438 is being financed by manufacturers.

8. SALE OF ASSETS

On November 20, 1998, the Company and Liggett sold options to PM to purchase interests in the LLC. (Refer to Note 2.)

On January 31, 1997, BOL sold BML to New Valley for $21,500 in cash and a promissory note of $33,500 which was paid in 1997. (Refer to Note 5.)

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

On May 14, 1996, Liggett sold to the County of Durham surplus realty for $4,300. The Company recognized a gain of approximately $3,600.

On July 15, 1996, the Company sold substantially all of the non-cash assets and certain liabilities of COM Products, Inc., a subsidiary engaged in the business of selling micrographics equipment and supplies, for approximately $3,700 cash and a promissory note for $500. The Company recognized a gain of approximately $3,000 on this transaction.

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

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

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

	December 31, 1998	December 31, 1997
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of $17,374 and $1,141	$215,490	$231,723
Deferred interest on 15.75% Series B Senior Secured Notes due 2001	24,985	
14.500% Subordinated Debentures due 1998		800
Liggett:		
11.500% Senior Secured Series B Notes due 1999, net of unamortized discount of $206		112,406
Variable Rate Series C Senior Secured Notes due 1999		32,279
Revolving credit facility	2,538	23,427
BOL:		
Foreign credit facilities	11,600	5,000
Notes payable	28,057	
Other	1,171	629
Total notes payable, long-term debt and other obligations.	283,841	406,264
Less:		
Current maturities	21,176	6,429
Amount due after one year	$262,665	$399,835

STANDSTILL AGREEMENT - BGLS:

On August 28, 1997, during negotiations with the holders of more than 83% of the BGLS Notes then outstanding which concerned certain modifications to the terms of such debt, BGLS entered into a standstill agreement with such holders. Pursuant to the standstill agreement, as amended, such holders agreed that they would be entitled to receive their portion of the July 31, 1997 interest payment on the BGLS Notes (in total, $15,340) only after giving BGLS 20 days' notice but in any event by February 6, 1998.

On February 6, 1998, BGLS entered into a further amendment to the standstill agreement with the Apollo Holders, who held approximately 41.8% of the $232,864 principal amount of the BGLS Notes then outstanding, which extended the termination date of such agreement with respect to the Apollo Holders to March 2, 1998. Also on February 6, 1998, the holder of 41.9% of the BGLS Notes, who had previously been a party to the standstill agreement, was paid its pro rata share of the July 31, 1997 interest payment on the BGLS Notes. The Company also sold stock on January 16, 1998 to an affiliate of this holder in which it recorded an expense of $2,531 for the first quarter 1998, representing the difference between the cost and fair market value of the shares sold. (Refer to Note 13.)

On March 2, 1998, the Company entered into an agreement with the Apollo Holders in which the Apollo Holders (and any transferees) agreed to defer the payment of interest on the BGLS Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the BGLS Notes on January 31, 2001 or upon an event of default under the Indenture for the BGLS Notes. Accordingly, accrued interest as of March 2, 1998 was reclassified and included in long-term debt. In connection with the agreement, the Company pledged 50.1% of Western Tobacco to collateralize the BGLS Notes held by the Apollo Holders (and any transferees).

In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued to the Apollo Holders a five-year warrant to purchase 2,000,000 shares of the Company's common stock at a price of $5.00 per share. The Apollo Holders were also issued a second warrant expiring October 31, 2004 to purchase an additional 2,150,000 shares of the Company's common stock at a price of $0.10 per share. The second warrant will become exercisable on October 31, 1999, and the Company will have the right under certain conditions prior to that date to substitute for that warrant a new warrant for 9.9% of the common stock of Liggett.

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

SUBSEQUENT EVENT:

On February 17, 1999, BGLS entered into an agreement with a third party to purchase, during the third quarter of 1999, approximately $31,139 principal amount of the BGLS Notes, originally held by the Apollo Holders and subject to the standstill agreement. The purchase price is 95% of the principal amount of the notes and the accrued interest thereon. Such purchase is contingent upon receipt by the Company of approximately $145,000 (in addition to the $150,000 option fee paid in December 1998) on terms substantially consistent with the transactions contemplated by the PM Agreements. (Refer to Note 2.) BGLS will fund the purchase price with tax sharing payments from Liggett.

14.500% SUBORDINATED DEBENTURES DUE 1998

The 14.500% Subordinated Debentures due 1998 in principal amount of $800 were paid at maturity together with accrued interest on April 1, 1998.

15.75% SERIES B SENIOR SECURED NOTES DUE 2001

The BGLS Notes are collateralized by substantially all of BGLS' assets, including a pledge of BGLS' equity interests in Liggett, BOL and NV Holdings as well as a pledge of all of the New Valley securities held by BGLS and NV Holdings. The BGLS Notes Indenture contains certain covenants, which among other things, limit the ability of BGLS to make distributions to the Company to $6,000 per year ($12,000 if less than 50% of the BGLS Notes remain outstanding), limit additional

indebtedness of BGLS to $10,000, limit guaranties of subsidiary indebtedness by BGLS to $50,000, and restrict certain transactions with affiliates that exceed $2,000 in any year subject to certain exceptions which include payments to the Company not to exceed $6,500 per year for permitted operating expenses, payment of the Chairman's salary and bonus and certain other expenses, fees and payments. In addition, the Indenture contains certain restrictions on the ability of the Chairman and certain of his affiliates to enter into certain transactions with, and receive payments above specified levels from, New Valley. The BGLS Notes may be redeemed, in whole or in part, through December 31, 1999, at a price of 101% of the principal amount and thereafter at 100%. Interest is payable at the rate of 15.75% per annum on January 31 and July 31 of each year.

LIGGETT 11.500% SENIOR SECURED SERIES B NOTES DUE 1999:

On February 14, 1992, Liggett issued $150,000 in 11.50% Senior Secured Notes (the "Liggett Series B Notes"). The Liggett Series B Notes and Series C Notes referred to below (collectively, the "Liggett Notes") required mandatory principal redemptions of $7,500 on February 1 in each of the years 1993 through 1997 and $37,500 on February 1, 1998 with the balance of the Liggett Notes due on February 1, 1999. In February 1997, $7,500 of Liggett Series B Notes were purchased using the Facility and credited against the mandatory redemption requirements. The transaction resulted in a net gain of $2,963. The Liggett Notes were redeemed on December 28, 1998 at a price equal to 100% of the principal amount together with accrued interest. As discussed in Note 2, proceeds of $150,000 from the purchase by PM of two options to purchase the Class A Interest and the Class B Interest in the LLC were used to fund the redemption.

On January 30, 1998, with the consent of the required majority of the holders of the Liggett Notes, Liggett entered into various amendments to the Indenture governing the Liggett Notes, which provided, among other things, for a deferral of the February 1, 1998 mandatory redemption payment of $37,500 to the date of final maturity of the Liggett Notes on February 1, 1999. In connection with the deferral, on February 2, 1998, the Company issued 483,002 shares of the Company's common stock to the holders of record on January 15, 1998 of the Liggett Notes. As a result of this transaction, Liggett recorded a deferred charge of $4,105 during the first quarter of 1998 reflecting the fair value of the instruments issued. This deferred charge was amortized over a period of eleven months.

ISSUANCE OF LIGGETT SERIES C VARIABLE RATE NOTES:

The Series C Notes had the same terms (other than interest rate, which was 19.75%) and stated maturity as the Liggett Series B Notes. They were also redeemed on December 28, 1998 together with accrued interest.

REVOLVING CREDIT FACILITY - LIGGETT:

On March 8, 1994, Liggett entered into the Facility for $40,000 with a syndicate of commercial lenders. The Facility is collateralized by all inventories and receivables of Liggett. At December 31, 1998, $18,607 was available under the Facility based on eligible collateral. Borrowings under the Facility, whose interest is calculated at a rate equal to 1.5% above the Philadelphia National Bank's prime rate, bore a rate of 9.25% at December 31, 1998. The Facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended, imposes requirements with respect to Liggett's permitted maximum adjusted net worth (not to fall below a deficit of $195,000

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

as computed in accordance with the agreement, this computation was $141,414 at December 31, 1998) and net working capital (not to fall below a deficit of $17,000 as computed in accordance with the agreement, this computation was $6,168 at December 31, 1998).

On August 29, 1997, the Facility was amended to permit Liggett to borrow an additional $6,000 which was used on that date in making the interest payment of $9,700 due on August 1, 1997 to the holders of the Liggett Notes. BGLS guaranteed the additional $6,000 advance under the Facility and collateralized the guarantee with $6,000 in cash, deposited with Liggett's lender. At December 31, 1997, this amount was classified in other assets on the consolidated balance sheet. At December 31, 1998, the Company had recovered the $6,000 collateral from the lender together with accrued interest.

FOREIGN LOANS:

At December 31, 1998, Liggett-Ducat had two credit facilities outstanding. One, for $10,000, expires in May 1999. The interest rate had been 21% but was increased to 25% on August 26, 1998 over the remaining term of the facility. The second, for $5,000, expires in December 1999. The interest rate is 20%. At December 31, 1998, the balance outstanding under the facilities was $11,600. The facilities are collateralized by factory equipment and tobacco stock.

SCHEDULED MATURITIES:

Scheduled maturities of long-term debt are as follows:

Year ending December 31:	
1999	$ 21,176
2000	7,448
2001	245,385
2002	4,910
2003	4,922
Thereafter	--
	$283,841

10. COMMITMENTS

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

Year ending December 31:	
1999	$1,598
2000	804
2001	357
2002	369
2003	214
Thereafter	2,023
	$5,365

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

Lease commitments for 2003 and thereafter relate primarily to the remaining 43 years of a land lease and 23 years of an equipment lease in Russia.

The Company's rental expense for the years ended December 31, 1998, 1997 and 1996 was $3,035 $3,625 and $5,471, respectively.

11. EMPLOYEE BENEFIT PLANS

The Company adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits", which does not change the measurement or recognition of those plans, but revises the disclosure requirements for pension and other postretirement benefit plans in order to facilitate financial analysis. SFAS No. 132 is effective for the Company for the year ended 1998 and for all years presented.

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 ("ERISA").

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 in 1995 and 1996. 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,		
	1998	1997	1996
Service cost - benefits earned during the period.....	$ 350	$ 350	$ 350
Interest cost on projected benefit obligation.....	11,707	12,255	12,241
Expected return on assets.....	(16,724)	(14,093)	(10,753)
Amortization of net gain.....	(3,064)	(988)	(3,006)
Curtailment related to plan restructuring.....		484	1,463
	$ (7,731)	$ (1,992)	$ 295

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

	1998	1997
Change in benefit obligation:		
Benefit obligation at January 1	$(165,474)	$(163,502)
Interest cost	(11,707)	(12,255)
Benefits paid	15,861	17,987
Termination, settlements and curtailment		(484)
Actuarial losses	(8,744)	(7,220)
Benefit obligation at December 31	$(170,064)	$(165,474)
Change in plan assets:		
Fair value of plan assets at January 1	$ 194,732	$ 169,845
Actual return on plan assets	4,866	42,511
Contributions	342	363
Benefits paid	(15,861)	(17,987)
Fair value of plan assets at December 31	$ 184,079	$ 194,732
Excess of plan assets versus benefit obligations at December 31	$ 14,015	$ 29,258
Unrecognized actuarial gains	(25,729)	(49,045)
Contributions or SERP benefits	86	86
Net pension liability before additional minimum liability and purchase accounting valuation adjustments	(11,628)	(19,701)
Additional minimum liability	(1,901)	(2,058)
Purchase accounting valuation adjustments relating to income taxes	2,730	3,077
Pension liability included in the December 31 balance sheet	$ (10,799)	$ (18,682)

Assumptions used in the determination of net pension expense and the actuarial present value of benefit obligations for the years ended December 31, 1998 and 1997 follow:

	1998	1997
Discount rates	5.50 - 7.50%	6.25 - 8.00%
Accrued rates of return on invested assets	8.75 - 9.0%	9.0%
Salary increase assumptions	N/A	N/A

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

POSTRETIREMENT MEDICAL AND LIFE INSURANCE PLANS:

BGLS AND LIGGETT

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

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

The components of net periodic postretirement benefit cost for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Service cost benefits earned during the year.....	$ 43	$ 24	$ 68
Interest cost on accumulated postretirement benefit obligation.....	583	703	829
Charge for special termination benefits.....		47	137
Amortization of net (gain) loss.....	(284)	(193)	(92)
Net periodic postretirement benefit expense.....	$342	$581	$942

The following sets forth the actuarial present value of the Accumulated Postretirement Benefit Obligation ("APBO") at December 31, 1998 and 1997 applicable to each employee group for benefits:

	1998	1997
Change in benefit obligation:		
Benefit obligation at Janaury 1.....	$ (8,178)	$ (9,225)
Service cost.....	(43)	(24)
Interest cost.....	(583)	(703)
Benefits paid.....	934	960
Actuarial (losses) gains.....	(1,246)	814
Benefit obligation at December 31.....	$ (9,116)	$ (8,178)
Change in plan assets:		
Contributions.....	$ 934	$ 960
Benefits paid.....	(934)	(960)
Fair value of plan assets at December 31.....	$	$
Accumulated post retirement benefit obligation in excess of the plan assets.....	$ (9,116)	$ (8,178)
Unrecognized actuarial gains	(2,462)	(3,992)
Purchase accounting valuation adjustments relating to income taxes.....	676	1,002
Postretirement liability included in the December 31 balance sheet.....	$(10,902)	$(11,168)

The APBO at December 31, 1998 and 1997 was determined using discount rates of 7.5% and 7.5%, respectively, and a health care cost trend rate of 4% in 1998 and 1997. A 1% increase in the trend rate for health care costs would have increased the APBO and net periodic postretirement benefit cost by $363 and $26, respectively, for the year ended December 31, 1998. The Company does not hold any assets reserved for use in the plan.

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

PROFIT SHARING PLAN:

LIGGETT

The 401(k) plans originally called for Liggett contributions matching up to a 3% employee contribution, plus additional Liggett contributions of up to 6% of salary based on the achievement of Liggett's profit objectives. Liggett contributed and expensed $469, $497 and $591 to the 401(k) plans for the years ended December 31, 1998, 1997 and 1996, respectively.

12. INCOME TAXES

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

	Year Ended December 31,		
	1998	1997	1996
Current:			
U.S. Federal	$		
Foreign		$1,134	$1,454
State		(11)	(52)
Deferred:			
U.S. Federal	$(59,158)	$	$
Foreign	(455)		
State			
Total (benefit) provision	$(59,613)	$1,123	$1,402

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

	December 31, 1998		December 31, 1997	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Sales and product allowances	$ 3,468		$ 3,102	
Inventory	660	$ 1,220	457	$ 1,568
Coupon accruals	1,004		2,369	
Property, plant and equipment		4,791		5,760
Employee benefit plan accruals	8,429		12,698	
Debt restructuring charges	17,159		19,105	
Excess of tax basis over book basis-non-consolidated entities	9,969		9,467	
Legal settlements	2,036		9,840	
Russian tax loss carryforwards	3,354			
U.S. net operating loss carryforwards	62,714		50,151	
Valuation allowance	(43,169)		(99,861)	
Reclassifications	(6,011)	(6,011)	(7,328)	(7,328)
	$ 59,613	$	$	$

The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has established a valuation allowance against deferred tax assets of $43,169 at December 31, 1998.

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

At December 31, 1998, the Company and its consolidated group had U.S. tax carryforwards of $157,000 which may be subject to certain restrictions and limitations and which will expire in the years 2006 to 2017.

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

	Year Ended December 31,		
	1998	1997	1996
Loss from continuing operations before income taxes	$(35,394)	$(50,298)	$(64,113)
Federal income tax benefit at statutory rate	(12,387)	(17,604)	(22,440)
Increases (decreases) resulting from:			
State income taxes, net of federal income tax benefits		(8)	(34)
Foreign taxes	(455)	1,134	1,454
Other	9,921	8,386	951
Changes in valuation allowance	(56,692)	9,215	21,471
Provision for income tax	$(59,613)	$ 1,123	$ 1,402

12. EQUITY

On January 16, 1998, the Company entered into a Stock Purchase Agreement in which High River Limited Partnership purchased 1,500,000 shares of the Company's common stock for $9,000. (Refer to Note 9.)

In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued warrants to purchase the Company's common stock. (Refer to Note 9.)

On March 12, 1998, the Company granted an option for 1,250,000 shares of the Company's common stock to a law firm that represents the Company and Liggett. On May 1, 1998 and April 1, 1999, options for 250,000 and 1,000,000 shares, respectively, of common stock were exercisable at $17.50 per share. The option, as originally written, was to expire on March 31, 2003. 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 $17.50 per share to $6.00 per share and extended the initial exercise date on all 1,250,000 shares to April 1, 2000, subject to earlier exercise under certain circumstances. 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, 1998, $2,507 had been expensed, and the remaining amount of $2,606 will be recognized over the vesting period.

During April and May 1998, the Company granted 10,000 shares of the Company's common stock to each of its three outside directors. Of these shares, 7,500 vested immediately and the remaining 22,500 shares will vest in three equal annual installments. At December 31, 1998, $124 had been expensed and the remaining amount of $227 will be recognized over the vesting period.

On August 28, 1998, the Company granted 470,000 shares of its common stock as part of a performance fee to members of a law firm which represents the Company and Liggett. The shares generally are not transferable prior to September 1, 1999. The Company expensed $1,687 for the year ended December 31, 1998.

On October 15, 1998, the Company obtained stockholder approval to increase the number of authorized shares of the Company's common stock from 40,000,000 to 100,000,000 shares.

On March 7, 1997, a partnership controlled by the Company's Chairman, President and Chief Executive Officer and controlling stockholder (the "Chairman"), transferred 400,000 shares of common stock to the Company in satisfaction of an obligation. (Refer to Note 17.)

14. STOCK PLANS

On October 15, 1998, shareholders of the Company approved the adoption of the 1998 Long-Term Incentive Plan (the "Plan"). The Plan, adopted on May 8, 1998, authorizes the granting of up to 5,000,000 shares of the Company's 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 Plan.

On July 20, 1998, the Company granted a non-qualified stock option to each of the Chairman and a consultant to the Company who serves as President and a director of New Valley (the "Consultant"), pursuant to the Plan, which grants had been conditioned upon the approval of the Plan by the Company's stockholders. Under the options, the Chairman and the Consultant have the right to purchase 2,500,000 shares and 500,000 shares, respectively, of the Company's common stock at an exercise price of $9.75 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 aggregate shares covered thereby 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%. At December 31. 1998, $407 had been expensed and the remaining amount of $2,853 will be recognized over the remaining vesting period.

As of January 1, 1998 and 1997, the Company granted to employees of the Company non-qualified stock options to purchase 43,000 and 422,000, respectively, shares of the Company's common stock at an exercise price of $5.00 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.

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

A summary of stock options granted to employees follows:

	Number of Shares	Exercise Price	Weighted Average Fair Value
Outstanding on December 31, 1996	0		
Granted	422,000	$5.00	$4.30
Exercised	0		
Cancelled	0		
Outstanding on December 31, 1997	422,000	$5.00	$4.30
Granted	2,543,000	$5.00-$9.75	$7.64
Exercised	94,132	$5.00	
Cancelled	0		
Outstanding on December 31, 1998	2,870,868	$5.00-$9.75	$7.75
Options exercisable at:			
December 31, 1997	89,165		
December 31, 1998	70,366		

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:

	1998	1997
Net income (loss) as reported	$27,427	$(49,885)
Estimated fair value of the year's option grants	2,549	383
Net income (loss) adjusted	24,878	(50,268)
Adjusted net income (loss) per share - basic	1.22	(2.81)
Adjusted net income (loss) per share - diluted	1.00	(2.81)

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 in July 1998, January 1998 and January 1997, respectively. There are no expected dividends or forfeitures.

Date	Risk Free Interest Rate	Expected Life in Years	Expected Volatility	Weighted Average Fair Value
July 20, 1998	5.54%	10	79.14%	$8.21
January 1, 1998	5.74%	10	76.56%	$7.58
January 1, 1997	6.44%	10	81.46%	$4.30

On December 16, 1996, the Company entered into a Stock Option Agreement (the "Agreement") with the Consultant. The Agreement granted the Consultant non-qualified stock options to purchase 1,000,000 shares of the Company's common stock at an exercise price of $1.00 per share. The options, which have a ten-year term, vest and become exercisable in six equal annual installments

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

beginning on July 1, 1997. Pursuant to 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 $780, $1,127 and $64 for the years ended 1998, 1997 and 1996, respectively.

As of January 1, 1994, the Company had granted 500,000 shares of restricted common stock to the Consultant. Of the total number of shares granted, 250,000 were immediately vested and issued during the third quarter. The remaining 250,000 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 500,000 shares were granted at $2.00 per share. The options are exercisable over a ten-year period, beginning with 20% on the grant date and 20% on each of the four anniversaries of the grant date. The grant provides for dividend equivalent rights on all the shares underlying the options. During 1998, 1997 and 1996, the Company recorded charges to income of $188, $205 and $222, respectively, for compensation based on estimates of the fair market value for the shares and options granted. In 1998, 1997 and 1996, the Company also recorded charges to income of $155, $188, and $150, respectively, for the dividend equivalent rights.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	1998	1997	1996
I. Cash paid during the period for:			
Interest	$62,339	$43,028	$57,362
Income taxes, net of refunds	2,751	462	582
II. Non-cash investing and financing activities:			
Issuance of stock to Liggett bondholders	4,105		
Issuance of stock to consultants and law firms	3,705		
Issuance of warrants	22,421		
Dividends payable			$ 1,387
Exchange of Series 2 Senior Secured Notes for Series A Notes			99,154
Exchange of 14.50% Subordinated Debentures for Series B Notes			125,495
Issuance of Series A Notes for options			822
Exchange of Series A Notes for Series B Notes			99,976
Issuance of promissory notes for shares of Liggett-Ducat			1,643
Promissory note from New Valley		33,500	

16. CONTINGENCIES

TOBACCO-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 from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are reported hereinafter as though having been commenced against Liggett (without regard to whether such cases were actually commenced against the Company 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 four categories: (i) smoking and health cases alleging personal injury brought on behalf of individual smokers ("Individual Actions"); (ii) smoking and health cases alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. In 1996 and 1997, Liggett incurred counsel fees and costs in connection with tobacco-related litigation in the amount of approximately $3,500 and $5,750, respectively. Certain fees and expenses were paid by others in the industry, but, this assistance terminated in 1997. In 1998, Liggett incurred counsel fees and costs totaling approximately $7,828.

INDIVIDUAL ACTIONS. As of December 31, 1998, there were approximately 270 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 ETS and seek compensatory and, in some cases, punitive damages. Of these, 89 are pending in Florida, 91 in New York, 29 in Massachusetts and 19 in Texas. The balance of the individual cases were pending in 21 states. There are four individual cases pending where Liggett is the only named defendant.

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, special duty, voluntary undertaking, 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, indemnity, market share liability and violations of deceptive trade practices laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO") and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including 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.

CLASS ACTIONS. As of December 31, 1998, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Two of these cases, FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL. and

WALKER, ET AL. V. LIGGETT GROUP INC., ET AL., have been settled by the Company, subject to court approval. These two settlements are more fully discussed below under the "Settlements" section.

In October 1991, an action entitled BROIN, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Circuit Court of the Eleventh Judicial District in and for Dade County, Florida, was filed against Liggett and others. This case was brought by plaintiffs on behalf of all flight attendants that worked or are presently working for airlines based in the United States and who never regularly smoked cigarettes but allege that they have been damaged by involuntary exposure to ETS. In October 1997, the other major tobacco companies settled this matter, which settlement provides for a release of the Company and Liggett. In February 1998, the Circuit Court approved the settlement; however, an objector filed a Notice of Appeal of the settlement in the Third District Court of Appeal. (See "Subsequent Events" below.)

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

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

The extent of the impact of the CASTANO decision on tobacco-related class action litigation is still uncertain, although the decertification of the CASTANO class by the Fifth Circuit may preclude other federal courts from certifying a nationwide class action for trial purposes with respect to tobacco-related claims. The CASTANO decision has had to date, however, only limited effect with respect to courts' decisions regarding narrower tobacco-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, courts in New York, Louisiana and Maryland have certified "addiction-as-injury" class actions that covered only citizens in those states. Two class actions pending in state court in Florida have also been certified one of which, the BROIN case, was settled in 1997. The CASTANO decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

Class certification motions are pending in a number of putative class actions. Class certification has been denied or reversed in 13 actions while classes remain certified in two cases in Florida and Maryland. A number of class certification decisions are on appeal.

GOVERNMENTAL ACTIONS. As of December 31, 1998, actions against Liggett and the Company were filed by each of the 50 states and certain territories. As more fully discussed below, Liggett and the Company have settled these actions. In addition, actions against Liggett and the Company have

been filed by foreign countries and counties, municipalities and public hospitals. As of December 31, 1998, there were approximately 15 Governmental Actions pending against Liggett. In these proceedings, the governmental entities seek reimbursement for Medicaid and other health care expenditures allegedly caused by use of tobacco products. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or 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, 1998, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross and Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District Courts in New York, Chicago, and Seattle and seek billions of dollars in damages. The lawsuits allege conspiracy, fraud, misrepresentation and violation of federal racketeering and antitrust laws as well as other claims. 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. (See "Subsequent Events" below.)

SETTLEMENTS. In March 1996, the Company and Liggett entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. Under the CASTANO settlement agreement, upon final court approval of the settlement, the CASTANO class would be entitled to receive up to five percent of Liggett's pretax income (income before income taxes) each year (up to a maximum of $50,000 per year) for the next 25 years, subject to certain reductions provided for in the agreement and a $5,000 payment from Liggett if the Company or Liggett fail to consummate a merger or similar transaction with another non-settling tobacco company defendant within three years of the date of settlement. The Company and Liggett have the right to terminate the CASTANO settlement under certain circumstances. On March 14, 1996, the Company, the CASTANO Plaintiffs Legal Committee and the CASTANO plaintiffs entered into a letter agreement. According to the terms of the letter agreement, for the period ending nine months from the date of Final Approval (as defined in the letter), if granted, of the CASTANO settlement or, if earlier, the completion by the Company or Liggett of a combination with any defendant in CASTANO, except PM, the CASTANO plaintiffs and their counsel agree not to enter into any more favorable settlement agreement with any CASTANO defendant which would reduce the terms of the CASTANO settlement agreement. If the CASTANO plaintiffs or their counsel enter into any such settlement during this period, they shall pay the Company $250,000 within 30 days of the more favorable agreement and offer the Company and Liggett the option to enter into a settlement on terms at least as favorable as those included in such other settlement. The letter agreement further provides that during the same time period, and if the CASTANO settlement agreement has not been earlier terminated by the Company in accordance with its terms, the Company and its affiliates will not enter into any business transaction with any third

party which would cause the termination of the CASTANO settlement agreement. If the Company or its affiliates enter into any such transaction, then the CASTANO plaintiffs will be entitled to receive $250,000 within 30 days from the transacting party. In May 1996, the CASTANO Plaintiffs Legal Committee filed a motion with the United States District Court for the Eastern District of Louisiana seeking preliminary approval of the CASTANO settlement. In September 1996, shortly after the class was decertified, the CASTANO plaintiffs withdrew the motion for approval of the CASTANO settlement.

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

On November 23, 1998, PM, B&W, R.J. Reynolds Tobacco Company ("RJR") and Lorillard Tobacco Company ("Lorillard") (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. As described below, the Company and Liggett had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 40 states and territories.

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.

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). 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 pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the

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

OPMs (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nations" protection for both the Company and Liggett, the payments due these states by Liggett (other than Mississippi and Minnesota) have been eliminated. With respect to all non-economic obligations under the previous settlements, both the Company 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 March 1997, Liggett, the Company 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, and in May 1997, a similar mandatory class settlement agreement was filed in an action entitled WALKER, ET AL. V. LIGGETT GROUP INC., ET AL., United States District Court, Southern District of West Virginia. On July 2, 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement in FLETCHER which agreement was preliminarily approved by the court on December 8, 1998. A hearing on final approval of the settlement is scheduled for April 27, 1999. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of $1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, the Company anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and the Company. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action

pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in FLETCHER encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution of tobacco-related claims against Liggett and the Company.

The WALKER court also granted preliminary approval and preliminary certification of the nationwide class; however, in August 1997, the court vacated its preliminary certification of the settlement class, which decision is currently on appeal. The WALKER court relied on the Supreme Court's decision in AMCHEM PRODUCTS INC. V. WINDSOR in reaching its decision to vacate preliminary certification of the class. In AMCHEM, the Supreme Court affirmed a decision of the Third Circuit vacating the certification of a settlement class that involved asbestos-exposure claims. The Supreme Court held that the proposed settlement class did not meet the requirements of Rule 23 of the Federal Rules of Civil Procedure for predominance of common issues and adequacy of representation. The Third Circuit had held that, although classes could be certified for settlement purposes, Rule 23's requirements had to be satisfied as if the case were going to be litigated. The Supreme Court agreed that the fairness and adequacy of the settlement are not pertinent to the predominance inquiry under Rule 23(b)(3), and thus, the proposed class must have sufficient unity so that absent class members can fairly be bound by decisions of class representatives.

After the AMCHEM opinion was issued by the Supreme Court in June 1997, objectors to Liggett's settlement in WALKER moved for decertification. Although Liggett's settlement in the WALKER action is a "limited fund" class action settlement proceeding under Rule 23(b)(1) and AMCHEM was a Rule 23 (b)(3) case, the court in the WALKER action, nonetheless, decertified the WALKER class. Applying AMCHEM to the WALKER case, the District Court, in a decision issued in August 1997, determined that while plaintiffs in WALKER have a common interest in "maximizing the limited fund available from the defendants," there remained "substantial conflicts among class members relating to distribution of the fund and other key concerns" that made class certification inappropriate.

The AMCHEM decision's ultimate affect on the viability of both the WALKER and FLETCHER settlements remains uncertain given the Fifth Circuit's recent ruling reaffirming a limited fund class action settlement in IN RE ASBESTOS LITIGATION ("AHEARN"). In June 1997, the Supreme Court remanded AHEARN to the Fifth Circuit for consideration in light of AMCHEM. On remand, the Fifth Circuit made two decisive distinctions between AMCHEM and AHEARN. First, the AHEARN class action proceeded under Rule 23(b)(1) while AMCHEM was a Rule 23(b)(3) case, and second, in AHEARN, there was no allocation or difference in award, according to nature or severity of injury, as there was in AMCHEM. The Fifth Circuit concluded that all members of the class and all class representatives share common interests and none of the uncommon questions abounding in AMCHEM exist. On June 22, 1998, the Supreme Court granted certiorari to review the Fifth Circuit decision.

The Company accrued approximately $4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and $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.

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

TRIALS. In July 1998, trial commenced in the ENGLE, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., case, a class action pending in Miami Dade County, Florida, brought on behalf of all Florida residents allegedly injured by smoking. Plaintiffs seek compensatory and punitive damages ranging into the billions of dollars, as well as equitable relief including, but not limited to, a medical fund for future health care costs, attorneys' fees and court costs. The class consists of all Florida residents and citizens, and their survivors, who claim to have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine.

The current trial plan calls for the case to be tried in three "Phases". Phase One, which is currently underway, involves evidence concerning certain "common" class issues relating to the plaintiff class' causes of action. Entitlement to punitive damages will be decided at the end of Phase One, but no amount will be set at that time.

If plaintiffs prevail in Phase One, the first two stages of Phase Two will involve individual determinations of specific causation and other individual issues regarding entitlement to compensatory damages for the class representatives. Stage three of Phase Two will involve an assessment of the amount of punitive damages, if any, that individual class representatives will be awarded. Stage four of Phase Two will involve the setting of a percentage or ratio of punitive damages for absent class members, assuming entitlement was found at the end of Phase One.

Phase Three of the trial will be held before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

Additional cases are currently scheduled for trial during 1999, including two Third-Party Payor Actions brought by unions in Washington (September) and New York (September), and three Class Actions in Alabama (August), Wisconsin (September) and New York (November). Also, six Individual Actions are currently scheduled for trial during 1999. Trial dates, however, are subject to change.

OTHER RELATED MATTERS:

A grand jury investigation is being conducted by the office of the United States Attorney for the Eastern District of New York (the "Eastern District Investigation") regarding possible violations of criminal law relating to the activities of The Council for Tobacco Research - USA, Inc. (the "CTR"). Liggett was a sponsor of the CTR at one time. In May 1996, Liggett received a subpoena from a Federal grand jury sitting in the Eastern District of New York, to which Liggett has responded.

In March 1996, and in each of March, July, October and December 1997, the Company and/or Liggett received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of: the health consequences of smoking cigarettes; the targeting of children by the industry; and the

addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas. The Company understands that the Eastern District Investigation and the DOJ Investigation essentially have been consolidated into one investigation conducted by the Department of Justice (the "DOJ"). The Company and Liggett are unable, at this time, to predict the outcome of this investigation.

In April 1998, the Company announced that Liggett had reached an agreement with the DOJ to cooperate in both the Eastern District Investigation and the DOJ Investigation. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation.

In September 1998, Liggett received a subpoena from a federal grand jury in the Eastern District of Philadelphia investigating possible antitrust violations in connection with the purchase of tobacco by and for tobacco companies. Liggett has responded to this subpoena. Liggett and the Company are unable, at this time, to predict the outcome of this investigation.

Litigation is subject to many uncertainties, and it is possible that some of the aforementioned actions could be decided unfavorably against the Company or Liggett. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. The Company is unable to make a meaningful estimate with respect to the amount of loss that could result from an unfavorable outcome of many of the cases pending against the Company, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

Liggett has been involved in certain environmental proceedings, none of which, either individually or in the aggregate, rises to the level of materiality. Liggett's management believes that current operations are conducted in material compliance with all environmental laws and regulations. Management is unaware of any material environmental conditions affecting its existing facilities. 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 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.

SUBSEQUENT EVENTS. On January 4, 1999, a federal judge in Seattle dismissed a Third-Party Payor Action brought by seven Blue Cross/Blue Shields against the tobacco industry. The court ruled that

the insurance providers did not have standing to bring the lawsuit. However, on February 26, 1999, a federal judge in the Eastern District of New York denied pleas by the industry to dismiss the Third-Party Payor Action brought by 24 Blue Cross/Blue Shields.

On February 10, 1999, a state court jury in San Francisco awarded $51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by PM. The award includes $1,500 in compensatory damages and $50,000 in punitive damages.

On February 17, 1999, Liggett settled the IRON WORKERS LOCAL UNION NO. 17 INSURANCE FUND, ET AL. V. PHILIP MORRIS INC., ET AL. matter. This Third-Party Payor Action was brought on behalf of all health and welfare union funds in Ohio in order to recover monies allegedly expended to treat members' smoking-related illnesses. Liggett has no payment obligations under the settlement unless Liggett reaches a monetary settlement with any other health and welfare fund. On March 18, 1999, a defense verdict was rendered in this action.

On January 19, 1999, at the State of the Union Address, President Clinton announced that the DOJ was preparing a litigation plan to take the tobacco industry to court to recover monies that Medicare and other programs allegedly expended to treat smoking-related illnesses. The effects of this lawsuit cannot be predicted at this time; however, an adverse verdict could have a material adverse effect on the Company and Liggett.

On March 24, 1999 the Florida appeals court upheld the 1997 BROIN settlement involving the other major tobacco companies.

On March 30, 1999 a state court jury in Portland awarded $80,311 in damages to the family of a deceased smoker who smoked Marlboro made by PM. The award includes $79,500 in punitive damages.

LEGISLATION AND REGULATION:

In January 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of ETS which concludes that ETS 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 ETS, 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 ETS was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, the court ruled that the EPA made procedural and scientific mistakes when it declared in its 1993 report that secondhand smoke caused as many as 3,000 cancer deaths a year among nonsmokers.

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 FDA filed in the Federal Register a Final Rule (the "FDA Rule") classifying tobacco as a drug, asserting jurisdiction by the FDA over the manufacture and marketing of tobacco

products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The Fourth Circuit Court reversed the district court on appeal and on August 14, 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. The Company and Liggett support the FDA Rule and have begun to phase in compliance with certain of the proposed interim FDA regulations. See discussions of the CASTANO and Governmental Actions settlements above.

In August 1996, the Commonwealth of 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; 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.

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 24 cents, would rise 10 cents in the year 2000 and 5 cents more in the year 2002. Additionally, in November 1998, the citizens of California voted in favor of a 50 cents per pack tax on cigarettes sold in that state.

In addition to the foregoing, there have been a number of other restrictive regulatory actions, adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, the effects of which, at this time, the Company is not able to evaluate.

OTHER MATTERS:

In June 1993, the Company obtained expropriation and forced abandonment insurance coverage for its investment in its Ducat Place I real estate project in Moscow, Russia. Shortly thereafter, the Company submitted a Notice of Loss to the insurer, under and pursuant to the policy. The insurer denied the claim and, in July 1994, arbitration proceedings were commenced in the United Kingdom. In January 1997, the Company recognized a gain of $4,125 in settlement of the dispute.

On or about March 13, 1997, a shareholder derivative suit was filed against New Valley, as a nominal defendant, its directors and the Company in the Delaware Chancery Court, by a shareholder of New Valley. The suit alleges that New Valley's purchase of the BML shares 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, the Company aided and abetted such breaches and such parties are therefore liable to New Valley, and (ii) unspecified damages to be awarded to New Valley. The Company's time to respond to the complaint has not yet expired. The Company believes that the allegations are without merit. Although there can be no assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On or about September 18, 1998, a lawsuit was commenced against the Company, New Valley, certain officers, directors and shareholders and others in the United States District Court, Southern District of Texas, Houston Division. The defendants have moved to dismiss the case. The court, in the interim, has stayed all discovery.

17. RELATED PARTY TRANSACTIONS

In 1995, the Company and New Valley entered into an expense sharing agreement whereby certain lease, legal and administrative expenses are allocated to the entity incurring the expense. Expense reimbursements amounted to $502, $375 and $462 for the years ended December 31, 1998, 1997 and 1996, respectively.

An outside director of the Company is a stockholder of and serves as the chairman and treasurer of a registered broker-dealer that has performed services for the Company and its affiliates since before December 31, 1995. The broker-dealer received brokerage commissions and other income of approximately $128, $522 and $317 from the Company and/or its affiliates during 1998, 1997 and 1996, 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. In connection with the acquisition of certain office buildings by New Valley on January 10, 1996, this director received a commission of $220 from the seller.

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 6 years. The Company recognized the expense during the second quarter of 1998.

In September 1998, New Valley made a one-year, $950 loan to BGLS which bears interest at 14% per annum. At December 31, 1998, the loan and accrued interest thereon of $983 were included in current liabilities. On December 18, 1996, New Valley loaned BGLS $990 under a short-term promissory note due January 31, 1997 and bearing interest at 14%. On January 2, 1997, New Valley loaned BGLS an additional $975 under another short-term promissory note due January 31, 1997 and bearing interest at 14%. Both loans including interest were repaid on January 31, 1997.

On March 7, 1997, a partnership controlled by the Chairman transferred to the Company the remaining 400,000 pledged shares of the Company's common stock with a market value of $1,800 in final satisfaction of an obligation to make certain payments to the Company on account of a former executive's outstanding indebtedness of $5,477 (deducted from equity).

On January 31, 1997, New Valley entered into a stock purchase agreement with BOL pursuant to which New Valley acquired 10,483 shares of BML common stock (99.1%) for a purchase price of $55,000, consisting of $21,500 in cash and a $33,500 promissory note with an interest rate of 9%. The note was paid in full in 1997. (Refer to Note 5.)

On December 16, 1996, the Company entered into a Stock Option Agreement relating to 1,000,000 shares of the Company's common stock with the Consultant. In addition, the Company granted the Consultant options to purchase 500,000 shares in 1995 and in 1998. (Refer to Note 15.) During 1998, 1997 and 1996, the Consultant received consulting fees of $480 per year from the Company and a subsidiary.

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

During 1996, the Company and BGLS entered into a court-approved Stipulation and Agreement (the "Settlement") with New Valley relating to the Company's and BGLS' application under the Federal Bankruptcy Code for reimbursement of legal fees and expenses incurred by them in connection with New Valley's bankruptcy reorganization proceedings. Pursuant to the Settlement, New Valley reimbursed the Company and BGLS $655 for such legal fees and expenses. The terms of the Settlement were substantially similar to the terms of previous settlements between New Valley and other applicants who had sought reimbursement of reorganization-related legal fees and expenses.

18. SEGMENT INFORMATION

For the year ended December 31, 1998, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which changes the way the Company reports information about its operating segments. The Company's business segment is tobacco with reportable segments being geographic, i.e., the United States and Russia in 1998, 1997 and 1996.

	United States Tobacco	Russia Tobacco	Corporate and Other	Total
1998				
Net sales	$347,129	$ 97,437	$	$444,566
Operating income	54,422	13,234	3,938	71,594
Identifiable assets	74,743	104,090	50,149	228,982
Depreciation and amortization	6,678	1,708	224	8,610
Capital expenditures	1,859	17,784	1,363	21,006
1997				
Net sales	$312,268	$ 77,347		$389,615
Operating income	3,688	8,642	$(4,301)	8,029
Identifiable assets	68,475	46,222	11,760	126,457
Depreciation and amortization	7,025	783	327	8,135
Capital expenditures	2,462	17,680		20,142
1996				
Net sales	$401,062	$ 54,160	5,134	$460,356
Operating income (loss)	6,753	(6,825)	(3,855)	(3,927)
Identifiable assets	97,677	72,296	7,704	177,677
Depreciation and amortization	7,969	520	330	8,819
Capital expenditures	4,319	29,860	62	34,241

BROOKE GROUP LTD.
BGLS INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

(DOLLARS IN THOUSANDS)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
YEAR ENDED DECEMBER 31, 1998					
Allowances for:					
Doubtful accounts	$ 820	$ 613		$ 337	$1,096
Cash discounts	563	12,583		12,235	911
Sales returns	4,750		$2,350		7,100
Total	$6,133	$13,196	$2,350	$12,572	$9,107
Provision for inventory obsolescence	$1,157	$ 1,303	$	$ 495	$1,965
YEAR ENDED DECEMBER 31, 1997					
Allowances for:					
Doubtful accounts	$ 750	$ 226		$ 156	$ 820
Cash discounts	530	11,319		11,286	563
Sales returns	5,000			250	4,750
Total	$6,280	$11,545	$	$11,692	$6,133
Provision for inventory obsolescence	$3,218	$ 221	$	$ 2,282	$1,157
YEAR ENDED DECEMBER 31, 1996					
Allowances for:					
Doubtful accounts	$ 921	$ 903		$ 1,074	$ 750
Cash discounts	615	13,929		14,014	530
Sales returns	5,000				5,000
Total	$6,536	$14,832	$	$15,088	$6,280
Provision for inventory obsolescence	$2,641	$ 1,341	$	$ 764	$3,218

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(a) Charged to net sales.

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and the
Stockholders of New Valley Corporation

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholder's equity and cash flows present fairly, in all material respects, the financial position of New Valley Corporation and its subsidiaries (the "Company") at December 31, 1998 and December 31, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Thinking Machines Corporation, a consolidated subsidiary, which statements reflect total assets of $5,604,159 at December 31, 1997, and total revenues of $350,234 for the year ended December 31, 1997. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Thinking Machines Corporation, is based solely on the report of the other auditors. We conducted our audits of the consolidated financial statements in accordance with generally accepted auditing standards 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 and the report of other auditors provide a reasonable basis for the opinion expressed above.

Our audits of the consolidated financial statements of New Valley Corporation also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, the Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

As discussed in the Notes to the Consolidated Financial Statements, the investments and operations of the Company, and those of similar companies in the Russian Federation, have been significantly affected, and could continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Russian Federation.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
March 19, 1999

NEW VALLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31,	
	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,444	$ 11,606
Investment securities available for sale	37,567	51,993
Trading securities owned	8,984	49,988
Restricted assets	1,220	232
Receivable from clearing brokers	22,561	1,205
Other current assets	4,675	3,618
Total current assets	91,451	118,642
Investment in real estate, net	82,875	259,968
Furniture and equipment, net	10,444	12,194
Restricted assets	6,082	5,484
Long-term investments, net	9,226	27,224
Investment in joint venture	65,193	--
Other assets	7,451	17,879
Total assets	$ 272,722	$ 441,391
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Margin loan payable	$ 13,088	$ 13,012
Current portion of notes payable and long-term obligations	2,745	760
Accounts payable and accrued liabilities	32,047	55,222
Prepetition claims and restructuring accruals	12,364	12,611
Income taxes	18,702	18,413
Securities sold, not yet purchased	4,635	25,610
Total current liabilities	83,581	125,628
Notes payable	54,801	176,314
Other long-term liabilities	23,450	11,210
Commitments and contingencies	--	--
Redeemable preferred shares	316,202	258,638
Stockholders' deficiency:		
Cumulative preferred shares; liquidation preference of $69,769, dividends in arrears: 1998 - $165,856; 1997 - $139,412	279	279
Common Shares, $.01 par value; 850,000,000 shares authorized; 9,577,624 shares outstanding	96	96
Additional paid-in capital	550,119	604,215
Accumulated deficit	(758,016)	(742,427)
Unearned compensation on stock options	(475)	(158)
Accumulated other comprehensive income	2,685	7,596
Total stockholders' deficiency	(205,312)	(130,399)
Total liabilities and stockholders'deficiency	$ 272,722	$ 441,391

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues:			
Principal transactions, net	$ 11,430	$ 16,754	$ 28,344
Commissions	28,284	16,727	17,755
Corporate finance fees	14,733	12,514	10,230
Gain on sale of investments, net	11,768	19,202	10,014
Loss in joint venture	(4,976)	--	--
Real estate leasing	20,577	27,067	23,559
Gain on sale of real estate	4,682	1,290	--
Computer sales and service	794	3,947	15,017
Interest and dividends	8,808	9,417	16,951
Other income	5,987	7,650	8,995
Total revenues	102,087	114,568	130,865
Costs and expenses:			
Selling, general and administrative expenses	110,375	119,205	140,399
Interest	13,939	16,988	17,760
Recovery of restructuring charges	--	--	(9,706)
Provision for loss on long-term investments	3,185	3,796	1,001
Total costs and expenses	127,499	139,989	149,454
Loss from continuing operations before income taxes and minority interests	(25,412)	(25,421)	(18,589)
Income tax provision	6	186	300
Minority interests in loss from continuing operations of consolidated subsidiaries	2,089	1,347	4,241
Loss from continuing operations	(23,329)	(24,260)	(14,648)
Discontinued operations (Note 22):			
Gain on disposal of discontinued operations	7,740	3,687	7,158
Income from discontinued operations	7,740	3,687	7,158
Net loss	(15,589)	(20,573)	(7,490)
Dividend requirements on preferred shares	(80,964)	(68,475)	(61,949)
Excess of carrying value of redeemable preferred shares over cost of shares purchased	--	--	4,279
Net loss applicable to Common Shares	$ (96,553)	$ (89,048)	$ (65,160)

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Income (loss) per common share (Basic and Diluted):			
Continuing operations	$(10.89)	$(9.68)	$(7.55)
Discontinued operations	.81	.38	.75
Net loss	$(10.08)	$(9.30)	$(6.80)
Number of shares used in computation	9,577,624	9,577,624	9,577,624

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	CLASS B PREFERRED SHARES	COMMON SHARES	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	UNEARNED COMPENSATION ON STOCK OPTIONS	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance, December 31, 1995	$ 279	$ 1,916	$679,058	$(714,364)		$2,650
Net loss				(7,490)		
Undeclared dividends and accretion on redeemable preferred shares			(41,123)			
Purchase of redeemable preferred shares			4,279			
Effect of 1-for-20 reverse stock split		(1,820)	1,820			
Issuance of stock options			755		$ (755)	
Compensation expense on stock option grants					24	
Unrealized gain on investment securities						2,407
Balance, December 31, 1996	279	96	644,789	(721,854)	(731)	5,057
Net loss				(20,573)		
Undeclared dividends and accretion on redeemable preferred shares			(45,148)			
Unrealized gain on investment securities						2,539
Compensation expense on stock option grants					15	
Adjustment to unearned compensation on stock options			(558)		558	
Public sale of subsidiaries' common stock, net			5,132			
Balance, December 31, 1997	279	96	604,215	(742,427)	(158)	7,596
Net loss				(15,589)		
Undeclared dividends and accretion on redeemable preferred shares			(54,520)			
Adjustment to unearned compensation on stock options			424		(424)	
Compensation expense on stock option grants					107	
Unrealized loss on investment securities						(4,911)
Balance, December 31, 1998	$ 279	$ 96	$550,119	$ (758,016)	$ (475)	$ 2,685

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net loss	$ (15,589)	$ (20,573)	$ (7,490)
Adjustments to reconcile net loss to net cash used for operating activities:			
Income from discontinued operations	(7,740)	(3,687)	(7,158)
Depreciation and amortization	6,495	9,414	4,757
Loss in joint venture	4,976	--	--
Provision for loss on long-term investments	3,185	3,796	1,001
Gain on sales of real estate and liquidation of long-term investments	(9,452)	(1,290)	--
Reversal of restructuring accruals	--	--	(9,706)
Stock based compensation expense	3,151	2,934	384
Other	578	--	--
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Decrease (increase) in receivables and other assets	19,376	4,474	(13,813)
Increase (decrease) in income taxes payable	396	170	(2,040)
(Decrease) increase in accounts payable and accrued liabilities	(27,073)	4,513	11,336
Net cash used for continuing operations	(21,697)	(249)	(22,699)
Net cash provided from discontinued operations	7,740	--	--
Net cash used for operating activities	(13,957)	(249)	(22,699)
Cash flows from investing activities:			
Sale or maturity of investment securities	22,888	45,472	160,088
Purchase of investment securities	(19,429)	(30,756)	(12,825)
Sale or liquidation of long-term investments	25,895	2,807	18,292
Purchase of long-term investments	(13,590)	(15,384)	(3,051)
Sale of real estate, net of closing costs	111,292	8,718	--
Purchase of and additions to real estate	(18,236)	(10,777)	(24,496)
Purchase of furniture and equipment	(583)	(3,478)	(5,240)
Payment of prepetition claims and restructuring accruals	(1,061)	(828)	(8,160)
Payment for acquisitions, net of cash acquired	--	(20,014)	1,915
(Increase) decrease in restricted assets	(1,586)	3,130	29,159
Cash contributed to joint venture	(442)	--	--
Net proceeds from disposal of business	--	--	10,174
Other, net	(935)	--	--
Net cash provided from (used for) investing activities	104,213	(21,110)	165,856
Cash flows from financing activities:			
Payment of preferred dividends	--	--	(41,419)
Proceeds from participating loan	14,300	--	--
Purchase of redeemable preferred shares	--	--	(10,530)
Increase (decrease) in margin loan payable	76	13,012	(75,119)
Payment of long-term notes and other liabilities	(99,303)	(62,739)	(10,549)
Increase in long-term borrowings	--	19,993	--
Issuance of subsidiary stock	--	5,417	--
Other, net	(491)	--	--
Net cash used for financing activities	(85,418)	(24,317)	(137,617)
Net increase (decrease) in cash and cash equivalents	4,838	(45,676)	5,540
Cash and cash equivalents, beginning of year	11,606	57,282	51,742
Cash and cash equivalents, end of year	$ 16,444	$ 11,606	$ 57,282

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Supplemental cash flow information: Cash paid during the year for:			
Interest	$ 11,958	$ 16,667	$17,482
Income taxes	169	116	2,341
Detail of acquisitions:			
Fair value of assets acquired	$ --	$ 94,114	$27,301
Liabilities assumed	--	74,100	16,701
Cash paid	--	20,014	10,600
Less cash acquired	--	--	(12,515)
Net cash paid for acquisition	$ --	$(20,014)	$ 1,915)
Detail of contribution to joint venture:			
Fair value of assets contributed	$ 97,107	$ --	$ --
Liabilities contributed	(37,380)	--	--
Capital contribution	(60,169)	--	--
Net cash contributed to joint venture	$ (442)	$ --	$ --

See accompanying Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of New Valley Corporation and its majority owned subsidiaries (the "Company"). The Company's investment in Western Realty Development LLC has been accounted for under the equity method. All significant intercompany transactions are eliminated in consolidation.

Certain amounts in the 1996 and 1997 financial statements have been reclassified to conform to the 1998 presentation.

NATURE OF OPERATIONS

The Company and its subsidiaries are engaged in the investment banking and brokerage business, in the ownership and management of commercial real estate, and in the acquisition of operating companies. As discussed in Note 21, the investment banking and brokerage segment accounted for 65% and 49% of the Company's revenues and 24% and 39% of the Company's operating loss from continuing operations for the years ended December 31, 1998 and 1997, respectively. The Company's investment banking and brokerage segment provides its services principally for middle market and emerging growth companies through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals.

PROPOSED RECAPITALIZATION PLAN

The Company intends to submit for approval of its stockholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of the Company's outstanding Class A Senior Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The authorized number of Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of $12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of the Company's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by the Company for a three-year period. Upon completion of the Recapitalization Plan, the Company will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of the Company's shares, effectiveness of the Company's proxy statement and prospectus for the annual meeting, receipt of a fairness opinion and compliance with the Hart-Scott-Rodino Act.

Brooke Group Ltd. ("Brooke"), the Company's principal stockholder, has agreed to vote all of its shares in the Company in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its Warrants, Brooke will increase its ownership of the outstanding Common Shares of the Company from 42.3% to 55.1% and its total voting power from 42% to 55.1%.

The Company believes the proposed Recapitalization Plan will simplify the current capital structure of the Company by replacing it with a single class of equity securities. The exchange of the Preferred Shares for Common Shares will eliminate dividend arrearages, thus increasing the net worth of the Company by approximately $316,202 on a pro forma basis as of December 31, 1998. It will also remove the need to redeem the Class A Senior Preferred Shares in 2003. The resulting improvement in the net worth of the Company, along with a hoped for increase in the price of the Common Shares, should increase the likelihood of having the Common Shares quoted on NASDAQ. This, along with a more transparent capital structure, should increase the liquidity of the Company's securities, improve the valuation of the Common Shares and provide a currency for acquisitions and financings. Finally, the recapitalization will allow the voting rights of stockholders to properly reflect the economic interest of such stockholders.

REORGANIZATION

On November 15, 1991, an involuntary petition under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") was commenced against the Company in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On March 31, 1993, the Company consented to the entry of an order for relief placing it under the protection of Chapter 11 of the Bankruptcy Code.

On November 1, 1994, the Bankruptcy Court entered an order confirming the First Amended Joint Chapter 11 Plan of Reorganization, as amended (the "Joint Plan"). The terms of the Joint Plan provided for, among other things, the sale of Western Union Financial Services Company, Inc. ("FSI"), a wholly-owned subsidiary of the Company, and certain other Company assets related to FSI's money transfer business, payment in cash of all allowed claims, payment of postpetition interest in the amount of $178,000 to certain creditors, a $50 per share cash dividend to the holders of the Company's Class A Senior Preferred Shares, a tender offer by the Company for up to 150,000 shares of the Class A Senior Preferred Shares, at a price of $80 per share, and the reinstatement of all of the Company's equity interests.

On November 15, 1994, pursuant to the Asset Purchase Agreement, dated as of October 20, 1994, as amended (the "Purchase Agreement"), by and between the Company and First Financial Management Corporation ("FFMC"), FFMC purchased all of the common stock of FSI and other assets relating to FSI's money transfer business for $1,193,000 (the "Purchase Price"). The Purchase Price consisted of $593,000 in cash, $300,000 representing the assumption of the Western Union Pension Plan obligation, and $300,000 paid on January 13, 1995 for certain intangible assets of FSI. The Purchase Agreement contained various terms and conditions, including the escrow of $45,000 of the Purchase Price, a put option by the Company to sell to FFMC, and a call option by FFMC to purchase, Western Union Data Services Company, Inc., a wholly-owned subsidiary of the Company engaged in the messaging service business (the "Messaging Services Business"), for $20,000, exercisable during the first quarter of 1996, and various services agreements between the Company and FFMC.

On January 18, 1995, the effective date of the Joint Plan, the Company paid approximately $550,000 on account of allowed prepetition claims and emerged from bankruptcy. At December 31, 1998, the Company's remaining accruals totaled $12,364 for unsettled prepetition claims and restructuring accruals (see Note 17). The Company's accounting policy is to evaluate the remaining restructuring accruals on a quarterly basis and adjust liabilities as claims are settled or dismissed by the Bankruptcy Court.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REINCORPORATION AND REVERSE STOCK SPLIT. On July 29, 1996, the Company completed its reincorporation from the State of New York to the State of Delaware and effected a one-for-twenty reverse stock split of the Company's Common Shares. In connection with the reverse stock split, all per share data have been restated to reflect retroactively the reverse stock split.

CASH AND CASH EQUIVALENTS. The Company considers all highly liquid financial instruments with an original maturity of less than three months to be cash equivalents.

FAIR VALUE OF 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 the Company's management based on the intrinsic value of the warrants discounted for such restrictions. For cash and cash equivalents, restricted assets, receivable from clearing brokers and short-term loan, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of long-term debt, including current portion, is estimated based on current rates offered to the Company for debt of the same maturities. The fair value of the Company's redeemable preferred shares is based on their last reported sales price.

INVESTMENT SECURITIES. The Company classifies investments in debt and marketable equity securities as either trading, available for sale, or held to maturity. Trading securities are carried at fair value, with unrealized gains and losses included in income. Investments classified as available for sale are carried at fair value, with net unrealized gains and losses included as a separate component of stockholders' equity (deficiency). Debt securities classified as held to maturity are carried at amortized cost. Realized gains and losses are included in other income, except for those relating to the Company's broker-dealer subsidiary which are included in principal transactions revenues. The cost of securities sold is determined based on average cost.

RESTRICTED ASSETS. Restricted assets at December 31, 1998 consisted primarily of $5,831 pledged as collateral for a $5,000 letter of credit which is used as collateral for a long-term lease of commercial office space. Restricted assets at December 31, 1997 consisted primarily of $5,484 pledged as collateral for the $5,000 letter of credit.

PROPERTY AND EQUIPMENT. Shopping centers are depreciated over periods approximating 25 years, the estimated useful life, using the straight-line method. Office buildings were depreciated over periods approximating 40 years, the estimated useful life, using the straight-line method (see Note 7). Furniture and equipment (including equipment subject to capital leases) is depreciated over the estimated useful lives, using the straight-line method. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or the lease term, if shorter. The cost and the related accumulated depreciation are eliminated upon retirement or other disposition and any resulting gain or loss is reflected in operations.

INCOME TAXES. Under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for 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.

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.

REAL ESTATE LEASING REVENUES. The real estate properties are being leased to tenants under operating leases. Base rental revenue is generally recognized on a straight-line basis over the term of the lease. The lease agreements for certain properties contain provisions which provide for reimbursement of real estate taxes and operating expenses over base year amounts, and in certain cases as fixed increases in rent. In addition, the lease agreements for certain tenants provide additional rentals based upon revenues in excess of base amounts, and such amounts are accrued as earned. The future minimum rents scheduled to be received on non-cancelable operating leases at December 31, 1998 are $6,013, $5,519, $4,685, $4,239 and $3,662 for the years 1999, 2000, 2001, 2002 and 2003, respectively, and $16,872 for subsequent years.

BASIC INCOME (LOSS) PER COMMON SHARE. Basic net income (loss) per common share is based on the weighted average number of Common Shares outstanding. Net income (loss) per common share represents net income (loss) after dividend requirements on redeemable and non-redeemable preferred shares (undeclared) and any adjustment for the difference between excess of carrying value of redeemable preferred shares over the cost of the shares purchased. Diluted net income (loss) per common share assuming full dilution is based on the weighted average number of Common Shares outstanding plus the additional common shares resulting from the conversion of convertible preferred shares and the exercise of stock options and warrants if such conversion was dilutive.

Options to purchase 330,000 common shares at $.58 per share and 40,417 common shares issuable upon the conversion of Class B Preferred Shares were not included in the computation of diluted loss per share as the effect would have been anti-dilutive.

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings Per Share". SFAS No. 128 specifies new standards designed to improve the earnings per share ("EPS") information provided in financial statements by simplifying the existing computational guidelines, revising the disclosure requirements, and increasing the comparability of EPS data on an international basis. Prior years' EPS have been restated to conform with standards established by SFAS No. 128.

RECOVERABILITY OF LONG-LIVED ASSETS. An impairment loss is recognized whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Beginning in 1995 with the adoption of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally measured by discounting expected future cash flows at the rate the Company utilizes to evaluate potential investments. The Company estimates fair value based on the best information available making whatever estimates, judgments and projections are considered necessary.

NEW ACCOUNTING PRONOUNCEMENTS.

In June 1997, the FASB released SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements and is effective for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 130 did not have a material impact on the Company's financial statements.

For transactions entered into in fiscal years beginning after December 15, 1997, the Company adopted and is reporting in accordance with SOP 97-2, "Software Revenue Recognition". The adoption of SOP 97-2 did have a material impact on the Company's financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for the way that public business enterprises report information about operating segments. The Company has adopted SFAS No. 131 and has restated its financial statements accordingly.

3. ACQUISITIONS AND DISPOSITIONS

On May 31, 1995, the Company consummated its acquisition of Ladenburg, Thalmann & Co. Inc. ("Ladenburg"), a registered broker-dealer and investment bank, for $25,750, net of cash acquired. The acquisition was treated as a purchase for financial reporting purposes and, accordingly, these consolidated financial statements include the operations of Ladenburg from the date of acquisition. The excess of the consideration paid over the estimated fair value of net assets acquired of $1,342 has been recorded as goodwill to be amortized on a straight-line basis over 15 years.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

On January 10 and January 11, 1996, the Company acquired four commercial office buildings (the "Office Buildings") and eight shopping centers (the "Shopping Centers") for an aggregate purchase price of $183,900, consisting of $23,900 in cash and $160,000 in non-recourse mortgage financing provided by the sellers. In addition, the Company has capitalized approximately $800 in costs related to the acquisitions. The Company paid $11,400 in cash and executed four promissory notes aggregating $100,000 for the Office Buildings. On September 28, 1998, the Company completed the sale to institutional investors of the Office Buildings for an aggregate purchase price of $112,400 and recognized a gain of $4,682 on the sale. The Company received approximately $13,400 in cash from the transaction before closing adjustments and expenses. The Office Buildings were subject to approximately $99,300 of mortgage financing which was retired at closing.

The following table presents unaudited pro forma results from continuing operations as if the sale of the Office Buildings had occurred on January 1, 1998 and January 1, 1997, respectively. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had this acquisition been consummated as of each respective date.

	Pro forma Year ended December 31, 1998	Pro forma Year ended December 31, 1997
Revenues	$ 87,112	$ 99,996
Loss from continuing operations	$ (27,896)	$ (23,925)
Loss from continuing operations applicable to common shares	$(108,860)	$ (92,400)
Loss from continuing operations per common share	$ (11.37)	$ (9.65)

The Shopping Centers were acquired for an aggregate purchase price of $72,500, consisting of $12,500 in cash and $60,000 in eight promissory notes. In November 1997, the Company sold one of the Shopping Centers for $5,400 and realized a gain of $1,200.

On January 11, 1996, the Company provided a $10,600 convertible bridge loan to finance Thinking Machines Corporation ("Thinking Machines"), a developer and marketer of data mining and knowledge discovery software and services. In February 1996, the bridge loan was converted into a controlling interest in a partnership which held approximately 61.4% of Thinking Machines' outstanding common shares. In December 1997, the Company acquired for $3,150 additional shares in Thinking Machines pursuant to a rights offering by Thinking Machines to its existing stockholders which increased the Company's ownership to approximately 72.7% of the outstanding Thinking Machines shares. As a result of the rights offering, the Company recorded $2,417 as additional paid-in-capital which represented its interest in the increase in Thinking Machines' stockholders' equity. In September 1998, the Company made a $2,000 loan due December 31, 1999 to Thinking Machines and acquired warrants to purchase additional shares pursuant to a rights offering by Thinking Machines to its existing stockholders. In the first quarter of 1999, the Company lent Thinking Machines an additional $1,250. The acquisition of Thinking Machines through the conversion of the bridge loan was accounted for as a purchase for financial reporting purposes, and accordingly, the operations of Thinking Machines subsequent to January 31, 1996 are included in the operations of the Company. The fair value of assets acquired, including goodwill of $1,726, was $27,301 and liabilities assumed totaled $7,613. In addition, minority interests in the amount of $9,088 were recognized at the time of acquisition. To date, no material revenues have been recognized by Thinking Machines with respect to the sale or licensing of such software and services. Thinking Machines is also subject to uncertainties relating to, without limitation, the development and marketing of computer products, including customer acceptance and required funding, technological changes, capitalization, and the ability to utilize and exploit its intellectual property and propriety software technology.

On January 31, 1997, the Company entered into a stock purchase agreement (the "Purchase Agreement") with Brooke (Overseas) Ltd. ("Brooke (Overseas)"), a wholly-owned subsidiary of Brooke Group Ltd. ("Brooke"), an affiliate of the Company, pursuant to which the Company acquired 10,483 shares (the "BML Shares") of the common stock of BrookeMil Ltd. ("BML") from Brooke (Overseas) for a purchase price of $55,000, consisting of $21,500 in cash and a $33,500 9% promissory note of the Company (the "Note"). The BML Shares comprise 99.1% of the outstanding shares of BML, a real estate development company in Russia. The Note, which was collateralized by the BML Shares, was paid during 1997.

BML is developing a three-phase complex on 2.2 acres of land in downtown Moscow. In 1993, the first phase of the project, Ducat Place I, a 46,500 sq. ft. Class-A office building, was constructed and leased. On April 18, 1997, BML sold Ducat Place I to one of its tenants for approximately $7,500, which purchase price had been reduced to reflect prepayments of rent. In 1997, BML completed construction of Ducat Place II, a 150,000 sq. ft. office building. Ducat Place II has been leased to a number of leading international companies. The development of the third phase, Ducat Place III, has been planned as a 450,000 sq. ft. mixed-use complex. The site of Ducat Place III, which is currently used by a subsidiary of Brooke (Overseas) as the site for a factory, is subject to a put option held by the Company. The option allows the Company to put this site back to Brooke (Overseas) and BGLS Inc., a subsidiary of Brooke, at the greater of the appraised fair value of the property at the date of exercise or $13,600 during the period the subsidiary of Brooke (Overseas) operates the factory on such site.

In connection with the Purchase Agreement, certain specified liabilities of BML aggregating approximately $40,000 remained as liabilities of BML after the purchase of the BML Shares by the Company. These liabilities included a $20,400 loan to a Russian bank for the construction of Ducat Place II (the "Construction Loan"). In addition, the liabilities of BML at the time of purchase included approximately $13,800 of rents and related payments prepaid by tenants of Ducat Place II for periods generally ranging from 15 to 18 months.

The fair value of the assets acquired, including goodwill of $12,400 was $95,500. The Company, through its interest in Western Realty, is amortizing the goodwill over a five year period.

In August 1997, BML refinanced all amounts due under the Construction Loan with borrowings under a new credit facility with another Russian bank. 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 the Company. At December 31, 1997, borrowings under the new credit facility totaled $19,700.

4. RUSSIAN REAL ESTATE JOINT VENTURES

WESTERN REALTY DEVELOPMENT LLC

In February 1998, the Company and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, the Company agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to $58,750, including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded $32,364 of its investment in Western Realty Ducat.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The ownership and voting interests in Western Realty Ducat are held equally by Apollo and the Company. Apollo will be entitled to a preference on distributions of cash from Western Realty Ducat to the extent of its investment ($40,000), together with a 15% annual rate of return, and the Company will then be entitled to a return of $20,000 of BML-related expenses incurred and cash invested by the Company since March 1, 1997, together with a 15% annual rate of return; subsequent distributions will be made 70% to the Company and 30% to Apollo. Western Realty Ducat will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and the Company. All material corporate transactions by Western Realty Ducat will generally require the unanimous consent of the Board of Managers. Accordingly, the Company has accounted for its non-controlling interest in Western Realty Ducat using the equity method of accounting. Through December 31, 1998, Apollo has funded $32,364 of its investment in Western Realty Ducat.

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

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a $30,000 participating loan to, and payable out of a 30% profits interest in Western Tobacco Investments LLC ("WTI"), a company organized by Brooke (Overseas) which, among other things, holds the interests of Brooke (Overseas) in Liggett-Ducat Ltd. and the new factory being constructed by Liggett-Ducat Ltd. on the outskirts of Moscow. Western Realty Ducat has recognized as other income $1,991, which represents 30% of WTI's net income for the period from April 28, 1998 (date of inception) to December 31, 1998.

Summarized financial information as of December 31, 1998 and for the period from February 20, 1998 (date of inception) to December 31, 1998 for Western Realty Ducat follows:

Current assets	$ 857
Participating loan receivable	31,991
Real estate, net	85,761
Furniture and fixtures, net	179
Noncurrent assets	631
Goodwill, net	7,636
Notes payable - current	5,299
Current liabilities	5,802
Notes payable	14,356
Long-term liabilities	756
Members' equity	100,842
Revenues	10,176
Costs and expenses	13,099
Other income	1,991
Income tax benefit	760
Net loss	(1,692)

WESTERN REALTY REPIN LLC

In June 1998, the Company and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a $25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment ($18,750), together with a 20% annual rate of return, and the Company will then be entitled to a return of its investment ($6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to the Company and 50% to Apollo. Western Realty Repin will

be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and the Company. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced $19,067 under the Repin Loan to BML, of which $14,300 was funded by Apollo and is classified in other long-term obligations on the consolidated balance sheet at December 31, 1998. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds of the Repin Loan to repay the Company for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of the Company's shares of BML.

As of December 31, 1998, BML had invested $18,013 in the Kremlin Sites and held $252, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional $6,000 in 1999 and $22,000 in 2000 in the development of the property. BML funded $4,800 of this amount in the first quarter of 1999.

The Company has accounted for the formation of Western Realty Repin as a financing by Apollo and a contribution of assets into a consolidated subsidiary by New Valley which is eliminated in consolidation. 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.

The development of Ducat Place III and the Kremlin Sites will require significant amounts of debt and other financing. The Company is actively pursuing various financing alternatives on behalf of Western Realty Ducat and BML. However, in light of the recent economic turmoil in Russia, no assurance can be given that such financing will be available on acceptable terms. Failure to obtain sufficient capital for the projects would force Western Realty Ducat and BML to curtail or delay the planned development of Ducat Place III and the Kremlin Sites.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

5. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains included as a separate component of stockholders' equity (deficiency). The Company had net unrealized gains on investment securities available for sale of $2,685 and $7,596 at December 31, 1998 and 1997, respectively.

The components of investment securities available for sale are as follows:

	COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	FAIR VALUE
1998				
Marketable equity securities	$34,882	$ 1,856	$ 2,877	$33,861
Marketable warrants	--	3,706	--	3,706
Investment securities	$34,882	$ 5,562	$ 2,877	$37,567
1997				
Short-term investments	$ 6,218	--	--	$ 6,218
Marketable equity securities	34,494	$ 7,492	$ 2,101	39,885
Marketable warrants	--	4,939	--	4,939
Marketable debt securities	3,685	--	2,734	951
Investment securities	$ 44,397	$ 12,431	$ 4,835	$ 51,993

During 1998, the Company determined that an other than temporary impairment had occurred in marketable debt securities (face amount of $14,900, cost of $3,185) of a company that was in default at the time of purchase and is currently in default under its various debt obligations. The Company wrote down this investment to zero resulting in a $3,185 charge to operations.

INVESTMENT IN RJR NABISCO

The Company expensed $100 in 1997 and $11,724 in 1996 relating to its investment in the common stock of RJR Nabisco Holdings Corp. ("RJR Nabisco"). Pursuant to a December 31, 1995 agreement between the Company and Brooke whereby the Company agreed to reimburse Brooke and its subsidiaries for certain reasonable out-of-pocket expenses relating to RJR Nabisco, the Company paid Brooke and its subsidiaries a total of $17 and $2,370 in 1997 and 1996.

On February 29, 1996, the Company entered into a total return equity swap transaction (the "Swap") with an unaffiliated company (the "Counterparty") relating to 1,000,000 shares of RJR Nabisco common stock (reduced to 750,000 shares of RJR Nabisco common stock as of August 13, 1996). The Company entered into the Swap in order to be able to participate in any increase or decrease in the value of the RJR Nabisco common stock during the term of the Swap. The transaction was for a period of up to six months, unless extended by the parties, subject to earlier termination at the election of the Company, and provided for the Company to make a payment to the Counterparty of $1,537 upon commencement of the Swap. At the termination of the transaction, if the price of the RJR Nabisco common stock during a specified period prior to such date (the "Final Price") exceeded $34.42, the price of the RJR Nabisco common stock during a specified period following the commencement of the Swap (the "Initial Price"), the Counterparty was required to pay the Company an amount in cash equal to the amount of such appreciation with respect to the shares of RJR Nabisco

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

common stock subject to the Swap plus the value of any dividends with a record date occurring during the Swap period. If the Final Price was less than the Initial Price, then the Company was required to pay the Counterparty at the termination of the transaction an amount in cash equal to the amount of such decline with respect to the shares of RJR Nabisco common stock subject to the Swap, offset by the value of any dividends, provided that, with respect to approximately 225,000 shares of RJR Nabisco common stock, the Company was not required to pay any amount in excess of an approximate 25% decline in the value of the shares. The potential obligations of the Counterparty under the Swap were guaranteed by the Counterparty's parent, a large foreign bank, and the Company pledged certain collateral in respect of its potential obligations under the Swap and agreed to pledge additional collateral under certain conditions. The Company marked its obligation with respect to the Swap to fair value with unrealized gains or losses included in income. During the third quarter of 1996, the Swap was terminated in connection with the Company's reduction of its holdings of RJR Nabisco common stock, and the Company recognized a loss on the Swap of $7,305 for the year ended December 31, 1996.

6. TRADING 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, 1998		DECEMBER 31, 1997	
	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED
Common stock.....	$ 4,243	$ 4,395	$ 16,208	$ 4,513
Equity and index options.....	870	240	5,290	17,494
Other.....	3,871	--	28,490	3,603
	$ 8,984	$ 4,635	$ 49,988	$ 25,610

7. INVESTMENT IN REAL ESTATE AND NOTES PAYABLE

The components of the Company's investment in real estate and the related non-recourse notes payable collateralized by such real estate at December 31, 1998 are as follows:

	RUSSIAN REAL ESTATE	SHOPPING CENTERS	TOTAL
Land	$18,013	$16,087	$34,100
Buildings.....	912	52,959	53,871
Total.....	18,925	69,046	87,971
Less accumulated depreciation.....	--	(5,096)	(5,096)
Net investment in real estate.....	$18,925	$63,950	$82,875
Notes payable.....	$ --	$54,801	$54,801
Current portion of notes payable.....	--	--	--
Notes payable -- long-term portion.....	$ --	$54,801	$54,801

At December 31, 1998, the Company's investment in real estate collateralized eight promissory notes aggregating $54,801 due 2001 related to the Shopping Centers. Each Shopping Center note has a term of five years, requires no principal amortization, and bears interest payable monthly at the rate of 8% for the first two and one-half years and at the rate of 9% for the remainder of the term.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The components of the Company's investment in real estate and the related notes payable collateralized by such real estate at December 31, 1997 are as follows:

	U.S. OFFICE BUILDINGS	RUSSIAN REAL ESTATE	SHOPPING CENTERS	TOTAL
Land	$ 19,450	$ 22,623	$ 16,087	$ 58,160
Buildings	92,332	66,688	51,430	210,450
Total	111,782	89,311	67,517	268,610
Less accumulated depreciation	(4,616)	(879)	(3,147)	(8,642)
Net investment in real estate	$ 107,166	$ 88,432	$ 64,370	$259,968
Notes payable	$ 99,302	$ 20,078	$ 54,801	$174,181
Current portion of notes payable	336	424		760
Notes payable - long-term portion	$ 98,966	$ 19,654	$ 54,801	$173,421

At December 31, 1997, the Company's investment in real estate collateralized four promissory notes aggregating $99,302 related to the Office Buildings and eight promissory notes aggregating $54,801 related to the Shopping Centers.

In 1997, the Company sold one of the Shopping Centers for $5,400 and realized a gain of $1,200. In 1998, the Company sold its U.S. Office Buildings for $112,400 and realized a gain of $4,682.

8. LONG-TERM INVESTMENTS

Long-term investments consisted of investments in the following:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Limited partnerships	$ 9,226	$12,282	$ 27,224	$ 33,329

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 is not required to make additional investments in limited partnerships as of December 31, 1998. The Company's investments in limited partnerships are illiquid, and the ultimate realization of these investments is subject to the performance of the underlying partnership and its management by the general partners. During 1997, the Company sold for an amount which approximated its $2,000 cost an investment in a foreign corporation which owned an interest in a Russian bank. During 1997, the Company determined that an other than temporary impairment in the value of its investment in a joint venture had occurred and wrote down this investment to zero with a charge to operations of $3,796.

In January 1997, the Company converted an investment in preferred stock made in 1995 into a majority equity interest in a small on-line directory assistance development stage company and, accordingly, began consolidating the results of this company. This long-term investment of $1,001 was written off in 1996 due to continuing losses of this company. In May 1997, this development stage company completed an initial public offering and, as a result, the Company recorded $2,715 as additional paid-in capital which represented its 50.1% ownership in this company's stockholders' equity after this offering.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Company recognized gains of $4,652 on liquidations of investments of certain limited partnerships for the year ended December 31, 1998.

The Company's estimate of the fair value of its long-term investments are subject to judgment and are not necessarily indicative of the amounts that could be realized in the current market.

9. PENSIONS AND RETIREE BENEFITS

Ladenburg has a Profit Sharing Plan (the "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. For the year ended December 31, 1996, employer contributions to the Plan were approximately $200, excluding those made under the deferred compensation feature described above. The Plan was inactive in 1997 and 1998.

The Company maintains 401(k) plans for substantially all employees, except those employees of Thinking Machines. These 401(k) plans allow eligible employees to invest a percentage of their pre-tax compensation. Ladenburg elected to contribute $500 of matching contributions in 1997. The Company did not make discretionary contributions to these 401(k) plans in 1998 and 1996.

10. COMMITMENT AND CONTINGENCIES

LEASES

The Company, Thinking Machines and Ladenburg are currently obligated under three noncancelable lease agreements for office space, expiring in May 2003, April 1999 and December 2015, respectively. The following is a schedule by fiscal year of future minimum rental payments required under the agreements that have noncancelable terms of one year or more at December 31, 1998:

1999	$5,431
2000	5,163
2001	4,309
2002	4,115
2003 and thereafter	50,382
Total	$69,400

Rental expense for operating leases during 1998, 1997 and 1996 was $6,397, $4,404 and $3,914, respectively.

LAWSUITS

On or about March 13, 1997, a shareholder derivative suit was filed against the Company, as a nominal defendant, its directors and Brooke in the Delaware Chancery Court, by a stockholder of the Company. The suit alleges that the Company's purchase of the BML Shares constituted a self-dealing transaction which involved the payment of excessive consideration by the Company. The plaintiff seeks (i) a declaration that the Company's directors breached their fiduciary duties, Brooke aided and abetted such breaches and such parties are therefore liable to the Company, and (ii) unspecified damages to be awarded to the Company. The Company's time to respond to the complaint has not yet expired. The Company believes that the allegations were without merit.

Although there can be no assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is a defendant in various lawsuits and may be subject to unasserted claims primarily in connection with its activities as a securities broker-dealer and 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 consolidated financial position, results of operations or cash flows.

RUSSIAN OPERATIONS

During 1998, the economy of the Russian Federation entered a period of economic instability. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The operations of BML and Western Realty Ducat may be significantly affected by these factors for the foreseeable future.

Russian Taxation: Russian taxation is subject to varying interpretations and constant changes. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of BML and Western Realty Ducat may not coincide with that of management. As a result, transactions may be challenged by tax authorities and BML and Western Realty Ducat may be assessed additional taxes, penalties and interest, which can be significant.

Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations and from time to time potential exposures are identified. At any point in time a number of open matters may exist, however, management believes that adequate provision has been made for all material liabilities. Tax years remain open to review by the authorities for six years.

Year 2000: It is unclear whether the Russian government and other organizations who provide significant infrastructure services have addressed the Year 2000 Problem sufficiently to mitigate potential substantial disruption to these infrastructure services. The substantial disruption of these services would have an adverse affect on the operations of BML and Western Realty Ducat. Furthermore, the current financial crisis could affect the ability of the government and other organizations to fund Year 2000 compliance programs.

11. FEDERAL INCOME TAX

At December 31, 1998, the Company had $102,061 of unrecognized net deferred tax assets, comprised primarily of net operating loss carryforwards, available to offset future taxable income for federal tax purposes. A valuation allowance has been provided against this deferred tax asset as it is presently deemed more likely than not that the benefit of the tax asset will not be utilized. The Company continues to evaluate the realizability of its deferred tax assets and its estimate is subject to change. The provision for income taxes, which represented the effect of the Alternative Minimum Tax and state income taxes, for the three years ended December 31, 1998, 1997 and 1996, does not bear a customary relationship with pre-tax accounting income from continuing operations principally as a consequence of the change in the valuation allowance relating to deferred tax assets. The provision for income taxes on continuing operations differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate (35%) to pretax income from continuing operations as a result of the following differences:

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1998	1997	1996
Loss from continuing operations	$ (23,323)	$ (24,074)	$(14,348)
(Credit) provision under statutory U.S. tax rates	(8,163)	(8,426)	(5,022)
Increase (decrease) in taxes resulting from:			
Nontaxable items	4,281	2,603	(224)
State taxes, net of Federal benefit	4	55	195
Foreign Taxes	--	108	--
Increase (decrease) in valuation reserve	3,884	5,846	5,351
Income tax provision	$ 6	$ 186	$ 300

Income taxes associated with discontinued operations and extraordinary items have been shown net of the utilization of the net operating loss carryforward and the change in other deferred tax assets.

Deferred tax amounts are comprised of the following at December 31:

	1998	1997
Deferred tax assets:		
Net operating loss carryforward:		
Restricted net operating loss	$ 12,450	$15,561
Unrestricted net operating loss	70,552	70,216
Other	21,718	17,209
Total deferred tax assets	104,720	102,986
Deferred tax liabilities:		
Other	(2,659)	(5,542)
Total deferred tax liabilities	(2,659)	(5,542)
Net deferred tax assets	102,061	97,444
Valuation allowance	(102,061)	(97,444)
Net deferred taxes	$ --	$ --

In December 1987, the Company consummated certain restructuring transactions that included certain changes in the ownership of the Company's stock. The Internal Revenue Code restricts the amount of future income that may be offset by losses and credits incurred prior to an ownership change. The Company's annual limitation on the use of its net operating losses is approximately $7,700, computed by multiplying the "long-term tax exempt rate" at the time of change of ownership by the fair market value of the company's outstanding stock immediately before the ownership change. The limitation is cumulative; any unused limitation from one year may be added to the limitation of a following year. Operating losses incurred subsequent to an ownership change are generally not subject to such restrictions.

The Company's tax years from 1993 to 1995 are presently under audit with the Internal Revenue Service. The Company believes it has adequately reserved for any potential adjustments which may occur.

As of December 31, 1998, the Company had consolidated net operating loss carryforwards of approximately $206,000 for tax purposes, which expire at various dates through 2008. Approximately $31,000 net operating loss carryforwards constitute pre-change losses and $175,000 of net operating losses were unrestricted.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

12. OTHER LONG-TERM LIABILITIES

The components of other long-term liabilities, excluding notes payable, are as follows:

	DECEMBER 31,			
	1998		1997	
	LONG-TERM PORTION	CURRENT PORTION	LONG-TERM PORTION	CURRENT PORTION
Retiree and disability obligations	$ 4,715	$ 500	$ 3,638	$ 2,000
Minority interests	2,699	--	6,112	--
Participating loan payable	15,795	--	--	--
Other long-term liabilities	241	--	1,460	--
Total other long-term liabilities	$ 23,450	$ 500	$ 11,210	$ 2,000

13. REDEEMABLE PREFERRED SHARES

At December 31, 1998 and 1997, the Company had authorized and outstanding 2,000,000 and 1,071,462, respectively, of its Class A Senior Preferred Shares. At December 31, 1998 and 1997, respectively, the carrying value of such shares amounted to $316,202 and $258,638, including undeclared dividends of $219,068 and $163,302, or $204.46 and $152.41 per share.

The holders of Class A Senior Preferred Shares are currently entitled to receive a quarterly dividend, as declared by the Board, payable at the rate of $19.00 per annum. The Class A Senior Preferred Shares are mandatorily redeemable on January 1, 2003 at $100 per share plus accrued dividends. The Class A Senior Preferred Shares were recorded at their market value ($80 per share) at December 30, 1987, the date of issuance. The discount from the liquidation value is accreted, utilizing the interest method, as a charge to additional paid-in capital and an increase to the recorded value of the Class A Senior Preferred Shares, through the redemption date. As of December 31, 1998, the unamortized discount on the Class A Senior Preferred Shares was $6,846.

In the event a required dividend or redemption is not made on the Class A Senior Preferred Shares, no dividends shall be paid or declared and no distribution made on any junior stock other than a dividend payable in junior stock. If at any time six quarterly dividends payable on the Class A Senior Preferred Shares shall be in arrears or such shares are not redeemed when required, the number of directors will be increased by two and the holders of the Class A Senior Preferred Shares, voting as a class, will have the right to elect two directors until full cumulative dividends shall have been paid or declared and set aside for payment. Such directors were designated pursuant to the Joint Plan in November 1994.

The Company declared and paid cash dividends on the Class A Senior Preferred Shares of $40 per share in 1996. Undeclared dividends are accrued quarterly and such accrued and unpaid dividends shall accrue additional dividends in respect thereof compounded monthly at the rate of 19% per annum, both of which are included in the carrying amount of redeemable preferred shares, offset by a charge to additional paid-in capital.

During the first quarter of 1996, the Company repurchased 72,104 of its Class A Senior Preferred Shares for an aggregate consideration of $10,530. The repurchase increased the Company's additional paid-in capital by $4,279 based on the difference between the purchase price and the carrying values of the shares.

On November 18, 1996, the Company granted to an executive officer and director of the Company 36,000 Class A Senior Preferred Shares (the "Award Shares"). The Award Shares are identical with all other Class A Senior Preferred Shares issued and outstanding as of July 1, 1996, including undeclared dividends of $3,776 and declared dividends of $1,080. The Award Shares vested one-sixth on July 1, 1997 and one-sixth on each of the five succeeding one-year anniversaries thereof through and including July 1, 2002. The Company recorded deferred compensation of $5,436 representing the fair market value of the Award Shares on November 18, 1996 and $3,020 of original issue discount representing the difference between the book value of the Award Shares on November 18, 1996 and their fair market value. The deferred compensation will be amortized over the vesting period and the original issue discount will be accreted, utilizing the interest method, through the redemption date, both through a charge to compensation expense. During 1998, 1997 and 1996, the Company recorded $3,043, $2,934 and $359, respectively, in compensation expense related to the Award Shares and, at December 31, 1998 and 1997, the balance of the deferred compensation and the unamortized discount related to the Award Shares was $5,721 and $6,890, respectively.

For information on Class A Senior Preferred Shares owned by Brooke, see Note 18.

14. PREFERRED SHARES NOT SUBJECT TO REDEMPTION REQUIREMENTS

The holders of the Class B Preferred Shares, 12,000,000 shares authorized and 2,790,776 shares outstanding as of December 31, 1998 and 1997, are entitled to receive a quarterly dividend, as declared by the Board, at a rate of $3.00 per annum. Undeclared dividends are accrued quarterly at a rate of 12% per annum, and such accrued and unpaid dividends shall accrue additional dividends in respect thereof, compounded monthly at the rate of 12% per annum.

Each Class B Preferred Share is convertible at the option of the holder into .41667 Common Shares based on a $25 liquidation value and a conversion price of $60 per Common Share.

At the option of the Company, the Class B Preferred Shares are redeemable in the event that the closing price of the Common Shares equals or exceeds 140% of the conversion price at a specified time prior to the redemption. If redeemed by New Valley, the redemption price would equal $25 per share plus accrued dividends.

In the event a required dividend is not paid on the Class B Preferred Shares, no dividends shall be paid or declared and no distribution made on any junior stock other than a dividend payable in junior stock. If at any time six quarterly dividends on the Class B Preferred Shares are in arrears, the number of directors will be increased by two, and the holders of Class B Preferred Shares and any other classes of preferred shares similarly entitled to vote for the election of two additional directors, voting together as a class, will have the right to elect two directors to serve until full cumulative dividends shall have been paid or declared and set aside for payment. Such directors were designated pursuant to the Joint Plan in November 1994.

No dividends on the Class B Preferred Shares have been declared since the fourth quarter of 1988. The undeclared dividends, as adjusted for conversions of Class B Preferred Shares into Common Shares, cumulatively amounted to $165,856 and $139,412 at December 31, 1998 and 1997, respectively. These undeclared dividends represent $59.43 and $49.95 per share as of the end of each period. No accrual was recorded for such undeclared dividends as the Class B Preferred Shares are not mandatorily redeemable.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

15. COMMON SHARES

On November 18, 1996, the Company granted an executive officer and director of the Company nonqualified options to purchase 330,000 Common Shares at a price of $.58 per share and 97,000 Class B Preferred Shares at a price of $1.85 per share. These options may be exercised on or prior to July 1, 2006 and vest one-sixth on July 1, 1997 and one-sixth on each of the five succeeding anniversaries thereof through and including July 1, 2002. The Company recognized compensation expense of $108 in 1998, $15 in 1997 and $24 in 1996 from these option grants and recorded deferred compensation of $475 and $158 representing the intrinsic value of these options at December 31, 1998 and December 31, 1997, respectively.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock options. In 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation", which, if fully adopted, changes the methods of recognition of cost on certain stock options. Had compensation cost for the nonqualified stock options been determined based upon the fair value at the grant date consistent with SFAS No. 123, the Company's net loss in 1998 and 1997 would have been increased by $316 and by $33 in 1996. The fair value of the nonqualified stock options was estimated at $1,774 using the Black-Scholes option-pricing model with the following assumptions: volatility of 171% for the Class B Preferred Shares and 101% for the Common Shares, a risk free interest rate of 6.2%, an expected life of 10 years, and no expected dividends or forfeiture.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows:

	DECEMBER 31,	
	1998	1997
Accounts payable and accrued liabilities:		
Accrued compensation	$ 9,753	$11,202
Excise tax payable(a)	4,400	4,400
Deferred rent	4,739	4,560
Unearned revenues	79	10,163
Taxes (property and miscellaneous)	2,637	5,029
Accrued expenses and other liabilities	10,439	19,868
Total	$32,047	$55,222

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(a) Represents an estimated liability related to excise taxes imposed on annual contributions to retirement plans that exceed a certain percentage of annual payroll. The Company intends to vigorously contest this tax liability. Management's estimate of such amount is potentially subject to material change in the near term.

17. PREPETITION CLAIMS UNDER CHAPTER 11 AND RESTRUCTURING ACCRUALS

On January 18, 1995, approximately $550,000 of the approximately $620,000 of prepetition claims were paid pursuant to the Joint Plan. Another $57,000 of prepetition claims and restructuring accruals have been settled and paid or adjusted since January 18, 1995. The remaining prepetition claims may be subject to future adjustments depending on pending discussions with the various parties and the decisions of the Bankruptcy Court.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1998	1997
Restructuring accruals(a)	$ 8,085	$ 8,196
Money transfer payable(b)	4,279	4,415
Total	$12,364	$12,611

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(a) Restructuring accruals at December 31, 1998 consisted of $6,771 of disputed claims, primarily related to leases and former employee benefits, and $1,178 of other restructuring accruals. In 1996, the Company reversed $9,706 of prior year restructuring accruals as a result of settlements on certain of its prepetition claims and vacated real estate lease obligations.

(b) Represents unclaimed money transfers issued by the Company prior to January 1, 1990. The Company is currently in litigation in Bankruptcy Court seeking a determination that these monies are not an obligation of the Company. There can be no assurance as to the outcome of the litigation.

18. RELATED PARTY TRANSACTIONS

At December 31, 1998, Brooke, a company under the control of Bennett S. LeBow, Chairman of the Company's Board of Directors, held 3,989,710 Common Shares (approximately 41.7% of such class), 618,326 Class A Senior Preferred Shares (approximately 57.7% of such class), and 250,885 Class B Preferred Shares (approximately 8.9% of such class) which represented in the aggregate 42.1% of all voting power. Several of the other officers and directors of the Company are also affiliated with Brooke. In 1995, the Company signed an expense sharing agreement with Brooke pursuant to which certain lease, legal and administrative expenses are allocated to the entity incurring the expense. The Company expensed approximately $502, $312 and $462 under this agreement in 1998, 1997, and 1996, respectively.

The Joint Plan imposes a number of restrictions on transactions between the Company and certain affiliates of the Company, including Brooke.

On December 18, 1996, the Company loaned BGLS Inc. ("BGLS"), a wholly-owned subsidiary of Brooke, $990 under a short-term promissory note due January 31, 1997 and bearing interest at 14%. On January 2, 1997, the Company loaned BGLS an additional $975 under another short-term promissory note due January 31, 1997 and bearing interest at 14%. Both loans including interest were repaid on January 31, 1997. In September 1998, the Company made a one-year $950,000 loan to BGLS, which bears interest at 14% per annum. At December 31, 1998, the loan and accrued interest thereon of $984 was included in other current assets.

During 1998, one director of the Company and during 1996 and 1997, two directors of the Company, were affiliated with law firms that rendered legal services to the Company. The Company paid these firms $516, $568 and $4,141 during 1998, 1997 and 1996, respectively, for legal services. An executive officer and director of the Company is a shareholder and registered representative in a broker-dealer to which the Company paid $128, $522 and $317 in 1998, 1997 and 1996, respectively, in brokerage commissions and other income, and is also a shareholder in an insurance company that received ordinary and customary insurance commissions from the Company and its affiliates of $128, $133 and $136 in 1998, 1997 and 1996, respectively. The broker-dealer, in the ordinary course of its business, engages in brokerage activities with Ladenburg on customary terms.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

During 1996, the Company entered into a court-approved Stipulation and Agreement (the "Settlement") with Brooke and BGLS relating to Brooke's and BGLS's application under the Federal Bankruptcy code for reimbursement of legal fees and expenses incurred by them in connection with the Company's bankruptcy reorganization proceedings. Pursuant to the Settlement, the Company reimbursed Brooke and BGLS $655 for such legal fees and expenses. The terms of the Settlement were substantially similar to the terms of previous settlements between the Company and other applicants who had sought reimbursement of reorganization-related legal fees and expenses.

In connection with the acquisition of the Office Buildings by the Company in 1996, a director of Brooke received a commission of $220 from the seller.

See Note 3 for information concerning the purchase by the Company on January 31, 1997 of BML from a subsidiary of Brooke.

19. 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, 1998, 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 and written index option contracts. 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 statement of financial condition. Risk arises from changes in the values of the underlying financial instruments or indices. At December 31, 1998, Ladenburg had commitments to purchase and sell financial instruments under futures contracts of $3,113 and $1,378, 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 as December 31, 1998:

	LONG	SHORT
Equity and index options	$24,555	$3,755
Financial futures contracts	2,954	1,532

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The table below discloses the fair value at December 31, 1998 of these commitments, as well as the average fair value during the year ended December 31, 1998, based on monthly observations.

	DECEMBER 31, 1998		AVERAGE	
	LONG	SHORT	LONG	SHORT
Equity and index options	$ 870	$ 241	$ 5,385	$12,469
Financial futures contracts	3,113	1,378	23,261	2,098

For the years ended December 31, 1998, 1997, and 1996, the net loss arising from options and futures contracts included in net gain on principal transactions was $3,661 $2,399, and $6,012, 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.

20. 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, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash and cash equivalents	$ 16,444	$ 16,444	$ 11,606	$ 11,606
Investments available for sale	37,567	37,567	51,993	51,993
Trading securities owned	8,984	8,984	49,988	49,988
Restricted assets	7,302	7,302	5,716	5,716
Receivable from clearing brokers	22,561	22,561	1,205	1,205
Long-term investments (Note 8)	9,226	12,282	27,224	33,329
Financial liabilities:				
Margin loans payable	13,088	13,088	13,012	13,012
Notes payable	57,546	57,546	177,074	177,074
Redeemable preferred shares	316,202	107,146	258,638	102,860

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

21. BUSINESS SEGMENT INFORMATION

The following table presents certain financial information of the Company's continuing operations before taxes and minority interests as of and for the years ended December 31, 1998, 1997 and 1996:

	BROKER-DEALER	REAL ESTATE	COMPUTER SOFTWARE	CORPORATE AND OTHER	TOTAL
1998					
Revenues	$ 66,569	$ 25,259	$ 794	$ 9,465	$102,087
Operating loss	(6,175)	(192)	(6,130)	(12,915)	(25,412)
Identifiable assets	53,160	87,670	1,241	130,651	272,722
Depreciation and amortization	1,125	4,373	693	304	6,495
Capital expenditures	428	18,270	83	38	18,819
1997					
Revenues	$ 56,197	$ 27,067	$ 3,947	$ 27,357	$114,568
Operating (loss) income	(9,958)	(7,827)	(8,156)	520	(25,421)
Identifiable assets	77,511	276,770	5,604	81,506	441,391
Depreciation and amortization	1,035	7,469	815	95	9,414
Capital expenditures	1,627	10,777	466	1,385	14,255
1996					
Revenues	$71,960	$ 23,559	$ 15,017	$20,329	$130,865
Operating loss	(345)	(745)	(15,082)	(2,417)	(18,589)
Identifiable assts	76,302	182,645	11,686	135,787	406,540
Depreciation and Amortization	600	3,622	532	3	4,757
Capital expenditures	3,644	183,193	1,596	18	188,451

22. DISCONTINUED OPERATIONS

During the fourth quarter of 1996, the Company received $5,774 in cash and $600 in a promissory note (paid in 1997) in settlement of a receivable claim originally filed by the Company's former Western Union telegraph business. In addition, the Company reduced its liability related to certain Western Union retirees by $784. The Company recorded the gain on settlement of $6,374 and liability reduction of $784 as gain on disposal of discontinued operations. During 1997, the Company recorded a gain on disposal of discontinued operations of $3,687 related to reversals in estimates of certain pre-petition claims under Chapter 11 and restructuring accruals which resulted from the Company's former money transfer business. The Company recorded a gain on disposal of discontinued operations of $7,740 in 1998 related to the settlement of a lawsuit originally initiated by the Western Union telegraph business.

EXHIBIT 4.6

AMENDED AND RESTATED STANDSTILL AGREEMENT

This AMENDED AND RESTATED STANDSTILL AGREEMENT (this "AGREEMENT"), dated as of February 9, 1999 among BGLS INC., a Delaware corporation (the "COMPANY"), AIF II, L.P., a Delaware limited partnership ("AIF II") and ARTEMIS AMERICA PARTNERSHIP, a Delaware partnership (as successor to Artemis America LLC, a Delaware limited liability company) ("AAP" and, together with AIF II and any future holders of Modified Notes (as defined below), the "PARTICIPATING HOLDERS").

WHEREAS, pursuant to that certain Indenture dated as of January 1, 1996 (the "INDENTURE") between the Company and State Street Bank and Trust Company, as successor to Fleet National Bank of Massachusetts (the "TRUSTEE"), the Company issued the Series A Securities and the Series B Securities, of which only the Series B Securities remain outstanding;

WHEREAS, the Participating Holders (directly or through one or more nominees or custodians, as more fully described on Schedule 1 hereto) and certain other Holders (the "OTHER HOLDERS") (the Participating Holders and the Other Holders being collectively referred to herein as the "HOLDERS") own all of the outstanding Series B Securities;

WHEREAS, pursuant to the Standstill Agreement and Consent dated as of August 28, 1997, as amended, among, INTER ALIA, the Company and the Participating Holders (the "ORIGINAL STANDSTILL AGREEMENT"), the Participating Holders agreed to refrain from exercising remedies as a result of the failure of the Company to pay to the Participating Holders the interest due to the Participating Holders on July 31, 1997 (the "JULY INTEREST AMOUNT");

WHEREAS, pursuant to the Standstill Agreement dated as of March 2, 1998, as amended, among, INTER ALIA, the Company and the Participating Holders (the "MARCH 1998 STANDSTILL AGREEMENT"), which supplemented the Original Standstill Agreement, the Company and each of the Participating Holders agreed, subject to the terms and conditions set forth in the March 1998 Standstill Agreement, for the period commencing March 2, 1998 and ending on the earlier of the Maturity Date or the occurrence of a Termination Event (as defined in Section 6) (the "WAIVER PERIOD"), (i) to waive any Default or Event of Default existing solely as a result of the failure of the Company to pay to such Participating Holder its pro rata share of the July Interest Amount, the interest payment due on January 31, 1998 (the "JANUARY INTEREST AMOUNT") and all amounts due to such Participating Holders on the remaining Interest Payment Dates through and including July 31, 2000 (the "REMAINING INTEREST PAYMENTS") and, together with the July Interest Amount and the January Interest Amount, the "UNPAID INTEREST AMOUNTS"), with such interest payments to be made to the Participating Holders on the Maturity Date, and (ii) that it shall refrain from exercising its rights and remedies against the Company in connection with the Company's failure to pay such Participating Holder its pro rata share of the Unpaid Interest Amounts;

WHEREAS, the Company and the Participating Holders desire to amend and restate the March 1998 Standstill Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreement of the parties hereinafter set forth, the parties hereto hereby agree as follows:

1. CERTAIN DEFINED TERMS. Capitalized terms not otherwise defined herein shall have the meanings specified in the Indenture. In addition, the following terms shall have the following meanings under this Agreement:

"MAJORITY PARTICIPATING HOLDERS" shall mean Participating Holders holding at least 50.1% in principal amount of the Modified Notes.

"MODIFIED NOTES" shall mean the $97,239,000 in principal amount of Senior Secured Notes (CUSIP Number 055432 AC24) held by the Participating Holders.

2. WAIVER OF DEFAULT. Each of the Participating Holders hereby waives, until the expiration of the Waiver Period, any Default or Event of Default existing solely as a result of the Company's failure to pay to such Participating Holder such Participating Holder's pro rata share of the Unpaid Interest Amounts. The Company acknowledges that (i) interest at a rate of 16.75% per annum has accrued pursuant to Section 2.12 of the Indenture on the July Interest Amount from July 31, 1997 through March 2, 1998 and (ii) interest shall accrue at the rate of 15.75% per annum, compounded on a semi-annual basis, on (a) the July Interest Amount plus the amount accrued pursuant to clause (i) above, (b) the January Interest Amount and (c) each Remaining Interest Payment from the date each such payment is due pursuant to Section 2.13 of the Indenture until all such amounts are paid in full in cash.

3. STANDSTILL. Each of the Participating Holders hereby agrees that during the Waiver Period it will not exercise and shall not direct the Trustee to exercise any remedy under the Indenture or the Series B Securities, at law or in equity, which it or the Trustee now has or hereafter may have in respect of any Default or Event of Default resulting solely from the failure of the Company to pay to such Participating Holder its pro rata share of the Unpaid Interest Amounts.

4. LEGENDING OF SECURITIES; TRANSFER OF DTC REFERENCE AND REMOVAL OF SECURITIES FROM DTC. Each of the Participating Holders acknowledges and agrees that the Modified Securities (i) shall be assigned a new CUSIP number (CUSIP No. 055432AC24), (ii) shall be evidenced by a new Series B Note in the principal amount of $97,239,000 to be issued in the name of Cede & Co. (as the nominee of the Depository Trust Company ("DTC")) and held by the Trustee (the "Replacement Note"), which Replacement Note shall contain the following legend:

"CERTAIN OF THE TERMS AND CONDITIONS OF THIS NOTE HAVE BEEN MODIFIED BY THE AMENDED AND RESTATED STANDSTILL AGREEMENT, DATED AS OF FEBRUARY 9, 1999, EXECUTED BY CERTAIN HOLDERS IN FAVOR OF BGLS INC. (THE "STANDSTILL AGREEMENT"), INCLUDING, WITHOUT LIMITATION, THE AGREEMENT THAT INTEREST ON THIS NOTE WILL ACCRUE (RATHER THAN BE PAID) ON THE INTEREST PAYMENT DATES SET FORTH IN THE STANDSTILL AGREEMENT AND BE PAYABLE AS SET FORTH IN THE STANDSTILL AGREEMENT AND THE INDENTURE, AS MODIFIED BY THE STANDSTILL AGREEMENT."

and (iii) DTC shall transfer its reference to the Replacement Note to a "Non-Cash Paying Interest Position" and reference in its books and records and broadcast in its customary fashion the above described modifications and change in reference. In addition, if any Participating Holder shall remove any of its Modified Notes from DTC, such Participating Holder agrees that it shall receive certificated securities that contain the foregoing legend.

5. CONDITIONS PRECEDENT TO EFFECTIVENESS OF THIS AGREEMENT. This Agreement shall become effective upon the execution and delivery by the Company and each of the Participating Holders of the following documents:

(a) this Agreement;

(b) the Amended and Restated Limited Recourse Guarantee of even date herewith between Brooke (Overseas) Ltd. (the "GUARANTOR") and U.S. Bank Trust National Association, as collateral agent for the Participating Holders (the "COLLATERAL AGENT");

(c) the Pledge Agreement of even date herewith between the Guarantor and the Collateral Agent;

(d) the Collateral Agency Agreement of even date herewith between the Guarantor, the Collateral and the Participating Holders; and

(e) the Series B Senior Secured Note in the amount of $97,239,000, CUSIP No. 055432AC24 (which note shall bear the legend set forth in Section 4 above) and the Series B Senior Secured Note in the amount of $135,625,000, CUSIP No. 055432AB4, which notes shall supercede the existing Series B Senior Secured Note in the principal amount of $232,864,000 currently held by the Trustee.

6. TERMINATION. This Agreement shall terminate upon the earlier of (i) the payment in full to each Participating Holder of its pro rata share of the Unpaid Interest Amounts, plus all amounts owing thereon pursuant to Section 2.12 of the Indenture and Section 2 hereof, (ii) the occurrence of an Event of Default (other than in connection with the Unpaid Interest Amounts) and (iii) any redemption or other payment of Securities pursuant to Section 3.08 or 3.09 of the Indenture; provided, that this Agreement shall only terminate with respect to those Securities actually redeemed or repurchased from the Participating Holders pursuant to such sections (a "TERMINATION EVENT").

7. ABSENCE OF WAIVER. The parties hereto agree that, except to the extent expressly set forth herein, nothing contained herein shall be deemed to:

(a) be a consent to, or waiver of, any Default or Event of Default;

(b) prejudice any right or remedy which any of the Participating Holders may now have or may in the future have under the Indenture, the Series B Securities or otherwise, including, without limitation, any right or remedy resulting from any Default or Event of Default; or

(c) constitute a waiver of the rights of any of the Participating Holders under Section 2.12 of the Indenture, except as provided in Section 2 hereof.

8. REPRESENTATIONS. Each party hereto hereby represents and warrants to the other parties that:

(a) such party is a corporation or partnership, as applicable, duly organized, validly existing, and in good standing under the laws of the state of its incorporation or formation, as applicable;

(b) the execution, delivery and performance of this Agreement and each of the documents contemplated hereby by such party is within its corporate or partnership powers, as applicable, has been duly authorized by all necessary corporate or partnership action, as applicable, has received all necessary consent and approvals (if any shall be required), and does not and will not contravene or conflict with any provisions of law or of the charter or by-laws, or partnership agreement, as applicable, of such party or of any material agreement binding upon such party or its property; and

(c) upon its effectiveness under Section 5 hereof, this Agreement will be a legal, valid and binding obligation of such party, enforceable against it in accordance with its terms.

In addition, the Company represents and warrants that to the best of its knowledge, except as set forth herein no Default or Event of Default under the Indenture has occurred and is continuing.

9. CONTINUING EFFECT, ETC. Except as expressly provided herein the Company hereby agrees that the Indenture and the Series B Securities shall continue unchanged and in full force and effect, and all rights, powers and remedies of the Participating Holders thereunder and under applicable law are hereby expressly reserved. In addition, the Company hereby agrees that its obligations under this Agreement constitute "Secured Obligations" as defined in each of the BGLS Pledge Agreement, the NV Holdings Pledge Agreement and the Pledge Agreement referenced in Section 5(c) above.

10. MISCELLANEOUS.

(a) Section headings used in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

(b) This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same agreement.

(c) This Agreement shall be a contract made under and governed by the laws of the State of New York.

(d) All obligations of the Company and rights of the Participating Holders expressed herein shall be in addition to and not in limitation of those provided by applicable law.

(e) This Agreement shall be binding upon the Company, the Participating Holders and their respective successors, transferees and assigns, and shall inure to the benefit of the Company, the Participating Holders and their respective successors and assigns.

(f) Any provision of this Agreement may be modified, supplemented or waived only by consent of the Company and the Majority Participating Holders. All amendments or modifications of this Agreement and all consents, waivers and notices delivered hereunder or in connection herewith shall be in writing.

11. WAIVER OF JURY TRIAL. EACH OF THE COMPANY AND THE PARTICIPATING HOLDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE PARTIES HERETO FURTHER AGREE THAT THIS AGREEMENT MAY BE FILED AS EVIDENCE OF THE WAIVER REFERRED TO ABOVE IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

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

BGLS INC.

By /s/ Richard J. Lampen

Name: Richard J. Lampen
Title: Executive Vice President

AIF II, L.P.

By APOLLO ADVISORS, L.P.
Managing General Partner

By APOLLO CAPITAL MANAGEMENT, INC.
General Partner

By /s/ Michael D. Weiner

Name: Michael D. Weiner
Title: Vice President

ARTEMIS AMERICA PARTNERSHIP

By LION ADVISORS, L.P.
Attorney-in-Fact

By LION CAPITAL MANAGEMENT, INC.
General Partner

By /s/ Michael D. Weiner

Name: Michael D. Weiner
Title: Vice President

SCHEDULE I

HOLDER	DTC PARTICIPANT (NO.)	PRINCIPAL AMOUNT ($) OF SERIES B NOTES
Artemis America Partnership	The Bank of New York (901)	$42,513,000
AIF II, L.P.	Chase Manhattan Bank, Trust (931)	$54,726,000

EXHIBIT 4.7

AMENDED AND RESTATED LIMITED RECOURSE GUARANTEE AGREEMENT

This AMENDED AND RESTATED LIMITED RECOURSE GUARANTEE AGREEMENT (this "GUARANTEE"), dated as of February 9, 1999, is made by Brooke (Overseas) Ltd., a Delaware corporation (the "GUARANTOR"), for the benefit of U.S. BANK TRUST NATIONAL ASSOCIATION (f/k/a First Trust National Association), a national banking association, as the collateral agent (in such capacity, the "COLLATERAL AGENT") for the benefit of AIF II, L.P. and Artemis America Partnership (the "Participating Holders" which term shall include any future holder of Modified Notes) and amends and restates the Limited Recourse Guarantee Agreement, dated as of March 2, 1998, between the Guarantor and the Participating Holders.

R E C I T A L S:

WHEREAS, BGLS Inc., a Delaware corporation (the "COMPANY"), has entered into the Indenture (as amended, modified, supplemented and in effect from time to time, the "INDENTURE") dated as of January 1, 1996 between the Company and State Street Bank and Trust Company, as trustee (the "TRUSTEE");

WHEREAS, pursuant to the terms and conditions of the Amended and Restated Standstill Agreement dated as of even date herewith between the Company and the Participating Holders (the "STANDSTILL AGREEMENT"), the Participating Holders have agreed to defer the payment of interest due to the Participating Holders under the Indenture until the occurrence of a Termination Event (as defined in the Standstill Agreement);

WHEREAS, it is a condition to the Participating Holders entering into the Standstill Agreement that the Guarantor shall have (i) guaranteed for the benefit of the Participating Holders the Company's obligations under the Series B Senior Secured Notes (as defined below) and (ii) pledged certain securities to the Participating Holders pursuant to the Pledge Agreement, dated as of the date of this Guarantee (as amended, modified, supplemented and in effect from time to time, the "PLEDGE AGREEMENT");

WHEREAS, the Participating Holders, the Collateral Agent and the Pledgor have entered into the Collateral Agency Agreement, dated as of the date hereof (the "COLLATERAL AGENCY AGREEMENT"), pursuant to which the Participating Holders have appointed the Collateral Agent to act on their behalf in accordance with the provisions thereof, hereof and of the Pledge Agreement; and

WHEREAS, the Guarantor, expects to receive substantial benefits from the performance of the Standstill Agreement;

NOW, THEREFORE, to induce the Participating Holders to enter into the Standstill Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor has agreed to guarantee the Guaranteed Obligations (as defined below) upon the terms and conditions of this Guarantee. Accordingly, the parties hereto agree as follows:

Section 1. DEFINITIONS AND INTERPRETATION.

1.1 DEFINITIONS. Unless otherwise defined, all capitalized terms used in this Guarantee that are defined in the Indenture (including those terms incorporated therein by reference) shall have the respective meanings set forth in the Indenture and the Collateral Agency Agreement. In addition, the following terms shall have the following meanings under this Guarantee:

"GUARANTEED OBLIGATIONS" means any and all obligations of the Company for the payment of all amounts, liabilities and indebtedness (whether for principal, interest (including interest at the post-default rate, fees, charges, indemnification or otherwise) now or in the future owed to the Participating Holders under the Indenture, the Series B Senior Secured Notes and the Standstill Agreement and any extensions, renewals or modifications of any of the foregoing, and for the performance by the Company of its agreements, covenants and undertakings, under or in respect of the Indenture, the Series B Senior Secured Notes and the Standstill Agreement and any renewals, extensions or modifications of any of the foregoing.

1.2 INTERPRETATION. In this Guarantee, unless otherwise indicated, the singular includes the plural and plural the singular; words importing any gender include the other gender; references to statutes or regulations are to be construed as including all statutory or regulatory provisions consolidating, amending or replacing the statute or regulation referred to; references to "writing" include printing, typing, lithography and other means of reproducing words in a tangible visible form; the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to articles, sections (or subdivisions of sections), exhibits, annexes or schedules are to this Guarantee; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, extensions and other modifications to such instruments (without, however, limiting any prohibition on any such amendments, extensions or modifications by the terms of this Guarantee); and references to Persons include their respective permitted successors and assigns and, in the case of Governmental Persons, Persons succeeding to their respective functions and capacities.

Section 2. THE GUARANTEE.

2.1 THE GUARANTEE. The Guarantor hereby guarantees to the Collateral Agent, for the benefit of the Participating Holders, the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the Guaranteed Obligations. The Guarantor hereby further agrees that if the Company shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Guarantor will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

2.2 OBLIGATIONS UNCONDITIONAL. The obligations of the Guarantor under SECTION 2.1 are absolute and unconditional irrespective of the value, genuineness, validity,

regularity or enforceability of the Indenture, the Series B Senior Secured Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this SECTION 2.2 that the obligations of the Guarantor hereunder shall be absolute and unconditional under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Guarantor hereunder which shall remain absolute and unconditional as described above:

1. at any time or from time to time, without notice to the Guarantor, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

2. any of the acts mentioned in any of the provisions of the Indenture, the Series B Senior Secured Notes, the Standstill Agreement or any other agreement or instrument referred to herein or therein shall be done or omitted;

3. the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under the Indenture, the Series B Senior Secured Notes, the Standstill Agreement or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

4. any lien or security interest granted to, or in favor of, the Collateral Agent as security for any of the Guaranteed Obligations (including, without limitation, those granted under the Pledge Agreement) shall fail to be perfected.

The Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Collateral Agent exhaust any right, power or remedy or proceed against the Company under the Indenture, the Series B Senior Secured Notes, the Standstill Agreement or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

2.3 REINSTATEMENT. The obligations of the Guarantor under this Section 2 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Company in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and the Guarantor agrees that it will indemnify the Collateral Agent on demand for all reasonable costs and expenses (including, fees of counsel) incurred by the Collateral Agent in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

2.4 SUBROGATION. Until the Guaranteed Obligations have been satisfied in full, the Guarantor hereby waives all rights of subrogation or contribution, whether arising by contract or operation of law (including any such right arising under the Federal Bankruptcy Code) or otherwise by reason of any payment by it pursuant to the provisions of this Section 2.

2.5 REMEDIES. The Guarantor agrees that, as between the Guarantor and the Collateral Agent, the obligations of the Company under the Indenture and the Series B Senior Secured Notes (including the obligations under the Standstill Agreement) may be declared to be forthwith due and payable as provided in Section 7.02 of the Indenture (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 7.02) and Section 7 of the Termination Agreement for purposes of Section 2.1 hereof notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Company and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Company) shall forthwith become due and payable by the Guarantor for purposes of said Section 2.1.

2.6 SEPARATE ACTION. The Collateral Agent may bring and prosecute a separate action or actions against the Guarantor whether or not the Company, any other guarantor or any other Person is joined in any such action or a separate action or actions are brought against the Company, any other guarantor, any other Person, or any collateral for all or any part of the Guaranteed Obligations. The obligations of the Guarantor under, and the effectiveness of, this Guarantee are not conditioned upon the existence or continuation of any other guarantee (including any letter of credit) of all or any part of the Guaranteed Obligations.

2.7 INSTRUMENT FOR THE PAYMENT OF MONEY; POST-DEFAULT INTEREST. The Guarantor hereby acknowledges that the guarantee in this SECTION 2 constitutes an instrument for the payment of money, and consents and agrees that the Collateral Agent, at the direction of the Majority Participating Holders (as defined in the Collateral Agency Agreement), in the event of a dispute by the Guarantor in the payment of any moneys due hereunder, shall have the right to bring motion-action under New York CPLR Section 3213. In addition, the Guarantor hereby agrees that in the event it shall fail to pay in full any amount owing by it hereunder on the date upon which the same shall become due (whether upon demand or otherwise), it shall be obligated to pay interest at the post-default rate in respect of such amount for each day during the period from and including the due date thereof to but excluding the date the same shall be paid in full, such interest to be payable upon demand of the Collateral Agent at the direction of the Majority Participating Holders.

2.8 CONTINUING GUARANTEE. The guarantee in this SECTION 2 is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

Section 3. REPRESENTATIONS AND WARRANTIES. The Guarantor represents and warrants to the Collateral Agent that:

3.1 CORPORATE EXISTENCE. The Guarantor is a corporation duly organized and validly existing under the laws of the state of Delaware and has all requisite corporate power, and has all material governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted.

3.2 NO BREACH. None of the execution and delivery of this Guarantee, the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of the Guarantor, or any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Guarantor or any of its Subsidiaries is a party or by which any of them is bound or to which any of them is subject, or constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or assets of the Guarantor or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

3.3 CORPORATE ACTION. The Guarantor has all necessary corporate power and authority to execute, deliver and perform its obligations under this Guarantee; the execution, delivery and performance by the Guarantor of this Guarantee have been duly authorized by all necessary corporate action on its part; and this Guarantee has been duly and validly executed and delivered by the Guarantor and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.

3.4 APPROVALS. No authorizations, approvals or consents of, and no filings or registrations with, any governmental or regulatory authority or agency, or any securities exchange are necessary for the execution, delivery or performance by the Guarantor of this Guarantee or for the validity or enforceability hereof.

Section 4. MISCELLANEOUS.

4.1 NO WAIVER. No failure on the part of the Collateral Agent to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by the Collateral Agent of any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein are cumulative and are not exclusive of any remedies provided by law.

4.2 NOTICES. All notices, requests, consents and demands hereunder shall be in writing and telecopied or delivered to the intended recipient at the "Address for Notices" specified for the Company in the Indenture or, as to either party, at such other address as shall be designated by such party in a notice to the other party. Except as otherwise provided in this Guarantee, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

4.3 EXPENSES. The Guarantor agrees to reimburse the Collateral Agent for all reasonable costs and expenses of the Collateral Agent (including, the reasonable fees and expenses of legal counsel) in connection with (a) any Event of Default and any enforcement or collection proceeding resulting therefrom, including, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (b) the enforcement of this SECTION 4.3.

4.4 AMENDMENTS, ETC. The terms of this Guarantee may be waived, altered or amended only by an instrument in writing duly executed by the Guarantor and the Collateral Agent (with the consent of the Majority Participating Holders). Any such amendment or waiver shall be binding upon the Collateral Agent, each Participating Holder, each holder of any of the Guaranteed Obligations and the Guarantor.

4.5 SUCCESSORS AND ASSIGNS. This Guarantee shall be binding upon and inure to the benefit of the respective successors and assigns of the Guarantor and the Collateral Agent, for the benefit of the Participating Holders and each holder of any of the Guaranteed Obligations (PROVIDED, HOWEVER, that the Guarantor shall not assign or transfer its rights hereunder without the prior written consent of the Collateral Agent and the Majority Participating Holders). The Collateral Agent shall not assign or transfer its rights under this Guarantee other than in accordance with the Collateral Agency Agreement.

4.6 CAPTIONS. The captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Guarantee.

4.7 COUNTERPARTS. This Guarantee may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and either of the parties hereto may execute this Guarantee by signing any such counterpart.

4.8 GOVERNING LAW; SUBMISSION TO JURISDICTION. This Guarantee shall be governed by, and construed in accordance with, the law of the State of New York. The Guarantor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of the Supreme Court of the State of New York sitting in New York County (including its Appellate Division), and of any other appellate court in the State of New York, for the purposes of all legal proceedings arising out of or relating to this Guarantee or the transactions contemplated hereby. The Guarantor hereby irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

4.9 WAIVER OF JURY TRIAL. EACH OF THE GUARANTOR AND THE COLLATERAL AGENT HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTEE OR THE TRANSACTIONS CONTEMPLATED HEREBY.

4.10 AGENTS AND ATTORNEYS-IN-FACT. The Collateral Agent may employ agents and attorneys-in-fact in connection herewith and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith.

4.11 SEVERABILITY. If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (a) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Collateral Agent in order to carry out the intentions of the parties hereto as nearly as may be possible and (b) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

4.12 LIMITATION ON RECOURSE. Notwithstanding anything to the contrary contained in this Guarantee, recourse to the Guarantor under this Guarantee shall be limited to the collateral granted pursuant to the Pledge Agreement.

4.13 TERMINATION. This Guarantee shall remain in full force and effect until the Company delivers final payment in full in cash of all of the Guaranteed Obligations and all other amounts owing to the Collateral Agent and the Participating Holders hereunder, at which point it shall terminate automatically.

4.14 AGREEMENTS SUPERSEDED. This Guarantee amends and restates the Limited Recourse Guarantee Agreement, dated as of March 2, 1998, by the Pledgor for the benefit of AIF II, L.P. and Artemis America Partnership and supersedes all prior agreements and understandings, written or oral, among the parties with respect to the subject matter of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Guarantee to be duly executed and delivered as of the day and year first above written.

BROOKE (OVERSEAS) LTD.

By: /s/ Richard J. Lampen

Name: Richard J. Lampen
Title: Executive Vice President

AGREED AND ACCEPTED:

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Collateral Agent for the benefit of the
Participating Holders

By: /s/ Thomas M. Gronlund

Name: Thomas M. Gronlund
Title: Vice President

EXHIBIT 4.8

AMENDED AND RESTATED PLEDGE AGREEMENT

This AMENDED AND RESTATED PLEDGE AGREEMENT (this "AGREEMENT") dated as of February 9, 1999, is made between Brooke (Overseas) Ltd. (the "PLEDGOR") and U.S. BANK TRUST NATIONAL ASSOCIATION (f/k/a First Trust National Association), a national banking association, as the collateral agent (in such capacity, the "COLLATERAL AGENT") for the Participating Holders pursuant to the Collateral Agency Agreement referred to below, and amends and restates each of (i) the Pledge Agreement, dated as of March 2, 1998, between the Pledgor and AIF II, L.P., a Delaware limited partnership ("AIF") and (ii) the Pledge Agreement, dated as of March 2, 1998, between the Pledgor and Artemis America Partnership, a Delaware limited partnership ("AAP" and, collectively with AIF, the "PARTICIPATING HOLDERS", which term shall include all future holders of Modified Notes).

R E C I T A L S:

WHEREAS, BGLS Inc., a Delaware corporation (the "COMPANY"), has entered into the Indenture (as amended, modified, supplemented and in effect from time to time, the "INDENTURE") dated as of January 1, 1996 between the Company and State Street Bank and Trust Company, as trustee (the "TRUSTEE");

WHEREAS, pursuant to the terms and conditions of the Amended and Restated Standstill Agreement dated as of even date herewith among the Company and the Participating Holders (the "STANDSTILL AGREEMENT"), the Participating Holders have agreed to defer the payment of interest due to the Participating Holders under the Indenture until the occurrence of a Termination Event (as defined in the Standstill Agreement);

WHEREAS, the Issuer has elected pursuant to Section 8103 of the Delaware Commercial Code to treat interests in the Issuer as securities which may be perfected through possession of the security;

WHEREAS, the Participating Holders, the Collateral Agent and the Pledgor have entered into the Collateral Agency Agreement, dated as of the date hereof (the "COLLATERAL AGENCY AGREEMENT"), pursuant to which the Participating Holders have appointed the Collateral Agent to act on their behalf in accordance with the provisions thereof and this Agreement;

WHEREAS, it is a condition to the Participating Holders entering into the Standstill Agreement that the Pledgor shall (i) guarantee for the benefit of the Participating Holders the Guaranteed Obligations (as defined in the Limited Recourse Guarantee) and (ii) pledge the Collateral (as defined below) to the Collateral Agent to secure such guarantee; and

NOW, THEREFORE, to induce the Participating Holders to enter into the Standstill Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Pledgor has agreed to pledge the Collateral upon the terms and conditions of this Agreement. Accordingly, the parties hereto agree as follows:

SECTION 1. DEFINITIONS AND INTERPRETATION.

1.01 CERTAIN DEFINED TERMS.

(a) Each capitalized term used in this Agreement and not defined in this Agreement shall have the meaning assigned to such term (whether directly or by reference to another agreement or document) in the Indenture, the Collateral Agency Agreement or the Limited Recourse Guarantee. The principles of interpretation set forth in Section 1.03 of the Indenture shall apply to this Agreement. Unless otherwise defined in this Agreement or in the Indenture, terms used in Article 9 of the Uniform Commercial Code (as defined below) are used in this Agreement as defined in such Article 9.

(b) In addition, the following terms shall have the meanings set forth below:

"COLLATERAL" shall have the meaning assigned to that term in Section 2.01.

"EQUITY COLLATERAL" shall have the meaning assigned to that term in Section 2.01(a).

"EQUITY RIGHTS" shall have the meaning assigned to that term in Section 2.01(a).

"ISSUER" shall mean Western Tobacco Investments LLC, a Delaware limited liability company.

"LIMITED RECOURSE GUARANTEE" shall mean the Amended and Restated Limited Recourse Guarantee, dated as of the date hereof (as amended, modified, supplemented and in effect from time to time) between the Pledgor and the Participating Holders.

"LLC AGREEMENT" shall mean the Limited Liability Company Agreement of Western Tobacco Investments LLC dated as of February 27, 1998 adopted and executed by the Issuer, the Pledgor and Western Realty Development LLC.

"PLEDGED EQUITY" shall have the meaning assigned to that term in Section 2.01(a).

"SECURED OBLIGATIONS" shall mean the Guaranteed Obligations (as defined in the Limited Recourse Guarantee).

"UNIFORM COMMERCIAL CODE" shall mean the Uniform Commercial Code as in effect in from time to time in any applicable jurisdiction.

"WESTERN REALTY LIEN" shall mean the second priority security interest in the Collateral granted by the Pledgor to Western Realty Development LLC, pursuant to the Pledge Agreement dated as of April 28, 1998.

SECTION 2. COLLATERAL.

2.01 GRANT. As collateral security for the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) and timely performance of the Secured

Obligations, the Pledgor hereby pledges and grants to the Collateral Agent, for the benefit of the Participating Holders, a security interest in all of the Pledgor's right, title and interest in and to the following property, whether now owned or acquired in the future by the Pledgor and whether now existing or in the future coming into existence (collectively, the "COLLATERAL"):

(a) a 50.10% membership interest in the Issuer, together with (i) each of the share certificates representing the same identified in Exhibit A and (ii) the right, title and interest of the Pledgor with respect to such 50.10% membership interest in, to and under the LLC Agreement (the "Pledged Equity"); and

(b) all shares, securities, moneys or property representing a dividend on, or a distribution or return of capital in respect of any of the Pledged Equity, resulting from a split-up, revision, reclassification or other like change of any of the Pledged Equity or otherwise received in exchange for any of the Pledged Equity and all subscriptions, options, warrants or other rights of like nature (the "Equity Rights") issued to the holders of, or otherwise in respect of, any of the Pledged Equity; and

(c) in the event of any consolidation or merger in which the Issuer is not the surviving entity, all of the membership interest, or other equity interests of the successor corporation or successor entity (unless such successor entity is the Pledgor itself) formed by or resulting from such consolidation or merger (collectively, and together with the property described in clauses (a) and (b) above, the "Equity Collateral"); and

(d) all proceeds and products in whatever form of all or any part of the foregoing.

2.02 PERFECTION AND REGISTRATION OF PLEDGE. Concurrently with the execution and delivery of this Agreement, the Pledgor shall (i) deliver to the Collateral Agent all of the certificates identified in Exhibit A, accompanied by undated certificate powers duly executed in blank and (ii) take all such other actions as shall be necessary or as the Collateral Agent may reasonably request to perfect and establish the priority of the Liens granted by this Agreement.

2.03 PRESERVATION AND PROTECTION OF SECURITY INTERESTS. The Pledgor shall:

(a) upon the acquisition after the date of this Agreement by the Pledgor of any Equity Collateral, promptly either (x) transfer and deliver to the Collateral Agent all such Equity Collateral (together with, if applicable, the certificates representing such Equity Collateral duly endorsed in blank or accompanied by undated powers duly executed in blank or such instruments of transfer as the Collateral Agent shall direct in its discretion to effectuate the purposes of this Agreement) or (y) take such other action as the Collateral Agent shall deem reasonably necessary or appropriate to perfect, and establish the priority of, the Liens granted by this Agreement in such Equity Collateral; and

(b) give, execute, deliver, file or record any and all financing statements, notices, contracts, agreements or other instruments, obtain any and all governmental approvals and take such steps as are reasonably necessary to create, perfect, establish the priority of, or to preserve the validity, perfection or priority of, the Liens granted by this Agreement or to enable

the Collateral Agent to exercise and enforce its rights, remedies, powers and privileges under this Agreement with respect to such Liens, including causing any or all of the Equity Collateral to be transferred of record into the name of the Collateral Agent (and the Collateral Agent agrees that if any Equity Collateral is transferred into its name, the Collateral Agent will thereafter promptly give to the Pledgor copies of any notices and communications received by it with respect to the Equity Collateral pledged by the Pledgor).

2.04 ATTORNEY-IN-FACT. Subject to the rights of the Pledgor under Section 2.05, the Collateral Agent is hereby appointed the attorney-in-fact of the Pledgor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments as are reasonably necessary to accomplish the purposes of this Agreement, to preserve the validity, perfection and priority of the Liens granted by this Agreement and, following any Termination Event, to exercise its rights, remedies, powers and privileges under this Agreement. This appointment as attorney-in-fact is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Collateral Agent shall be entitled under this Agreement upon the occurrence and continuation of any Termination Event (i) to ask, demand, collect, sue for, recover, receive and give receipt and discharge for amounts due and to become due under and in respect of all or any part of the Collateral; (ii) to receive, endorse and collect any drafts, instruments, documents and chattel paper in connection with clause (i) above; (iii) to file any claims or take any action or proceeding as is reasonably necessary for the collection of all or any part of the Collateral; and (iv) to execute, in connection with any sale or disposition of the Collateral under Section 5, any endorsements, assignments, bills of sale or other instruments of conveyance or transfer with respect to all or any part of the Collateral.

2.05 SPECIAL PROVISIONS RELATING TO EQUITY COLLATERAL.

(a) So long as no Termination Event shall have occurred and be continuing, the Pledgor shall have the right to exercise all voting, consensual and other powers of ownership pertaining to the Equity Collateral for all purposes not inconsistent with the terms of this Agreement; PROVIDED that the Pledgor agrees that it will not vote the Equity Collateral in any manner that is inconsistent with the terms of this Agreement; and the Collateral Agent shall, at the Pledgor's expense, execute and deliver to the Pledgor or cause to be executed and delivered to the Pledgor all such proxies, powers of attorney, dividend or distribution and other orders and other instruments, without recourse, as the Pledgor may reasonably request for the purpose of enabling the Pledgor to exercise the rights and powers which it is entitled to exercise pursuant to this Section 2.05(a).

(b) So long as no Termination Event shall have occurred and be continuing, the Pledgor shall be entitled to receive and retain any dividends or other distributions on the Equity Collateral.

(c) If any Termination Event shall have occurred and be continuing, and whether or not the Collateral Agent exercises any available right to declare any Secured Obligation due and payable or seeks or pursues any other right, remedy, power or privilege available to it under applicable law or this Agreement, all dividends and other distributions on the Equity Collateral shall be paid directly to the Collateral Agent as part of the Equity Collateral, subject to the terms of this Agreement, and, if the Collateral Agent shall so request,

the Pledgor agrees to execute and deliver to the Collateral Agent appropriate additional dividend, distribution and other orders and instruments to that end; provided that if such Termination Event is cured or rescinded, any such dividend or distribution paid to the Collateral Agent prior to such cure shall, upon request of the Pledgor (except to the extent applied to the Secured Obligations), be returned by the Collateral Agent to the Pledgor.

2.06 RIGHTS AND OBLIGATIONS.

(a) No reference in this Agreement to proceeds or to the sale or other disposition of Collateral shall authorize the Pledgor to sell or otherwise dispose of any Collateral except to the extent otherwise expressly permitted by the terms of this Agreement.

(b) The Collateral Agent shall not be required to take steps necessary to preserve any rights against prior parties to any part of the Collateral.

(c) The Pledgor shall remain liable to perform its duties and obligations under the LLC Agreement in accordance with its terms to the same extent as if this Agreement had not been executed and delivered. The exercise by the Collateral Agent of any right, remedy, power or privilege in respect of this Agreement shall not release the Pledgor from any of its duties and obligations under the LLC Agreement. The Collateral Agent shall have no duty, obligation or liability under the LLC Agreement by reason of this Agreement.

2.07 TERMINATION. When all Secured Obligations have been satisfied in full, this Agreement shall terminate, and the Collateral Agent shall forthwith cause to be assigned, transferred and delivered, against receipt but without any recourse, warranty or representation whatsoever, any remaining Collateral and money received in respect of the Collateral, to or on the order of the Pledgor.

SECTION 3. REPRESENTATIONS AND WARRANTIES. As of the date of this Agreement, the Pledgor represents and warrants to the Collateral Agent as follows:

3.01 TITLE. The Pledgor is the sole beneficial owner of the Collateral in which it purports to grant a Lien pursuant to this Agreement, and such Collateral is free and clear of all Liens (and, with respect to the Equity Collateral, of any Equity Right in favor of any other Person), other than the Western Realty Liens. The Liens granted by this Agreement in favor of the Collateral Agent for the benefit of the Participating Holders have attached and constitute a perfected security interest in all of such Collateral prior to all other Liens.

3.02 PLEDGED EQUITY.

(a) The Pledged Equity evidenced by the certificates identified in Exhibit A is duly authorized, validly existing, fully paid and nonassessable, and none of such Pledged Equity is subject to any contractual restriction, or any restriction under the organizational documents of the Issuer of such Pledged Equity, upon the transfer of such Pledged Equity (except for any such restriction contained in this Agreement).

(b) The Equity Collateral constitutes 50.10% of the total number of membership interests or shares of each class of capital stock, as applicable, of the Issuer currently outstanding. The attached Exhibit A correctly identifies, as of the date of this Agreement, the membership interests comprising such Pledged Equity and the respective percentage interest in the Issuer as a whole. All such membership interests or shares are duly authorized, validly issued, fully paid and nonassessable and will be free of any contractual restriction (other than the Western Realty Lien) or any restriction under the charter or bylaws of the Issuer of the Equity Collateral, upon the transfer of the Equity Collateral (except for any such restriction contained in this Agreement).

SECTION 4. COVENANTS.

4.01 BOOKS AND RECORDS. The Pledgor shall:

(a) keep full and accurate books and records relating to the Collateral and stamp or otherwise mark such books and records in such manner as the Collateral Agent may reasonably require in order to reflect the Liens granted by this Agreement; and

(b) permit representatives of the Collateral Agent, upon reasonable notice, at any time during normal business hours to inspect and make abstracts from its books and records pertaining to the Collateral, permit representatives of the Collateral Agent to be present at the Pledgor's place of business to receive copies of all communications and remittances relating to the Collateral and forward copies of any notices or communications received by the Pledgor with respect to the Collateral, all in such manner as the Collateral Agent may reasonably request.

4.02 REMOVALS, ETC. Without at least 30 days' prior written notice to the Collateral Agent, the Pledgor shall not (i) maintain any of its books and records with respect to the Collateral at any office or maintain its principal place of business at any place, other than at the address initially indicated for notices to it under Section 6(c) or (ii) change its corporate name, or the name under which it does business, from the name shown on the signature pages to this Agreement.

4.03 SALES AND OTHER LIENS. Except as permitted under the Indenture, the Pledgor shall not sell, transfer or otherwise dispose of all or any part of the Collateral, create, incur, assume or suffer to exist any Lien upon all or any part of the Collateral or file or suffer to be on file or authorize to be filed, in any jurisdiction, any financing statement or like instrument with respect to all or any part of the Collateral in which the Collateral Agent is not named as the sole secured party for the benefit of the Participating Holders (other than or in connection with the Western Realty Lien).

4.04 FURTHER ASSURANCES. The Pledgor agrees that, from time to time upon the written request of the Collateral Agent, the Pledgor will execute and deliver such further documents and do such other acts and things as the Collateral Agent may reasonably request in order fully to effect the purposes of this Agreement.

4.05 DILUTION. The Pledgor shall cause the Equity Collateral to constitute at all times 50.10% of the total equity interests in the Issuer. The Pledgor shall cause all such interests

to be duly authorized, validly issued, fully paid and nonassessable and to be free of any contractual restriction (other than the Western Realty Lien) or any restriction under the Limited Liability Company Agreement, upon the transfer of such Equity Collateral.

4.06 FINANCIAL REPORTS. Within 45 days after the close of the first three quarterly accounting periods in each fiscal year of the Pledgor, the Pledgor shall deliver to the Collateral Agent, the unaudited financial statements of the Pledgor and the Issuer. Within 120 days after the close of each fiscal year, the Pledgor shall deliver to the Collateral Agent, the financial statements of the Pledgor and the Issuer, certified by an independent certified public accountant of recognized national standing. The Pledgor represents and warrants that all such financial statements shall be true and correct in all material respects.

SECTION 5. REMEDIES.

5.01 EVENTS OF DEFAULT, ETC. If a Termination Event shall have occurred and be continuing:

(a) the Collateral Agent in its discretion may, in its name or in the name of the Pledgor or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for all or any part of the Collateral, but shall be under no obligation to do so;

(b) the Collateral Agent in its discretion may, upon ten business days' prior written notice to the Pledgor of the time and place and subject to the terms of the LLC Agreement, with respect to all or any part of the Collateral which shall then be or shall thereafter come into the possession, custody or control of the Collateral Agent or its agents, sell, lease or otherwise dispose of all or any part of such Collateral, at such place or places as the Collateral Agent deems best, for cash, for credit or for future delivery (without thereby assuming any credit risk) and at public or private sale, without demand of performance or notice of intention to effect any such disposition or of time or place of any such sale (except such notice as is required above or by applicable statute and cannot be waived), and the Collateral Agent or any other Person may be the purchaser, lessee or recipient of any or all of the Collateral so disposed of at any public sale (or, to the extent permitted by law, at any private sale) and thereafter hold the same absolutely, free from any claim or right of whatsoever kind, including any right or equity of redemption (statutory or otherwise), of the Pledgor, any such demand, notice and right or equity being hereby expressly waived and released. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the sale may be so adjourned; and

(c) the Collateral Agent shall have, and in its discretion may exercise, all of the rights, remedies, powers and privileges with respect to the Collateral of a secured party under the Uniform Commercial Code (whether or not the Uniform Commercial Code is in effect in the jurisdiction where such rights, remedies, powers and privileges are asserted) and such additional rights, remedies, powers and privileges to which a secured party is entitled under the laws in effect in any jurisdiction where any rights, remedies, powers and privileges in respect of this Agreement or the Collateral may be asserted, including the right, to the maximum extent

permitted by law (subject to the terms of the LLC Agreement), to exercise all voting, consensual and other powers of ownership pertaining to the Collateral as if the Collateral Agent was the sole and absolute owner of the Collateral (and the Pledgor agrees to take all such action as may be appropriate to give effect to such right).

The proceeds of, and other realization upon, the Collateral by virtue of the exercise of remedies under this Section 5.01 shall be applied in accordance with Section 5.04.

5.02 LIMITED RECOURSE. Notwithstanding anything to the contrary in this Agreement, the Limited Recourse Guarantee, the Standstill Agreement, the Indenture or otherwise, the security interest granted herein secures a limited recourse obligation and recourse for the Secured Obligations is expressly limited solely to the Collateral Agent's and Participating Holders' interest in the Collateral.

5.03 PRIVATE SALE.

(a) The Collateral Agent and the Participating Holders shall incur no liability as a result of the sale, lease or other disposition of all or any part of the Collateral at any private sale pursuant to Section 5.01 conducted in a commercially reasonable manner. The Pledgor hereby waives any claims against the Collateral Agent or a Participating Holder arising by reason of the fact that the price at which the Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale or was less than the aggregate amount of the Secured Obligations, even if the Collateral Agent accepts the first offer received and does not offer the Collateral to more than one offeree.

(b) The Pledgor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933 and applicable state securities laws, the Collateral Agent may be compelled, with respect to any sale of all or any part of the Collateral, to limit purchasers to those who will agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to distribution or resale. The Pledgor acknowledges that any such private sales may be at prices and on terms less favorable to the Pledgor than those obtainable through a public sale without such restrictions, and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that the Collateral Agent shall have no obligation to engage in public sales and no obligation to delay the sale of any Collateral for the period of time necessary to permit the Issuer of the Collateral to register it for public sale.

5.04 APPLICATION OF PROCEEDS. Except as otherwise expressly provided in this Agreement, the proceeds of, or other realization upon, all or any part of the Collateral by virtue of the exercise of remedies under Section 5.01, and any other cash at the time held by the Collateral Agent under this Section 5, shall be applied by the Collateral Agent:

FIRST, to the payment of the reasonable costs and expenses of such exercise of remedies, including reasonable out-of-pocket costs and expenses of the Collateral Agent and the reasonable fees and expenses of its counsel;

NEXT, to the payment in full of the remaining Secured Obligations equally and ratably in accordance with the their respective amounts then due and owing; and

FINALLY, to the Pledgor, or its respective successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining.

As used in this Section 5, "PROCEEDS" of Collateral shall mean cash, securities and other property realized in respect of, and distributions in kind of, Collateral, including any property received under any bankruptcy, reorganization or other similar proceeding as to the Pledgor or any issuer of, or account debtor or other obligor on, any of the Collateral.

SECTION 6.MISCELLANEOUS.

(a) NO WAIVER No failure on the part of the Collateral Agent to exercise and no delay in exercising, and no course of dealing with respect to, any right, remedy, power or privilege under this Agreement shall operate as a waiver of such right, remedy, power or privilege, nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise of any such right, remedy, power or privilege or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided in this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

(b) AMENDMENTS, ETC. Any provision of this Agreement may be modified, supplemented or waived only by an instrument in writing duly executed by the Pledgor and the Collateral Agent (with the consent of the Majority Participating Holders). Any such modification, supplement or waiver shall be for such period and subject to such conditions as shall be specified in the instrument effecting the same and shall be binding upon the Collateral Agent, each Participating Holder and the Pledgor, and any such waiver shall be effective only in the specific instance and for the purposes for which given.

(c) ADDRESSES FOR NOTICES. All notices and other communications required or permitted to be given or made under this Agreement shall be given or made by mail, overnight courier or facsimile (or, unless such notice is specifically required to be given in writing, by telephone, confirmed in writing by facsimile by the close of business on the day notice is given) and faxed, mailed certified or registered (return receipt requested) or sent by overnight courier, or personally delivered (or telephoned, as the case may be) at the address specified below or at such other address as shall be designated in a notice in writing.

If to the Collateral Agent:

U.S. Bank Trust National Association
180 E. 5th Street
St. Paul, Minnesota 55101
Telephone No.: (651) 244-0733
Facsimile No.: (651) 244-0712
Attention: Thomas Gronlund

If to the Pledgor:

Brooke (Overseas) Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131
Telephone No.: (305) 579-8000
Facsimile No.: (305) 579-8009
Attention: Richard J. Lampen

With a copy to:

Milbank, Tweed, Hadley & McCloy
601 S. Figueroa Street
30th Floor
Los Angeles, California 90017
Telephone No.: (213) 892-4408
Facsimile No.: (213) 629-5063
Attention: Eric R. Reimer

(d) AGREEMENTS SUPERSEDED. This Agreement amends and restates the Pledge Agreement, dated as of March 2, 1998, between the Pledgor and AIF and the Pledge Agreement, dated as of March 2, 1998, between the Pledgor and AAP and supersedes all prior agreements and understandings, written or oral, among the parties with respect to the subject matter of this Agreement except with respect to the Consent and Agreement dated as of April 28, 1998 between the Pledgor, the Participating Holders and Western Realty Development LLC.

(e) CAPTIONS. The captions and section headings appearing in this Agreement are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

(f) SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(g) SUCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the Pledgor, the Collateral Agent, the Participating Holders and their respective successors and permitted transferees or assigns, including, without limitation future holders of any Modified Notes. The Collateral Agent shall not assign or transfer its rights under this Agreement other than in accordance with the Collateral Agency Agreement.

(h) Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties to this Agreement may execute this Agreement by signing any such counterpart.

(i) Termination. This Agreement shall remain in full force and effect until the Company delivers final payment in full in cash of all of the Secured Obligations and all other amounts owing to the Collateral Agent and the Participating Holders hereunder at which point it shall terminate automatically, with all Collateral to be returned as promptly as is practicable by the Collateral Agent to the Pledgor.

SECTION 7. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THAT STATE.

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IN WITNESS WHEREOF, the parties to this Agreement have caused this Agreement to be duly executed as of the day and year first above written.

BROOKE (OVERSEAS) LTD.

By: /s/ Richard J. Lampen

Name: Richard J. Lampen
Title: Executive Vice President

U.S. BANK TRUST NATIONAL
ASSOCIATION, AS COLLATERAL AGENT,
for the benefit of the Participating Holder

By: /s/ Thomas M. Gronlund

Name: Thomas M. Gronlund
Title: Vice President

EXHIBIT A

PLEDGED CERTIFICATES

MEMBER	MEMBERSHIP INTEREST	CERTIFICATES
Brooke (Overseas) Ltd.	28.20%	001
Brooke (Overseas) Ltd.	21.90%	002

Amended and Restated Pledge Agreement

EXHIBIT 4.9

COLLATERAL AGENCY AGREEMENT

This COLLATERAL AGENCY AGREEMENT (this "AGREEMENT"), dated as of February 9, 1999, is made between AIF II, L.P., a Delaware limited partnership ("AIF"), ARTEMIS AMERICA PARTNERSHIP, a Delaware limited partnership ("AAP") (AIF and AAP are collectively referred to herein as the "PARTICIPATING HOLDERS", which term shall include any future holder of any Modified Notes as defined below), U.S. BANK TRUST NATIONAL ASSOCIATION (f/k/a First Trust National Association), a national banking association, as collateral agent for the Participating Holders (in such capacity, the "COLLATERAL AGENT"), and BROOKE (OVERSEAS) LTD. (the "PLEDGOR").

WHEREAS, BGLS Inc., a Delaware corporation (the "COMPANY"), has entered into the Indenture (the "INDENTURE") dated as of January 1, 1996 between the Company and State Street Bank and Trust Company (the "Trustee");

WHEREAS, pursuant to the terms and conditions of the Amended and Restated Standstill Agreement dated as of even date herewith among the Company and the Participating Holders (the "STANDSTILL AGREEMENT"), the Participating Holders have agreed to defer the payment of interest due to the Participating Holders under the Indenture until the occurrence of a Termination Event (as defined in the Standstill Agreement);

WHEREAS, pursuant to the Amended and Restated Limited Recourse Guarantee Agreement (the "GUARANTEE"), dated as of even date herewith, between the Pledgor and the Collateral Agent, the Pledgor has agreed to guarantee for the benefit of the Participating Holders the Company's obligations under the Series B Senior Secured Notes; and

WHEREAS, pursuant to the Amended and Restated Pledge Agreement, dated as of even date herewith (the "PLEDGE AGREEMENT"), among the Pledgor and the Collateral Agent, the Pledgor has agreed to pledge certain securities to the Collateral Agent for the benefit of the Participating Holders to secure its obligation under the Guarantee;

WHEREAS, the Participating Holders and the Pledgor wish to appoint the Collateral Agent to act on their behalf in accordance with the provisions of this Agreement, the Pledge Agreement and the Guarantee.

NOW THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions and Interpretation.

(a) CERTAIN DEFINED TERMS. Unless otherwise defined, all capitalized terms used in this Agreement that are defined in the Indenture or the Pledge Agreement (including those terms incorporated by reference) shall have the respective meanings assigned to them in the Indenture, the Pledge Agreement or the Guarantee. In addition, the following terms shall have the following meanings under this Agreement:

"MAJORITY PARTICIPATING HOLDERS" shall mean Participating Holders holding at least 50.1% in principal amount of the Modified Notes.

"MODIFIED NOTES" shall mean the $97,239,000 in principal amount of Senior Secured Notes (CUSIP Number 055432 AC24) held by the Participating Holders.

(b) INTERPRETATION. In this Agreement, unless otherwise indicated, the singular includes the plural and plural the singular; words importing either gender include the other gender; references to statutes or regulations are to be construed as including all statutory or regulatory provisions consolidating, amending or replacing the statute or regulation referred to; references to "writing" include printing, typing, lithography and other means of reproducing words in a tangible visible form; the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to articles, sections (or subdivisions of sections), exhibits, annexes or schedules are to this Agreement; references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, extensions and other modifications to such instruments; and references to Persons include their respective permitted successors and assigns and, in the case of governmental Persons, Persons succeeding to their respective functions and capacities.

Section 2. PLEDGE AGREEMENT AND GUARANTEE.

(a) If any Termination Event shall have occurred and be continuing, upon the written request of the Majority Participating Holders, the Collateral Agent, on behalf of the Participating Holders, shall be permitted and is hereby authorized to take any and all actions and to exercise any and all rights, remedies and options, which it may have under the Pledge Agreement and the Guarantee.

(b) The Collateral Agent shall distribute the proceeds of any sale, disposition or other realization by the Collateral Agent or by any Participating Holder upon all or any portion of the Collateral pursuant to the Pledge Agreement (subject to the terms and limitations thereof), in the order of priorities set forth in Section 5.04 of the Pledge Agreement.

(c) The Collateral Agent shall distribute all Guaranteed Obligations paid by the Pledgor under the Guarantee pursuant to the Guarantee (subject to the terms and limitations thereof).

Section 3. APPOINTMENT AND DUTIES OF COLLATERAL AGENT.

(a) Each of the Participating Holders and Pledgor hereby designates and appoints U.S. Bank Trust National Association to act as the Collateral Agent under the Pledge Agreement and Guarantee, and authorizes the Collateral Agent to take such actions on its behalf under the provisions of the Pledge Agreement and Guarantee and to exercise such powers and perform such duties as are expressly delegated to the Collateral Agent by the terms of the Pledge Agreement and Guarantee, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in the Pledge Agreement, the Collateral Agent shall not have any duties or responsibilities, except those expressly set forth in the Pledge Agreement and Guarantee, and no implied covenants, functions or responsibilities fiduciary or otherwise shall be read into the Pledge Agreement or the Guarantee or otherwise exist against the Collateral Agent.

(b) The Collateral Agent will give notice to the Participating Holders of any action to be taken by it under the Pledge Agreement or the Guarantee; such notice shall be given prior to the taking of such action unless the Collateral Agent determines that to do so would be detrimental to the interests of the Participating Holders, in which event such notice shall be given promptly after the taking of such action.

(c) Notwithstanding anything to the contrary in the Pledge Agreement or the Guarantee, the Collateral Agent shall not be required to exercise any discretionary rights or remedies under the Pledge Agreement or the Guarantee or give any consent under the Pledge Agreement or the Guarantee or enter into any agreement amending, modifying, supplementing or waiving any provision of the Pledge Agreement or the Guarantee unless it shall have been directed to do so by the Majority Participating Holders.

(d) Notwithstanding any other provisions contained herein, the Collateral Agent shall not be required to take any actions, exercise any remedies or enforce any rights under the Pledge Agreement or the Guarantee if it shall have a reasonable basis for concluding there is a material risk that it would not be paid or reimbursed for its fees, costs, expenses and/or advances resulting from such action, remedy exercise or enforcement, unless the Collateral Agent shall have received indemnification for such fees, costs, expenses and advances which is reasonably satisfactory to the Collateral Agent; provided, however, that the foregoing provisions of this paragraph (d) shall not be applicable to the Collateral Agent's duty to maintain possession and safekeep the physical certificates evidencing Equity Collateral, and the related certificate powers, that have been delivered to the Collateral Agent pursuant to the Pledge Agreement.

Section 4. RIGHTS OF COLLATERAL AGENT.

(a) The Collateral Agent may execute any of its duties under the Pledge Agreement and the Guarantee by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties.

(b) Neither the Collateral Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable to the Participating Holders for any action lawfully taken or omitted to be taken by it under or in connection with the Pledge Agreement or the Guarantee (except for its gross negligence or willful misconduct), or (ii) responsible in any manner to the Participating Holders for any recitals, statements, representations or warranties made by the Company or the Pledgor or any representative thereof contained in any document, certificate, or report in connection with the transaction contemplated by the Standstill Agreement or this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of any document, certificate, or report in connection with the transaction contemplated by the Standstill Agreement or this Agreement or for any failure of the Company or the Pledgor to perform its obligations thereunder. The Collateral Agent as such shall not be under any obligation to any Participating Holder to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, any document, certificate, or report in connection with the transaction contemplated by the Standstill Agreement or this Agreement, or to inspect the properties, books or records of the Company or the Pledgor.

(c) The Collateral Agent shall be entitled to rely conclusively upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy,

telex or teletype message, statement, order or other document or conversation reasonably believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel, independent accountants and other experts selected by the Collateral Agent.

(d) The Company will pay to the Collateral Agent from time to time, and the Collateral Agent shall be entitled to, reasonable compensation for all services rendered by it hereunder (which shall be agreed to from time to time by the Company and the Collateral Agent) and the Company further agrees to pay upon demand to the Collateral Agent the amount of any and all reasonable out-of-pocket expenses, including the reasonable fees and expenses of its counsel (and any local counsel) and of any experts and agents, which the Collateral Agent may incur in connection with (x) the administration of the Pledge Agreement and the Guarantee, (y) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (z) the exercise or enforcement (whether through negotiations, legal proceedings or otherwise) of any of the rights of the Collateral Agent or the Participating Holders under the Pledge Agreement or the Guarantee or (iv) the failure by the Company or the Pledgor to perform or observe any of the provisions of the Pledge Agreement or the Guarantee.

(e) The Company agrees to deliver to the Collateral Agent, concurrently with the delivery thereof to the Trustee, duplicates or copies of all notices, requests, documents and other instruments delivered by such Person to the Trustee under or pursuant to the Indenture.

Section 5. INDEMNIFICATION. Each of the Company and the Pledgor agrees to indemnify the Collateral Agent, its officers, directors, employees, representatives, attorneys and agents for, and hold it harmless against, any claim, demand, expense (including but not limited to reasonable attorneys' fees) loss or liability incurred by it without negligence or bad faith on its part, arising out of or in connection with its rights and duties hereunder or under the Pledge Agreement or Guarantee. The Collateral Agent shall notify the Company and the Pledgor promptly of any claim asserted against the Collateral Agent for which it may seek indemnity, and shall consult with the Company and the Pledgor in respect of any material development in connection with any such claim. The Collateral Agent shall not unreasonably settle any such claim. The Company need not reimburse any expense or indemnify against any loss or liability to the extent incurred by the Collateral Agent through its negligence or bad faith.

Section 6. RESIGNATION OR REMOVAL OF THE COLLATERAL AGENT. The Collateral Agent may resign as Collateral Agent upon ten days' notice to the Participating Holders, the Company and the Pledgor and may be removed at any time with or without cause by the Majority Participating Holders, with any such resignation or removal to become effective only upon the appointment of a successor Collateral Agent under this SECTION 6. If the Collateral Agent shall resign or be removed as Collateral Agent, then the Majority Participating Holders shall (and if no such successor shall have been appointed within 30 days of the Collateral Agent's resignation or removal, the Collateral Agent may) appoint a successor agent for the Participating Holders, which successor agent shall be reasonably acceptable to the Company and the Pledgor, whereupon such successor agent shall succeed to the rights, powers and duties of the Collateral Agent, and the term "Collateral Agent" shall mean such successor agent effective upon its appointment, and the former Collateral Agent's rights, powers and duties as Collateral Agent shall be terminated, without any other or further act or deed on the part of such former Collateral Agent (except that the former Collateral Agent shall deliver all Collateral then in its possession

to the successor Collateral Agent). After resignation or removal hereunder as Collateral Agent, the provisions of this Agreement shall inure to the former Collateral Agent's benefit as to any actions taken or omitted to be taken by it while it was Collateral Agent.

Section 7. NO IMPAIRMENTS OF OTHER RIGHTS. Nothing in this Agreement is intended or shall be construed to impair, diminish or otherwise adversely affect any other right the Participating Holders may have or may obtain against the Company or the Pledgor.

Section 8. MISCELLANEOUS.

(a) WAIVER. No failure on the part of the Collateral Agent, the Participating Holders, the Company or the Pledgor to exercise and no delay in exercising, and no course of dealing with respect to, any right, remedy, power or privilege under this Agreement shall operate as a waiver of such right, remedy, power or privilege, nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise of any such right, remedy, power or privilege or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided in this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

(b) NOTICES. All notices and communications to be given under this Agreement shall be given or made in writing to the intended recipient at the address specified below or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telex or telecopier, delivered to the telegraph or cable office or personally delivered or, in the case of a mailed notice, upon receipt, in each case, given or addressed as provided or required to be provided in this SECTION 8(b). In addition, upon any transfer of any Modified Notes, the transferee shall be required to deliver to the Collateral Agent and the Pledgor, the name and address of such transferee and the principal amount of Modified Notes held by such transferee.

To the Collateral Agent:	U.S. Bank Trust National Association 180 E. 5th Street St. Paul, Minnesota 55101 Facsimile No.: (651) 244-0712 Telephone No.: (651) 244-0733 Attention: Mr. Thomas Gronlund
To the Pledgor:	Brooke (Overseas) Ltd. 100 S.E. Second Street 32nd Floor Miami, Florida 33131 Facsimile: (305) 579-8009 Telephone No.: (305) 579-8000 Attention: Richard Lampen

(c) AMENDMENTS, ETC. Any provision of this Agreement may be modified, supplemented or waived only by an instrument in writing duly executed by the Pledgor and the Collateral Agent with the consent of the Majority Participating Holders. Any such modification,

supplement or waiver shall be for such period and subject to such conditions as shall be specified in the instrument effecting the same and shall be binding upon the Collateral Agent and each of the other parties hereto, and any such waiver shall be effective only in the specific instance and for the purposes for which given.

(d) SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the Pledgor, the Collateral Agent, the Participating Holders and their respective successors and permitted transferees or assigns, including, without limitation future holders of any Modified Notes. The Collateral Agent shall not assign or transfer its rights under this Agreement without the prior written consent of the Majority Participating Holders and the Pledgor.

(e) TERMINATION. This Agreement shall remain in full force and effect until the Company delivers final payment in full in cash of all of the Secured Obligations and all other amounts owing to the Collateral Agent and the Participating Holders hereunder at which point it shall terminate automatically with all Collateral to be returned as promptly as practicable thereafter by the Collateral Agent to the Pledgor.

(f) SURVIVAL. All representations and warranties made in this Agreement or in any certificate or other document delivered pursuant to or in connection with this Agreement shall survive the execution and delivery of this Agreement or such certificate or other document (as the case may be) or any deemed repetition of any such representation or warranty.

(g) AGREEMENTS SUPERSEDED. This Agreement supersedes all prior agreements and understandings, written or oral, among the parties with respect to the subject matter of this Agreement.

(h) SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(i) CAPTIONS. The table of contents and captions and section headings appearing in this Agreement are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

(j) COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties to this Agreement may execute this Agreement by signing any such counterpart.

(k) GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN SUCH STATE.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

COLLATERAL AGENT:

U.S. BANK TRUST NATIONAL ASSOCIATION

By: /s/ Thomas M. Gronlund

Name: Thomas M. Gronlund
Title: Vice President

PARTICIPATING HOLDERS:

AIF II, L.P.

By APOLLO ADVISORS, L.P.
MANAGING GENERAL PARTNER

By APOLLO CAPITAL MANAGEMENT, INC.
GENERAL PARTNER

By /s/ Michael D. Weiner

Name: Michael D. Weiner
Title: Vice President

ARTEMIS AMERICA PARTNERSHIP

By LION ADVISORS, L.P.
ATTORNEY-IN-FACT

By LION CAPITAL MANAGEMENT, INC.
GENERAL PARTNER

By /s/ Michael D. Weiner

Name: Michael D. Weiner
Title: Vice President

PLEDGOR:

BROOKE (OVERSEAS) LTD.

Name: /s/ Richard J. Lampen
Title: Executive Vice President

ACKNOWLEDGED AND AGREED:

BGLS INC.

By: /s/ Richard J. Lampen
Name: Richard J. Lampen
Title: Executive Vice President

EXHIBIT 10.8

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

July 20, 1998

Mr. Bennett S. LeBow
5203 Fisher Island Drive
Fisher Island, FL 33109

Dear Mr. LeBow:

This letter agreement sets forth the first amendment to the Employment Agreement dated as of February 21, 1992 (the "Employment Agreement"), between Brooke Group Ltd. and Bennett S. LeBow.

1. The Employment Agreement is amended by deleting Sections 4(a) and 4(b) thereof and substituting therefor the following:

(a) BASE SALARY.

During the Employment Period, the Company shall pay the Executive a salary (the "Base Salary") at the rate of $950,000 per annum. The Base Salary due the Executive hereunder shall be payable in accordance with the Company's normal payroll practices in equal installments less any amounts required to be withheld by the Company from such Base Salary pursuant to the benefit plans described in Section 3(e) hereof and the applicable laws and regulations described in Section 10(e) hereof. The Board shall periodically review such Base Salary and may increase it (but not decrease it below the Base Salary earned in 1994) from time to time, in its sole discretion. As of January 1, 1998, the Base Salary is $1,391,601.

(b) MINIMUM BONUS.

During the Employment Period, the Company shall pay to the Executive a minimum annual bonus (the "Minimum Bonus") equal to 50% of his (then) current Base Salary, payable in accordance with the Company's normal payroll practices in equal installments, less any amounts required to be withheld by the Company from such Minimum Bonus pursuant to the applicable laws and regulations described in Section 10(e) hereof.

2. The Employment Agreement is amended by inserting the following as the third sentence of Section 10(e):

Notwithstanding anything in this Agreement to the contrary, payments hereunder of salary, bonus or other payments shall be subject to those limitations, if any, contained in that certain Indenture, dated as of January 1, 1996, as it may be amended from time to time, between BGLS Inc. and State Street Bank and Trust Company (as successor to Fleet National Bank of Massachusetts), as Trustee, relating to the 15.75% Senior Secured Notes due 2001, which limit or purport to limit the salary, bonus or other payments which may be made by the Company or any of its affiliates to the Executive or any of his affiliates. Payments due hereunder which are not made by virtue of such limitations shall be made at the earliest possible time in such a manner so as not to violate such limitations. To the extent any payment hereunder is made in violation of such limitations, the Executive shall hold the amount of such payment in trust for the Company and shall return it to the Company upon a final, non-appealable determination by a court of competent jurisdiction that the payment of such amount, if retained by the Executive, would violate such limitations.

3. This letter agreement constitutes an amendment to and a modification of the Employment Agreement and shall for all purposes be considered a part of the Employment Agreement. Except as amended hereby, the Employment Agreement is confirmed and ratified in all respects and shall remain in full force and effect.

Please indicate your agreement with the foregoing by countersigning two copies of this letter agreement in the space provided below and returning one of such copies to us.

Very truly yours,

BROOKE GROUP LTD.

By: /s/ Richard J. Lampen

Richard J. Lampen
Executive Vice President

The foregoing letter agreement
is consented and agreed to as
of the date first above written.

By: /s/ Bennett S. LeBow

Bennett S. LeBow

EXHIBIT 10.32

IN THE CIRCUIT COURT OF MOBILE COUNTY, ALABAMA

CAROL FLETCHER, RETHA COLCLOUGH, and BETTY CLARK, THOMAS POLYDORUS, LEO H. HEADRICK, WILLIAM O. PARKER, and PREFERRED HEALTH ALLIANCE, INC., on behalf of themselves and all others similarly situated,	)	CV-97-913
Plaintiffs,	)	CLASS ACTION
vs.	)	
BROOKE GROUP LTD., LIGGETT GROUP INC., and LIGGETT & MYERS INC.	)	
Defendants.	)	

AMENDED CLASS SETTLEMENT AGREEMENT

AMENDED CLASS SETTLEMENT AGREEMENT

This AMENDED CLASS SETTLEMENT AGREEMENT is entered into this 2nd day of July 1998 by and between the named and representative plaintiffs Carol Fletcher, Retha Colclough, Betty Clark and proposed class representatives William O. Parker, Thomas Polydoris, Leo H. Headrick, and Preferred Health Alliance, Inc. (collectively, "Plaintiffs") in CAROL FLETCHER, ET AL. V. LIGGETT GROUP INC., ET AL., CV-97-13, In the Circuit Court of Mobile, Alabama (the "FLETCHER Action"), for themselves and on behalf of the plaintiff settlement class as hereinafter defined ("Settlement Class"); and Brooke Group Ltd., a Delaware corporation ("Brooke Group"), Liggett & Myers, Inc., a Delaware corporation ("Myers"), and Liggett Group Inc., a Delaware corporation (which, with Myers, is hereinafter referred to as "Liggett").

RECITALS

WHEREAS,

A. On March 19, 1997 Plaintiffs filed a complaint to commence the FLETCHER Action against Liggett and Brooke Group asserting claims on behalf of a putative nationwide class of all persons and entities which have incurred or are alleged to have incurred costs or other damages arising from cigarette smoking, seeking, among other things, equitable/injunctive relief, a declaratory judgment, and compensatory and/or punitive damages, according to proof, as set forth in the complaint. On March 20, 1997, the Circuit Court granted the parties' motion to certify this action as a settlement class and preliminarily approved the proposed settlement (the "March 20, 1997 Agreement"). This Amended Class Settlement Agreement is intended to expand upon the March 20, 1997 Settlement Agreement and to address certain of the objections raised thereto.

B. The primary purpose of this Amended Class Settlement Agreement is to provide certain injunctive relief sought by Plaintiffs and other settlement class members, including the cooperation of Liggett and Brooke Group, and to create a fund for the equitable settlement of the claims of the settlement class members, free of the risks and costs of prolonged litigation. The mechanism for accomplishing this purpose is the creation of a settlement fund board, to which the claims of all settlement class members against Liggett and Brooke Group shall be directed.

C. The injunctive relief, cooperation, and monetary settlement are components of an integrated settlement set forth in this Amended Class Settlement Agreement. Liggett and Brooke Group agree to provide cooperation and to submit to the injunctive relief set forth herein in the context of a mandatory class settlement.

D. Apart from the FLETCHER Action, hundreds of individual actions and putative class actions, as well as numerous actions brought on behalf of various third-party payors, have been filed against Liggett and Brooke Group and other tobacco defendants seeking, among other things, equitable relief and damages allegedly arising from cigarette smoking. In addition to the hundreds of smoking-related claims that have already been filed against these defendants in jurisdictions throughout the United States, many more are expected to be filed in the future. Smoking-related litigation has resulted in extensive discovery concerning the potential liability of Liggett and Brooke Group as well as extensive consideration of the legal and factual bases of smoking-related litigation.

E. The plaintiffs and the defendant tobacco companies have spent, and continue to spend, enormous resources litigating these smoking-related claims. Litigating smoking-related lawsuits is depleting and will continue to deplete the defendant tobacco companies' resources otherwise available to compensate claimants. Absent an alternative method of resolution, Liggett would not be able to satisfy the smoking-related claims pending against it, let alone claims which may be asserted in the future.

F. In light of the uncertainties associated with the pending litigation and Liggett's financial condition, there are substantial risks that adjudications with respect to smoking-related claims by certain settlement class members will, as a practical matter, be dispositive of the claims and interests of certain other settlement class members not yet adjudicated or will substantially impair or impede the ability of such other settlement class members to protect their interests.

G. Plaintiffs allege that Liggett and Brooke Group have acted or refused to act on grounds generally applicable to the settlement class, thereby making final injunctive relief appropriate with respect to the class as a whole in accordance with Rule 23 of the Alabama Rules of Civil Procedure in the context of this settlement.

H. Counsel for the Plaintiffs have substantial experience in the litigation of smoking-related cases and class actions, including the litigation and trial of individual smokers' cases.

I. Liggett has made available relevant information, and Plaintiffs, through counsel, have investigated such information and other relevant information and conducted discovery, as to the nature, extent and availability of Liggett's financial resources, and have concluded that the criteria of Alabama Rule of Civil Procedure 23(b)(1) apply to Liggett and its affiliates in the context of this settlement.

J. Plaintiffs and Liggett and Brooke Group recognize and support the public interest in preventing smoking by, or the promotion of smoking to, children and adolescents and further recognize that it is of extreme importance to halt any marketing efforts directed to children and adolescents and to provide for full disclosures of material facts relating to tobacco products.

K. Liggett and Brooke Group have denied, and continue to deny any wrongdoing or any legal liability of any kind in all smoking-related litigation.

L. Liggett and Brooke Group recognize and acknowledge that defending the continued prosecution of the FLETCHER Action (and other similar putative class actions, individual suits, and third-party payor suits) against them, through trial and appeals, would require considerable resources and expense, would entail uncertainty and risk, and constitute circumstances under which the available assets of Liggett may be properly characterized as a "limited fund" in comparison to the aggregate potential claims of all settlement class members. Liggett and Brooke Group have determined that the settlement, in accordance with this Amended Class Settlement Agreement, of the claims asserted in the FLETCHER Action against them will be beneficial to them by enabling Liggett to continue the legal business of selling cigarettes, under terms of candor and full disclosure to the public, while avoiding bankruptcy or other insolvency that could otherwise result from the transaction costs and potential exposure of ongoing litigation.

M. Plaintiffs recognize and acknowledge that the continued prosecution of the FLETCHER Action and other smoking-related litigation against Liggett and Brooke Group through trial and appeals would require considerable time and expense and would entail uncertainty, risk and delay, including the risk of bankruptcy or other insolvency of Liggett and Brooke Group. Plaintiffs and Liggett and Brooke Group recognize that this settlement with Liggett provides uniquely favorable terms to Liggett in recognition of its unique situation, including its willingness to be the first tobacco industry defendant to settle with any of the public or private plaintiffs, its agreement to provide documents and cooperation expected to be of material benefit to the litigation against the other, much larger tobacco defendants, Liggett's small market share, and its precarious financial situation. Plaintiffs have determined that the settlement, in accordance with this Amended Class Settlement Agreement, of the claims asserted in the FLETCHER Action against Liggett and Brooke Group will be beneficial to the settlement class by providing all settlement class members with substantial and critical non-monetary equitable relief, as well as the opportunity to share equitably in the common fund created by this Amended Class Settlement Agreement.

NOW, THEREFORE, in consideration of the foregoing and of the promises and covenants set forth in this Amended Class Settlement Agreement, Plaintiffs, on their own behalf and on behalf of the Settlement Class (as defined below), and Liggett and Brooke Group hereby stipulate and agree that, conditional upon the approval of the Court as required by Rule 23 of the Alabama Rules of Civil Procedure and as provided herein, the Action shall be settled as against Liggett and Brooke Group and that all claims asserted by or on behalf of the putative class members in the FLETCHER Action against the Settling Defendants shall be dismissed with prejudice, all on the terms and conditions contained herein, as follows:

1. DEFINITIONS.

As used in and solely for the purposes of this Amended Class Settlement Agreement, the following terms shall have the following respective meanings:

"Affiliate" means a Present Affiliate or a Future Affiliate.

"Agreement" means this Amended Class Settlement Agreement.

"Attorneys General" means those State Attorneys General or other parties who have brought Attorney General Actions.

"Attorney General Actions" means actions by or on behalf of States seeking injunctive relief and/or damages in connection with smoking and/or Medicaid or other expenses allegedly resulting therefrom.

"Brooke Group" means Brooke Group Ltd. and its Present Affiliates other than Liggett.

"Cigarette" means any product including components, accessories, or parts which is intended to be burned under ordinary conditions of use and consists of: (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) any roll of tobacco wrapped in any substances containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in subparagraph (1).

"Cigarette Pack" means a unit of twenty Cigarettes or one ounce of Tobacco Snuff.

"Cost Per Cigarette Pack" means, with respect to a Tobacco Company, the aggregate costs incurred by such Tobacco Company under a Global Settlement during a specified year, divided by the number of Cigarette Packs manufactured by such Tobacco Company during such year, as determined by The Maxwell Consumer Report published by Wheat First Butcher Singer or a similar or successor report.

"Court" means the Circuit Court of Mobile County, Alabama.

"Currently-Injured Smokers" means Smokers who prior to the date of this Agreement have suffered Injury as a consequence of smoking Cigarettes and/or the use of other tobacco products manufactured by Liggett, its affiliates, or its predecessors.

"Currently-Injured Smoker Subclass" means a settlement subclass composed of:

(a) all Currently-Injured Smokers who reside in the United States, its territories, possessions and the Commonwealth of Puerto Rico; and

(b) the estates, representatives, and administrators of such Currently-Injured Smokers; and

(c) the spouses, children, relatives and significant others of such Currently-Injured Smokers as their heirs or survivors; and

(d) all persons who have been exposed to environmental or second-hand tobacco smoke who, prior to the date of this Agreement, have suffered Injury as a consequence thereof, and who reside in the United States, its territories, possessions and the Commonwealth of Puerto Rico;

provided that excluded from such settlement subclass are (i) officers and directors of any of the Settling Defendants, (ii) any person or entity which has entered into any prior or contemporaneous settlement with Liggett of a Tobacco Action, and (iii) all members of the judiciary of the State of Alabama and the families of such members.

"Domestic Tobacco Operations" means the manufacture and/or sale of Cigarettes and any other tobacco products in the United States, its territories, its possessions and the Commonwealth of Puerto Rico.

"FDA Rule" means the regulations promulgated by the FDA concerning the sale and distribution of cigarettes and other products on August 28, 1996 at 60 Fed. Reg. 44396, to be codified at 21 C.F.R. Parts 801, 803, 804, 807, 820 and 897.

"Future Affiliate" means any one entity, other than an entity with a Market Share greater than 30% as of the date of this Agreement, which is a Non-settling Tobacco Company (including any successor to or assignee of its assets) if such entity or an Affiliate of such entity with the prior written approval of Brooke Group, subsequent to the date, and during the term, of this Agreement but prior to the fourth anniversary of the date of execution of this Agreement: (i) directly or indirectly acquires or is acquired by Liggett or Brooke Group; (ii) directly or indirectly acquires all or substantially all of the stock or assets of Liggett or Brooke Group; (iii) all or substantially all of whose stock or assets are directly or indirectly acquired by Liggett or Brooke Group; or (iv) directly or indirectly merges with Liggett or Brooke Group or otherwise combines on any basis with Liggett or Brooke Group.

"Future Affiliate Transaction" means a transaction, or series of transactions, by which an entity becomes a Future Affiliate.

"Future-Injured Smokers" means Smokers who during the term of this Agreement suffer Injury as a consequence of smoking Cigarettes and/or the use of other tobacco products manufactured by Liggett or its predecessors.

"Future-Injured Smoker Subclass" means a settlement subclass composed of:

(a) all Future-Injured Smokers who reside in the United States, its territories, possessions and the Commonwealth of Puerto Rico; and

(b) the estates, representatives, and administrators of such Future-Injured Smokers; and

(c) the spouses, children, relatives and significant others of such Future-Injured Smokers as their heirs or survivors; and

(d) all persons who are or have been exposed to environmental or second-hand tobacco smoke, who, during the term of this Agreement, suffer Injury as a consequence thereof and who reside in the United States, its territories, possessions and the Commonwealth of Puerto Rico;

provided that excluded from such settlement subclass are (i) officers and directors of any of the Settling Defendants; (ii) any person or entity which has entered into any prior or contemporaneous settlement with Liggett of a Tobacco Action; and (iii) all members of the judiciary of the State of Alabama and the families of such members.

"Global Settlement" means any National disposition, settlement, agreement or other arrangement, such as "Tobacco Claims Legislation", by way of legislation, executive order, regulation, taxation, levy, fine, class action settlement, court order or otherwise, of smoking-related litigation, in direct or indirect connection with which one or more Tobacco Companies receives the benefit of a limitation of, or total or partial immunity from, liability to the members of the Settlement Class for the types of claims released under this Agreement.

"Initial Notice" means the written notice document to be provided by Liggett and its Present Affiliates to Settlement Class members as defined in Section 8.1 of this Agreement.

"Initial Notice Date" means the first date upon which Initial Notice is given by Liggett and its Present Affiliates to the Settlement Class pursuant to Section 8.1 of this Agreement.

"Injury" means any physical, mental or emotional injury, including, by way of example and not limitation, cancer, heart disease, emphysema, addiction and phobia.

"Liggett" means Liggett Group Inc. and Liggett & Myers, Inc.

"Mandatory Class Fairness Hearing" means the hearing to be conducted by the Court in connection with the determination of the fairness, adequacy and reasonableness of this Agreement under Rule 23 of the Alabama Rules of Civil Procedure, insofar as the Agreement applies to Liggett and its Present Affiliates.

"Mandatory Class Final Order and Judgment" or "Mandatory Class Final Approval" means the order to be entered by the Court, with respect to Liggett and its Present Affiliates, approving this Agreement without material alterations, as fair, adequate and reasonable under Rule 23 of the Alabama Rules of Civil Procedure, confirming the Settlement Class certification under Rule 23 thereof, and making such other findings and determinations as the Court deems necessary and appropriate to effectuate the terms of this Agreement and to exercise its continuing and exclusive jurisdiction over the enforcement and administration of all terms of this Settlement Agreement.

"Mandatory Class Settlement Date" or "Settlement Date" means the date on which all of the following shall have occurred: (a) the entry of the Mandatory Class Final Order and Judgment without material modification, and (b) the achievement of finality for the Mandatory Class Final Order and Judgment by virtue of that order having become final and non-appealable through (i) the expiration of all appropriate appeal periods without an appeal having been filed; (ii) final affirmance of the Mandatory Class Final Order and Judgment on appeal or final dismissal or denial of all such appeals, including petitions for review, rehearing or certiorari; or (iii) final disposition of any proceedings, including any appeals, resulting from any appeal from the entry of the Mandatory Class Final Order and Judgment.

"March 1997 Attorneys General Settlement Agreement" means that agreement entered into on or about March 20, 1997 between Brooke Group and Liggett and the Attorneys General of certain states, a copy of which is annexed hereto as Exhibit A.

"Market Share" means, with respect to a specified Tobacco Company and a specified year, the Domestic Tobacco Operations market share in that year of all of such company's cigarettes and other tobacco products (as the case may be), as determined by The Maxwell Consumer Report published by Wheat First Butcher Singer or a similar or successor report.

"National" means actually covering or potentially covering (whether by block grants to states, localities or other governmental entities or otherwise) the United States or the United States and one or more of its territories, possessions and the Commonwealth of Puerto Rico.

"Non-Liggett Smokers" means all Smokers who prior to the date of this Agreement or during the term of this Agreement have suffered Injury as a consequence of smoking Cigarettes and/or the use of other tobacco products, but have not smoked Cigarettes and/or used other tobacco products manufactured by Liggett or its predecessors.

"Non-Liggett Smoker Subclass" means a settlement subclass composed of:

(a) all Non-Liggett Smokers who reside in the United States, its territories, possessions and the Commonwealth of Puerto Rico; and

(b) the estates, representatives, and administrators of such Non-Liggett Smokers; and

(c) the spouses, children, relatives and "significant others" of such Non-Liggett Smokers as their heirs or survivors;

provided that excluded from such settlement subclass are (i) officers and directors of any of the Settling Defendants; (ii) any person or entity which has entered into any prior or contemporaneous settlement with Liggett of a Tobacco Action; and (iii) all members of the judiciary of the State of Alabama and the families of such members.

"Non-Settling Tobacco Companies" means each of The American Tobacco Co., Lorillard Tobacco Co., Philip Morris Inc., R.J. Reynolds Tobacco Co., Brown & Williamson Tobacco Corp., and United States Tobacco Co., unless and until it becomes a Future Affiliate, as herein defined.

"Other Settlement" means a settlement of a Tobacco Action which is not a Global Settlement.

"Oversight Committee" means a committee, made up of no less than nine (9) individuals, to oversee the cooperation provided by Settling Defendants under Section 5.3.1 and 5.3.2 hereof. The committee shall have not less than 75% of its composition from representation of the Attorneys General.

"Parent", with respect to Liggett means Brooke Group, and with respect to any other specified corporation or entity, means another corporation, partnership or other entity which directly or indirectly controls such specified corporation or entity.

"Parties" means the Plaintiffs and Brooke Group and Liggett.

"Population" means, with respect to a geographic area, the population of that area as reported in the most recent census conducted by the United States Bureau of the Census.

"Population Quotient" means, with respect to an Other Settlement or judgment, a quotient whose numerator is the Population of the United States and whose denominator is the total Population of the state(s), jurisdictions, or other grouping of persons covered by such Other Settlement or judgment.

"Preliminary Approval" means the Court's provisional certification of the Settlement Class, preliminary approval of this Agreement, approval of the form of Initial Notice to the Settlement Class pursuant to Rule 23 of the Alabama Rules of Civil Procedure, or the setting of a date for the approval or submission for approval of the form of such notice.

"Present Affiliate" means with respect to a specified corporation, another corporation, partnership or other entity which as of the date of this Agreement, directly or indirectly, controls, is controlled by, or is under common control with, such specified corporation or entity including any and all Parents, subsidiaries, and/or sister corporations or entities of such specified corporation or entity.

"Present Value" means, with respect to a specified amount or amounts, the present value of such amount or amounts as calculated using a discount rate equal to the yield on 10-year Treasury Notes as reported in the WALL STREET JOURNAL at the time of such calculation; provided that where such amount or amounts are not otherwise determinable, the amount or amounts to be present-valued shall be deemed to be the average for the most recent three years.

"Pretax Income", with respect to Liggett, means for a specified year, the "Income before Income Taxes" as determined in accordance with generally accepted accounting principles ("GAAP") of Liggett for its most recent fiscal year, as report in filings to the United States Securities and Exchange Commission or, if there is no such filing, as reported by Liggett's independent outside auditors. If GAAP changes in any material respect during the term of this Agreement so that the benefits anticipated by the parties (in light of GAAP applicable on the date of this Agreement), an appropriate adjustment shall be made to the formulas and calculations hereunder to achieve the parties' expectations as of the date hereof.

"Protective Order" or "Stipulation Regarding Liggett Documents" means, with respect to privileged documents produced by a Settling Defendant pursuant to paragraph 5.3, an order of the Court: (a) protecting the confidentiality of such documents; (b) providing that such documents may be used only in actions against Non-Settling Tobacco Companies and, to the extent permitted by law, only under seal; (c) providing that, to the extent such documents are or may be subject to the attorney/client privilege or attorney work product doctrine, such production or use of the documents does not constitute a waiver of such privilege, doctrine or protection with respect to any party other than the parties to whom the documents are produced subject to the order. The provisions of the Protective Order shall not apply to documents claimed to be privileged but which are determined by the Court or by any other court not to be privileged for reasons other than waiver due to production pursuant to this Agreement.

"Recoupment Subclass" means a settlement subclass composed of: all persons or entities (including, without limitation, any territory, city, county, parish, possession or any other political subdivision thereof, or any agency or instrumentality of any of the foregoing, or any insurance company) in the United States, its territories, possessions, and the Commonwealth of Puerto Rico, which, prior to or during the term of this Agreement, have incurred or claim to have incurred, directly or indirectly, economic loss as a result of paying for the treatment of diseases, illnesses, or medical conditions allegedly caused by Cigarettes (or exposure thereto, including by way of environmental or second hand smoke) or other tobacco products; provided that excluded from such settlement subclass are (i) officers and directors of any of the Settling Defendants, (ii) any person or entity which has entered into any prior or contemporaneous settlement with Liggett of a Tobacco Action, (iii) all members of the judiciary of the State of Alabama and the families of such members, and (iv) the States.

"Settlement Class" means a settlement class composed of the Currently-Injured Smoker Subclass, the Future-Injured Smoker Subclass, the Non-Liggett Smoker Subclass and the Recoupment Subclass as herein defined.

"Settlement Class Counsel" means the firms listed as Currently-Injured Smoker Subclass Counsel, Future-Injured Smoker Subclass Counsel, Non-Liggett Smoker Subclass Counsel and Recoupment Settlement Subclass Counsel in Section 24.8 of this Agreement.

"Settlement Class Representatives" means the Plaintiffs approved by the Court to serve as Settlement Class representatives for their respective settlement subclasses.

"Settlement Fund" means the fund established in accordance with the terms of Section 7 of this Agreement, which shall be established in a reputable bank or other financial institution subject to the jurisdiction of the Court, to provide a secure and interest-bearing fund, which shall be controlled by the Settlement Class.

"Settlement Fund Board" or "Board" means the board which shall be established pursuant to this Agreement to administer that portion of the Settlement Fund allocated to the Settlement Class pursuant to this Agreement. The Settlement Class representatives shall be appointed by the Court pursuant to procedures for selection of the representatives established by the Court. At least one-third of the Board shall be comprised of representatives of the public health community who shall be designated by majority vote of the other members of the Board.

"Settling Defendants" means Brooke Group and/or Liggett.

"Settling Defendants' Counsel" means the law firm of Kasowitz, Benson, Torres & Friedman L.L.P.

"Settling States" means those States that entered into the Attorneys General Settlement Agreement.

"Smokers" means all persons who, prior to or during the term of this Agreement, have smoked Cigarettes or have used other tobacco products.

"Subsequent Notice" means the written notice to be provided by Liggett and its Present Affiliates to Settlement Class members as defined and provided by Section 8.4 of this Agreement.

"Subsequent Notice Dates" means the dates defined in Section 8.4 hereof.

"Tobacco Action" means any individual lawsuit, putative or certified class action lawsuit or action on behalf of a governmental entity brought against one or more Tobacco Companies in connection with smoking-related claims such as (without limitation) those asserted in the FLETCHER Action or any Attorney General Action.

"Tobacco Companies" means The American Tobacco Co., Lorillard Tobacco Co., Philip Morris Inc., R.J. Reynolds Tobacco Co., Brown & Williamson Tobacco Corp., Liggett and United States Tobacco Co. and/or their respective Affiliates.

"Tobacco Snuff" means any cut, ground, powdered, or leaf tobacco that is intended to be placed in the oral cavity.

2. SETTLEMENT PURPOSES ONLY.

This Agreement is for settlement purposes only, and neither the fact of, nor any provision contained in, this Agreement nor any action taken hereunder shall constitute, be construed as, or be admissible in evidence against the Settling Defendants as, any admission of the validity of any claim, any argument or any fact alleged

or which could have been alleged by Plaintiffs in the Action or alleged or which could have been alleged in any other action or proceeding of any kind or of any wrongdoing, fault, violation of law, or liability of any kind on the part of the Settling Defendants or any admission by them of any claim or allegation made or which could have been made in the Action or in any other action or proceeding of any kind, or as an admission by any of the Plaintiffs or members of the Settlement Class of the validity of any fact or defense asserted or which could have been asserted against them in the Action or in any other action or proceeding of any kind.

3. SUBMISSION TO THE CIRCUIT COURT.

Promptly after execution of this Agreement, the Parties shall, through their respective attorneys, jointly submit this Agreement to the Court and move the Court for an order reaffirming Preliminary Approval of this Amended Settlement Agreement and approving dissemination of Initial Notice.

4. PARTIES.

4.1. This Agreement shall be binding, in accordance with the terms hereof, upon Plaintiffs, the Settlement Class, Brooke Group and Liggett; provided that, notwithstanding anything else contained in this Agreement, the payment obligations of this Agreement shall be binding only upon Liggett.

4.2. No Settling Defendant shall sell, dispose or transfer substantially all of its cigarette brands or businesses without first causing the acquiror, on behalf of itself and its successors, to be bound by all of the obligations of a Settling Defendant pursuant to Sections 5.2 and 5.4 through 5.8 hereunder as to such transferred brands or businesses; provided that this Section 4.2 shall not apply to the extent such sale, disposition or transfer is required by the Federal Trade Commission, Department of Justice, State Attorney General or court order.

4.3. The Parties acknowledge and agree that the willingness of Brooke Group and Liggett to enter into this Agreement, and in particular their willingness to agree to the equitable and other relief relating to cigarette marketing and to cooperation provided for in Section 5 hereof, are important to the interests of the Settlement Class.

5. CONSENT DECREES; WARNINGS; COOPERATION.

5.1. Upon execution of this Settlement Agreement, Liggett shall, by and through its Director, Bennett S. LeBow, issue a public statement substantially in the following form and substance:

I am, and have been for a number of years, a Director of Liggett Group, Inc., a manufacturer of cigarettes. Cigarettes were identified as a cause of lung cancer and other diseases as early as 1950. I, personally, am not a scientist. But, like all of you, I am aware of the many reports concerning the ill-effects of cigarette smoking. We at Liggett know and acknowledge that, as the Surgeon General, the FDA and respected medical researchers have found, cigarette smoking causes health problems, including lung cancer, heart and vascular disease and emphysema. We at Liggett also know and acknowledge that, as the Surgeon General, the Food and Drug Administration and respected medical researchers have found, nicotine is addictive.

Liggett will continue to engage in the legal activity of selling cigarettes to adults, but will endeavor to ensure that these adults are aware of the health risks and addictive nature of smoking. As part of our efforts, we will do the following:

1. In accordance with a court-approved settlement, Liggett will set up a fund to compensate equitably those who claim to have been injured by our products.

2. Liggett will add a prominent warning to each of our packages of cigarettes and all of our cigarette advertising stating that "Smoking is Addictive".

3. Liggett supports and will not challenge Food and Drug Administration regulations concerning the sale and distribution of nicotine-containing cigarettes and smokeless tobacco products to children and adolescents. Accordingly, Liggett has agreed to comply with many of these regulations even before they apply to the tobacco industry generally.

4. Liggett has instructed its advertising and marketing people to scrupulously avoid any and all advertising or marketing which would appeal to children or adolescents. Liggett acknowledges that the tobacco industry markets to "youth," which means those under 18 years of age, and not just those 18-24 years of age. Liggett condemns this practice and will not market to children. Liggett agrees that if it sees industry advertisements which in its view are aimed at children, it will bring this to the attention of the Attorneys General.

5. In accordance with our settlement agreements, Liggett agrees to fully cooperate with the Attorneys General and Settlement Class Counsel in their lawsuits against the other tobacco companies. To that end, Liggett will make available to the Attorneys General, Settlement Class Counsel and other parties with whom we have settled all relevant documents and information, including documents subject to Liggett's own attorney-client privileges and work product protections and will assist those parties in obtaining prompt court adjudication of the rest of the industry's joint privilege claims.

5.2. As promptly as reasonably practicable, but no later than six months after execution of the Attorneys General Settlement Agreement, Settling Defendants shall cause to be printed boldly, on all of their Cigarette packages and in all of their Cigarette advertising, in addition to the warnings mandated under the Federal Cigarette Labeling and Advertising Act, as amended, 15 U.S.C. section 1331 ET SEQ., the statement that cigarette smoking is addictive. To the extent any Settling Defendant manufactures and sells other tobacco products, a similar warning shall be placed on such product.

5.3.1. Upon execution of this Agreement, each Settling Defendant shall:

(1) cooperate with the Settlement Class, its members and counsel, in that such Settling Defendant will take no steps to impede or frustrate their investigations into, or prosecutions of, any of the non-settling defendants in Tobacco Actions, so as to secure the just, speedy and inexpensive determination of all such smoking-related claims against said non-settling persons and entities;

(2) cooperate in and facilitate reasonable non-party discovery from Settling Defendants in connection with Tobacco Actions;

(3) actively assist the Settlement Class, its members and counsel in identifying and locating any and all persons known to such Settling Defendant to have documents or information that is discoverable in such proceedings, and to actively assist in interviewing and obtaining documents and information from all such persons, and to encourage such person to cooperate with the Settlement Class; and shall actively assist in interpreting documents relating to litigation against Non-settling Tobacco Companies; and

(4) actively assist the Settlement Class, its members and counsel, by requesting, and (if necessary) moving the Court to compel, the Non-settling Tobacco Companies to produce to Liggett all documents (1) that are relevant to the subject matter of Tobacco Actions or which are likely to lead to admissible evidence in connection with the claims asserted in a Tobacco Action or which are likely to lead to admissible evidence in connection with the claims asserted in a Tobacco Action, and (2) that the Non-settling Tobacco Companies claim are subject to a joint defense or common interest privilege. Settling Defendants will review such documents, and shall deposit those documents with respect to which Settling Defendants have concerns regarding whether such documents should be protected from discovery under seal for IN CAMERA inspection by the Court, together with a statement to the Court of such Settling Defendants' concerns; and

(5) insofar as such Settling Defendant has or obtains any material information concerning any fraudulent or illegal conduct on the part of any parties, including Non-settling Tobacco Companies, their agents, or their co-defendants designed to frustrate or defeat the claims of the plaintiffs against such parties, companies, agents or co-defendants, or which have the effect of unlawfully suppressing evidence relevant to smoking claims, disclose such information to the appropriate judicial and regulatory agencies. 5.3.2. With respect to each Settlement Class member and his or her counsel, subject to, and promptly after (i) the entry of a Protective Order by the Court, and (ii) an agreement by such Settlement Class member and his or her counsel to abide by, and not object to this Settlement Agreement, each Settling Defendant shall:

(1) promptly provide all documents and information that are relevant to the subject matter of the Actions or which are likely to lead to admissible evidence in connection with the claims asserted in a Tobacco Action, subject to the provisions of Section 5.3.2(2) hereof;

(2) waive any and all applicable attorney-client privileges and work product protections with respect to such documents and information. Such waiver shall not extend to (a) documents and information not relevant to the subject matter of Tobacco Actions or not reasonably likely to lead to admissible evidence in connection with claims asserted in any Tobacco Action, or (b) documents subject to a joint defense or other privilege or protection which Settling Defendants cannot legally waive unilaterally, except that the waiver by the Settling Defendant shall apply, to the extent permitted by law, to its own joint defenses or other privileges. To the extent that a Settling Defendant has a good faith belief, or one or more Non-settling Tobacco Companies claims, that documents to be provided pursuant to Section 5.3.2(1) hereof may be subject to a joint defense or other privilege (or a claim of such privilege) of one or more of the Non-settling Tobacco Companies, such documents shall be deposited under seal for IN CAMERA inspection by the Court, or a court in which a Tobacco Action is pending, together with a statement to the Court that such Settling Defendant has concerns as to whether some or all of such documents should be protected from discovery, and the Parties agree to request that the Court shall retain jurisdiction to resolve that issue. Liggett will participate in proceedings, including by way of court appearances or declarations, concerning issues of whether such documents are discoverable;

(3) offer their employees, and any and all other individuals over whom they have control, to provide witness interviews of such employees and to testify, in depositions and at trial; it being understood and agreed that Liggett will waive and hereby does waive any and all applicable confidentiality agreements to the extent such confidentiality agreements would restrict testimony under this Agreement, if any, to which such witnesses may be subject;

(4) demand from its past or current national legal counsel all documents and information obtained in the course of representation of any Settling Defendant which in any way relates to the cooperation required in paragraphs 5.3.1(1) - 5.3.2(3) above, which shall be provided to the Settlement Class, its members and counsel as provided under this paragraph.

5.3.3. Notwithstanding anything to the contrary in this Agreement, Settling Defendants will commence compliance with Sections 5.3.1 and 5.3.2 of this Agreement, including their subparagraphs, as soon as reasonably practicable, according priority as to compliance to the Recoupment Subclass and the Currently-Injured Smoker Subclass

5.4. Each Settling Defendant, promptly after becoming bound by this Agreement, shall

consent to jurisdiction by the FDA, for the sole purpose of promulgating the FDA Rule with respect to all Tobacco Companies. Further, each Settling Defendant, promptly after execution of this Agreement, shall endorse, support and assist in attempts by the FDA to have the FDA Rule become enforceable. Such efforts shall include, if and as reasonably requested by Settlement Class Counsel, filing appropriate amicus briefs and other court papers in litigation relating to the FDA Rule.

5.5. Each Settling Defendant shall follow and abide by the provisions of the FDA Rule, insofar as they pertain solely to such Settling Defendant's Domestic Tobacco Operations, as set forth in, and modified by, paragraphs 5.5.1 - 5.5.9 hereof until a final determination is reached respecting the FDA Rule at which time the Settling Defendants will be bound by the FDA Rule only insofar as, and to the extent that, the FDA Rule becomes an enforceable obligation binding upon all of the Tobacco Companies.

5.5.1. FDA Rule section 897.16(a), as proposed.

5.5.2. FDA Rule section 897.16(b), as proposed.

5.5.3. FDA Rule section 897.16(d), as proposed.

5.5.4. FDA Rule section 897.30, as stated, and further extended such that no Settling Defendant shall locate, disseminate or cause to be disseminated advertising of any Tobacco Products in the out-of-doors, including, but not limited to, advertising on billboards.

5.5.5. FDA Rule section 897.34(A), as stated.

5.5.6. FDA Rule section 897.34(B), as stated.

5.5.7. FDA Rule section 897.34(C), as stated.

5.6. Each Settling Defendant shall follow and abide by the provisions set forth in paragraphs 5.6.1 - 5.6.7 herein.

5.6.1. No Settling Defendant shall encourage placement of point of sale advertisements within two feet of any fixture on which gum, candy or confection food is displayed for sale.

5.6.2. No Settling Defendant shall make or cause to be made direct or indirect payments for tobacco product placement in movies (screen, video, or made for television), television programs or video games.

5.6.3. No Settling Defendant shall make or cause to be made direct or indirect payments to glamorize or otherwise encourage or promote tobacco use in any media outlets appealing to minors, including, but not limited to, recorded and live performances of music.

5.6.4. No Settling Defendant shall locate, post, disseminate or cause to be disseminated any form of tobacco product advertising on the Internet or any other electronic information distribution system, unless such advertising is designed to be inaccessible in or from the United States of America.

5.6.5. Audio and video format advertising otherwise permitted under the FDA Rule may be distributed to adult consumers at point of sale (i.e., no "static video displays").

5.6.6. Subject to the provisions of Section 5.7, the Settling Defendants agree that in the event of any future Settlement Agreements and/or Consent Decrees between any Settling State and the Non-Settling Defendants related to restrictions on advertising and marketing, or requirements for labeling and packaging of Tobacco Products, in connection with a National or legislative settlement the terms of this Settlement Agreement will be revised such that Liggett and Brooke Group will be required to abide by any additional restrictions or more restrictive requirements which may be adopted by such Settlement Agreement or Consent Decree.

5.7. Notwithstanding anything to the contrary in the FDA Rule or in this Agreement, Liggett will commence compliance with Sections 5.5 and 5.6 of this Agreement as soon as reasonably practicable, provided that Liggett may limit its compliance to the extent, if any, necessary to ensure that the net annual out-of-pocket cost to Liggett of such compliance not exceed $1 million; and provided further that Liggett shall not be obligated pursuant hereto to breach pre-existing legal obligations, if any, it may have with respect to the matters covered by Sections 5.5 and 5.6 (and shall use its reasonable best efforts to minimize the degree to which any such obligations would impede its full compliance therewith). For purposes of this paragraph, the phrase "net annual out-of-pocket costs" means the excess of (a) the additional out-of-pocket expenditures incurred during a particular year by Liggett in complying with the matters specified in Sections 5.5 and 5.6, over (b) savings, if any, in out-of-pocket expenditures realized during such year by Liggett directly from the implementation of the matters covered by Sections 5.5 and 5.6.

5.8. If, when and to the extent that the FDA Rule, in whole or in part, becomes an enforceable legal obligation binding upon all of the Tobacco Companies, each Settling Defendant will comply therewith, without consideration of any limits or exceptions herein. If the FDA Rule does not become such a legal obligation, Liggett shall, during the duration of this Agreement, continue to comply with Section 5.5 and 5.6.

5.9. Each Settling Defendant shall not use cartoon characters, such as "Joe Camel" in any of its advertising and promotional materials and activities with respect to tobacco products. No Settling Defendant shall enter into any new contract for advertising and promotion with respect to tobacco products using any such cartoon characters after the date the Settling Defendants become bound by this Agreement.

5.10. Each Settling Defendant may, after becoming bound by this Agreement, continue in the lawful manufacture, advertising and/or sale of tobacco products. This Agreement does not in any way abrogate or restrict the authority or ability of the Recoupment Subclass members, to the extent such members possess such authority or ability, to enforce compliance with the laws of their respective jurisdictions.

6. GLOBAL SETTLEMENT.

6.1. Effective upon the execution hereof, Settlement Class Counsel each agree (a) to exercise best efforts to ensure that the financial terms, financial obligations or financial conditions of any Global Settlement are no more onerous on, or less favorable to, Brooke Group and Liggett than the financial terms, financial obligations or financial conditions of this Settlement Agreement, and (b) to issue a public statement substantially in the following form and substance:

> The historic settlements entered into by Liggett, whereby Liggett has agreed, among other things, to provide full cooperation to a nationwide settlement class and to consent to FDA regulation of tobacco marketing, are a major advance in our efforts to prevent smoking by children and adolescents and to ensure that the tobacco industry markets its products lawfully. Accordingly, the undersigned counsel will use their best efforts in Congress and elsewhere to ensure that any such industry-wide resolution provide for financial terms for Liggett that reflect appropriate recognition of Liggett's cooperative efforts, and which are no more onerous on, or less favorable to Liggett than those provided for in our Settlement Agreement.

6.2. In the event there is a Global Settlement at any time which contains financial terms, financial obligations or financial conditions as to Brooke Group and Liggett which are more onerous on, or less favorable to, Brooke Group and Liggett than those of this Settlement Agreement, then, in addition to and not in derogation of any other rights or remedies Brooke Group and Liggett may have, Brooke Group and Liggett shall have the right, at their option, to withdraw from future performance of the payment obligations of Section 7 of this Agreement.

6.3. Subject to and in accordance with applicable law, in the event of a Global Settlement which does not impose financial terms, financial obligations or financial conditions as to Brooke Group and Liggett which are more onerous on, or less favorable to, Brooke Group and Liggett than those of this Settlement Agreement (at least to the extent Liggett's Market Share does not exceed 3%; such Market Share limitation being included solely for purposes of this Section 6.3), and pursuant to which Brooke Group and Liggett receive a limitation of liability for smoking-related claims, and any other benefits conferred thereunder, at least to the same extent as received by the Non-settling Tobacco Companies, Liggett agrees to abide by the provisions of such Global Settlement that pertain to the pricing of Cigarettes. The purpose of this Section 6.3, consistent with the advertising restrictions in Section 5 and other provisions of this Agreement, is to make certain that Liggett cigarettes do not become a preferred choice of youth smokers.

7. SETTLEMENT FUND.

7.1. Except as may otherwise be provided herein, all amounts due and owing by each Settling Defendant under this Agreement shall be paid when due into the Settlement Fund to be allocated and distributed to Settlement Class members in accordance with this Agreement.

7.2. Settling Defendants shall have no interest in or responsibility for allocations or distributions from the Settlement Fund and do not guarantee any earnings or insure against any losses from any portion of the Settlement Fund assets that may be maintained or administered as provided in Section 7.1 above.

7.3. Subject to the terms of this Agreement, Liggett shall make the following payments:

7.3.1. An initial payment of $25 million due 120 days from the date of a Future Affiliate Transaction. The amount payable under this Section 7.3.1 represents the same amount, and not in addition to the amount, payable under Section 6.3.1 of the March 1997 Attorneys General Settlement Agreement; and

7.3.2. Subject to the provisions of Sections 7.7, 7.8 and 7.9, payments, each equivalent to 7.5% of Liggett's Pretax Income, due 120 days after the end of each fiscal year of Liggett; provided that each of such payments shall be no less than $1 million. The first payment shall be made with respect to the first full fiscal year commencing after the date of Mandatory Class Final Order and Judgment.

7.4. Liggett shall pay the reasonable and necessary expenses of the administration, allocation, and distribution of the Settlement Fund; provided that Liggett shall not be obligated to pay more than $1 million in any year for such expenses or the costs of Initial and each Subsequent Notice.

7.5. The amounts payable hereunder to the Settlement Fund shall represent the maximum amounts payable to the Settlement Fund under this Agreement. Subject to the approval of the Court, the Settlement Fund Board shall institute a process for the allocation of the Settlement Fund among the subclasses and their members, for among other purposes, compensation to Smokers who have incurred Injury, medical monitoring for Future-Injured Smokers and to defray Settlement Class members' costs of litigation of Tobacco Actions against other Tobacco Companies.

7.6. The Court shall retain exclusive and continuing jurisdiction over the Settlement Fund, and any and all claims thereto. All allocations of, and distributions from, the Settlement Fund to the Settlement Class shall be subject to Court approval.

7.7. In the event of a Global Settlement, the Settling Defendants shall have the right to reduce (PRO RATA with any such reduction under all Attorney General Settlement Agreements) the payments due from Liggett in each year pursuant to this Agreement so that the aggregate payments due under this Agreement and such Attorney General Settlement Agreements shall be no more than the lesser of (A) on a Cost Per Cigarette Pack basis, one-third of the lowest Cost Per Cigarette Pack due in such year from the Non-Settling Tobacco Companies under such Global Settlement and (B) on a percentage of Pretax Income basis, one-third of the lowest percentage of Pretax Income due in such year from the Non-Settling Tobacco Companies under such Global Settlement (such percentage to be computed as if the payments due from such companies were included in revenues and earnings).

7.8. Liggett shall receive as a credit against any and all amounts due hereunder, a share (PRO RATA with any such credit under such Attorneys General Settlement Agreements) of any and all amounts it is required to pay under a Global Settlement.

7.9. The Settlement Fund shall constitute the sole source of recovery on any and all claims against Liggett and its Present Affiliates which have been, will be, or could be asserted, directly or indirectly, by, on behalf of, or for the benefit of any and all Settlement Class members, such that, subject to the Court's final determination that this Settlement Agreement is fair pursuant to Mandatory Class Final Approval, Liggett and its Present Affiliates shall enjoy a universal release from all claims associated with or resulting from the smoking of their cigarettes in consideration of their agreeing to the entry of the Consent Decree and of Liggett's payments into the Settlement Fund and of the reasonable expenses of the administration, allocation, and distribution of the Settlement Fund, for the benefit of Settlement Class members, in accordance with this Agreement.

7.10. The Board shall institute a process for the equitable adjudication of smoking-related claims against Liggett for compensatory damages by Settlement Class members in view of, among other things, the history of the outcome of such claims, and the needs of members of the various subclasses; it being understood that all claims for punitive, exemplary or other such damages are hereby waived. The Board shall also consider any and all comments, recommendations, requests and suggestions from Settlement Class members and counsel for each of the subclasses, as to the appropriate and equitable distribution of the Settlement Fund, for evaluation and recommendation by the Board to the Court for its approval. The Court shall not be requested by the Parties or the Board to make any specific orders regarding the ultimate distribution of the Settlement Fund at the time of Preliminary or Mandatory Class Final Approval. The notice forms to be submitted to the Court for its approval shall inform Settlement Class members that issues of distribution are reserved for future rulings, conditioned upon and subsequent to Mandatory Class Final Approval, and that any and all Settlement Class members who wish to do so may submit their comments, recommendations, requests and suggestions for the distribution of the Settlement Fund, under a procedure to be established by the Court. The Court will be requested to grant Preliminary and Mandatory Class Final Approval without regard to the ultimate equitable distribution of the Settlement Fund, in order to provide Settlement Class members with a full opportunity to participate in the decision-making process after the Settlement Fund is in place; and to avoid distracting the parties and the Court, during the settlement approval process, with comments or objections more properly directed at the specifics of distribution with respect to particular claimants rather than the common class interest in the overall fairness, adequacy, and reasonableness of the Settlement itself, in the context of the "limited fund" available from Liggett to pay claims, the provision of valuable equitable relief, and the compromise of disputed and risky claims.

7.11. Settling Defendants agree not to take any action the primary purpose of which is to reduce Liggett's payment obligations under this Agreement.

8. NOTICE TO THE SETTLEMENT CLASS.

8.1. Upon Preliminary Approval, and as the Court may direct, each Settling Defendant shall cause notice of the settlement embodied herein (the "Initial Notice") to be given to the members of the Settlement Class.

8.2. The Initial Notice to Settlement Class members shall inform them as follows:

> The allocation of the Settlement Fund to specific uses or among particular claimants has not been determined. Future allocation and distribution of the Settlement Fund will be administered by the Settlement Fund Board. The Board shall be comprised of representatives appointed by the Attorneys General of certain settling states and by Settlement Class Counsel with the approval of the Court, and it shall include representatives of the public health community. The Board shall be responsible for recommending and implementing guidelines and procedures for the administration of claims. The Settlement Agreement does not specify any particular allocation of Settlement proceeds. Settlement Class members will be given notice and an opportunity to be heard and make suggestions regarding allocation before any final allocation or distribution decisions are made.

8.3. The Initial Notice, in a form to be approved by the Court, shall be disseminated as provided in this Section 8 over the course of a period not to exceed ninety (90) days from the Initial Notice Date, subject to approval by the Court.

8.4. At the end of each successive three-year interval during the term of this Agreement ("Subsequent Notice Dates"), each Settling Defendant shall cause notice of the settlement embodied herein (the "Subsequent Notice") to be given to the members of the Settlement Class.

8.5. Each Subsequent Notice, in a form to be approved by the Court, shall be disseminated over the course of four periods each not to exceed sixty (60) days from each applicable Subsequent Notice Date.

9. MANDATORY CLASS CERTIFICATION AS TO LIGGETT.

9.1. The mandatory certification of the Settlement Class under Rule 23(b)(1)(B) and/or 23(b)(2) of the Alabama Rules of Civil Procedure is essential to the ability of the Parties to perform the terms and conditions set forth in this Settlement Agreement. It is the intent and understanding of the Parties that the undertakings of Liggett and Brooke Group as described in Section 5 of this Settlement Agreement, with respect to Liggett's promotional, advertising, marketing and sales practices in order to inform the Settlement Class and the American public of the dangers of smoking and the addictive nature of nicotine, to prevent sales of cigarettes to children and adolescents, and to provide active and meaningful cooperation in the prosecution of smokers' claims against Non-Settling Tobacco Companies constitute injunctive, equitable, and declaratory relief of real, immediate, and ongoing benefit to the Settlement Class and the public, sufficient to satisfy the criteria of mandatory class certification under Rule 23. It is also the understanding of the Parties that the Settlement Class can only be assured that it will actually receive the benefits of the foregoing undertakings through the commitment of the Settling Defendants' current Boards of Directors. Accordingly, (i) the Parties shall cooperate in establishing, to the satisfaction of the Court, the evidentiary predicates for the Court's determination of a "limited fund" under Rule 23, (ii) if the Settlement Class is not certified under one or more of these mandatory provisions, or is later decertified by the Court or on appeal, Liggett and Brooke Group shall each have the right to withdraw from this Settlement Agreement, and (iii) this Settlement Agreement shall terminate and be void ab initio if Liggett (without the consent of Brooke Group) or Brooke Group undergo a change in control from that existing as of the date hereof.

10. FUTURE AFFILIATE.

10.1. The terms of this Agreement shall not be binding upon or applicable to a Future Affiliate of the Settling Defendants, except as provided for in this Section 10.

10.2. In the event of a Future Affiliate Transaction, the Settlement Class, or any of its members, shall not (a) seek to enjoin or otherwise challenge a spinoff or like disposition of the stock or assets of any Affiliate of the Future Affiliate which is not as of the date of the execution of this Agreement a Parent of a company engaged in Domestic Tobacco Operations or itself engaged in Domestic Tobacco Operations ("Spinoff Affiliate"), (b) bring suit or otherwise take action against the Parent of the Future Affiliate with respect to such spinoff or like disposition of stock or assets, or (c) bring suit or otherwise take action against a Spinoff Affiliate for claims asserted in or related to a Tobacco Action (and thereby release such Spinoff Affiliate pursuant to, MUTATIS MUTANDIS, Section 11.1 hereof). The Settlement Class reserves the right to take the actions described in this Section 10.2 in the event that such spinoff or like disposition is sought by someone other than Brooke Group or a Future Affiliate or an Affiliate of a Future Affiliate.

10.3. With respect to subsection 10.2, nothing in this provision, or elsewhere in this Agreement, limits the authority of the Settlement Class to challenge any transaction which they reasonably believe is in violation of federal or state antitrust law.

10.4. Promptly after a Future Affiliate Transaction, a Future Affiliate shall abide by Sections 4.4 through 4.8 of the March 1997 Attorneys General Agreement.

10.5. Promptly after a Future Affiliate Transaction, Settling Defendants and the Settlement Class and Settlement Class Counsel, each agree to exercise best efforts to negotiate in good faith a settlement of all Tobacco Actions against a Future Affiliate's Domestic Tobacco Operations.

10.6. Prior to a Future Affiliate Transaction, Settling Defendants shall not enter into any agreement with any prospective Future Affiliate which diminishes or impairs the prospective Future Affiliate's assets, other than in the established and/or ordinary course of business of such prospective Future Affiliate and shall use best efforts to prevent such prospective Future Affiliate from diminishing or impairing such assets. In the event of a Future Affiliate Transaction, the Settlement Class reserves all of their rights to prevent the Future Affiliate from diminishing or impairing the Future Affiliate's Tobacco assets, other than in the established and/or ordinary course of business of such Future Affiliate.

11. RELEASE.

11.1. Upon the Mandatory Class Settlement Date, with respect to each Settling Defendant, for good and sufficient consideration as described herein, all members of the Settlement Class, collectively and individually, on behalf of themselves, the persons they represent, their heirs, executors, administrators, trustees, beneficiaries, agents, attorneys, successors, assigns, affiliates, officers, directors, employees and shareholders shall be deemed to and do hereby release, dismiss and discharge each and every claim, right, and cause of action (including, without limitation, all claims for damages, medical expenses, restitution, medical monitoring, or any similar legal or equitable relief, under federal, state or common law), known or unknown, asserted or unasserted, direct or indirect, which they had, now have, or may hereafter have against each Settling Defendant (including its past, present and future parents, subsidiaries, affiliates and their past, present and future agents, servants, attorneys, employees, officers, directors, shareholders, and beneficial owners) (and downstream distribution entities of Liggett, but only to the extent that such downstream distribution entities would have cross-claims against Liggett) which is based on any and all harm, injury or damages claimed by members of the Settlement Class to be caused by smoking, addiction to, or dependence upon, cigarettes or which is asserted in the Action in connection with, or arising out of the conduct, acts, facts, transactions, occurrences, representations or omissions set forth, alleged, referred to or otherwise embraced in the Action complaint or any and all other Tobacco Actions or any other smoking-related actions.

Provided, however, as follows:

1) If this Agreement expires upon completion of its full term, this release shall continue and apply in full force and effect with respect to all released claims which accrued or shall accrue prior to, through and including the date of such expiration, such that such claims shall be forever released, but only as to such claims through and including such date; if this Agreement terminates for any reason prior to its full term, this release shall be of no further force and effect and Settling Defendants shall be entitled to a credit to the extent otherwise provided in this Agreement against all claims covered by the release for the full amount paid by such Settling Defendants hereunder.

2) Except as specifically provided herein, this release does not pertain or apply to any other existing or potential defendant in any present or future action.

3) This release does not release Settling Defendants from claims which may be asserted by the Settlement Class against a Settling Defendant involving conduct unrelated to the manufacture and/or sale of tobacco products.

11.2 In addition to the provisions of Section 11.1, each member of the Settlement Class hereby expressly waives and releases, upon this Settlement Agreement becoming final, any and all provisions, rights and benefits conferred by section 1542 of the California Civil Code, which reads:

> Section 1542. Certain Claims not Affected by General Release. A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor;

or by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to section 1542 of the California Civil Code. Each member of the Class may hereafter discover facts other than or different from those which he, she or it knows or believes to be true with respect to the claims which are the subject matter of the provisions of Section 11.1 hereof, but each member of the Settlement Class hereby expressly waives and fully, finally, and forever settles and releases, upon this Settlement Agreement becoming final, any known or unknown, suspected or unsuspected, contingent or non-contingent claim with respect to the subject matter of the provisions of Section 11.1, whether or not concealed or hidden, without regard to the subsequent discovery or existence of such different or additional facts.

11.3. Except as specifically provided herein, nothing in this Agreement shall prejudice or in any way interfere with the rights of the Plaintiffs, Settlement Class members, and the Settling Defendants to pursue all of their rights and remedies against Non-settling Tobacco Companies or other defendants.

12. EXCLUSIVE REMEDY; DISMISSAL OF ACTION; JURISDICTION OF COURT.

12.1. Except as otherwise provided in this Agreement, this Agreement shall be the sole and exclusive remedy for any and all released claims of Settlement Class members against the Settling Defendants, and upon the entry of the Mandatory Class Final Order and Judgment by the Court, each Settlement Class member shall be barred from initiating, asserting, or prosecuting any released claims against Brooke Group or Liggett.

12.2. On the Mandatory Class Settlement Date, the Action shall be dismissed as against each Settling Defendant, subject to the continuing and exclusive jurisdiction of the Court over the enforcement and administration of the Settlement Agreement, and the allocation and distribution of the Settlement Fund. Settlement Class members may not commence or prosecute actions against Brooke Group or Liggett on claims released pursuant to this Agreement once the Mandatory Class Final Order and Judgment is entered. The Settlement Class Counsel agree to provide reasonable cooperation to stay or dismiss, as appropriate, any action of any Settlement Class member for such released claims pending in state or federal court against the Settling Defendants.

12.3. The Court shall retain exclusive and continuing jurisdiction over the Action, all Parties, all Settlement Class members and the Settlement Fund to interpret and enforce the terms, conditions, and obligations of this Agreement. Nothing in this Agreement shall be construed to divest or limit the jurisdiction of the Court with respect to claims which may be alleged by the Settlement Class against Non-settling Tobacco Companies or other defendants.

13. TERM.

13.1. Unless earlier terminated in accordance with the provisions of this Agreement, the duration of this Agreement shall be twenty-five (25) years from the Liggett Settlement Date; provided that in the event of a Global Settlement, the duration of this Agreement shall be equal to the duration of the Global Settlement.

13.2. The performance of this Agreement by Liggett and Brooke Group is expressly contingent upon the Court's issuance of the Mandatory Class Final Order and Judgment. If the Court fails to hold the Mandatory Class Fairness Hearing within six (6) months of the date hereof or to issue a Mandatory Class Final Order and Judgment within sixty (60) days following conclusion of the Mandatory Class Fairness Hearing, Liggett and Brooke Group may elect to terminate this Agreement by written notice to the Court and the Settlement Class Counsel within twenty (20) business days following the end of either such period.

13.3. Except as may be otherwise specifically provided in this Agreement, a termination by a Settling Defendant hereunder shall have the effect of rendering this Agreement as having no force or effect whatsoever, null and void AB INITIO, and not admissible as evidence for any purpose in any pending or future litigation in any jurisdiction. However, a termination shall not affect any prior cooperation or require the return of any documents produced to a Settlement Class member pursuant to this Agreement.

14. CONTINUING ENFORCEABILITY.

14.1. The parties acknowledge and agree that the purpose of this Agreement and the mandatory certification of the Settlement Class with respect to Liggett and its Present Affiliates is to provide the Settlement Class with certain equitable and other relief made available by Settling Defendants and their current Boards of Directors, and a secure and ongoing source of recovery, subject to equitable allocation and distribution, while ensuring that Liggett may perform its obligations and make its payments hereunder without unduly risking insolvency, bankruptcy or liquidation; this Agreement is intended to be a mutually beneficial and equitable alternative to the prospect of bankruptcy.

14.2. Unless earlier terminated, as to the Settlement Class, this Agreement and each provision of or obligation arising from this Agreement shall continue and remain fully enforceable if a Settling Defendant institutes or is subject to the institution against it of any proceeding or voluntary case under title 11 of the United States Code, or other proceeding seeking to adjudicate it insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors or other proceeding seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any part of its property (each, a "Bankruptcy Proceeding"). Brooke Group has the right but not the obligation to cure and to perform any of Liggett's monetary obligations under this Agreement (calculated as if Liggett were meeting such monetary obligations) notwithstanding the occurrence and continuation of any Bankruptcy Proceeding with respect to Liggett. The Settlement Class agrees that it has no right to terminate this Agreement, to call a default under this Agreement, or to compel Liggett to take or not to take any action with respect to this Agreement during any period in which Brooke Group is performing Liggett's post-bankruptcy proceeding monetary obligations hereunder.

15. ENTRY OF GOOD FAITH BAR ORDER ON CONTRIBUTION AND INDEMNITY CLAIMS; INDEMNIFICATION

15.1. The Parties shall request that the Court enter an order barring and prohibiting the commencement and prosecution of any claim or action by any Non-settling Tobacco Company in any smoking-related litigation against Settling Defendants, including but not limited to any contribution, indemnity and/or subrogation claim seeking reimbursement for payments made or to be made to any Settlement Class member for claims settled under this Agreement. Settling Defendants shall be entitled to dismissal with prejudice of any such Non-settling Tobacco Company's claims against them which violate or are inconsistent with this bar.

15.2. No Settlement Class member shall make a claim against a non-settling person for what would be a claim settled under this Agreement if asserted against a Settling Defendant.

15.3. Claims by or on behalf of any Settlement Class members against any non-settling parties are not released and shall not be barred, precluded, limited, or reduced as a consequence of this Agreement or the subsequent award and distribution of funds to such Settlement Class members from the Settlement Fund, except if and to the extent required under federal or state law applicable under choice-of-law doctrines in the forum in which any such claims may be instituted or pursued.

16. EXPENSES AND FEES.

16.1. Subject to Section 7.5 hereof, all reasonable and necessary expenses incurred by the Board in administering, allocating and distributing the Settlement Fund, and the costs of Initial and Subsequent Notices, shall be paid by the Settling Defendants in addition to, and without reducing, their payments into the Settlement Fund.

16.2. In addition to the above described expenses of administration and notice, the reasonable fees and expenses of the Settlement Class Counsel, if and as approved by the Court, shall be paid by the Settling Defendants after the Settlement Date separate and apart from, and in addition to, their initial payments into the Settlement Fund.

16.3. In the event of a failure by the Court to issue the Final Order and Judgment or a decision by any Settling Defendant to exercise its right to withdraw pursuant to Section 14 of this Agreement, the Settling Defendants will bear, in accordance with the terms of this Agreement, the costs of the Initial Notice incurred to such point (in the case of Brooke Group and Liggett not to exceed a total of $1 million; provided that Brooke Group, Liggett and Plaintiffs shall each have the right to terminate this Agreement in the event that the Court orders Initial Notice costing in excess of $1 million, unless Brooke Group and/or Liggett and/or Plaintiffs and/or Settlement Class Counsel agree to pay such excess.)

17. TAX STATUS OF SETTLEMENT FUND.

17.1. The Settlement Fund created under this Agreement will be established and maintained as a Qualified Settlement Fund ("QSF") in accordance with Section 468B of the Internal Revenue Code of 1986, as amended (the "IRC"), and the regulations promulgated thereunder. Any Settling Defendant shall be permitted, in its discretion, and at its own cost, to seek a private letter ruling from the Internal Revenue Service ("IRS") regarding the tax status of the Settlement Fund. The parties agree to negotiate in good faith, subject to Court approval, any changes to the Agreement which may be necessary to obtain IRS approval of the Settlement Fund as a QSF.

17.2. Representatives of the Settling States and the Settlement Class will be appointed to act as administrator of the Settlement Fund. As administrator, such representatives will undertake the following actions in accordance with the regulations under IRC section 468B: (a) apply for the tax identification number required for the Settlement Fund; (b) file, or cause to be filed, all tax returns the Settlement Fund is required to file under federal or state laws; (c) pay from the Settlement Fund all taxes that are imposed upon the Settlement Fund by federal or state laws; and (d) file, or cause to be filed, tax elections available to the Settlement Fund, including a request for a prompt assessment under IRC sec. 6501(d), if and when the administrator deems it appropriate to do so.

17.3. The Settling Defendants, as transferors of the Settlement Fund, shall prepare and file the information statements concerning their settlement payments to the Settlement Fund as required to be provided to the IRS pursuant to the regulations under IRC Section 468B.

18. COURT'S SETTLEMENT APPROVAL ORDER.

Except as specifically provided herein, this Agreement is subject to and conditioned upon the issuance by the Court, following the Mandatory Class Fairness Hearing, of a Mandatory Class Final Order and Judgment.

19. EFFECT OF DEFAULT OF ANY SETTLING DEFENDANT.

In the event any Settling Defendant fails to make a payment due and owing under the terms of this Agreement, or is in default of this Agreement in any other respect, the Settlement Class Counsel shall so notify the Court. The defaulting Settling Defendant shall then be given up to sixty (60) calendar days to "cure" the default. If the defaulting Settling Defendant does not "cure" the default in the time provided in this Section 19, and if no other Settling Defendant elects to cure such default, the Settlement Class Counsel may apply to the Court for relief, including withdrawal from the Agreement.

20. REPRESENTATIONS AND WARRANTIES; COVENANTS.

20.1. Each Settling Defendant represents and warrants that (i) it has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; (ii) the execution, delivery and performance by such Settling Defendant of this Agreement and the consummation by it of the actions contemplated herein have been duly authorized by all necessary corporate action on the part of such Settling Defendant; and (iii) this Agreement has been duly and validly executed and delivered by such Settling Defendant and constitutes its legal, valid and binding obligation.

20.2. Each Settling Defendant covenants and agrees for the benefit of the Settlement Class that it will not enter into any transaction involving the borrowing of funds in excess of $100 million unless such transaction is fair from a financial perspective to the Settling Defendant and represents the reasonable exercise of such Settling Defendant's business judgment. Liggett agrees that, other than after a sale of all or substantially all of its assets or stock in a transaction approved by Brooke Group, it will not pay any dividends (in cash or property), or engage in any transaction with, or transfer any cash or property to, any affiliate in excess of $500,000, unless it is reasonably fair from a financial perspective to Liggett, represents the reasonable exercise of Liggett's business judgment, and is approved in writing by Brooke Group.

21. ARBITRATION.

21.1. In the event that the Parties are unable to agree, after good faith efforts, as to the determination or calculation of Pretax Income or Market Share for any year hereunder, such determination or calculation shall be submitted to binding arbitration under the supervision of the Court.

21.2. The Settlement Class Counsel shall during the term of this Agreement have the right, at its sole cost, to have an independent auditor review the Settling Defendants' compliance with their payment obligations under this Agreement; provided that any such review will not be binding upon such Settling Defendants.

22. MOST FAVORED NATION.

22.1. In the event of any Other Settlement with any Non-settling Tobacco Company, the payments due from each Settling Defendant in each year under this Agreement shall be reduced to the extent, if any, necessary to ensure that such payments are the lesser of (a) on a percentage of Pretax Income basis, payments such that the percentage in each year of such Settling Defendant's Pretax Income represented by such payments is no more than one-third of the percentage in such year of such Non-Settling Tobacco Company's Pretax Income represented by the product of (i) the average annual payments due from such Non-Settling Tobacco Company under such Other Settlement and (ii) the Population Quotient with respect to such Other Settlement and (b) on a Cost Per Cigarette Pack basis, no more than the product of (i) one-third of the lowest Cost Per Cigarette Pack due in such year from the Non-Settling Tobacco Companies under such Other Settlement and (ii) the Population Quotient with respect to such Other Settlement. The Benchmark Figure set forth in this Section 22.1 does not reflect in any fashion the Settlement Class's or Settlement Class Counsels' views as to an appropriate settlement or resolution with any Non-Settling Tobacco Company.

22.2. In the event of the entry of any final monetary judgment (other than by way of settlement) in a Tobacco Action, against any one or more of the Non-Settling Tobacco Companies, then each Settling Defendant shall have the right to reduce the payments it is obligated to make pursuant to this Agreement to the extent, if any, necessary to make the sum of all amounts theretofore paid and the then Present Value of all amounts thereafter payable pursuant to this Agreement (assuming for purposes of such Present Value calculation that the annual amounts due hereunder remain unchanged from the then most recent fiscal year) by any Settling Defendant per percentage point of the then Market Share of such Settling Defendant no more than the lesser of (a) fifty (50%) of (i) the dollar amount of the product of (A) such judgment and (B) the Population Quotient with respect to such judgment per (ii) percentage point of the then Market Share of each such Non-Settling Tobacco Company and (b) on a Cost Per Cigarette Pack basis, no more than the product of (i) one-third of the lowest Cost Per Cigarette Pack due in each year from such Non-Settling Tobacco Company under such judgment and (ii) the Population Quotient with respect to such judgment; provided that such Settling Defendant shall give written notice of such reduction and the method of calculating such reduction to the Court and Settlement Class Counsel as soon as practicable after the entry of such judgment.

22.3. In each year beginning with the second year a Settling Defendant becomes bound by this Agreement, the annual payment amount due under Section 7.3 of this Agreement from such Settling Defendant shall be decreased in proportion to any decrease, and (only if there shall have been a prior such decrease) increased in proportion to any increase, in such Settling Defendant's Market Share from the prior year; provided, however, that (a) such annual payment amount shall not be so decreased to the extent, if any, that such annual payment amount in such year is decreased as a result of a decrease in such Settling Defendant's Pretax Income and (b) such annual payment amount shall never be increased such that the aggregate amount of any such increases exceeds the aggregate amount of any such decreases. Such Settling Defendant, as soon as practicable after the end of such year, shall give written notice of any such decrease or increase and the method of calculating it to the Court and Settlement Class Counsel. [Example: For purposes of this example of Section 22.3, assume Liggett's Pretax Income is $50 million each year, thus making Liggett's obligation under Section 7.3 of the settlement $3,750,000 per year during the term of this Agreement (7.5% of 50,000,000). Liggett's Market Share drops from 2% in 1997 and 1998 to 1.75% in 1999, but recovers to 1.9% in 2000, and then back to 2.0% in 2001. Reduction under this Section: In 1999, Liggett's amount due will be reduced by $468,750 to $3,281,250. Since Liggett's Market Share fell by .25 points or 12.5%, its payments would be reduced by 12.5% or $468,750 ($3,750,000 x .125). Recapture of Market Share: In 2000, Liggett's payments to climb commensurate to its increase of .15 in Market Share (1.75 to 1.9% to $3,562,500 (($3,281,250 plus ($3,281,250 plus .15/1.75)). In 2001, Liggett's payment would again increase commensurate to its increase of .1 in Market Share to $3,750,000 (($3,562,500 plus $3,562,500 x .1/1.90)). Liggett would not be entitled to a "double reduction" for a decrease in both Pretax Income and Market Share. Thus, if Liggett's .25 point drop in Market Share in 1998 were accompanied by a drop in Pretax Income between 1997 and 1998 from $50 million to $35 million, there would be no Market Share reduction, as Liggett's payment obligations (7.5% of Pretax Income) would have already fallen from $3,750,000 to $2,625,000.]

22.4. The Plaintiffs, on behalf of themselves (upon the execution hereof) and the Settlement Class (upon Preliminary Approval), Settlement Class Counsel, and any attorneys or representatives of any of the foregoing, agree that for the next fifteen (15) years neither the Plaintiffs, the Settlement Class, nor any attorneys or representatives of the foregoing will, without the express written consent of Brooke Group (which may be withheld for any reason or for no reason) discuss, negotiate, support, approve or enter into any agreement or understanding with any creditor, claimant, trustee, receiver or other party-in-interest, of Liggett, Brooke Group or any of their affiliates, other than Brooke Group itself (collectively, "Prohibited Parties"), with respect to any restructuring, liquidation or reorganization of Liggett, Brooke Group or any of their affiliates, including with respect to any plan under Chapter 11 or Chapter 7 of title 11, United States Code (the "Bankruptcy Code").

22.5. The rights and remedies of each Settling Defendant under this Section 22 are cumulative and not exclusive of each other and shall survive the termination of this Agreement.

23. FURTHER ACTIONS.

Each of the Parties and their respective counsel shall take such actions and execute such additional documents as may be reasonably necessary or appropriate to consummate or implement the settlement contemplated by this Agreement.

24. MISCELLANEOUS.

24.1. This Agreement, including all Exhibits attached hereto, shall constitute the entire agreement among the Parties with regard to the subject matter of this Agreement and shall supersede any previous agreements and understandings between the Parties with respect to the subject matter of this Agreement. This Agreement may not be changed, modified, or amended except in writing signed by all parties, subject to Court approval.

24.2. This Agreement shall be construed under and governed by the laws of the State of Alabama.

24.3. This Agreement may be executed by the Parties in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

24.4. This Agreement shall be binding upon and inure to the benefit of the Settlement Class, the Settling Defendants, and their representatives, heirs, successors, and assigns; provided, however, that, upon any assignment of this Agreement by or on behalf of Liggett, or succession to this Agreement through any combination with Liggett, other than with the prior written consent of Brooke Group (which can be withheld for any or no reason), the obligations of this Agreement shall be binding upon such assignee or successor and each of its affiliates as if they each were Settling Defendants on the date of execution hereof.

24.5. Other than as provided in Section 24.4, nothing in this Agreement shall be construed to subject any Settling Defendant's parent or affiliated company to the obligations or liabilities of that Settling Defendant.

24.6. There shall be no third party beneficiaries of this Agreement other than non-party releasees hereunder. No person other than the Parties hereto, the Settlement Class members and the releasees hereunder shall have any right or claim under or in respect of this Agreement.

24.7. The headings of the Sections of this Agreement are included for convenience only and shall not be deemed to constitute part of this Agreement or to affect its construction.

24.8. Any notice, request, instruction, application for Court approval or application for Court orders sought in connection with this Agreement or other document to be given by any Party to any other Party shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid, if to the Settling Defendants to the attention of each Settling Defendant's respective representative and to the Settlement Class Counsel on behalf of Settlement Class members, or to other recipients as the Court may specify. As of the date of this Agreement, the respective representatives are as follows:

CURRENTLY INJURED SMOKER SETTLEMENT SUBCLASS COUNSEL

Norwood S. Wilner
Gregory Maxwell
SPOHRER WILNER MACIEJEWSKI &
STANFORD P.A.
444 E. Duval Street
Jacksonville, Florida 32202

FUTURE INJURED SMOKER SETTLEMENT SUBCLASS COUNSEL

Steven A. Martino
JACKSON, TAYLOR & MARTINO, PC
South Trust Bank Building
61 St. Joseph St., Suite 1600
Mobile, Alabama 33602

NON-LIGGETT SMOKER SETTLEMENT SUBCLASS COUNSEL

Wyman O. Gilmore
Post Office Box 729
Grove Hill, Alabama 36451

RECOUPMENT SETTLEMENT SUBCLASS COUNSEL

William J. McDaniel
McDANIEL, BAINS, & NORRIS
2 Metroplex Drive, Suite 504
Birmingham, Alabama 35209

James H. Pearson
PEARSON & PEARSON
3525 Citicorp Center
1200 Smith Street
Houston, Texas 77002

Robert G. Taylor II
TAYLOR & CIRE
One Allen Center
3400 Penthouse
Houston, Texas 77002

BROOKE GROUP AND LIGGETT

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

Mr. Marc E. Kasowitz
Mr. Daniel R. Benson
KASOWITZ, BENSON, TORRES & FRIEDMAN LLP
1301 Avenue of the
Americas New York, New York 10019

The above designated representatives may be changed from time to time by any Party upon giving notice to all other Parties in conformance with this Section 24.8.

24.9. References to or use of a singular noun or pronoun in this Agreement shall include the plural, unless the context implies otherwise.

IN WITNESS WHEREOF the Parties have executed this Agreement as of the day and date first written above.

SETTLEMENT CLASS COUNSEL

/s/ Norwood S. Wilner

/s/ Steven A. Martino

/s/ Wyman O. Gilmore

/s/ William J. Mcdaniel

/s/ James H. Pearson

/s/ Robert G. Taylor II

/s/ Marc E. Kasowitz

/s/ Daniel R. Benson

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Bennett S. LeBow

Date: 7/2/1998

LIGGETT GROUP INC.

By: /s/ Bennett S. LeBow

Bennett S. LeBow

Date: 7/2/1998

LIGGETT & MYERS, INC.

By: /s/ Bennett S. LeBow

Bennett S. LeBow

Date: 7/2/1998

EXHIBIT 10.34

GENERAL LIGGETT REPLACEMENT AGREEMENT

This General Liggett Replacement Agreement is entered into as of November 23, 1998 by and among each of the Settling States (as that term is defined in the Master Settlement Agreement referenced below); and Liggett Group Inc., a Delaware corporation, Liggett & Myers, Inc., a Delaware corporation (together collectively referred to as "Liggett"), and Brooke Group Ltd., a Delaware corporation ("Brooke").

W I T N E S S E T H:

WHEREAS, the Settling States and the Original Participating Manufacturers have entered into the Master Settlement Agreement to settle and resolve with finality all Released Claims against the Released Parties, including the Original Participating Manufacturers, as set forth in the Master Settlement Agreement dated November of 1998 (as those terms are defined in the Master Settlement Agreement);

WHEREAS, previous settlement agreements have been entered into between various state attorneys general and Liggett and Brooke that is, the Attorneys General Settlement Agreement dated March 15, 1996 as amended, the Attorneys General Settlement Agreement dated March 20, 1997 (and subsequent agreements between Liggett and Brooke and Alaska, California, Nevada and Oregon that incorporate the terms of the March 20, 1997 Agreement) and the Attorneys General Settlement Agreement dated March 12, 19998 (collectively, the "Previous Liggett Settlement Agreements"); and

WHEREAS, the parties wish to enable Liggett to join in the terms and conditions of the Master Settlement Agreement by replacing the Previous Liggett Settlement Agreements with the Master Settlement Agreement as provided herein;

NOW, THEREFORE, Liggett, Brooke and the Settling States hereby covenant and agree as follows:

1. Liggett shall become a Subsequent Participating Manufacturer as defined by, and in accordance with, the terms of the Master Settlement Agreement.

2. Upon State Specific Finality (as that term is defined in the Master Settlement Agreement) as to each Settling State that is also a party to a Previous Liggett Settlement Agreement, such Previous Liggett Settlement Agreement shall be null and void and of no further force and effect as to that Settling State, and the rights and obligations of Liggett and such Settling State shall be thereafter governed by the Master Settlement Agreement; provided, however, that if the Master Settlement Agreement is terminated as to any such Settling State for

whatever reason, the Previous Liggett Settlement Agreement (subject to the deletion of the provisions relating, and only to the extent such provisions relate, to a Future Affiliate as defined therein) shall be reinstated as to such Settling State.

3. Liggett and each such Settling State agree to take such action as may be necessary and appropriate to request any court that may have previously endorsed the Prior Liggett Settlement Agreements to vacate any such previous order(s) endorsing any provision of the Previous Liggett Settlement Agreements, and to replace such order(s) with an order approving this General Liggett Replacement Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this document as an instrument under seal

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

LIGGETT GROUP INC.

By: /s/ Bennett S. LeBow

LIGGETT & MYERS, INC.

By: /s/ Bennett S. LeBow

SETTLING STATES

By:

EXHIBIT 10.35

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

IRON WORKERS LOCAL UNION NO. 17 INSURANCE FUND AND ITS TRUSTEES, et al.,	)	
Plaintiffs,	)	CASE NO. 1:97-CV-1422
v.	)	Judge James S. Gwin
PHILIP MORRIS INCORPORATED, et al.,	)	CLASS ACTION
Defendants.	)	

CLASS SETTLEMENT AGREEMENT

This CLASS SETTLEMENT AGREEMENT is entered into this 14th day of January 1999 by and between the named and representative plaintiffs Iron Workers Local Union No. 17 Insurance Fund, IBEW Local No. 38 Health & Welfare Fund, Ohio Laborers' District Council-Ohio Contractors' Association Insurance Fund, Dealers-Unions Insurance Fund, and Local 47 Welfare Fund No. 1, Toledo Electrical Welfare Fund, through their trustees (collectively, "Plaintiff Funds") in IRON WORKERS LOCAL UNION NO. 17 INSURANCE FUND, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 1:97-CV-1422, United States District Court, Norther District of Ohio, Eastern Division (the "Action"), for themselves and on behalf of the class as hereinafter defined ("Class"), and Brooke Group Ltd., a Delaware corporation ("Brooke Group"), Liggett & Myers, Inc., a Delaware corporation ("Myers"), and Liggett Group Inc., a Delaware corporation (which, with Myers, is hereinafter referred to as "Liggett").

RECITALS

WHEREAS,

A. On May 20, 1997, Plaintiff Funds commenced the Action against various tobacco-related entities, including, among others, Philip Morris, Inc., R.J. Reynolds Tobacco Co., Brown & Williamson Tobacco Corp., Lorillard Tobacco Co., American Tobacco Co., Liggett Group Inc., United States Tobacco Company and British American Tobacco Co. Ltd. and their various parent and related companies ("Defendants"), asserting claims on behalf of a putative class of health and welfare trusts, for, among other things, expenses allegedly incurred in providing medical treatment for tobacco-related illnesses. On October 20, 1998, the Court, in an order to be published at 182 F.R.D. 523, granted the Plaintiff Funds' motion to certify their cause as a class action.

B. Plaintiff Funds allege that Liggett has acted improperly on grounds generally applicable to the Class.

C. Liggett and Brooke Group have denied, and continue to deny any legal liability of any kind in all smoking-related litigation.

D. Liggett and Brooke Group have made available relevant information, and Plaintiff Funds, through counsel, have investigated these entities and other relevant information, and have concluded that it would be in the best interests of the Class to enter into this Agreement, and further, that Plaintiff Funds and counsel consider the settlement set forth herein to be fair, reasonable and adequate and in the best interests of the Class.

E. Liggett and Brooke Group recognize and acknowledge that this Agreement is in their best interests as defending the Action, through trial and appeals, would require considerable resources and expense and would entail uncertainty and risk.

NOW, THEREFORE, in consideration of the foregoing and of the promises and covenants set forth in this Class Settlement Agreement, Plaintiff Funds, on their own behalf and on behalf of the Class, and Liggett and Brooke Group hereby stipulate and agree that, conditional upon the approval of the Court as required by Rule 23 of the Federal Rules of Civil Procedure and as provided herein, the Action shall be settled as against Liggett and Brooke Group and that all claims asserted by or on behalf of the Class in the Action against the Liggett and Brooke Group shall be dismissed with prejudice, all on the terms and conditions contained herein, as follows:

1. DEFINITIONS.

As used in and solely for the purposes of this Settlement Agreement, the following terms shall have the following respective meanings:

"Action" means the action captioned IRON WORKERS LOCAL UNION NO. 17 INSURANCE FUND, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 1:97-CV-1422, United States District Court, Norther District of Ohio, Eastern Division.

"Affiliate" means a Present Affiliate or a Future Affiliate.

"Agreement" means this Class Settlement Agreement.

"Brooke Group" means Brooke Group Ltd. and/or its Present Affiliates other than Liggett.

"Cigarette" means any product including components, accessories, or parts which is intended to be burned under ordinary conditions of use and consists of: (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) any roll of tobacco wrapped in any substances containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in subparagraph (1).

"Class" means all members of the class certified by the Court in the Action, which class is defined as all jointly-administered, multi-employer health and welfare trusts in Ohio, through their respective trustees.

"Class Counsel" means those law firms listed in Section 19.9 hereof.

"Class Fairness Hearing" means the hearing to be conducted by the Court in connection with the determination of the fairness, adequacy and reasonableness of this Agreement under Rule 23 of the Federal Rules of Civil Procedure.

"Class Final Order and Judgment" or "Class Final Approval" means the order to be entered by the Court approving this Agreement without material alterations, as fair, adequate and reasonable under Rule 23 of the Federal Rules of Civil Procedure, and making such other findings and determinations as the Court deems necessary and appropriate to effectuate the terms of this Agreement and to exercise its continuing and exclusive jurisdiction over the enforcement and administration of all terms of this Agreement.

"Class Settlement Date" or "Settlement Date" means the date on which all of the following shall have occurred: (a) the entry of the Class Final Order and Judgment without material modification, and (b) the achievement of finality for the Class Final Order and Judgment by virtue of that order having become final and non-appealable through (i) the expiration of all appropriate appeal periods without an appeal having been filed; (ii) final affirmance of the Class Final Order and Judgment on appeal or final dismissal or denial of all such appeals, including petitions for review, rehearing or certiorari; or (iii) final disposition of any proceedings, including any appeals, resulting from any appeal from the entry of the Class Final Order and Judgment.

"Court" means the United States District Court, Northern District of Ohio, Eastern Division.

"Domestic Tobacco Operations" means the manufacture and/or sale of Cigarettes and any other tobacco products in the United States, its territories, its possessions and the Commonwealth of Puerto Rico.

"Downstream Distribution Entity" means any person or entity that furthers the distribution of tobacco products at any point from the original place of manufacture to individuals for personal consumption, including, without limitation, wholesalers, retailers, private label purchasers and control label purchasers. Such term shall not include common carriers.

"Future Affiliate" means any one entity, other than an entity with a Market Share greater than 30% as of the date of this Agreement, which is a Non-settling Tobacco Company (including any successor to or assignee of its assets) if such entity or an Affiliate of such entity with the prior written approval of Brooke Group, subsequent to the date, and during the term, of this Agreement but prior to the fourth anniversary of the date of execution of this Agreement: (i) directly or indirectly acquires or is acquired by Liggett or Brooke Group; (ii) directly or indirectly acquires all or substantially all of the stock or assets of Liggett or Brooke Group; (iii) all or substantially all of whose stock or assets engaged in Domestic Tobacco Operations are directly or indirectly acquired by Liggett or Brooke Group or any Subsidiary of either of them; or (iv) directly or indirectly merges with Liggett or Brooke Group or otherwise combines on any basis with Liggett or Brooke Group.

"Future Affiliate Transaction" means a transaction, or series of transactions, by which an entity becomes a Future Affiliate.

"Health and Welfare Trust" means a non-profit, union-sponsored tax-exempt trust organized under the Employee Retirement Income Security Act, 29 U.S.C. section 1001 et seq. to provide health-related benefits to workers and their families.

"Liggett" means Liggett Group Inc. and Liggett & Myers, Inc.

"Market Share" means, with respect to a specified Tobacco Company and a specified year, the Domestic Tobacco Operations market share in that year of all of such company's cigarettes and other tobacco products (as the case may be), as determined by The Maxwell Consumer Report published by Wheat First Butcher Singer or a similar or successor report.

"Membership Population" means, with respect to a specified Health and Welfare Trust, including Class members, the number of participants in and beneficiaries to such Health and Welfare Trust.

"Non-Settling Tobacco Companies" means each of The American Tobacco Co., Lorillard Tobacco Co., Philip Morris Inc., R.J. Reynolds Tobacco Co., Brown & Williamson Tobacco Corp., and United States Tobacco Company.

"Notice" means the written notice document to be provided to Class members as defined in Section 8.1 of this Agreement.

"Notice Date" means the first date upon which Notice is given to the Class pursuant to Section 8.1 of this Agreement.

"Parent", with respect to Liggett means Brooke Group, and with respect to any other specified corporation or entity, means another corporation, partnership or other entity which directly or indirectly controls such specified corporation or entity.

"Parties" means the Plaintiffs and Brooke Group and Liggett.

"Plaintiff Funds" means each of Iron Workers Local Union No. 17 Insurance Fund, IBEW Local No. 38 Health & Welfare Fund, Ohio Laborers' District Council-Ohio Contractors' Association Insurance Fund, Dealers-Unions Insurance Fund, and Local 47 Welfare Fund No. 1, Toledo Electrical Welfare Fund, through their trustees.

"Preliminary Approval" means the Court's preliminary approval of this Agreement, approval of the form of Notice to the Class pursuant to Rule 23 of the Federal Rules of Civil Procedure, or the setting of a date for the approval or submission for approval of the form of such notice.

"Present Affiliate" means with respect to a specified corporation, another corporation, partnership or other entity which directly or indirectly, controls, is controlled by, or is under common control with, such specified corporation or entity including any and all Parents, subsidiaries, and/or sister corporations or entities of such specified corporation or entity.

"Present Value" means, with respect to a specified amount or amounts, the present value of such amount or amounts as calculated using a discount rate equal to the yield on 10-year Treasury Notes as reported in the WALL STREET JOURNAL at the time of such calculation; provided that where such amount or amounts are not otherwise determinable, the amount or amounts to be present-valued shall be deemed to be the average for the most recent three years.

"Pretax Income", with respect to Liggett, means for a specified year, the "Income before Income Taxes" as determined in accordance with generally accepted accounting principles ("GAAP") of Liggett for its most recent fiscal year, as report in filings to the United States Securities and Exchange Commission or, if there is no such filing, as reported by Liggett's independent outside auditors. If GAAP changes in any material respect during the term of this Agreement so that the benefits anticipated by the parties (in light of GAAP applicable on the date of this Agreement), an appropriate adjustment shall be made to the formulas and calculations hereunder to achieve the parties' expectations as of the date hereof.

"Protective Order" or "Stipulation Regarding Liggett Documents" means, with respect to privileged documents produced by a Settling Defendant pursuant to Section 5.2, an order of the Court: (a) protecting the confidentiality of such documents; (b) providing that such documents may be used only in actions against Non-Settling Tobacco Companies and, to the extent permitted by law, only under seal; (c) providing that, to the extent such documents are or may be subject to the attorney/client privilege or attorney work product doctrine, such production or use of the documents does not constitute a waiver of such privilege, doctrine or protection with respect to any party other than the parties to whom the documents are produced subject to the order. The provisions of the Protective Order shall not apply to documents claimed to be privileged but which are determined by the Court or by any other court not to be privileged for reasons other than waiver due to production pursuant to this Agreement.

"Settling Defendants" means Brooke Group and/or Liggett.

"Settling Defendants' Counsel" means the law firm of Kasowitz, Benson, Torres & Friedman L.L.P.

"Subsidiary" means with respect to a specified corporation, another corporation, partnership or other entity of which securities or other interests having the power to elect a majority of that corporation?s, partnership?s or other entity?s board of directors or similar governing body, or otherwise having the power to direct the management and policies of that corporation, partnership or other entity, are owned, directly or indirectly, by such specified corporation and/or one or more of its Subsidiaries.

"Tobacco Companies" means The American Tobacco Co., Lorillard Tobacco Co., Philip Morris Inc., R.J. Reynolds Tobacco Co., Brown & Williamson Tobacco Corp., Liggett and United States Tobacco Co. and/or their respective Affiliates.

"Tobacco Snuff" means any cut, ground, powdered, or leaf tobacco that is intended to be placed in the oral cavity.

2. SETTLEMENT PURPOSES ONLY.

This Agreement is for settlement purposes only, and neither the fact of, nor any provision contained in, this Agreement nor any action taken hereunder shall constitute, be construed as, or be admissible in evidence against the Settling Defendants as, any admission of the validity of any claim, any argument or any fact alleged or which could have been alleged by Plaintiff Funds in the Action or alleged or which could have been alleged in any other action or proceeding of any kind or of any wrongdoing, fault, violation of law, or liability of any kind on the part of the Settling Defendants or any admission by them of any claim or allegation made or which could have been made in the Action or in any other action or proceeding of any kind, or as an admission by any of the Plaintiff Funds or members of the Class of the validity of any fact or defense asserted or which could have been asserted against them in the Action or in any other action or proceeding of any kind.

3. SUBMISSION TO THE COURT.

Promptly after execution of this Agreement, the Parties shall, through their respective attorneys, jointly submit this Agreement to the Court and seek an order granting Preliminary Approval of this Agreement and approving dissemination of Notice.

4. PARTIES.

4.1. This Agreement shall be binding, in accordance with the terms hereof, upon the Plaintiff Funds, the Class, Brooke Group and Liggett; provided that, notwithstanding anything else contained in this Agreement, the payment obligations of this Agreement, if any, shall be binding only upon Liggett.

4.2. The Parties acknowledge and agree that the willingness of Brooke Group and Liggett to enter into this Agreement, and in particular their willingness to agree to provide cooperation as set forth in Section 5 hereof, is important to the interests of the Settlement Class.

5. COOPERATION.

5.1. Upon execution of this Agreement, each Settling Defendant shall:

(1) cooperate with the Plaintiff Funds, the Class and counsel, in that such Settling Defendant will take no steps to impede or frustrate their investigations into, or prosecutions of, any of the Non-settling Tobacco Companies in the Action, so as to secure the just, speedy and inexpensive determination of the Action against said non-settling persons and entities;

(2) cooperate in and facilitate reasonable non-party discovery from Settling Defendants in connection with the Action;

(3) actively assist the Plaintiff Funds, the Class and counsel in identifying and locating any and all persons known to such Settling Defendant to have documents or information that is discoverable in such proceedings, and to actively assist in interviewing and obtaining documents and information from all such persons, and to encourage such person to cooperate with the Settlement Class; and shall actively assist in interpreting documents relating to litigation against Non-settling Tobacco Companies; and

(4) insofar as such Settling Defendant has or obtains any material information concerning any fraudulent or illegal conduct on the part of any parties, including Non-settling Tobacco Companies, their agents, or their co-defendants designed to frustrate or defeat the claims of the Plaintiff Funds or the Class against such parties, companies, agents or co-defendants, or which have the effect of unlawfully suppressing evidence relevant to smoking claims, disclose such information to the appropriate judicial and regulatory agencies.

5.2. Subject to, and promptly after the entry of a Protective Order by the Court, each Settling Defendant shall:

(1) promptly provide all documents and information that are relevant to the subject matter of the Action or which are likely to lead to admissible evidence in connection with the claims asserted in the Action, subject to the provisions of Section 5.2(2) hereof;

(2) waive any and all applicable attorney-client privileges and work product protections with respect to such documents and information. Such waiver shall not extend to (a) documents and information not relevant to the subject matter of the Action or not reasonably likely to lead to admissible evidence in connection with claims asserted in the Action, or (b) documents subject to a joint defense or other privilege or protection which Settling Defendants cannot legally waive unilaterally, except that the waiver by the Settling Defendant shall apply, to the extent permitted by law, to its own joint defenses or other privileges. To the extent that a Settling Defendant has a good faith belief, or one or more Non-settling Tobacco Companies claims, that documents to be provided pursuant to Section 5.2(1) hereof may be subject to a joint defense or other privilege (or a claim of such privilege) of one or more of the Non-settling Tobacco Companies, such documents shall be deposited under seal for IN CAMERA inspection by the Court together with a statement to the Court that such Settling Defendant has concerns as to whether some or all of such documents should be protected from discovery, and the Parties agree to request that the Court shall retain jurisdiction to resolve that issue. Liggett will participate in proceedings, including by way of court appearances or declarations, concerning issues of whether such documents are discoverable;

(3) offer their employees, and any and all other individuals over whom they have control, to provide witness interviews of such employees and to testify truthfully, in depositions and at trial; it being understood and agreed that Liggett will waive and hereby does waive any and all applicable confidentiality agreements to the extent such confidentiality agreements would restrict testimony under this Agreement, if any, to which such witnesses may be subject;

(4) demand from its past or current national legal counsel all documents and information obtained in the course of representation of any Settling Defendant which in any way relates to the cooperation required in paragraphs 5.1(1) - 5.2(3) above, which shall be provided to the Plaintiff Funds, the Class and counsel as provided under this paragraph.

6. MONETARY COMPENSATION.

6.1. It is the intent of the Parties hereto that the Settling Defendants enjoy a preferred position with respect to the Non-Settling Tobacco Companies, in recognition of the Settling Defendants? willingness to enter into this Agreement and provide cooperation in the Action. For this reason, the Settling Defendants will not be obligated to pay money to the Plaintiff Funds or to the Class unless such Settling Defendants enter into monetary settlements with other Health and Welfare Trusts, as set forth in Section 6.2.

6.2. In the event that, subsequent to the date of this Agreement, any of the Settling Defendants enters into a settlement agreement ("Other Settlement") with any Health and Welfare Trust other than a Plaintiff Fund or a Class member on financial terms that are more favorable to the Health and Welfare Trust than those contained herein (as adjusted for relative Membership Population), the Plaintiff Funds and the Class shall have the right with respect to such Settling Defendant to replace or modify any or all of the financial terms of this Agreement with, or add to this Agreement, any or all such more favorable terms (adjusted for relative Membership Population) from the Other Settlement; provided that any reduction, credit, most favored nation, termination or other provision contained in such Other Settlement, the application of which provision would result in an adjustment of Settling Defendants' payment obligations, shall also be added to this Agreement.

6.3. Any and all payments made by a Settling Defendant pursuant to Section 5 hereof relating to preparation of witnesses to testify in the Action, including but not limited to payment of counsel fees for such witnesses, shall be credited against any and all amounts that may become payable by such Settling Defendant pursuant to Section 6.2 hereof.

6.4. Insofar as a final non-appealable judgment has not been entered in the Action within three years of the date of this Agreement with respect to the Non-Settling Tobacco Companies and there is no pending plaintiffs' verdict or scheduled trial date in the Action, the Settling Defendants and the Plaintiff Funds shall have the right to terminate this Agreement; provided that the Settling Defendants and Plaintiff Funds provide written notice of such termination to the respective parties and provided further that any and all payments due up to the date of such termination made to the Plaintiff Funds and/or the Class pursuant to this Agreement, if any, by the Settling Defendants shall be retained by the Plaintiff Funds and/or the Class.

7. NOTICE TO THE SETTLEMENT CLASS.

7.1. Upon Preliminary Approval, and as the Court may direct, the Parties shall cause notice of the settlement embodied herein (the "Notice") to be mailed to the members of the Class.

7.2. The Notice, in a form to be approved by the Court, shall be disseminated over the course of a period not to exceed thirty (30) days from the Notice Date, subject to approval by the Court. Class members shall have until the end of this period to file, in the manner specified in the Notice, any objection or other response to the Proposed Settlement. A hearing with respect to final approval of this Settlement shall be set by the Court (and specified in the Notice to the Class).

8. FUTURE AFFILIATE.

8.1. The terms of this Agreement shall not be binding upon or applicable to a Future Affiliate of the Settling Defendants, except as provided for in this Section 8.

8.2. In the event of a Future Affiliate Transaction, the Plaintiff Funds, the Class, or any of its members, shall not (a) seek to enjoin or otherwise challenge a spinoff or like disposition of the stock or assets of any Affiliate of the Future Affiliate which is not as of the date of the execution of this Agreement a Parent of a company engaged in Domestic Tobacco Operations or itself engaged in Domestic Tobacco Operations ("Spinoff Affiliate"), (b) bring suit or otherwise take action against the Parent of the Future Affiliate with respect to

such spinoff or like disposition of stock or assets, or (c) bring suit or otherwise take action against a Spinoff Affiliate for claims asserted in or related to the Action (and thereby release such Spinoff Affiliate pursuant to, MUTATIS MUTANDIS, Section 9.1 hereof). The Plaintiff Funds and the Class reserve the right to take the actions described in this Section 8.2 in the event that such spinoff or like disposition is sought by someone other than Brooke Group or a Future Affiliate or an Affiliate of a Future Affiliate. For purposes of this Section 8.2, the Affiliates of such Future Affiliate shall be deemed to be those entities that were Affiliates of the Future Affiliate immediately prior to the Future Affiliate Transaction.

8.3. With respect to subsection 8.2, nothing in this provision, or elsewhere in this Agreement, limits the authority of the Class to challenge any transaction which they reasonably believe is in violation of federal or state antitrust law.

8.4. Promptly after a Future Affiliate Transaction, Settling Defendants and the Settlement Class and Settlement Class Counsel, each agree to exercise best efforts to negotiate in good faith a settlement of the Action against a Future Affiliate's Domestic Tobacco Operations.

8.5. Prior to a Future Affiliate Transaction, Settling Defendants shall not enter into any agreement with any prospective Future Affiliate which diminishes or impairs the prospective Future Affiliate's assets, other than in the established and/or ordinary course of business of such prospective Future Affiliate and shall use best efforts to prevent such prospective Future Affiliate from diminishing or impairing such assets. In the event of a Future Affiliate Transaction, the Class reserves all of their rights to prevent the Future Affiliate from diminishing or impairing the Future Affiliate's Tobacco assets, other than in the established and/or ordinary course of business of such Future Affiliate.

9. RELEASE.

9.1. Upon the Class Settlement Date, with respect to each Settling Defendant, for good and sufficient consideration as described herein, the Plaintiff Funds and all members of the Class, collectively and individually, on behalf of themselves, their heirs, executors, administrators, trustees, agents, attorneys, successors, assigns, affiliates, officers, directors, employees, members and shareholders shall be deemed to and do hereby release, dismiss and discharge each and every claim, right, and cause of action (including, without limitation, all claims for damages, medical expenses, restitution, medical monitoring, or any similar legal or equitable relief, under federal, state or common law), known or unknown, asserted or unasserted, direct or indirect, which they had, now have, or may hereafter have against each Settling Defendant (including its past, present and future parents, subsidiaries, affiliates and their past, present and future agents, servants, attorneys, employees, officers, directors, shareholders, and beneficial owners) (and Downstream Distribution Entities of Liggett, but only to the extent that such downstream distribution entities would have cross-claims against Liggett) which is based on any and all harm, injury or damages claimed by members of the Class to be caused by smoking, addiction to, or dependence upon, cigarettes or which is asserted in the Action in connection with, or arising out of the conduct, acts, facts, transactions, occurrences, representations or omissions set forth, alleged, referred to or otherwise embraced in the Action complaint or any other smoking-related actions.

Provided, however, as follows:

1) If this Agreement expires upon completion of its full term, this release shall continue and apply in full force and effect with respect to all released claims which accrued or shall accrue prior to, through and including the date of such expiration, such that such claims shall be forever released, but only as to such claims through and including such date; if this Agreement terminates for any reason prior to its full term, this release shall be of no further force and effect and Settling Defendants shall be entitled to a credit to the extent otherwise provided in this Agreement against all claims covered by the release for the full amount paid by such Settling Defendants hereunder.

2) Except as specifically provided herein, this release does not pertain or apply to any other existing or potential defendant in any present or future action.

3) This release does not release Settling Defendants from claims which may be asserted by the Class against a Settling Defendant involving conduct unrelated to the manufacture and/or sale of tobacco products.

9.2 In addition to the provisions of Section 9.1, each member of the Class hereby expressly waives and releases, upon this Agreement becoming final, any and all provisions, rights and benefits conferred by Section 1542 of the California Civil Code, which reads:

> Section 1542. Certain Claims not Affected by General Release. A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor;

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or by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to paragraph 1542 of the California Civil Code. Each member of the Class may hereafter discover facts other than or different from those which he, she or it knows or believes to be true with respect to the claims which are the subject matter of the provisions of Section 9.1 hereof, but each member of the Class hereby expressly waives and fully, finally, and forever settles and releases, upon this Settlement Agreement becoming final, any known or unknown, suspected or unsuspected, contingent or non-contingent claim with respect to the subject matter of the provisions of Section 9.1, whether or not concealed or hidden, without regard to the subsequent discovery or existence of such different or additional facts.

9.3. Except as specifically provided herein, nothing in this Agreement shall prejudice or in any way interfere with the rights of the Plaintiff Funds, the Class and the Settling Defendants to pursue all of their rights and remedies against Non-settling Tobacco Companies or other defendants.

10. EXCLUSIVE REMEDY; DISMISSAL OF ACTION; JURISDICTION OF COURT.

10.1. Except as otherwise provided in this Agreement, this Agreement shall be the sole and exclusive remedy for any and all released claims of Class members against the Settling Defendants, and upon the entry of the Class Final Order and Judgment by the Court, each Class member shall be barred from initiating, asserting, or prosecuting any released claims against Brooke Group or Liggett.

10.2. On the Class Settlement Date, the Action shall be dismissed as against each Settling Defendant, subject to the continuing and exclusive jurisdiction of the Court over the enforcement and administration of the Agreement. Class members may not commence or prosecute actions against Brooke Group or Liggett on claims released pursuant to this Agreement once the Class Final Order and Judgment is entered. Class Counsel agree to provide reasonable cooperation to stay or dismiss, as appropriate, any action of any Class member for such released claims pending in state or federal court against the Settling Defendants.

10.3. The Court shall retain exclusive and continuing jurisdiction over the Action, the Settling Defendants, the Plaintiffs Funds and the Class to interpret and enforce the terms, conditions, and obligations of this Agreement. Nothing in this Agreement shall be construed to divest or limit the jurisdiction of the Court with respect to claims which may be alleged by the Class against Non-settling Tobacco Companies or other defendants.

11. TERM.

11.1. Unless earlier terminated in accordance with the provisions of this Agreement, the duration of this Agreement shall be twenty-five (25) years from the Class Settlement Date.

11.2. The performance of this Agreement by Liggett and Brooke Group is expressly contingent upon the Court's issuance of the Class Final Order and Judgment. If the Court fails to hold the Class Fairness Hearing within six (6) months of the date hereof or to issue a Class Final Order and Judgment within sixty (60) days following conclusion of the Class Fairness Hearing, Liggett and Brooke Group and the Plaintiff Funds may elect to terminate this Agreement by written notice to the Court and the respective parties within twenty (20) business days following the end of either such period.

11.3. Except as may be otherwise specifically provided in this Agreement, a termination by a Settling Defendant hereunder shall have the effect of rendering this Agreement as having no force or effect whatsoever, null and void AB INITIO, and not admissible as evidence for any purpose in any pending or future litigation in any jurisdiction. However, a termination shall not affect any prior cooperation or require the return of any documents produced to the Plaintiff Funds or the Class pursuant to this Agreement.

12. CONTINUING ENFORCEABILITY.

12.1. The parties acknowledge and agree that a primary purpose of this Agreement is to provide the Class with certain equitable and other relief made available by Settling Defendants and their current Boards of Directors, while ensuring that Liggett may perform its obligations and make its payments hereunder, if any, without unduly risking insolvency, bankruptcy or liquidation; this Agreement is intended to be a mutually beneficial and equitable alternative to the prospect of bankruptcy.

12.2. Unless earlier terminated, this Agreement and each provision of or obligation arising from this Agreement shall continue and remain fully enforceable if a Settling Defendant institutes or is subject to the institution against it of any proceeding or voluntary case under title 11 of the United States Code, or other proceeding seeking to adjudicate it insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors or other proceeding seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any part of its property (each, a "Bankruptcy Proceeding"). Brooke Group has the right but not the obligation to cure and to perform any of Liggett's monetary obligations, if any, under this Agreement (calculated as if Liggett were meeting such monetary obligations) notwithstanding the occurrence and continuation of any Bankruptcy Proceeding with respect to Liggett. The Class agrees that it has no right to terminate this Agreement, to call a default under this Agreement, or to compel Liggett to take or not to take any action with respect to this Agreement during any period in which Brooke Group is performing Liggett's post-bankruptcy proceeding monetary obligations hereunder.

13. ENTRY OF GOOD FAITH BAR ORDER ON CONTRIBUTION AND INDEMNITY CLAIMS; INDEMNIFICATION.

13.1. The Parties shall request that the Court enter an order barring and prohibiting the commencement and prosecution of any claim or action by any non-settling party against Settling Defendants, including but not limited to any contribution, indemnity and/or subrogation claim seeking reimbursement for payments made or to be made to any Class member for claims settled under this Agreement. Settling Defendants shall be entitled to dismissal with prejudice of any such non-settling party's claims against them which violate or are inconsistent with this bar.

13.2. No Class member shall make a claim against a non-settling person for what would be a claim settled under this Agreement if asserted against a Settling Defendant.

13.3. Claims by or on behalf of any Class members against any non-settling parties are not released and shall not be barred, precluded, limited, or reduced as a consequence of this Agreement or the subsequent award and distribution of funds to such Class members, except if and to the extent required under federal or state law applicable under choice-of-law doctrines in the forum in which any such claims may be instituted or pursued.

14. EXPENSES AND FEES.

14.1. The costs of Notice shall be paid by the Settling Defendants.

14.2 The reasonable fees and expenses of Class Counsel, if and as approved by the Court, shall be paid by the Settling Defendants after the Settlement Date.

15. COURT'S SETTLEMENT APPROVAL ORDER.

Except as specifically provided herein, this Agreement is subject to and conditioned upon the issuance by the Court, following the Class Fairness Hearing, of a Class Final Order and Judgment.

16. EFFECT OF DEFAULT OF ANY SETTLING DEFENDANT.

In the event any Settling Defendant fails to make a payment due and owing under the terms of this Agreement, or is in default of this Agreement in any other respect, the Class Counsel shall so notify the Court. The defaulting Settling Defendant shall then be given up to sixty (60) calendar days to "cure" the default. If the defaulting Settling Defendant does not "cure" the default in the time provided in this Section 16, and if no other Settling Defendant elects to cure such default, the Class Counsel may apply to the Court for relief, including withdrawal from the Agreement.

17. REPRESENTATIONS AND WARRANTIES; COVENANTS.

Each Settling Defendant represents and warrants that (i) it has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; (ii) the execution, delivery and performance by such Settling Defendant of this Agreement and the consummation by it of the actions contemplated herein have been duly authorized by all necessary corporate action on the part of such Settling Defendant; and (iii) this Agreement has been duly and validly executed and delivered by such Settling Defendant and constitutes its legal, valid and binding obligation.

18. FURTHER ACTIONS.

Each of the Parties and their respective counsel shall take such actions and execute such additional documents as may be reasonably necessary or appropriate to consummate or implement the settlement contemplated by this Agreement.

19. MISCELLANEOUS.

19.1. This Agreement, including all Exhibits attached hereto, shall constitute the entire agreement among the Parties with regard to the subject matter of this Agreement and shall supersede any previous agreements and understandings between the Parties with respect to the subject matter of this Agreement. This Agreement may not be changed, modified, or amended except in writing signed by all parties, subject to Court approval.

19.2. This Agreement shall be construed under and governed by the laws of the State of Ohio.

19.3. This Agreement may be executed by the Parties in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

19.4. This Agreement shall be binding upon and inure to the benefit of the Plaintiff Funds, the Class, the Settling Defendants, and their representatives, heirs, successors, and assigns; provided, however, that, upon any assignment of this Agreement by or on behalf of Liggett, or succession to this Agreement through any combination with Liggett, other than with the prior written consent of Brooke Group (which can be withheld for any or no reason), the obligations of this Agreement shall be binding upon such assignee or successor and each of its affiliates as if they each were Settling Defendants on the date of execution hereof.

19.5. Other than as provided in Section 19.4, nothing in this Agreement shall be construed to subject any Settling Defendant's parent or affiliated company to the obligations or liabilities of that Settling Defendant.

19.6. There shall be no third party beneficiaries of this Agreement other than non-party releasees hereunder. No person other than the Parties hereto, the Class members and the releasees hereunder shall have any right or claim under or in respect of this Agreement.

19.7. The headings of the Sections of this Agreement are included for convenience only and shall not be deemed to constitute part of this Agreement or to affect its construction.

19.8. Any notice, request, instruction, application for Court approval or application for Court orders sought in connection with this Agreement or other document to be given by any Party to any other Party shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid, if to the Settling Defendants to the attention of each Settling Defendant's respective representative and to the Class Counsel on behalf of Settlement Class members, or to other recipients as the Court may specify. As of the date of this Agreement, the respective representatives are as follows:

Plaintiff Funds:

MILBERG WEISS BERSHAD HYNES & LERACH
600 W. Broadway, Suite 1800
San Diego, California 92101-3356
Attn: Patrick J. Coughlin
Frank J. Janecek, Jr.

SCHWARZBALD & ROCK
616 Bond Court Building
1300 East Ninth Street
Cleveland, Ohio 44114-1503
Attn: Eben McNair

Settling Defendants:

KASOWITZ, BENSON, TORRES & FRIEDMAN LLP
1301 Avenue of the Americas
New York, New York 10019
Attn: Marc E. Kasowitz
Daniel R. Benson
Aaron H. Marks

The above designated representatives may be changed from time to time by any Party upon giving notice to all other Parties in conformance with this Section 19.8.

19.9. References to or use of a singular noun or pronoun in this Agreement shall include the plural, unless the context implies otherwise.

IN WITNESS WHEREOF the Parties have executed this Agreement as of the day and date first written above.

CLASS COUNSEL

/s/ Patrick J. Coughlin

/s/ Frank J. Janecek, Jr.

/s/ Eben McNair

/s/ Marc E. Kasowitz

/s/ Daniel R. Benson

/s/ Aaron H. Marks

BROOKE GROUP LTD.

By: /s/ Marc N. Bell

Marc N. Bell

Date: January 14, 1999

LIGGETT GROUP INC.

By: /s/ Marc N. Bell

Marc N. Bell

Date: January 14, 1999

LIGGETT & MYERS, INC.

By: /s/ Marc N. Bell

Marc N. Bell

Date: January 14, 1999

EXHIBIT 10.60

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FORMATION AND

LIMITED LIABILITY COMPANY AGREEMENT

OF

BRANDS LLC

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FORMATION AND LIMITED LIABILITY COMPANY AGREEMENT

OF

BRANDS LLC

This Formation and Limited Liability Company Agreement (this "AGREEMENT") of Brands LLC (the "COMPANY"), dated as of January 12, 1999, is entered into among Brooke Group Ltd., a Delaware corporation ("Brooke"), Liggett & Myers Inc., a Delaware corporation ("LMI"), Eve Holdings Inc., a Delaware corporation ("Eve"), Liggett Group Inc., a Delaware corporation ("LIGGETT", and, together with Brooke, Eve and LMI, the "LIGGETT PARTIES"), and Philip Morris Incorporated, a Virginia corporation ("PM" and, together with the Liggett Parties, the "PARTIES").

WHEREAS, the Parties intend to form the Company for purposes of the transactions described herein;

WHEREAS, Eve desires to contribute the Marks to the Company in exchange for 100% of the Class A Shares and 100% of the Class B Shares of the Company;

WHEREAS, concurrently with the execution of this Agreement, the Liggett Parties and PM will execute the Class A Option Agreement and the Class B Option Agreement pursuant to which Eve will grant to PM an option to purchase the Class A Shares and Class B Shares, respectively;

WHEREAS, if PM exercises the Class A Option, the Company and PM will enter into the License Agreement, pursuant to which PM and its Affiliates will receive an exclusive, domestic license of the Marks;

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members hereby agree to form a limited liability company pursuant to and in accordance with the Delaware Limited Liability Company Act (6 DEL. C. section 18-101, ET SEQ.), as amended from time to time (the "DELAWARE Act"), as provided herein, and hereby agree as follows:

ARTICLE I

DEFINED TERMS

Section 1.1 DEFINITIONS. Unless the context otherwise requires, the terms defined in this Article I shall, for the purposes of this Agreement, have the meanings herein specified.

"ADJUSTED CAPITAL ACCOUNT DEFICIT" shall mean, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts which such Member is deemed to be obligated to restore pursuant to the penultimate sentence of either of Treasury Regulation sections 1.704-2(g)(1) or 1.704-2(i)(5); and

(b) Debit to such Capital Account the items described in Treasury Regulation sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6).

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulation section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"AFFILIATE" shall mean, with respect to any Person, any direct or indirect subsidiary of such Person, any other Person that directly or through one or more intermediaries, is controlled by, or is under common control with, the specified Person, and, if such a Person is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person who is controlled by any such member or trust. As used in this definition, the term "CONTROL" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise. Notwithstanding the foregoing, for purposes of this Agreement (i) the Liggett Parties and their Subsidiaries shall not be deemed to be Affiliates of PM, and (ii) PM and its Subsidiaries (including the Company) shall not be deemed to be Affiliates of the Liggett Parties.

"AGREEMENT" shall have the meaning set forth in the recitals hereof.

"ASSIGN" shall mean to, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any Shares (and "ASSIGNMENT" shall mean such an act).

"BRANDS" shall mean the "Lark," "Chesterfield" and "L&M" brands produced by the Liggett Parties.

"BROOKE" shall have the meaning set forth in the preamble hereof.

"CAPITAL ACCOUNT" shall mean, with respect to any Member and any Share, the account maintained for such Member and such Share in accordance with the provisions of Section 9.3 hereof.

"CAPITAL CONTRIBUTION" shall mean, with respect to any Member and any Share, the aggregate amount of cash and the initial Gross Asset Value of any property (other than cash) contributed to the Company pursuant to Section 9.1 hereof with respect to such Share, net of any liabilities of such Member that are assumed by the Company in connection with such contribution or that are secured by property so contributed, and shall include the Initial Capital Contribution and any Subsequent Capital Contribution.

"CERTIFICATE" shall mean the Certificate of Formation of the Company and any and all amendments thereto and restatements thereof filed on behalf of the Company with the office of the Secretary of State of the State of Delaware pursuant to the Delaware Act.

"CLAIMS" shall have the meaning in Section 2.9 of this Agreement.

"CLASS A EXERCISE PRICE" shall have the meaning in Section 2.3 of the Class A Option Agreement.

"CLASS B EXERCISE PRICE" shall have the meaning in Section 2.3 of the Class B Option Agreement.

"CLASS A MEMBER" shall mean a permitted holder of a Class A Share pursuant to this Agreement.

"CLASS B MEMBER" shall mean a permitted holder of a Class B Share pursuant to this Agreement.

"CLASS A OPTION AGREEMENT" shall mean that certain option agreement, dated as the date hereof, pursuant to which PM (or its designee) may purchase from the Liggett Parties the Class A Shares owned by the Liggett Parties and their Affiliates. Such right to purchase the Class A Shares is the "CLASS A OPTION".

"CLASS B OPTION AGREEMENT" shall mean that certain option agreement, dated as of the date hereof, pursuant to which PM (or its designee) may purchase from the Liggett Parties the Class B Shares owned by the Liggett Parties and their Affiliates. Such right to purchase the Class B Shares is the "CLASS B OPTION".

"CLASS A OPTION CONSIDERATION" shall have the meaning set forth in Section 2.1 of the Class A Option Agreement.

"CLASS B OPTION CONSIDERATION" shall have the meaning set forth in Section 2.1 of the Class B Option Agreement.

"CLASS A SHARE" and "CLASS B SHARE" shall have the respective meanings set forth in Section 7.4 hereof.

"CLOSING" shall have the meaning set forth in Section 2.7(a).

"CLOSING DATE" shall mean the date on which the Closing occurs.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any corresponding United States federal tax statute enacted after the date of this Agreement. A reference to a specific section (ss.) of the Code refers not only to such specific section but also to any corresponding provision of any United States federal tax statute enacted after the date of this Agreement, as such specific section or corresponding provision is in effect on the date of application of the provisions of this Agreement containing such reference.

"COMPANY" shall have the meaning set forth in the preamble hereto.

"COMPANY MINIMUM GAIN" shall have the meaning given the term "partnership minimum gain" in Treasury Regulation section 1.704-2(b)(2) and shall be computed in accordance with Treasury Regulation section 1.704-2(d).

"COVERED PERSON" shall mean any Officer or director of the Company or its Affiliates (but shall not include an officer, director or employee of any Member or their respective Affiliates who is not an Officer of the Company or its Affiliates).

"DELAWARE ACT" shall have the meaning set forth in the preamble hereof.

"DEPRECIATION" shall mean, for each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such Fiscal Year or other period; PROVIDED, HOWEVER, that, if the Gross Asset Value of an asset differs from its adjusted basis for United States federal income tax purposes at the beginning of such Fiscal Year or other period, Depreciation shall be an amount that bears the same ratio to such beginning Gross Asset Value as the United States federal income tax depreciation, amortization or other cost recovery deduction with respect to such asset for such Fiscal Year or other period bears to such beginning adjusted tax basis; and PROVIDED, FURTHER, that if the United States federal income tax depreciation, amortization or other cost recovery deduction for such Fiscal Year or other period is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Manager.

"DISTRIBUTIONS" shall mean distributions of cash or other property made by the Company with respect to the Class A Shares or the Class B Shares. Distributions shall not mean payments of cash or other property to holders of Shares for reasons other than their ownership of such Shares.

"ECONOMIC RISK OF LOSS" shall have the meaning set forth in Treasury Regulation section 1.752-2.

"EVE" shall have the meaning set forth in the preamble hereof.

"FISCAL YEAR" shall mean (a) the period commencing upon the date of this Agreement and ending on December 31, 1999, (b) any subsequent twelve-month period commencing on January 1 and ending on December 31, (c) any other twelve-month period required by the Code or the Treasury Regulations to be used as the taxable year of the Company or (d) any portion of the periods described in clauses (a), (b) or (c) of this sentence for which the Company is required to allocate Profits, Losses and other items of Company income, gain, loss or deduction pursuant to Article X hereof.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"GOVERNMENTAL ENTITY" has the meaning set forth in Section 3.2 of this Agreement.

"GROSS ASSET VALUE" means, with respect to any asset, such asset's adjusted basis for United States federal income tax purposes, except as follows:

(a) the initial Gross Asset Value of the Marks shall be as set forth on Schedule A hereto, and of any other asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the Manager;

(b) the Gross Asset Value of all Company assets shall be adjusted to equal their respective gross fair market values (taking section 7701(g) of the Code into account), as determined by the Manager, as of the following times: (i) immediately prior to the acquisition of an additional Share in the Company by any new or existing Member in exchange for more than a DE MINIMIS Capital Contribution; (ii) immediately prior to the distribution by the Company to a Member of more than a DE MINIMIS amount of Company assets in redemption of a Share in the Company; and (iii) the liquidation of the Company within the meaning of Treasury Regulation section 1.704-1(b)(2)(ii)(g);

(c) the Gross Asset Value of any Company asset distributed to any Member shall be the gross fair market value (taking section 7701(g) of the Code into account) of such asset on the date of distribution, as determined by the Manager; and

(d) the Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to section 734(b) or section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Treasury Regulation section 1.704-1(b)(2)(iv)(m) and subparagraph (f) of the definition of "Profits" and "Losses" or Section 10.5(e) hereof; PROVIDED, HOWEVER, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) to the extent that an adjustment pursuant to subparagraph (b) is required in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to paragraph (a), paragraph (b) or paragraph (d) above, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

"GUARANTORS" shall mean the guarantors of the Company's obligations under the Loan Agreement.

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended.

"HSR CLEARANCE" means expiration or termination of the waiting period under the HSR Act with respect to the filings made in connection with the exercise of the Class A Option.

"INDEMNIFIED PARTIES" shall have the meaning set forth in Section 2.9.

"LMI" shall have the meaning set forth in the preamble hereof.

"LICENSE AGREEMENT" shall mean that certain license agreement attached hereto as Exhibit A, dated as of the Closing Date, between the Company and PM pursuant to which PM and its Affiliates will obtain the exclusive (including with respect to the Company) license to use the Marks in the United States (as defined in the License Agreement).

"LIENS" shall have the meaning set forth in Section 3.3.

"LIGGETT" and "LIGGETT PARTIES" shall have the respective meanings set forth in the preamble hereof.

"LOAN AGREEMENT" shall mean the loan agreement entered into between the Company and the lending institutions named therein, with respect to the Loan Amount, which borrowing shall be guaranteed by Eve or such other entity designated by the Liggett Parties which has received the Option Consideration and by any other holder of Class B Shares (such entities are referred to herein as the Guarantors).

"LOAN AMOUNT" shall mean $134.9 million or, if less, the maximum amount that the Company is able to borrow in the circumstances described in Section 5.2 hereof.

"MANAGER" shall have the meaning set forth in Section 8.2 hereof.

"MARKS" shall mean all of the interest of the Liggett Parties and any Affiliate of any Liggett Party in all trademarks, trade names, trade dress, service marks, registrations and applications for registrations therefor, in each case relating to "Lark," "Chesterfield" and "L&M" brands, including any variation or product line extension thereof and any derivative pertaining thereto, but shall not include the rights retained by the Liggett Parties pursuant to Section 5.7 hereof.

"MEMBER" shall mean any Person named as a member of the Company on Schedule A hereto and includes any Person who acquires a Share pursuant to the provisions of this Agreement. For purposes of the Delaware Act, the Members shall constitute two (2) classes or groups of members.

"MEMBER MINIMUM GAIN" means an amount, with respect to each Member Nonrecourse Liability, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt was treated as a Nonrecourse Liability, determined in accordance with Treasury Regulation section 1.704-2(i)(3).

"MEMBER NONRECOURSE DEBT" has the same meaning as the term "member nonrecourse debt" in Treasury Regulation section 1.704-2(b)(4).

"MEMBER NONRECOURSE DEDUCTIONS" has, with respect to a Member, the same meaning as the "partner nonrecourse deductions" in Treasury Regulation sections 1.704-2(i)(1) and 1.704-2(i)(2).

"MEMBER NONRECOURSE LIABILITY" has, with respect to a Member, the same meaning as the term "partner nonrecourse debt" or "partner nonrecourse liability" in Treasury Regulation section 1.704-2(b)(4).

"NONRECOURSE DEDUCTIONS" has the meaning set forth in Treasury Regulation section 1.704-2(b)(3).

"NOTICE OF EXERCISE" shall have the meaning set forth in Section 2.5 of the Class A Option Agreement.

"OFFICERS" means those Persons appointed by the Manager to manage the day-to-day affairs of the Company pursuant to Section 8.3 hereof.

"OPTION AGREEMENTS" means the Class A Option Agreement and the Class B Option Agreement.

"OPTION CONSIDERATION" means the sum of the Class A Option Consideration and the Class B Option Consideration.

"PM" shall have the meaning set forth in the preamble hereof.

"PERMITTED ASSIGNEE" shall have the meaning set forth in Section 2.2(d) of the Class A Option Agreement.

"PERSON" includes any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

"PROFITS" and "LOSSES" means, for each Fiscal Year, an amount equal to the Company's taxable income or loss for such Fiscal Year, determined in accordance with section 703(a) of the Code (but including in taxable income or loss, for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to section 703(a)(1) of the Code), with the following adjustments:

(a) any income of the Company exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

(b) any expenditures of the Company described in section 705(a)(2)(B) of the Code (or treated as expenditures described in section 705(a)(2)(B) of the Code pursuant to Treasury Regulation section 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be subtracted from such taxable income or loss;

(c) in the event the Gross Asset Value of any Company asset is adjusted in accordance with paragraph (b) or paragraph (c) of the definition of "Gross Asset Value" above, the amount of such adjustment shall be taken into account as gain (if the adjustment increases the Gross Asset Value of an asset) or loss (if the adjustment decreases the Gross Asset Value of an asset) from the disposition of such asset for purposes of computing Profits or Losses;

(d) gain or loss resulting from any disposition of any asset of the Company with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(e) in lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of "Depreciation";

(f) to the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code section 734(b) is required, pursuant to Treasury Regulation section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses; and

(g) any items of income, gain, loss or deduction specially allocated under Section 10.5 shall be excluded.

"PUT OPTION" shall have the meaning set forth in Section 9.6.

"PUT PERIOD" shall have the meaning set forth in Section 9.6.

"REDEMPTION PRICE" shall have the meaning set forth in Section 9.5(b).

"REGULATORY ALLOCATIONS" shall have the meaning set forth in Section 10.6.

"SHARE" shall mean a unit of limited liability company interest owned by a Member in the Company which represents, in respect of any Class A Share or Class B Share, a right to allocations of the Profits and Losses of the Company, a right to participate in certain voting and/or management rights and a right to receive distributions as provided in Article XI hereof, in each case in accordance with the provisions of this Agreement and the Delaware Act.

"SUBSIDIARIES" shall mean, with respect to any Person, any other Person in which such Person owns, directly or indirectly, 50% or more of the voting interests.

"TAX MATTERS PARTNER" shall have the meaning set forth in Section 13.1(a) hereof.

"TOTAL VOTING POWER" means the total number of votes represented by the Class A Shares, with each Share entitled to one vote.

"TRADE LOADING" shall mean selling to any supplier or distributor more inventory than such supplier or distributor can reasonably be expected to sell in the ordinary course.

"TREASURY REGULATIONS" means the income tax regulations, including temporary regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

Section 1.2 HEADINGS. The headings and subheadings in this Agreement are included for convenience and identification only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

ARTICLE II

FORMATION AND TERM; CLOSING

Section 2.1 FORMATION. (a) Subject to, and effective upon, the filing of the Certificate with the Office of the Secretary of State of the State of Delaware as provided in Section 2.3, the Members hereby form the Company as a limited liability company under and pursuant to the provisions of the Delaware Act, and agree that the rights, duties and liabilities of the Members shall be as provided in the Act, except as otherwise provided herein.

(b) Brooke and PM, acting jointly, by their respective duly authorized officers, are hereby designated as authorized persons, within the meaning of the Delaware Act, to jointly execute, deliver and file, or cause the execution, delivery and filing of the Certificate. The Secretary of the Company and any assistant secretary are hereby designated as authorized Persons, within the meaning of the Delaware Act, to execute, deliver and file, or cause the execution, delivery and filing of, all certificates, notices or other instruments (and any amendments and/or restatements thereof) required or permitted by the Delaware Act to be filed in the office of the Secretary of State of Delaware and any other certificates, notices or other instruments (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.

Section 2.2 NAME. The name of the Company shall be "Brands LLC."

Section 2.3 TERM. The term of the Company shall commence on the date the Certificate is filed in the office of the Secretary of State of the State of Delaware, which shall be as soon as practicable after HSR Clearance is received, and shall continue perpetually unless the Company is dissolved pursuant to Section 17.2, which dissolution shall be carried out pursuant to the Delaware Act and the provisions of this Agreement.

Section 2.4 REGISTERED AGENT AND OFFICE. The Company's registered agent and office in Delaware shall be the Corporation Trust Company, Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle.

Section 2.5 PRINCIPAL PLACE OF BUSINESS. The principal place of business of the Company shall be in New York or such other location as the Manager may designate from time to time and embody in a writing to be filed with the records of the Company.

Section 2.6 QUALIFICATION IN OTHER JURISDICTIONS. The Officers shall cause the Company to be qualified, formed or registered under assumed or fictitious name statutes or similar laws in any jurisdiction in which the Company transacts business and such qualification, formation or registration is necessary or appropriate for the transaction of such business.

Section 2.7 CLOSING. (a) Subject to the conditions set forth herein, the closing of the transactions contemplated by this Section (the "CLOSING") shall take place at the offices of Wachtell, Lipton, Rosen & Katz at 10:00 a.m. on a date that is set forth in the Notice of Exercise delivered by PM pursuant to the Class A Option Agreement. In the event that PM is not obligated to, and does not, exercise the Class A Option and deliver the related Notice of Exercise, the Closing shall not occur. The completion of all transactions described in this Section shall be deemed to occur simultaneously, and the Closing shall not be deemed to have occurred until all such transactions have been completed.

(b) At the Closing, the following transactions shall occur and circumstances shall exist:

(i) Eve will sell, transfer, convey and assign to the Company, as a contribution to the capital of the Company, all right, title and interest in and to the Marks, together with that part of the goodwill of the business connected with the use of and symbolized by the Marks (the "ASSOCIATED GOODWILL"), pursuant to the Assignment Agreement, a form of which is attached as Exhibit B hereto, such assignment to result in the capital account allocations set forth on Schedule A hereto.

(ii) Neither the Company nor PM or any of their respective Affiliates shall assume any past, present or future liabilities of any nature, express or implied, whether or not contingent, relating to the Marks or the Brands and arising from production, sales, marketing, consumption or use of or exposure to any product or any activity or omission of the Liggett Parties and their Affiliates prior to the Closing. Neither the Company's nor PM's acquisition, registration or enforcement of the Marks, or any "goodwill" or other intangible asset attributable to the Marks, shall be deemed an assumption, express or implied, of any liability excluded under this paragraph or indemnified under Section 2.9.

(iii) The Company shall acquire from the Liggett Parties only the Marks and the Associated Goodwill, and shall not acquire any assets other than the Marks and the Associated Goodwill.

(iv) The Company shall have no other equity or voting interests of any kind, and no rights to acquire any such interests, outstanding (other than as contemplated by this Agreement, the Class A Option Agreement and the Class B Option Agreement).

(v) PM and the Company shall execute the License Agreement in the form attached as Exhibit B hereto.

(vi) The Company and the lending institutions shall enter into (or have entered into) the Loan Agreement and the Company shall borrow the Loan Amount.

(vii) The Company shall distribute to the Liggett Parties holding the Class B Shares as distributions on such Shares the proceeds of the borrowing under the Loan Agreement, and the Class B Exercise Price shall be reduced by the aggregate amount of such distributions.

(viii) PM or any Permitted Assignee under the Class A Option Agreement shall purchase all of the Class A Shares from the Liggett Parties for the Class A Exercise Price, and the Liggett Parties shall deliver such Class A Shares, free and clear of any Liens whatsoever.

(ix) The Parties shall take such other actions and execute such other documents as may be reasonably appropriate or necessary to effect the transactions described in clauses (i) through (viii).

Notwithstanding the foregoing and for the avoidance of doubt, the inability of the Company to enter into the Loan Agreement or obtain the Loan Amount (and therefore the non-occurrence of the distributions described in clause (vii)) will not interfere with or otherwise delay the consummation of the other transactions contemplated by this Section. In the event such events do not occur at the Closing, the Parties shall use their reasonable best efforts to cause the Loan Agreement to be entered into, the Loan Amount to be borrowed and the distributions contemplated by clause (vii) to occur as promptly as practicable following the Closing Date.

Section 2.8 CONDITIONS TO CLOSING.

(a) EXERCISE OF CLASS A OPTION. PM shall exercise, or be obligated to exercise the Class A Option, as provided in the Class A Option Agreement.

(b) REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE LIGGETT PARTIES. The representations and warranties of the Liggett Parties made in this Agreement shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and the Liggett Parties shall have performed or complied in all material respects with the obligations and covenants required by this Agreement to be performed or complied with by the Liggett Parties by the time of the Closing; the Liggett Parties shall have delivered to PM a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

(c) REPRESENTATIONS, WARRANTIES AND COVENANTS OF PM. The representations and warranties of PM made in this Agreement shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and PM shall have performed or complied in all material respects with the obligations and covenants required by this Agreement be performed or complied with by it by the time of the Closing; PM shall have delivered to the Liggett Parties a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

(d) SATISFACTION OF CONDITIONS IN THE CLASS A OPTION AGREEMENT. The obligations of PM under this Agreement are subject to the satisfaction of the conditions set forth in Article VIII of the Class A Option Agreement and the obligations of the Liggett Parties under this Agreement are subject to the satisfaction of the conditions set forth in Article VII of the Class A Option Agreement.

(e) LETTER AGREEMENT. Neither PM nor any of the Liggett Parties shall have breached any of its material obligations under paragraph 9 of that certain letter agreement dated November 20,1998 between PM and the Liggett Parties, which obligations shall survive the execution of this Agreement and the Closing.

(f) WAIVER OF CONDITIONS. The conditions in Section 2.8(b) and 2.8(e) (with respect to the obligations of the Liggett Parties) and Article VIII of the Class A Option Agreement are for the sole benefit of PM and may be waived by PM, and the conditions in 2.8(c) and 2.8(e) (with respect to PM's obligations) and Article VII of the Class A Option Agreement are for the sole benefit of the Liggett Parties and may be waived by the Liggett Parties.

Section 2.9 LIGGETT PARTIES' INDEMNIFICATION OBLIGATION. The Liggett Parties jointly and severally shall indemnify and hold harmless the Company, PM, their respective Affiliates, officers, directors, employees, agents and representatives (collectively, the "INDEMNIFIED PARTIES") from and against any and all claims, actions, suits, demands, assessments, judgments, losses, liabilities, damages, costs and expenses (including without limitation, penalties, attorneys' fees and accounting fees and investigation costs) (collectively, "CLAIMS") that may be incurred by the Indemnified Parties resulting or arising from or related to, or incurred in connection with, (i) the liabilities described in Section 2.7(b)(ii), none of which are being assumed by the Company, (ii) the failure by the Liggett Parties to transfer the Marks as provided in Section 2.7(b)(i), and (iii) any failure to comply with the limitations set forth in Section 2.7(b)(iii) regarding any other assets of the Liggett Parties other than the Marks. The rights of the Indemnified Parties to indemnification as set forth in this Section shall be in addition to, and not in limitation of, any other remedies they may have, whether in law or equity, and shall survive any termination of this Agreement or dissolution of the Company.

Section 2.10 REASONABLE BEST EFFORTS. Each of the Parties agrees to use its reasonable best efforts to cause the conditions to the Closing to be satisfied; PROVIDED, however, that, subject to the terms and conditions of the License Agreement, PM shall not be required to agree to divest or hold separate any brand, product, business or assets or to take or agree to take

any action that limits its freedom of action with respect to, or its ability to retain, any of the Marks or any brand, product, business or other asset of PM or its Affiliates.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE LIGGETT PARTIES

Each of the Liggett Parties hereby jointly and severally represents and warrants to PM as follows:

Section 3.1 CORPORATE AUTHORITY. Each of the Liggett Parties is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each Liggett Party has all requisite corporate power and authority to enter into this Agreement, the Class A Option Agreement and the Class B Option Agreement (collectively, the "TRANSACTION AGREEMENTS") and to consummate the transactions contemplated thereby. All corporate acts and other proceedings required to be taken by each Liggett Party to authorize the execution, delivery and performance of each of the Transaction Agreements and the consummation of the transactions contemplated thereby have been duly and properly taken. The Transaction Agreements have been duly executed and delivered by each Liggett Party, and each such agreement constitutes the legal, valid and binding obligations of each Liggett Party, enforceable against each Liggett Party in accordance with its terms.

Section 3.2 NO CONFLICT; REQUIRED FILINGS AND CONSENTS. The execution and delivery of each of the Transaction Agreements by each Liggett Party, the consummation by each Liggett Party of the transactions contemplated thereby and compliance by each Liggett Party with all of the provisions of each of the Transaction Agreements to which it is a party will not (i) conflict with or violate the certificate of incorporation or by-laws of any Liggett Party or any comparable organizational documents, (ii) conflict with or violate any statute, ordinance, rule, regulation, order, judgment or decree applicable to any Liggett Party, or by which any of them or any of their respective properties or assets are bound, encumbered or affected, or (iii) result in a violation or breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in any loss of any material benefit to, or result in increased, additional, accelerated or guaranteed rights or entitlements of any person under, or the creation of any Lien on any of the Marks pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which any Liggett Party is a party or by which any of the Marks are bound or affected. None of the execution and delivery of any of the Transaction Agreements by any Liggett Party, the consummation by each Liggett Party of the transactions contemplated thereby or compliance by each Liggett Party with any of the provisions of any of the Transaction Agreements to which it is a party will require any consent, waiver, approval, authorization or permit of, license, or registration or filing with, or notification to any government or subdivision thereof, domestic, foreign or supranational or any administrative, governmental or regulatory authority, agency, commission, tribunal or body, domestic, foreign or supranational (a "GOVERNMENTAL ENTITY"),

except for (i) the filing of the Certificate pursuant to the Delaware Act and (ii) compliance with the HSR Act.

Section 3.3 INTELLECTUAL PROPERTY. At the Closing, the Company will own and have the right in the United States (as defined in the License Agreement) to use, execute, reproduce, display, modify, enhance, distribute, prepare derivative works of and license the Marks without payment to any other person and the consummation of the transactions contemplated by the Transaction Agreements will not conflict with, alter or impair such right. Other than the Transaction Agreements and the License Agreement, none of the Liggett Parties or any of their respective Subsidiaries has granted any options, licenses or agreements of any kind relating to the Marks or the marketing or distribution thereof. At the Closing, the Company will hold the Marks free and clear of the claims of others and of all liens, claims, charges, security interests, options or other legal or equitable encumbrances or restrictions whatsoever (any of the foregoing, a "LIEN"). The present use of the Marks by the Liggett Parties and their Subsidiaries does not violate, conflict with or infringe the intellectual property of any other person or entity. No claims are pending, or to the best knowledge of any of the Liggett Parties, threatened, by any person with respect to the ownership, validity, enforceability, effectiveness or use of the Marks, and during the past three years, none of the Liggett Parties has received any communications alleging that any of the Liggett Parties or any of their Subsidiaries through their use of the Marks has violated any rights relating to the intellectual property of any person or entity. None of the Liggett Parties will retain any interest whatsoever in the Marks except for its ownership of the Class A Shares and the Class B Shares, subject to the exercise of the Class A Option and the exercise of the Class B Option.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PM

PM hereby represents and warrants to the Liggett Parties as follows:

Section 4.1 CORPORATE AUTHORITY. PM is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia. PM has all requisite corporate power and authority to enter into each of Transaction Agreements and the License Agreement and to consummate the transactions contemplated thereby. All corporate acts and other proceedings required to be taken by PM to authorize the execution, delivery and performance of the Transaction Agreements and the License Agreement and the consummation of the transactions contemplated thereby have been duly and properly taken. The Transaction Agreements have been, and, when executed and delivered, the License Agreement will have been, duly executed and delivered by PM, and each such agreement, once executed and delivered, does and will constitute the legal, valid and binding obligations of PM, enforceable against it in accordance with its terms.

Section 4.2 NO CONFLICT; REQUIRED FILINGS AND CONSENTS. The execution and delivery of each of the Transaction Agreements and the License Agreement by PM, the consummation by PM of the transactions contemplated thereby and compliance by PM with all

of the provisions of each of the Transaction Agreements and the License Agreement will not (i) conflict with or violate the certificate of incorporation or by-laws of PM, (ii) conflict with or violate any statute, ordinance, rule, regulation, order, judgment or decree applicable to PM, or by which it or any of its properties or assets are bound, encumbered or affected, or (iii) result in a violation or breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in any loss of any material benefit to, or result in increased, additional, accelerated or guaranteed rights or entitlements of any person under, or the creation of any Lien on any of the property or assets of PM pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which PM is a party or by which any of its properties are bound or affected. None of the execution and delivery of any of the Transaction Agreements and the License Agreement by PM, the consummation by PM of the transactions contemplated thereby or compliance by PM with any of the provisions of any of the Transaction Agreements and the License Agreement will require any consent, waiver, approval, authorization or permit of, license, or registration or filing with, or notification to Governmental Entity, except for (i) the filing of the Certificate pursuant to the Delaware Act and (ii) compliance with the HSR Act.

ARTICLE V

COVENANTS

Section 5.1 ACTIVITIES OF LIGGETT RELATING TO THE BRANDS. Prior to the Closing, the Liggett Parties may only sell inventory related to the Marks in the normal course and may not engage in any Trade Loading with respect to the Marks. Promptly after the Closing, the Liggett Parties shall destroy any inventory of finished goods related to the Brands, as well as all point-of-sale, packaging, advertising and marketing materials related to the Brands.

Section 5.2 LOAN AGREEMENT. PM shall cooperate with the Liggett Parties and the Company and use its respective reasonable best efforts to assist the Company to obtain the Loan Amount; PROVIDED, however, that PM shall not be required pursuant to the foregoing to directly or indirectly guarantee or subsidize the obtaining of the Loan Amount. The Liggett Parties shall cooperate with PM and the Company and shall use their respective reasonable best efforts to assist the Company to obtain the Loan Amount. In connection with the cooperation contemplated by this Section 5.2, PM shall consent to the pledge by the Company of the Marks and of the Company's interest in the License Agreement to the lenders under the Loan Agreement, and the Liggett Parties shall (or shall cause the holder thereof to) pledge all of the Class B Shares (including the put right set forth in Section 9.6 hereof) to such lenders.

Section 5.3 HSR CLEARANCE. The Parties shall comply with the covenants set forth in Sections 5.1 and 6.1 of the Option Agreements regarding obtaining HSR Clearance and any other Governmental Filings.

Section 5.4 TAX BASIS OF MARKS. The Liggett Parties shall provide the Company with such information as it may reasonably request concerning the basis of the Marks for federal income tax purposes.

Section 5.5 ACCESS TO INFORMATION. Prior to the Closing, the Liggett Parties shall, and shall cause each of their respective Subsidiaries to, give PM and its representatives, employees, counsel and accountants full access, during normal business hours and upon reasonable notice, to the employees, agents, independent contractors, properties, books and records relating to the Marks, only to the extent, in the reasonable judgment of counsel, permitted by law, including antitrust law, and provided that the Liggett Parties and their Subsidiaries shall not be obligated to make any disclosure which would cause forfeiture of attorney-client privilege. The Liggett Parties shall notify PM in writing if any disclosure is withheld in order to avoid such forfeiture. No investigation pursuant to this Section shall affect or be deemed to affect any representation or warranty made by the Liggett Parties. PM agrees that all information received pursuant to this Section shall be kept confidential and PM shall not disclose such information to any third party unless required to do so by applicable law.

Section 5.6 REPRESENTATIONS AND WARRANTIES. Each of the Parties shall give written notice to the other Party promptly upon the occurrence of any event that would cause or constitute a material breach or would have caused a material breach, had such event occurred or been known to it prior to the date hereof, of any of its representations or warranties contained in any of the Transaction Agreements.

Section 5.7 RETENTION OF CERTAIN TRADEMARKS, ETC. (a) PM and the Company each acknowledge that the Liggett Parties shall continue to own in the United States (as defined in the License Agreement) all right, title and interest in, to and under the "LIGGETT," "MYERS" and "LIGGETT & MYERS" trademarks, trade names, service marks, Internet domain names or any similar electronic designation, and all registrations and applications for registration therefor, PROVIDED, HOWEVER, that any use by the Liggett Parties of "LIGGETT & MYERS" as a trademark shall be subject to the consent of PM or the Company, which consent shall not be unreasonably withheld or delayed so long as such use does not encroach upon the prior trade dress, type style or logo associated with the "L&M" Mark. Neither PM nor the Company shall use or register any trademarks, service marks, trade dress, trade names, Internet domain names or any similar electronic designation that is the same as or confusingly similar to "LIGGETT," "MYERS" or "LIGGETT & MYERS." None of the Liggett Parties shall use or register any trademarks, service marks, trade dress, trade names, Internet domain names or any similar electronic designation that is the same as or confusingly similar to "L&M," "LARK" or "CHESTERFIELD."

(b) Except as set forth in the proviso to the first sentence of Section 5.7(a), neither PM nor the Company, nor any of their respective Affiliates shall (i) take any action, or permit any Affiliate to take any action, which (x) is inconsistent with the ownership rights of the Liggett Parties in, to and under the "LIGGETT," "MYERS" or "LIGGETT & MYERS" marks or (y) will impair the ownership, validity, enforceability, effectiveness or use of the "LIGGETT," "MYERS" or "LIGGETT & MYERS" marks, or (ii) challenge the ownership, validity, enforceability, effectiveness or use of the "LIGGETT," "MYERS" or "LIGGETT & MYERS" marks.

ARTICLE VI

PURPOSE AND POWERS OF THE COMPANY

Section 6.1 PURPOSE. The Company is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Delaware Act.

Section 6.2 POWERS OF THE COMPANY. The Company shall have the power and authority to take any and all actions necessary, appropriate, proper, advisable, incidental or convenient to or for the furtherance of the purpose set forth in Section 6.1.

ARTICLE VII

MEMBERS

Section 7.1 MEMBERS. The name and mailing address of each Member and the number and class of Shares owned thereby shall be listed on Schedule A attached hereto. The Secretary or other designated Officer shall be required to update Schedule A from time to time as necessary to accurately reflect changes in address and/or the ownership of Shares. Any amendment or revision to Schedule A made to reflect an action taken in accordance with this Agreement shall not be deemed an amendment to this Agreement. Any reference in this Agreement to Schedule A shall be deemed to be a reference to Schedule A as amended and in effect from time to time. No Person, whether or not such Person holds any Shares, shall be deemed a Member of the Company hereunder or under the Delaware Act unless approved as such pursuant to the provisions of Article XV of this Agreement.

Section 7.2 POWERS OF MEMBERS. The Members shall have the power to exercise any and all rights or powers granted to the Members pursuant to the express terms of this Agreement. Members shall not have the authority to bind the Company by virtue of their status as Members.

Section 7.3 MEMBER'S SHARES. A Member's Shares shall for all purposes be personal property. No holder of a Share or Member shall have any interest in specific Company assets or property, including any assets or property contributed to the Company by such Member as part of any Capital Contribution.

Section 7.4 CLASSES. (a) The Shares shall be divided between Class A Shares and Class B Shares.

(b) The Class A Shares and Class B Shares may not be subdivided, and each of such Shares shall have identical rights and terms in all respects except as specifically set forth in this Agreement.

(c) The Class A Shares and Class B Shares shall be securities governed by Article 8 of the Uniform Commercial Code as in effect in the States of New York and Delaware. Each Member shall be entitled to receive one or more certificates registered in its name and representing all or any portion of the Class A Shares or the Class B Shares then held by it (each, a "CERTIFICATE OF INTEREST"). A security interest in any Class A Shares or Class B Shares shall be perfected through possession of a Certificate of Interest representing such Class A Shares or Class B Shares and the Company hereby makes any elections which may be required under the Uniform Commercial Code as in effect in the States of New York and Delaware to give effect to the provisions of this paragraph (c).

Section 7.5 PARTITION. Each Member waives any and all rights that it may have to maintain an action for partition of the Company's property.

Section 7.6 RESIGNATION. A Member shall cease to be a Member at the time such Member ceases to own any Shares. Shares are redeemable only pursuant to Section 9.5 of this Agreement.

Section 7.7 MEMBER MEETINGS. (a) A meeting of Class A Members for such business as may be stated in the notice of the meeting shall be held at such dates, time and place as is determined by the Manager. At each annual meeting, the Class A Members shall transact such business as shall be stated in the notice of the meeting.

(b) Special meetings of the Class A Members for any purpose or purposes may be called only by the Manager.

(c) Class B Members shall have no right to attend any meeting of the Company.

Section 7.8 VOTING. Each Member entitled to vote in accordance with the terms of this Agreement may vote in person or by proxy. The Members shall be entitled to vote only to the extent expressly set forth herein or required by law. Unless otherwise provided for by this Agreement, all matters to be decided by the Members shall be decided by an affirmative vote (or consent in writing) of the majority of the Total Voting Power of the holders of the Class A Shares, voting together as a single class, and no matter may be decided without such affirmative vote or consent in writing. Except as required by applicable law and the following sentence, Class B Members shall have no voting rights as a Member of the Company, and the Class A Members shall have all voting rights of the Members. Any amendment, modification or waiver to, or with respect to, the License Agreement, or any other action under or with respect to the License Agreement, that would shorten the term of the License Agreement or decrease the amount of the Minimum Royalty (as defined in the License Agreement) or postpone the date on which any royalty under the License Agreement is payable shall require the approval of the holders of the Class B Shares as a separate class.

Section 7.9 QUORUM. Except as otherwise required by law, the presence, in person or by proxy, of a majority of the holders of the Class A Shares shall constitute a quorum at all meetings of the Members. In case a quorum shall not be present at any meeting, Members holding a majority of the Total Voting Power held by Members represented thereat, in person or by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of Shares shall be present. At any such adjourned meeting at which the requisite amount of Shares shall be represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

Section 7.10 NOTICE OF MEETINGS. Written notice, stating the place, date and time of the meeting, shall be given to each Class A Member, at such Member's address as it appears on the records of the Company, not less than two business days before the date of the meeting (except that notice to any Member may be waived in writing by such Member).

Section 7.11 ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any annual or special meeting of Members may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the number of Members as would be required to take such action at a meeting, notice of such action shall be given to those Members who have not so consented in writing to such action without a meeting and such written consent is filed with the minutes of proceedings of the Members.

ARTICLE VIII

MANAGEMENT

Section 8.1 BOARD OF DIRECTORS. The Company shall have a Board of Directors consisting of one or more persons elected by the Class A Members. Each person elected to the Board of Directors shall hold office for one year or until his successor is elected and duly qualified. A majority of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. The number of directors shall be determined from time to time by the Class A Members. No director (as such) shall have authority to bind the Company. The Board of Directors shall act on behalf of the Members to select the Manager as provided in Section 8.2.

Section 8.2 MANAGER. In accordance with Section 18-402 of the Delaware Act, management of the Company shall be vested in the manager of the Company (the "MANAGER"), who shall be elected by the Board of Directors. The Manager shall continue as such until such time as a new Manager is elected by the Board of Directors. The business and affairs of the Company shall be managed exclusively by and under the direction of the Manager in accordance with the terms of this Agreement, and the Manager shall have the sole and exclusive responsibility and authority for the management of the Company.

Section 8.3 OFFICERS. The Manager may designate and appoint such Officers as may be appropriate, as determined by the Manager, to conduct the business and affairs of the Company, and such Officers shall hold office until their successors are duly appointed. The Manager may also establish additional or alternate offices of the Company as it deems advisable, and such offices shall be filled with such Officers, who shall perform such duties and serve such terms, as the Manager shall determine from time to time.

ARTICLE IX

SHARES AND CAPITAL ACCOUNTS

Section 9.1 CAPITAL CONTRIBUTIONS. The agreed value of the initial capital contributions contemplated by Section 2.7 shall be as set forth on Schedule A.

Section 9.2 STATUS OF CAPITAL CONTRIBUTIONS. (a) No Member shall receive any interest, salary or drawing with respect to its Capital Contributions or its Capital Account or for services rendered on behalf of the Company or otherwise in its capacity as a Member, except as otherwise specifically provided in this Agreement with respect to allocations and distributions.

(b) Except as otherwise provided herein and by the Delaware Act, the Members shall be liable only to make their Capital Contributions pursuant to Section 2.7 hereof, and no Member shall be required to lend any funds to the Company or to make any additional Capital Contributions to the Company except as provided herein or therein. Other than as provided under the Delaware Act, no Member shall have any personal liability for the payment of any Capital Contribution of any other Member who is not an Affiliate of such Member.

Section 9.3 CAPITAL ACCOUNTS. (a) An individual Capital Account shall be established and maintained for each Member by class of Share.

(b) The Capital Account of each Member by class of Share shall be maintained in accordance with the following provisions:

(i) to such Member's Capital Account there shall be credited such Member's Capital Contributions, if any, when and as received, Profits and Gross Income and other items of Company income and gain allocated to such Member pursuant to Sections 10.1 and 10.2 hereof and the amount of any Company liabilities that are assumed by such Member or that are secured by any Company assets distributed to such Member;

(ii) to such Member's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Company assets (other than cash) transferred in kind to such Member in a Distribution pursuant to any provision of this Agreement, Losses and other items of Company loss and deduction allocated to such Member pursuant to Sections 10.1 and 10.2 hereof and the amount of any liabilities of such Member that are assumed by the Company (other than liabilities taken into account in determining a Member's Capital Contribution);

(iii) in determining the amount of any liability for purposes of this subsection (b), there shall be taken into account ss. 752(c) of the Code and any other applicable provisions of the Code and the Treasury Regulations;

(iv) Capital Accounts shall be otherwise adjusted in accordance with Treasury Regulation ss. 1.704-1(b); and

(v) if Shares are transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Shares.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulation ss. 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Treasury Regulation.

Section 9.4 ADVANCES. If any Member shall advance any funds to the Company in addition to its Capital Contributions, the amount of such advance shall neither increase its Capital Account nor entitle it to any increase in its share of the Distributions of the Company. The amount of any such advance shall be a debt obligation of the Company to such Member and shall be repaid to it by the Company with such interest rate, conditions and terms as mutually agreed upon by such Member and the Manager. Any such advance shall be payable and collectible only out of Company assets, and the other Members shall not be personally obligated to repay any part thereof. No Person who makes any nonrecourse loan to the Company shall have or acquire, as a result of making such loan, any direct or indirect interest in the profits, capital or property of the Company, other than as a creditor.

Section 9.5 REDEMPTION OF SHARES. (a) Class A Shares shall not be redeemable by the Company.

(b) The Class B Shares shall be redeemable in whole by the Company during the exercise period for the Class B Option, as set forth in the Class B Option, for an aggregate redemption price of $139.9 million, less the aggregate amount of all distributions made on the Class B Shares (other than the distributions required by Section 11.2) PLUS the aggregate amount of capital contributed by the holder on the Class B Shares (other than the Marks) (as adjusted pursuant to this paragraph, the "REDEMPTION PRICE"). Upon such redemption, PM shall be required to cause each Guarantor to be released from its obligation as guarantor of the Loan and for any related Liens on the Class B Shares to be released. In the event of such redemption, the Company shall provide notice to the Liggett Parties, which notice shall set forth a date for the redemption to be effected, which date shall be a date not less than 20 days following the date such notice is provided. At the specified date, the Liggett Parties shall deliver to the Company any certificates or other evidence of the Class B Shares, free and clear of all Liens (other than Liens relating to the Loan), against payment of the Redemption Price, and the parties shall execute such other customary documents as may be required to effect the redemption of the Class B Shares. In the event that the outstanding principal amount under the Loan Agreement has been reduced due to payments to the lenders by any Guarantor, then, provided that the Company or a Class A Member (i) has no further liability (contingent or otherwise) with respect to the Loan

amount so repaid (whether to the lender, the Guarantor or another) and (ii) has not previously repaid or otherwise reimbursed such Guarantor for such payment, the Redemption Price shall be increased by the amount of such reduction.

Section 9.6 LIGGETT PARTIES' CLASS B PUT OPTION. Provided that either the Class A Option has been exercised or was required to have been exercised pursuant to the Class A Option Agreement, the Liggett Parties shall have a put option pursuant to which, upon written notice provided by the Liggett Parties to PM, PM (or its designee) shall be required to purchase, and the Liggett Parties shall be required to sell, all, but not less than all, of the then-outstanding Class B Shares to PM (or PM's designee) at a put price that is $5 million less than the then-applicable Redemption Price but in no event less than $500,000 (the "PUT OPTION"). The Put Option shall be exercisable at any time during the period (the "PUT PERIOD") beginning on March 2, 2010 and ending at 5:00 p.m. (New York City time) on May 31, 2010. The Put Option shall be consummated on the date specified in the written notice described in this paragraph, which date shall be a date not less than 20 days following the date such notice is provided. Upon consummation of the Put Option exercise, PM shall be required to cause each Guarantor to be released from its obligations as guarantor of the Loan and for any related Liens on the Class B Shares to be released. At the specified date, the Liggett Parties shall deliver to PM (or its designee) any certificates or other evidence of the Class B Shares, free and clear of all encumbrances and restrictions, against payment of the Put Option price, and the parties shall execute such other customary documents as may be required to effect the exchange of the Class B Shares.

Section 9.7 LIGGETT PARTIES' CLASS B CONVERSION RIGHT. At the expiration of the Put Period, if the Class B Option has not been exercised, and the Class B Shares have not been redeemed by the Company pursuant to Section 9.5, the holders of the Class B Shares shall be entitled, at their election, to convert all, but not less than all, of the then-outstanding Class B Shares into an equivalent number of Class A Shares, which newly issued Class A Shares shall have the same rights to share in future profits and losses of the Company, and the same aggregate voting power, as the Class A Shares issued at the Closing. The Class A Shares issued pursuant to this Section shall represent 50% of the aggregate capital of the Company created pursuant to Section 2.7.

Section 9.8 ASSIGNMENT AND ENCUMBRANCE OF INTERESTS. (a) Except as otherwise provided herein or in the Class A Option Agreement or the Class B Option Agreement, the Class A Shares and the Class B Shares shall not be transferable or otherwise subject to Assignment by any party, except that the Class A Shares (or, upon exercise of the Class B Option or the Put Option, the Class B Shares) may be Assigned by PM so long as the acquiring party assumes the obligations of PM under this Agreement (or the PRO RATA portion thereof, based on the percentage interest transferred) and such transfer shall not relieve PM of any of its obligations hereunder.

(b) The Liggett Parties shall not in any way Assign any Class A Shares or Class B Shares owned by them; PROVIDED, HOWEVER, that the Class B Shares may be pledged by a Guarantor to secure the borrowing under the Loan Agreement, so long as such pledge, by its

terms, provides that the encumbrance shall be eliminated when the Guarantor is released from its obligations under the Loan Agreement (including upon repayment of the entire Loan Amount).

ARTICLE X

ALLOCATIONS

Section 10.1 ALLOCATION OF GROSS INCOME. Beginning on the date immediately following the Closing Date, gross income in an amount equal to $500,000 (prorated for periods less than twelve months) shall be credited annually (and at such other times that such allocation would make a difference in connection with another allocation, distribution or other event under this Agreement) PRO RATA to the holders of Class B Shares.

Section 10.2 ALLOCATION OF PROFITS. Subject to Sections 10.3 and 10.4, the Company's Profits (taking into account the amount of any gross income allocated under Section 10.1 above as an item of deduction) shall be allocated annually (and at such other times that such allocation would make a difference in connection with another allocation, distribution or other event under this Agreement) to the Class A Members in the following order:

(i) first, PRO RATA to the holders of the Class A Shares until they have been allocated Profits equal to the amount of Losses previously allocated under Section 10.3(i) below not previously offset by an allocation of Profits under this clause; and

(ii) second, PRO RATA to the holders of the Class A Shares.

Section 10.3 ALLOCATION OF LOSSES. Subject to Sections 10.3 and 10.4, the Company's Losses (taking into account the amount of gross income allocated under Section 10.1 above as an item of deduction) shall be allocated annually (and at such other times that such allocation would make a difference in connection with another allocation, distribution or other event under this Agreement) to the Class A Shares in the following order:

(i) first, PRO RATA until such holders have been allocated an amount of Losses equal to the amount of Net Income previously allocated to the holders of Class A Shares under Section 10.2(ii) not previously offset by an allocation of Net Losses under this clause; and

(ii) second, PRO RATA to the holders of Class A Shares.

Section 10.4 ALLOCATION RULES. (a) In the event there is a change in the respective ownership interests of Class A Members during the year, the Profits (or Losses) allocated to the Members for each Fiscal Year during which there is a change in the respective ownership interests of Members during the year shall be allocated among the Members in proportion to the ownership interests during such Fiscal Year in accordance with section 706 of the Code, using any convention permitted by law and selected by the Company Board.

(b) For purposes of determining the Profits, Losses or any other items allocable to any period, Profits, Losses and any such other items shall be determined on a daily, monthly or other basis, as determined by the Manager using any method that is permissible under section 706 of the Code and the Treasury Regulations thereunder.

(c) Except as otherwise provided in this Agreement, all items of Company income, gain, loss, deduction, credit and any other allocations not otherwise provided for shall be divided among the Class A Members in the same proportions as they share Profits and Losses for the Fiscal Year in question.

(d) The Members agree to report their shares of Company income, gain, loss, deduction and credit in conformity with the allocation provisions contained in this Article X.

Section 10.5 REGULATORY ALLOCATIONS. The following allocations shall be made in the following order of priority:

(a) COMPANY MINIMUM GAIN CHARGEBACK. Except as otherwise provided in Treasury Regulation section 1.704-2(f), notwithstanding any other provision of this Article X, if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulation section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 10.5(a) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulation section 1.704-2(f) and shall be interpreted consistently therewith.

(b) MEMBER MINIMUM GAIN CHARGEBACK. Except as otherwise provided in Treasury Regulation section 1.704-2(i)(4), notwithstanding any other provision of this Article X, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulation section 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to the portion of such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulations section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations sections 1.704-2(i)(4) and 1.704-2(j)(2). This Section 10.5(b) is intended to comply with Treasury Regulation section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(c) NONRECOURSE DEDUCTIONS. Nonrecourse Deductions for any Fiscal Year shall be specially allocated among the Class A Members in proportion to the allocations for such Fiscal Year of Profits under Section 10.2 or Losses under Section 10.3, as applicable.

(d) ALLOCATION OF MEMBER NONRECOURSE DEDUCTIONS. Any Member Nonrecourse Deduction for any Fiscal Year shall be specially allocated to the Member who bears the Economic Risk of Loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation section 1.704-2(i)(1). The Members acknowledge and agree that, as collateralized guarantor of the Loan Amount, Eve shall be deemed for purposes of this Section 10.5(d) during the period of such guaranty to bear the Economic Risk of Loss with respect to the Loan Amount which, for such period, shall constitute Member Nonrecourse Debt.

(e) QUALIFIED INCOME OFFSET. In the event any Member unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulations sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) or 1.704-1(b)(2)(ii)(d)(6), items of Company income and gain (consisting of a PRO RATA portion of each item of Company income, including gross income, and gain for the Fiscal Year) shall be specially allocated to each such Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulation, the Adjusted Capital Account Deficit of such Member created by such adjustments, allocations or distributions as quickly as possible; PROVIDED that an allocation pursuant to this Section 10.5(e) shall be made if and only to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Section 10.5 have been tentatively made as if this Section 10.5(e) were not in this Agreement. This Section 10.5(e) is intended to comply with the qualified income offset requirement in Treasury Regulation section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

(f) GROSS INCOME ALLOCATION. In the event any Member has a deficit Capital Account at the end of any Fiscal Year that is in excess of the sum of (i) the amount such Member is obligated to restore pursuant to the terms of this Agreement or otherwise, and (ii) the amount such Member is deemed to be obligated to restore pursuant to the penultimate sentence of each of Treasury Regulations sections 1.704-2(g)(1) and 1.704-2(i)(5), each such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 10.5(f) shall be made if and only to the extent that such Member would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Section 10.5 have been tentatively made as if Section 10.5(e) and this Section 10.5(f) were not in this Agreement.

(g) MEMBER NONRECOURSE DEDUCTIONS. If any Class A Member bears the Economic Risk of Loss with respect to a Member Nonrecourse Liability, any Member Nonrecourse Deduction for any Fiscal Year shall be specially allocated to the Member who bears the Economic Risk of Loss with respect to the Member Nonrecourse Liability to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation section 1.704-2(i).

(h) ADJUSTMENTS OCCASIONED BY CODE SECTION 754 ELECTION. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code section 734(b) or Code section 743(b) is required pursuant to an election under Code section 754 to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of its

interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Member in accordance with their interests in the event Treasury Regulation section 1.704-1(b)(2)(IV)(M)(2) applies, or to the Member to whom such distribution was made in the event Treasury Regulation section 1.704-1(b)(2)(IV)(M)(4) applies.

(i) DEDUCTIONS UNDER SECTION 709 OF THE CODE. Deductions under section 709 of the Code for amortization of amounts paid or incurred to organize the Company or, in the case of liquidation of the Company prior to the end of the amortization period specified in section 709 of the Code, deductions under section 165 of the Code for the previously unrecovered portion of such amounts, shall be specially allocated to the Member who paid or incurred such amounts and such Member's Capital Account shall be credited for amounts paid or incurred by such Member.

Section 10.6 TREATMENT OF REGULATORY ALLOCATIONS. The allocations set forth in Section 10.5 (the "REGULATORY ALLOCATIONS") are intended to comply with and shall be interpreted consistently with certain requirements of Treasury Regulations sections 1.704-1 and 1.704-2. Notwithstanding any other provisions of this Article VI (other than the Regulatory Allocations), the Regulatory Allocations shall be taken into account in allocating other Net Profits and Net Losses and items of income, gain, loss and deduction among Members so that, to the extent possible, the net amount of such allocations of other Profits and Losses and other items and the Regulatory Allocations to each Member shall be equal to the net amount that would have been allocated to such Unitholder if the Regulatory Allocations had not occurred.

Section 10.7 TAX ALLOCATIONS; SECTION 704(c) OF THE CODE. (a) In accordance with section 704(c) of the Code and Treasury Regulation section 1.704-3(c) thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for income tax purposes, be allocated among the Members using the traditional method of allocation under section 704(c) of the Code so as to take account of any variation between the adjusted basis of such property to the Company for United States federal income tax purposes and its initial Gross Asset Value (computed in accordance with paragraph (a) of the definition of "GROSS ASSET VALUE" contained in Section 1.1 hereof).

(b) In the event the Gross Asset Value of any Company asset is adjusted pursuant to paragraph (b) of the definition of "GROSS ASSET VALUE" contained in Section 1.1 hereof, subsequent allocations of income, gain, loss and deduction with respect to such asset shall, solely for income tax purposes, take account of any variation between the adjusted basis of such asset for United States federal income tax purposes and its Gross Asset Value in the same manner as under section 704(c) of the Code and the Treasury Regulations thereunder.

(c) Allocations pursuant to this Section 10.7 are solely for purposes of United States federal, state and local taxes, and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, other items or distributions pursuant to any provision of this Agreement.

ARTICLE XI

DISTRIBUTIONS

Section 11.1 DISTRIBUTIONS. Subject to Section 11.2, the Manager may make PRO RATA Distributions in accordance with the Class A Members' respective ownership interests of cash and property, in each case in proportion to the respective ownership interests at such times as it deems appropriate, at its sole discretion.

Section 11.2 MANDATORY DISTRIBUTIONS. Notwithstanding Section 11.1 above, but subject to Section 2.7(b)(vii), during each Fiscal Year that the Class B Shares are outstanding, all Distributions made by the Company shall be made 50% to the Class A Shares and 50% to the Class B Shares until such time as the Class B Shares shall have received Distributions equal to $500,000 and thereafter shall be made entirely to the Class A Members. Such Distribution shall be made to all Class B Members in accordance with their percentage ownership of the Class B Shares.

Section 11.3 LIMITATIONS ON DISTRIBUTION. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make any Distribution if such Distribution would violate Section 18-607 of the Delaware Act or other applicable law, but shall instead make such Distribution as soon as practicable after the making of such Distribution would not cause such violation.

ARTICLE XII

BOOKS AND RECORDS

Section 12.1 BOOKS, RECORDS AND FINANCIAL STATEMENTS. (a) The Company shall at all times maintain, at its principal place of business, separate books of account for the Company that shall show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received and all income derived in connection with the operation of the Company in accordance with GAAP consistently applied, and, to the extent inconsistent therewith, in accordance with this Agreement. Such books of account, together with a copy of this Agreement and the Certificate, shall at all times be maintained at the principal place of business of the Company and shall be open to inspection and examination at reasonable times by each Class A Member and its duly authorized representatives for any proper purpose reasonably related to such Member's interest in the Company.

(b) The Officers shall prepare and maintain, or cause to be prepared and maintained, the books of account of the Company. The following financial information, prepared in accordance with GAAP and applied on a basis consistent with prior periods, shall be transmitted by the Company to each Class A Member as soon as reasonably practicable after the close of each Fiscal Year:

(i) balance sheet of the Company as of the beginning and close of such Fiscal Year;

(ii) statement of profits and losses for such Fiscal Year;

(iii) statement of each Member's Capital Account as of the close of such Fiscal Year, and changes therein during such Fiscal Year; and

(iv) statement of the Company's cash flows during such Fiscal Year.

(c) The Company shall prepare in accordance with United States federal income tax principles and transmit to each Member as soon as reasonably practicable after the close of each Fiscal Year a statement indicating such Member's share of each item of the Company income, gain, loss, deduction or credit for such Fiscal Year for income tax purposes, which statement shall include or consist of a Schedule K-1 to the Company's Internal Revenue Service Form 1065 (or any corresponding schedule to any successor form) for such Fiscal Year.

Section 12.2 ACCOUNTING METHOD. For both financial and tax reporting purposes and for purposes of determining Profits and Losses, the books and records of the Company shall be kept on the accrual method of accounting and shall reflect all Company transactions and be appropriate and adequate for the Company's business.

Section 12.3 ANNUAL AUDIT. The financial statements of the Company shall be audited by an independent certified public accountant, selected by the Manager, with such audit to be accompanied by a report of such accountant containing its opinion. The cost of such audit shall be an expense of the Company.

ARTICLE XIII

TAX MATTERS

Section 13.1 TAX MATTERS. (a) PM shall be the "TAX MATTERS PARTNER" of the Company for purposes of section 6231(a)(7) of the Code; PROVIDED, HOWEVER, that if PM shall at any time not own a majority of the Class A Interests, the Tax Matters Partner shall be the Member owning the largest percentage of the Class A Interests. The Tax Matters Partner shall cause to be prepared for each taxable year of the Company the federal, state and local tax returns and information returns, if any, which the Company is required to file.

(b) The Company shall, within ten (10) days of the receipt of any notice from the Internal Revenue Service or any state, local or foreign tax authority in any administrative proceeding at the Company level relating to the determination of any Company item of income, gain, loss, deduction or credit, mail a copy of such notice to each Member.

Section 13.2 SECTION 709 ELECTION. The Tax Matters Partner may cause the Company to file, with the Company's Internal Revenue Service Form 1065 for the taxable year in which the Company begins business, an election under section 709 of the Code (meeting the

requirements of Treasury Regulation section 1.709-1(c)) to amortize its organizational expenses over 60 months. Each Member agrees to (i) treat any amounts paid or incurred by such Member to organize the Company as deferred expenses of the Company that are subject to section 709 of the Code and (ii) maintain records of any such amounts that are sufficiently detailed to enable the Company to file an election meeting the requirements of Treasury Regulation section 1.709-1(c).

Section 13.3 TAXATION AS PARTNERSHIP. The Company will elect to be treated as a partnership for United States federal income tax purposes.

ARTICLE XIV

LIABILITY, EXCULPATION AND INDEMNIFICATION

Section 14.1 LIABILITY. Except as otherwise provided by the Delaware Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Covered Person or Member shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Covered Person or Member. Except as expressly provided herein, no Member in its capacity as such, shall have liability to the Company, any other Member or the creditors of the Company.

Section 14.2 EXCULPATION. (a) No Covered Person shall be liable to the Company or any other Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of authority conferred on such Covered Person by this Agreement, the Company's board of directors (if any) or an appropriate Officer or employee of the Company, except that a Covered Person shall be liable for any such loss, damage or claim incurred by reason of such Covered Person's gross negligence, fraud or willful misconduct.

(b) A Covered Person shall be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any Person as to matters the Covered Person reasonably believes are within such other Person's professional or expert competence, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, Profits or Losses or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid.

Section 14.3 FIDUCIARY DUTY. To the extent that, at law or in equity, a Covered Person has duties (including fiduciary duties) and liabilities relating thereto to the Company or to any Member, a Covered Person acting under this Agreement shall not be liable to the Company or to any Member for its good faith acts or omissions in reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of a Covered Person otherwise existing at law or in equity, are agreed by the parties hereto to replace such other duties and liabilities of such Covered Person.

Section 14.4 INDEMNIFICATION. To the fullest extent permitted by applicable law, a Covered Person shall be entitled to indemnification from the Company for any loss, damage or claim incurred by such Covered Person by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of authority conferred on such Covered Person by this Agreement, except that no Covered Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Covered Person by reason of gross negligence, fraud or willful misconduct with respect to such acts or omissions; PROVIDED, HOWEVER, that any indemnity under this Section shall be provided out of and to the extent of Company assets only, and no Covered Person shall have any personal liability on account thereof.

Section 14.5 EXPENSES. To the fullest extent permitted by applicable law, reasonable expenses (including reasonable legal fees) incurred by a Covered Person in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Company of an undertaking by or on behalf of the Covered Person to repay such amount if it shall be determined that the Covered Person is not entitled to be indemnified as authorized in Section 14.4 hereof.

Section 14.6 INSURANCE. The Company may purchase and maintain insurance, to the extent and in such amounts as the Manager shall deem reasonable or appropriate, on behalf of Covered Persons and such other Persons as the Manager shall determine, against any liability that may be asserted against or expenses that may be incurred by any such Person in connection with the activities of the Company or such indemnities, regardless of whether the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement. The Members and the Company may enter into indemnity contracts with Covered Persons and such other Persons as the Manager shall determine and adopt written procedures pursuant to which arrangements are made for the advancement of expenses and the funding of obligations under Section 10.5 hereof and containing such other procedures regarding indemnification as are appropriate.

Section 14.7 OUTSIDE BUSINESSES. Any Member (including any Member that is the Manager) or Affiliate thereof may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Company, and the Company and the Members shall have no rights by virtue of this Agreement in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Company, shall not be deemed wrongful or improper. No Member or Affiliate thereof shall be obligated to present any particular investment opportunity to the Company even if such opportunity is of a character that, if presented to the Company, could be taken by the Company, and any Member or Affiliate thereof shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment opportunity. The Members acknowledge and agree that the Manager, and the Officers, employees and agents of the Company may be Affiliates of a Member, or employees of a Member or its Affiliates, and the Members hereby waive, with respect only to their interest in the Company, any claims against

such Persons in respect of "corporate opportunities" or similar doctrines. The provisions of this Section 14.7 shall not in any way limit, modify or amend the terms of any noncompetition, license or employment agreement that may be entered into between the Company and any Member, which terms shall be binding on the parties thereto.

Section 14.8 THIRD-PARTY BENEFICIARIES. There shall be no third-party beneficiaries of this Agreement, except that the Indemnified Parties shall be third-party beneficiaries of the provisions of Section 2.9 and Covered Persons shall be third-party beneficiaries of this Article XIV.

ARTICLE XV

ADDITIONAL MEMBERS

Section 15.1 ADMISSION. Except as provided in Section 2.7, Article VI or Section 9.7, the Company may not admit any new Members and may issue no new Class A Shares or Class B Shares.

ARTICLE XVI

ASSIGNMENTS

Section 16.1 RECOGNITION OF ASSIGNMENT BY THE COMPANY. No Assignment of Shares in violation of this Agreement or the Class A Option or Class B Option shall be valid or effective, and neither the Company nor the Members shall recognize the same for the purpose of making allocations or Distributions. Neither the Company nor the Members shall incur any liability as a result of refusing to make any such allocations or Distributions with respect to Assigned Shares in violation of this Article.

Section 16.2 EFFECT OF ASSIGNMENT. No Assignment by any Party of its rights under this Agreement or of any interest in the Company shall relieve such Party of its obligations hereunder.

ARTICLE XVII

DISSOLUTION, LIQUIDATION AND TERMINATION

Section 17.1 NO DISSOLUTION. The death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event that terminates the continued membership of a Member in the Company shall not, in and of itself, cause the dissolution of the Company. In such event, the business of the Company shall be continued by the remaining Members.

Section 17.2 LIQUIDATION. Upon dissolution of the Company, unless the Members reconstitute the Company, the Person or Persons approved by the Class A Members to carry out the winding up of the Company shall immediately commence to wind up the Company's affairs; PROVIDED, HOWEVER, that a reasonable time shall be allowed for the orderly liquidation of the assets of the Company and the satisfaction of liabilities to creditors so as to enable the Members to minimize the normal losses attendant upon a liquidation. The Members shall continue to share income, Profits and Losses during liquidation as specified in Article X hereof. The proceeds of liquidation shall be distributed in the following order and priority:

(a) to secured creditors of the Company whether or not they are Members and to unsecured creditors that are not Members, to the extent otherwise permitted by law, in satisfaction of the liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof);

(b) to unsecured creditors of the Company that are Members, to the extent otherwise permitted by law, in satisfaction of the liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof);

(c) to the holders of the Class B Shares on a PRO RATA basis in accordance with their respective Capital Accounts;

(d) to the holders of the Class A Shares on a PRO RATA basis in accordance with their respective Capital Accounts; and

(e) to the holders of the Class A shares on a PRO RATA basis in accordance with their respective ownership of Class A Shares.

Section 17.3 TERMINATION. The Company shall terminate when all of the assets of the Company, after payment, or due provision for all debts, liabilities and obligations, of the Company shall have been distributed to the Members in the manner provided for in this Article XVII and the Certificate shall have been canceled in the manner required by the Delaware Act.

Section 17.4 CLAIMS OF THE MEMBERS. The Members and former Members shall look solely to the Company's assets for the return of their Capital Contributions, and if the assets of the Company remaining after payment of or due provision for all debts, liabilities and obligations of the Company are insufficient to return such Capital Contributions, the Members and former Members shall have no recourse against the Company or any other Member.

ARTICLE XVIII

MISCELLANEOUS

Section 18.1 NOTICES. All notices provided for in this Agreement shall be in writing, duly signed by the party giving such notice, and shall be hand delivered, faxed or mailed by registered or certified mail or overnight courier service, as follows:

(a) if given to the Company:

Brands LLC
c/o Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

(b) if given to any Member:

(i) to PM or its designee:

Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Facsimile: (212) 403-2000
Attention: Elliott V. Stein;

(ii) to the Liggett Parties:

c/o Brooke Group Ltd.
100 S.E. Second Street, 32nd floor
Miami, FL 33131
Facsimile: (305) 579-8009
Attention: Richard J. Lampen
Executive Vice President

with a copy to:

Milbank, Tweed, Hadley & McCloy
One Chase Manhattan Plaza
New York, NY 10005
Facsimile: (212) 530-5219

Attention: Michael W. Goroff and Simon Friedman

All such notices shall be deemed to have been given when received. The address for receipt of notice may be changed by providing written notice to the Company.

Section 18.2 FORMATION EXPENSES. Each party shall pay its own expenses incurred in connection with the formation of the Company.

Section 18.3 FAILURE TO PURSUE REMEDIES. The failure of any party to seek redress for violation of, or to insist upon the strict performance of, any provision of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

Section 18.4 CUMULATIVE REMEDIES. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive its right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

Section 18.5 BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of all of the parties and, to the extent permitted by this Agreement, their successors, legal representatives and assigns.

Section 18.6 INTERPRETATION. All references herein to "Articles," "Sections" and "Paragraphs" shall refer to corresponding provisions of this Agreement. Whenever the words "INCLUDE," "INCLUDES" or "INCLUDING" are used in this Agreement, they shall be deemed to be followed by the words "WITHOUT limitation." The words "HEREOF," "HEREIN" and "HEREUNDER" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent in writing and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns.

Section 18.7 SEVERABILITY. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.

Section 18.8 COUNTERPARTS. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All counterparts shall be construed together and shall constitute one instrument.

Section 18.9 INTEGRATION. There are no oral agreements, understandings, representations or warranties between the Parties with respect to the subject matter hereof.

Section 18.10 GOVERNING LAW. This Agreement and the rights of the parties hereunder shall be interpreted in accordance with the laws of the State of New York (other than with respect to matters relating to the obligations, rights and powers of the Company and the Members under the Delaware Act), and all rights and remedies shall be governed by such laws without regard to principles of conflict of laws.

Section 18.11 CONSENT TO JURISDICTION. Each of the Parties (i) consents to submit itself to the personal jurisdiction of any Federal or state court located in the State of New York in the event that any dispute arises out of this Agreement or any of the transactions contemplated hereby, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (iii) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a Federal or state court sitting in the State of New York.

Section 18.12 CONFIDENTIALITY. Each Member expressly acknowledges that such Member will receive confidential and proprietary information relating to the Company, including, without limitation, information relating to the Company's financial condition and business plans, and that the disclosure of such confidential information to a third party would cause irreparable injury to the Company. Except with the prior written consent of the Company or as required by law, no Member shall disclose any such information to a third party (other than on a "need to know" basis to any Affiliate or any employee, agent or representative of such Member or its Affiliates (each of whom shall agree to maintain the confidentiality of such information)), and each Member shall use reasonable efforts to preserve the confidentiality of such information.

Section 18.13 GOVERNMENTAL NOTICES. A Member shall, within 10 days of receipt of any notice from a Governmental Entity, including but not limited to, the Department of Justice, the Federal Trade Commission or the Internal Revenue Service, relating to the formation, operation or treatment of the Company or to the transactions contemplated by the Transaction Agreements, mail a copy of such notice to each Member.

Section 18.14 PRIOR AGREEMENT. The letter agreement of November 20, 1998 among Brooke, LMI, Liggett and PM regarding a prior conditional settlement of certain litigation is unaffected by this Agreement and remains in full force and effect.

ARTICLE XIX

AMENDMENTS

Section 19.1 AMENDMENTS. Any amendment to this Agreement shall be adopted and be effective as an amendment hereto if approved by the affirmative vote of a majority of the Total Voting Power, except that any amendment which would adversely affect the rights or obligations of any Member (or of the Class B Shares) shall also be approved by such Member (or by the holders of a majority of the Class B Shares).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above stated.

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT & MYERS INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Vice President

EVE HOLDINGS INC.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT GROUP INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Senior Vice President

PHILIP MORRIS INCORPORATED

By: /s/ M.E. Szymanczyk

Name: M.E. Szymanczyk
Title: Chief Executive Officer

SCHEDULE A

Members

Name	Agreed Value of Initial Capital Contribution (a)	Number of Shares (a)
CLASS A SHARES		CLASS A
Lark Mark		
Chesterfield Mark		
L&M Mark		
CLASS B SHARES		CLASS B
Lark Mark		
Chesterfield Mark		
L&M Mark		
Total		

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

(a) To be determined prior to Closing Date.

EXHIBIT A

TRADEMARK LICENSE AGREEMENT

TRADEMARK LICENSE AGREEMENT (the "Agreement") dated as of _____, 1999, by and between Brands LLC, a Delaware limited liability company ("Licensor"), and Philip Morris Incorporated, a Virginia corporation ("Licensee").

WHEREAS, an Affiliate of Licensee acquired in 1978 the entire business of Liggett Group Inc. in the International Territory;

WHEREAS, Licensor owns and has the right to license the Trademarks in the United States (as defined herein) and desires to grant the Licensee such rights in accordance with the terms of this Agreement; and

WHEREAS, upon execution of this Agreement, Licensee will have the exclusive right (including with respect to Licensor) to use the Trademarks in the United States (as defined herein).

NOW THEREFORE, in consideration of the foregoing recitals, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Licensor and Licensee agree as follows:

1. DEFINITIONS. The following terms shall have the specified meanings when used in this Agreement:

(a) AFFILIATES: shall mean, with respect to any Person, any direct or indirect subsidiary of such Person, any other Person that directly or through one or more intermediaries, is controlled by, or is under common control with, the specified Person, and, if such a Person is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person who is controlled by any such member or trust. As used in this definition, the term "CONTROL" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise. Notwithstanding the foregoing, for the purposes of this Agreement, (i) Licensor and Licensee shall not be deemed to be Affiliates and (ii) Licensor shall not be deemed to be an Affiliate of Eve Holdings Inc., a Delaware corporation ("Eve"), or of any Affiliate of Eve.

(b) BRANDS: shall mean "Lark," "Chesterfield" and "L&M."

(c) CONFIDENTIAL INFORMATION: shall mean all proprietary information relating to the business and operations of Licensor or any of Licensor's Affiliates, other than information that (i) is in the possession of Licensee prior to the execution of this Agreement, (ii) becomes available to the public other than as a result of a disclosure by Licensee or its officers, employees or advisors, or (iii) is not acquired from Licensor or persons known by Licensee to be in breach of an obligation of secrecy to Licensor.

(d) INTERNATIONAL TERRITORY: means (i) any place in the world outside the United States, (ii) ships and aircraft, purchasing duty-free, located within or outside the United States, (iii) duty-free shops, embassies, legations and others enjoying duty-free privileges (in each case to the extent they enjoy such privileges from time to time) located within or outside the United States and (iv) embassies, legations and other presences of the government of the United States of America enjoying duty-free privileges (in each case to the extent they enjoy such privileges from time to time) located outside the United States, but excluding sales to the United States Military wherever situated.

(e) INVENTORY: shall mean Licensee's inventory of Licensed Products and of related work in progress then on hand as reflected in Licensee's books and records.

(f) LICENSED PRODUCTS: shall mean the cigarettes sold in the United States under any of the Trademarks, conforming to the Quality Standards and Specifications.

(g) LLC AGREEMENT: shall mean that certain Formation and Limited Liability Company Agreement dated as of January 12, 1999 between the Liggett Parties (as defined therein) and Licensee.

(h) NONTOBACCO MATERIALS: shall mean all components and ingredients, other than tobacco, used in manufacturing the Licensed Products, including casings and flavorings, tow and additives, cigarette paper, tipping paper and packaging.

(i) PERSON: shall include any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

(j) QUALITY STANDARDS AND SPECIFICATIONS: shall mean such specifications, standards and directions of Licensor, as Licensor shall provide to Licensee from time to time.

(k) TAXES: shall mean any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties, or other liabilities with respect thereto, excluding income taxes and franchise taxes measured by the income of Licensor.

(l) TRADEMARKS: shall mean all of the interest of the Licensor in all trademarks, trade names, trade dress, service marks, registrations and applications for registrations therefor, in each case relating to "Lark," "Chesterfield" and "L&M" brands, including any variation or product line extension thereof and any derivative pertaining thereto, as set forth in Schedule A hereto.

(m) UNITED STATES: means the present fifty states of the United States of America and the District of Columbia and shall exclude (a) its territories, possessions and the Commonwealth of Puerto Rico, all as presently constituted, and (b) all of the International Territory. When used herein, "sales in the United States" include sales to the United States Military, wherever situated.

(n) UNITED STATES MILITARY: shall mean appropriated and non-appropriated fund activities of the United States Department of Defense, Departments of the Army, Navy, Air Force, United States Marine Corps and United States Coast Guard.

2. LICENSE GRANT.

(a) Licensor hereby grants to Licensee, upon the terms and subject to the conditions and restrictions of this Agreement, the exclusive right to use the Trademarks upon and in connection with the manufacture, marketing distribution and sale of the Licensed Products in the United States.

(b) Licensor acknowledges and agrees that the license granted hereunder is exclusive as to Licensee, and Licensor agrees that it shall not use the Trademarks in any manner whatsoever.

(c) Licensee agrees that, subject to the rights granted in this Agreement, Licensor owns all right, title and interest in the United States to the Trademarks in the United States. No rights to the Trademarks in the United States are granted herein other than those expressly enumerated.

3. PROTECTION OF TRADEMARKS.

(a) Licensee shall do everything in its power to protect the Trademarks. To that end, Licensee shall fully comply with all the laws and regulations in the United States which are applicable to the manufacture, sale or purchase of cigarettes or to the use of trademarks for cigarettes; shall give prompt notice in writing to Licensor of any infringement or possible infringement of the Trademarks which may come to its attention; shall not at any time claim any right, title or interest in or to the Trademarks, other than the right to use the same under all the terms and conditions hereof; shall not at any time use or register any trademark or trade name identical or confusingly similar to any of the Trademarks; and shall, without charge, assign to Licensor, upon the request of Licensor, all such registrations and applications therefor and any right it may acquire through use or otherwise (except the right to use the same under all the terms and conditions hereof) in or to the Trademarks. When and if requested by Licensor so to do, Licensee shall, at its cost and expense, take such action as may be necessary or advisable to stop any infringement of the Trademarks and to recover profits, damages and costs. If any sum in excess of the costs and expenses incurred by Licensee in connection therewith is recovered in any such suit, Licensor shall have the exclusive right thereto.

(b) Licensee may in its discretion, either in its own name or the name of Licensor or in both names, take such action (including the initiation of proceedings and participation in proceedings initiated by Licensor and the defense of proceedings brought against Licensor) as it may deem necessary or desirable, at law or in equity or otherwise, either in the United States or elsewhere, to stop any infringement of the Trademarks or to defend the use of the Trademarks and, in the event any sum in excess of the costs and expenses incurred by Licensee in connection therewith is recovered, Licensor shall have the exclusive right thereto. In the event that Licensee decides to take any action in the name of Licensor pursuant to this Section 3(b), it shall first obtain the consent of Licensor and such consent shall not be unreasonably withheld; provided, however, that nothing herein shall prevent Licensee from taking any action in its own name at any time in its absolute discretion.

4. QUALITY STANDARDS AND SPECIFICATIONS.

Licensee shall manufacture cigarettes for sale under the Trademarks in accordance with Licensor's Quality Standards and Specifications, and shall not sell under the Trademarks any cigarettes that do not meet or exceed the Quality Standards and Specifications. Licensee represents and warrants that the Licensed Products will be manufactured, sold and distributed in strict compliance with the terms and conditions of this Agreement and all applicable laws, regulations and standards in force at any time in any place in the United States. Licensee will take all steps required with respect to the Licensed Products, their advertising, marketing and distribution to ensure compliance with such laws, regulations and standards.

5. PURCHASE OF SUPPLIES. Licensee shall be free to purchase the tobaccos and Non-Tobacco Materials necessary for the manufacture of the Licensed Products from such suppliers as it may select; PROVIDED that such tobaccos and NonTobacco Materials comply in all respects with the Quality Standards and Specifications.

6. CONFIDENTIALITY. Licensee shall not during the term of this Agreement disclose any Confidential Information to any person. Upon the expiration or termination of this Agreement, Licensee shall cease to utilize and not thereafter utilize any Confidential Information.

7. ROYALTIES.

(a) In consideration of the right and license granted to Licensee to use the Trademarks pursuant to this Agreement, Licensee shall pay to Licensor a royalty at the rate of four and one-half percent (4.5%) of the Licensee's Net Sales Value of Licensed Products during each calendar year (or portion thereof) that this Agreement is in effect, but in no event shall such royalty for any such calendar year (or portion thereof) in which this Agreement is in effect be less than the Minimum Royalty. For purposes of this paragraph, the term "Net Sales Value"

shall mean the gross sales price from Licensee's factories of the Licensed Products, less any federal excise tax that is included in such price. For purposes of this paragraph, the term "Minimum Royalty" in any period shall mean the greater of (i) the product of $10,500,000 times a fraction, the numerator of which is the number of days in such period, and the denominator of which is 365, and (ii) the sum of (x) the amount of the debt service obligation of Licensor for such period and (y) the product of $1,000,000 times a fraction, the numerator of which is the number of days in such period and the denominator of which is 365.

(b) Licensee shall keep proper and accurate accounts and records of all cigarettes manufactured and of all cigarettes sold under this agreement and shall, within thirty days after the end of each calendar quarter and within thirty days after the expiration or termination of this Agreement for any reason, render to Licensor a written statement setting forth separately the quantities of cigarettes manufactured and the quantities sold under the Trademarks in the most recently completed calendar quarter or in the period between the end of the preceding calendar quarter and the effective date of expiration or termination, as the case may be, such statement to be signed by an officer of Licensee. As used in this paragraph, the term "cigarettes sold" in any period shall mean the physical volume of cigarettes sold during such period less the physical volume of cigarettes accepted during such period by Licensee as returned merchandise. It shall in no event include cigarettes distributed by Licensee without charge.

(c) Licensor, by its duly authorized representatives, shall have the right, at reasonable intervals and times, to enter Licensee's premises and examine those books and records of Licensee which are relevant to the manufacture and sale of cigarettes hereunder, and to take excerpts therefrom.

(d) At the time Licensee renders each written statement to Licensor pursuant to Section 7(b), Licensee shall pay the royalty specified in Section 7(a) with respect to cigarettes shown as sold in such statement; PROVIDED that the Minimum Royalty for the period covered by such written statement shall be paid on the second business day following the last day of such period.

8. WITHHOLDING TAXES AND OTHER TAXES & CHARGES.

Any and all payments made by Licensee in connection with this Agreement shall be made free and clear of and without deduction for any and all Taxes. If Licensee shall be required by law to deduct and withhold from the payments to be made to Licensor any Taxes, (i) the sum payable shall be increased as may be necessary so that after making all required deductions for Taxes Licensor receives an amount equal to the sum it would have received had no such deductions been made, (ii) Licensee shall make such deductions and pay the full amount deducted to the relevant taxing or other authority in accordance with applicable law, and (iii) Licensee shall mail to Licensor due evidence thereof in the form specified by Licensor which shall include in all instances the original tax receipts related to such royalty payments. Licensee shall reimburse Licensor for the amount of any tax credits that Licensor is unable to obtain due to the failure of Licensee to provide Licensor with the tax receipts as required by this Section. In the event such taxes are not paid when due, all resulting penalties and interest shall be borne by Licensee.

9. EFFECTIVE DATE; TERM; TERMINATION.

(a) EFFECTIVE DATE; TERM. This Agreement shall continue in effect through _____, 2010, unless earlier terminated pursuant to the provisions of this Agreement; PROVIDED that, this Agreement will renew automatically for successive one year periods unless one party hereto gives written notice of its desire to terminate at least 60 days prior to the date on which the Agreement would otherwise be renewed.

(b) EARLY TERMINATION FOR CAUSE.

(i) BY LICENSOR. Licensor may terminate this Agreement immediately in the event that:

(1) Licensee fails to perform in any material respect any of the terms of this Agreement or otherwise breaches in any material respect any part of this Agreement, including, without limitation, if Licensee fails to make any payment to Licensor in accordance with the terms of this Agreement for any reason, and such default or breach shall continue uncured for a period of thirty (30) days after Licensor gives Licensee written notice of such default or breach; or

(2) any part of this Agreement is not considered to be, or ceases to be, in conformity with the laws, regulations, consistent jurisprudence or court or administrative decisions (relevant to this Agreement) of the United States and, as a result thereof, any provision herein reasonably deemed by Licensor to be material to this Agreement cannot be legally performed or enforced or if, as a consequence thereof, any of the Licensed Products cannot be manufactured or sold in accordance with the Quality Standards and Specifications.

(ii) BY LICENSEE. Licensee may terminate this Agreement immediately in the event that (i) Licensor fails to perform any of the terms of this Agreement or otherwise breaches any part of this Agreement and such default or breach shall continue uncured for a period of ten (10) days after Licensee gives Licensor written notice of such default or breach or (ii) there shall have occurred a Material Breach by the Liggett Parties as defined in the Class A Option Agreement dated as of January 12, 1999 among Licensee, Eve, Brooke Group Ltd., Liggett & Myers Inc. and Liggett Group Inc.

(iii) BY MUTUAL CONSENT: Licensor and Licensee may agree in writing at any time to terminate this Agreement.

(c) EFFECT OF TERMINATION. Upon the expiration or termination of this Agreement for any reason:

(i) All of the rights of Licensee granted hereunder shall terminate forthwith and shall revert immediately to Licensor, PROVIDED that Licensee's obligations under Sections 6 and 8 of this Agreement shall survive. All royalties on previously made sales shall become immediately due and payable, and Licensee shall (a) discontinue forthwith all manufacture, sale and distribution of the Licensed Products and all use of the Trademarks in the United States; (b) no longer have the right to use the Trademarks in the United States or any variation or simulation thereof; (c) promptly transfer to Licensor, free of charge, all related documentary evidence of the validity of the Trademarks in the United States and Licensee's rights as a licensee which Licensee may have possessed at any time; (d) remove and erase forthwith all reference to the Trademarks from the printed material and advertising used in the United States or maintained by Licensee; and (e) cease to utilize, and thereafter not utilize, any Confidential Information disclosed to it by Licensor hereunder, and return to Licensor or its designee, at no charge, all Confidential Information received by Licensee from Licensor or any of its Affiliates before or during the term of this Agreement, and all copies of any documents containing, reflecting, or relating to the foregoing; and not thereafter hold forth in any manner whatsoever that Licensee has any connection with the Licensed Products

(ii) If this Agreement expires or is terminated for reasons other than Licensee's default or bankruptcy or insolvency, Licensee shall be entitled, for an additional period of three (3) months only, on a nonexclusive basis, to sell the Inventory. After Licensee exercises its rights, if any, pursuant to this Subsection, Licensee shall promptly deliver to Licensor a complete and accurate schedule of the Inventory. Such schedule shall be prepared as of a date as close to the date of such expiration or termination (following exercise of Licensee's rights, if any, pursuant to this Subsection) as is reasonably feasible given Licensee's usual and customary accounting practices, but in no event later than fifteen (15) days after the end of Licensee's fiscal month during which the termination or expiration occurs, and shall reflect Licensee's cost of each item of Inventory. Licensor thereupon shall have the option, exercisable by notice in writing delivered to Licensee within thirty (30) days after its receipt of the complete Inventory schedule, to purchase any or all of the Inventory at such cost of each item of the Inventory being purchased. In the event such notice is sent by Licensor, Licensee shall deliver to Licensor or its designee all the Inventory referred to therein as promptly as practicable after Licensor's said notice, and Licensor shall pay Licensee for such Inventory as is in salable condition, and also shall pay for applicable shipping and handling charges, within thirty (30) days after its receipt thereof, provided in the event Licensor is unable to meet Licensee's customary and usual credit clearance standards, such merchandise shall be sold on a cash on delivery basis. Licensee shall have no obligation to pay royalties on Inventory purchased by Licensor pursuant to this paragraph. To the extent that Licensor does not elect to purchase Inventory, Licensee shall promptly destroy such Inventory.

(iii) The expiration or termination of this Agreement for any reason shall not release either party hereto from any liability which, at the time of expiration or termination, had already accrued to the other party or which may accrue in respect of any act or omission prior to such expiration or termination; PROVIDED that Licensee shall in no event be

entitled, based on such expiration or termination, to any compensation, damages or payment for goodwill that may have been established with respect to the Licensed Products during the term of this Agreement and that Licensee hereby irrevocably waives and renounces any claim, based on such expiration or termination, for any such compensation, damages, or other legal or equitable relief which it may hereafter be entitled to assert against Licensor. Notwithstanding any termination in accordance with this Section, Licensor shall have and hereby reserves all rights and remedies which it has, or which are granted to it by operation of law, including, but not limited to, the right to be compensated for damages for breach of this Agreement and to enjoin the unlawful or unauthorized use of the Trademarks and to collect royalties and fees payable by Licensee hereunder through the date of termination.

10. NOTICES. All notices, requests, demands, approvals, consents or other communications under this Agreement shall be in writing and delivered in person, by telefax or telex, by overnight courier service or by registered or certified mail, return receipt requested, to the following addresses or such other address or addresses as either party shall designate with respect to its own address:

If to Licensor:

Brands LLC
c/o Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

If to Licensee:

Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

11. GOVERNMENT APPROVALS.

This Agreement shall be subject to such United States government approvals and consents as may from time to time be necessary or desirable in connection with this Agreement. If any such approval or consent is not obtained or if obtaining such consent or approval would materially diminish the value of this Agreement to Licensor, Licensor may terminate this Agreement in accordance with its termination provisions.

12. GOVERNING LAW. The provisions of this Agreement shall be governed by and construed in accordance with the laws of New York, without regard for choice of law provisions.

13. REPRESENTATIONS AND WARRANTIES.

In addition to their other representations, warranties, and covenants elsewhere herein contained, the parties represent, each to the other, as follows:

(a) LICENSOR. Licensor represents and warrants that it has full right, power and authority to enter into this Agreement and to perform all of its obligations hereunder. Licensor further represents , that it has granted no other existing license to use the Trademarks in the United States as provided for in this Agreement, and that it shall grant no such other license during the term of this Agreement.

(b) LICENSEE. Licensee represents and warrants that it has full right, power, and authority to enter into this Agreement and to perform all of its obligations hereunder. Licensee shall not assert as a defense in any action brought under this Agreement any claim that this Agreement is unenforceable or invalidated by any applicable law.

14. AMENDMENT.

This Agreement shall not be modified or amended except by an agreement in writing signed by the parties hereto.

15. BINDING EFFECT; ASSIGNMENTS AND SUBLICENSE.

This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective heirs, successors and assigns. Licensor shall not assign its interest in this Agreement without the consent of Licensee, except to secure indebtedness of Licensor. It is expressly understood and agreed that Licensee shall have the right to sell, assign or sublicense its rights under this Agreement; PROVIDED that any such purchaser, assignee or sublicensee agrees in writing to be subject to and bound by the terms and conditions of this Agreement as if it were a party hereto.

16. COUNTERPARTS.

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

17. NO RIGHTS OF THIRD PARTIES.

Except as specifically contemplated herein, this Agreement shall not be deemed to confer any rights or benefits on any person not a party to this Agreement.

18. PARTIAL INVALIDITY.

If one or more provisions of this Agreement shall be invalid, illegal, or unenforceable in any respect in any jurisdiction or with respect to any party, such invalidity, illegality, or unenforceability in such jurisdiction or with respect to such party shall not, to the fullest extent permitted by applicable law, invalidate or render illegal or unenforceable such provision in any other jurisdiction or with respect to any other party, or any other provision of this Agreement. To the fullest extent it may effectively do so under applicable law, each of the parties hereto waives any provision of law which renders any provision hereof invalid or illegal in any respect.

19. NO WAIVER; CUMULATIVE REMEDIES.

No delay or omission or failure to exercise, or any abandonment or discontinuance of steps to enforce, any right or remedy provided for herein shall be deemed to be a waiver thereof or acquiescence in the event giving rise to such right or remedy, but every such right and remedy may be exercised from time to time and so often as may be deemed expedient by the party exercising such right or remedy. The rights and remedies provided herein are cumulative and not exclusive of any remedies provided by law.

20. RELATIONSHIP OF THE PARTIES.

Nothing contained herein shall be construed to create a partnership, joint venture, or agency relationship between Licensee and Licensor, and neither Licensee nor Licensor shall become bound by any representation, act or omission of the other.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be signed and their corporate seals to be hereunto affixed as of the day and year first above written.

BRANDS LLC

By:

Name:
Title:

PHILIP MORRIS INCORPORATED

By:

Name:
Title:

EXHIBIT B

FORM OF ASSIGNMENT

This Assignment is made the day of _____, 1999.

BETWEEN Eve Holdings Inc., a Delaware corporation ("Eve"), 100 S.E. Second Street, Miami, Florida 33131,

AND Brands LLC, a Delaware limited liability company ("Brands LLC"), 120 Park Avenue, New York, New York 10017.

WHEREAS, Eve is the owner of the trademarks referred to in the attached Schedule A which are registered in the United States Patent and Trademark Office.

WHEREAS, Brands LLC desires to acquire all right, title and interest in and to the aforesaid trademarks and the registrations therefor, and that part of the goodwill of the business connected with the use of and symbolized by said trademarks;

NOW, THEREFORE, for and in consideration for the sum of Ten Dollars ($10.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, Eve hereby sells, transfers, conveys and assigns unto Brands LLC, all right, title and interest in and to the aforesaid trademarks and the registrations therefor, together with that part of the goodwill of the business connected with the use of and symbolized by said trademarks.

IN WITNESS WHEREOF, Eve has caused this Assignment to be executed with full effect from the day and year first above written.

EVE HOLDINGS INC.

By:

Name:
Title:

SCHEDULE A: TRADEMARKS

TRADEMARK	REG. NO.	REG. DATE

EXHIBIT 10.61

THIS CLASS A OPTION AGREEMENT (the "AGREEMENT"), dated as of January 12, 1999, is entered into among Brooke Group Ltd., a Delaware corporation ("BROOK"), Liggett & Myers Inc., a Delaware corporation ("LMI"), Liggett Group Inc., a Delaware corporation ("LIGGETT"), and Eve Holdings Inc., a Delaware corporation (the "GRANTOR", and together with Brooke, LMI and Liggett, the "LIGGETT PARTIES"), on the one hand, and Philip Morris Incorporated, a Virginia corporation ("PM"), on the other hand.

WHEREAS, concurrently with the execution of this Agreement, the Liggett Parties and PM will execute the Formation and Limited Liability Company Agreement of Brands LLC, a Delaware limited liability company (the "COMPANY"), pursuant to which, among other things, the Grantor will contribute the Marks to the Company in exchange for 100% of the Class A Shares and 100% of the Class B Shares of the Company; and

WHEREAS, the Grantor desires to grant to PM an option to acquire all of the Class A Shares, on the terms and subject to the conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

As used in this Agreement the following terms shall have the following respective meanings:

"AFFILIATE" shall mean, with respect to any Person, any direct or indirect subsidiary of such Person, any other Person that directly or through one or more intermediaries, is controlled by, or is under common control with, the specified Person, and, if such a Person is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any person who is controlled by any such member or trust. As used in this definition, the term "CONTROL" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise. Notwithstanding the foregoing, for purposes of this Agreement (i) the Liggett Parties and their Subsidiaries shall not be deemed to be Affiliates of PM, and (ii) PM and its Subsidiaries (including the Company) shall not be deemed to be Affiliates of the Liggett Parties.

"AGREEMENT" shall have the meaning set forth in the recitals hereof.

"ASSIGN" shall mean to, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any Class A Shares.

"BRANDS" shall mean "Lark," "Chesterfield" and "L&M."

"BROOKE" shall have the meaning set forth in the preamble hereof.

"CERTIFICATE" shall mean the Certificate of Formation of the Company filed on behalf of the Company with the office of the Secretary of State of the State of Delaware pursuant to the Delaware Act.

"CLASS A EXERCISE PRICE" shall have the meaning set forth in Section 2.3.

"CLASS A OPTION" shall have the meaning set forth in Section 2.1.

"CLASS B OPTION Agreement" shall mean that certain option agreement, dated as of the date hereof, pursuant to which PM (or any Permitted Assignee thereunder) may purchase from the Grantor the Class B Shares owned by it. Such right to purchase the Class B Shares is the "CLASS B OPTION".

"CLASS A OPTION CONSIDERATION" shall have the meaning set forth in Section 2.1.

"CLASS A OPTION TERMINATION Date" shall have the meaning set forth in Section 2.2(d).

"CLOSING" shall have the meaning set forth in Section 2.5.

"CLOSING DATE" shall mean the date on which the Closing occurs.

"COMPANY" shall have the meaning set forth in the preamble hereto.

"DELAWARE ACT" means the Delaware Limited Liability Company Act (6 Del. Co. section 18-101, ET SEQ.), as amended from time to time.

"DOJ" shall have the meaning set forth in Section 5.1 (b).

"DUE DILIGENCE PERIOD" shall have the meaning set forth in Section 2.2(a).

"EXTENDED DUE DILIGENCE PERIOD" shall have the meaning set forth in Section 2.2(a).

"FTC" shall have the meaning set forth in Section 5.1 (b).

"GOVERNMENTAL ENTITY" means any government or subdivision thereof, domestic, foreign or supranational or any administrative, governmental or regulatory authority, agency, commission, tribunal or body, domestic, foreign or supranational.

"GOVERNMENTAL FILINGS" shall have the meaning set forth in Section 5.1 (a).

"GRANTOR" shall have the meaning set forth in the preamble hereof

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"HSR CLEARANCE" means expiration or termination of the waiting period under the HSR Act with respect to the filings made in connection with the exercise of the Class A Option and the entering into of the License Agreement.

"INITIAL DUE DILIGENCE PERIOD" shall have the meaning set forth in Section 2.2(a).

"LICENSE AGREEMENT" shall mean that certain license agreement, attached as Exhibit A to the LLC Agreement, between the Company and PM and dated as of the Closing Date, pursuant to which PM and its Affiliates will obtain the exclusive (including with respect to the Company) license to use the Marks within the United States (as defined in the License Agreement).

"LIEN" shall have the meaning set forth in Section 3.2.

"LIGGETT" and "LIGGETT PARTIES" shall have the respective meanings set forth in the preamble hereof.

"LLC AGREEMENT" shall mean that certain Formation and Limited Liability Company Agreement to be entered into by the Liggett Parties and PM concurrently with the execution of this Agreement.

"LMI" shall have the meaning set forth in the preamble hereof.

"MARKS" shall mean all of the interest of the Liggett Parties and any Affiliate of any Liggett Party in all trademarks, trade names, trade dress, service marks, registrations and applications for registrations therefor, in each case relating to each of the Brands, including any variation or product line extension thereof and any derivative pertaining thereto.

"MATERIAL BREACH BY THE LIGGETT PARTIES" shall have the meaning set forth in Section 2.4(a).

"MATERIAL BREACH BY PM" shall have the meaning set forth in Section 6.1(c).

"NOTICE OF EXERCISE" shall have the meaning set forth in Section 2.5.

"PERSON" includes any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

"PERMITTED ASSIGNEE" shall have the meaning set forth in Section 2.2(d).

"PM" shall have the meaning set forth in the preamble hereof.

"SUBSIDIARIES" shall mean, with respect to any Person, any other Person in which such Person owns, directly or indirectly, 50% or more of the voting interests.

"TRANSACTION AGREEMENTS" mean this Agreement, the Class B Option Agreement and the LLC Agreement.

ARTICLE II

GRANT AND EXERCISE OF OPTION, FURTHER INVESTIGATION; CLOSING

SECTION 2.1. GRANT OF CLASS A OPTION. The Grantor hereby grants to PM (or a Permitted Assignee) an irrevocable option (THE "CLASS A OPTION") to purchase 100% of the Class A Shares, on the terms and subject to the conditions set forth in this Agreement. In consideration of the grant of the Class A Option, PM has delivered to the Grantor $5.0 million (the "CLASS A OPTION CONSIDERATION"), receipt of which is hereby acknowledged.

SECTION 2.2. FURTHER INVESTIGATION; EXERCISE OF OPTION.

(a) PM may conduct further due diligence with respect to the Marks from the date hereof until 5:00 P.M. (New York City time) on the 10th day following HSR Clearance (the "INITIAL DUE DILIGENCE PERIOD"); PROVIDED, that in the event any information requested by PM in the course of its due diligence is withheld due to competitive considerations or otherwise, such information will be provided to PM by the Liggett Parties no later than 5:00 P.M. (New York City time) on the 10th day following HSR Clearance, and PM may continue its due diligence until 5:00 P.M. (New York City time) on the 30th day following HSR Clearance (such period, the "EXTENDED DUE DILIGENCE PERIOD" and together with the Initial Due Diligence Period, the "DUE DILIGENCE PERIOD").

(b) Subject to terms and conditions herein, unless at any time during the Due Diligence Period, as a result of matters learned through such due diligence, PM reasonably determines that (i) there exists substantial doubt as to the validity or enforceability of one or more of the Marks, or (ii) there exists substantial and previously unknown to PM (x) litigation liability affecting or relating to one or more of the Marks, which liability is material in relation to the transactions contemplated by the Transaction Agreements, or (y) regulatory risk affecting or relating to one or more of the Marks, PM must exercise the Class A Option prior to or at the expiration of the Due Diligence Period in accordance with the procedures set forth in Section 2.5 of this Agreement. In the event PM makes the due diligence determination described in the preceding sentence, PM shall promptly deliver a notice upon making any such determination (and in any event prior to or at the expiration of the Due Diligence Period) stating that the completion of its due diligence was not satisfactory as provided herein.

(c) In the event that PM delivers a notice that the completion of its due diligence was not satisfactory, the Liggett Parties shall have a period of 120 days from the date of

such notice in which to cure the condition or conditions that were the basis of such notice. If such condition or conditions are cured, the obligation of PM to exercise the Class A Option shall be reinstated.

(d) If PM Assigns the Class A Option to a third party in accordance with Section 10.6 (such assignee, a "PERMITTED ASSIGNEE"), the Class A Option shall be exercisable by such Permitted Assignee (or any subsequent Permitted Assignee) (together with PM, a "CLASS A OPTIONHOLDER") at any time prior to March 1, 2009 (the "CLASS A OPTION TERMINATION DATE"); PROVIDED, however, that such Permitted Assignee shall assume PM's obligations with respect to obtaining HSR Clearance and exercising the Class A Option in accordance with this Section 2.2.

SECTION 2.3. CLASS A EXERCISE PRICE.

(a) Subject to Sections 2.3(b) and 23(c), the Class A Exercise Price shall be $10.1 million.

(b) If a Material Breach by PM occurs, and upon payment of the amount required by the last sentence of Section 6.1 (c) hereof, the Class A Exercise Price shall become $1.00.

(c) If the Liggett Parties refund the Class A Option Consideration in accordance with Section 2.4 hereof and PM does not terminate this Agreement in accordance with Section 9.1 (a)(ii) hereof, the Class A Exercise Price shall become $15.1 million.

SECTION 2.4. REFUND OF CLASS A OPTION CONSIDERATION.

(a) The Class A Option Consideration shall be repayable to PM by the Liggett Parties in full promptly following demand by PM, whether before or after the Closing, upon any of the following events that is not cured to PM's reasonable satisfaction within 120 days of written notice thereof from PM to the Liggett Parties (a "MATERIAL BREACH BY THE LIGGETT PARTIES"):

(i) the material failure of the Liggett Parties or any of their Affiliates to comply prior to the Closing with their obligations set forth in Section 5.1 (a) (subject to Section 5.1 (b)); or

(ii) the material failure of the Liggett Parties to deliver to the Company the Marks free and clear of all encumbrances, restrictions or conditions arising as a result of settlement agreements (it being expressly understood that any obligation of any Liggett Party under any settlement agreement that is imposed on the Company or PM or their Affiliates as a result of the transactions contemplated by the Transaction Agreements or the License Agreement would be such an encumbrance, restriction or condition) and to keep the Marks free of such encumbrances, restrictions or conditions through the Closing Date; or

(iii) the material failure of the Liggett Parties or any of their Affiliates to comply, prior to the approval by all relevant courts of the settlement

agreement referred to in paragraph 9 of that certain letter agreement dated November 20, 1998 between PM and the Liggett Parties, with the obligations imposed by such paragraph 9.

(b) In the event that a demand for repayment of the Class A Option Consideration is made by PM pursuant to Section 2.4(a) after the Closing, PM shall reconvey the Class A Shares to Eve in exchange for the repayment by Eve of the Class A Exercise Price, with such exchange to take place concurrently with the repayment of the Class A Option Consideration.

SECTION 2.5. NOTICE OF EXERCISE; CLOSING. In order to exercise the Class A Option, a Class A Optionholder must give written notice (A "NOTICE OF EXERCISE") to the Liggett Parties reciting its intention to exercise the Class A Option and setting forth the time and place of the closing (the "CLOSING"); PROVIDED that the date of the Closing set forth in such Notice of Exercise may not be more than 90 days from the date thereof. At the Closing, the events set forth in Section 2.7 of the LLC Agreement shall also occur or have occurred. Notwithstanding the foregoing and for the avoidance of doubt the failure of any such event to occur is not a condition to the Closing unless set forth in Article VII or Article VIII hereof.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE LIGGETT PARTIES

Each of the Liggett Parties hereby jointly and severally represents and warrants to PM as follows:

SECTION 3.1. INCORPORATION OF CERTAIN REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Liggett Parties contained in Article III of the LLC Agreement are hereby incorporated by reference in this Agreement and shall have the same effect as if made in this Agreement.

SECTION 3.2. OWNERSHIP OF CLASS A SHARES. Immediately prior to the Closing, the Grantor will have good and valid title to the Class A Shares free and clear of any liens, claims, charges, security interests, options or other legal or equitable encumbrances or restrictions (any of the foregoing, a "LIEN"), and assuming the person exercising the Class A Option has the requisite power and authority to enter into this Agreement and to be the lawful owner of the Class A Shares, upon delivery of the Class A Shares, good and valid title to such Class A Shares will pass to the person exercising the Class A Option free and clear of any Lien. Other than the Transaction Agreements, the Class A Shares are not subject to any voting trust agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement, arrangement, commitment or understanding restricting or otherwise relating to voting, distribution rights or disposition of such Class A Shares.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

PM hereby represents and warrants to the Liggett Parties as follows:

SECTION 4.1. INCORPORATION OF CERTAIN REPRESENTATIONS AND WARRANTIES. The representations and warranties of PM contained in Article IV of the LLC Agreement are hereby incorporated by reference in this Agreement and shall have the same effect as if made in this Agreement.

ARTICLE V

COVENANTS OF THE LIGGETT PARTIES

SECTION 5.1. HSR ACT.

(a) The Liggett Parties shall promptly prepare and file all filings required to be made by it in connection with the Transaction Agreements and the License Agreement under the HSR Act, as well as any other filings required to be made with any other Governmental Entity in connection with the Transaction Agreements and the License Agreement (collectively, "GOVERNMENTAL FILINGS"). The Liggett Parties shall provide any information required by the HSR Act and any other Governmental Filing, and shall cooperate with PM in connection with obtaining any approval required from any Governmental Entity in order to consummate the transactions contemplated hereby and thereby. The Liggett Parties shall use their respective reasonable best efforts to obtain promptly any consent, order or approval of, or any exemption by, any Governmental Entity in connection with the consummation of the transactions contemplated by the Transaction Agreements and the License Agreement (including without limitation to cause the prompt expiration of the waiting period under the HSR Act applicable to the exercise of the Class A Option and the entering into of the License Agreement).

(b) In the event a Liggett Party fails to comply (prior to exercise of the Class A Option) with Section 5.1 (a) and shall not have cured such failure to comply to PM's reasonable satisfaction within 120 days of written notice thereof from PM to the Liggett Parties, a Material Breach by the Liggett Parties shall be deemed to occur, PROVIDED, however, that a Material Breach by the Liggett Parties shall not be deemed to have occurred pursuant to this Section 5.1 unless, as a direct or indirect result of such failure, within nine months following the initial filings for HSR Clearance (i) HSR Clearance has not been obtained, or the Federal Trade Commission (the "FTC") or the Department of Justice ("DOJ") has commenced litigation to enjoin the transactions contemplated by the Transaction Agreements, or (ii) PM has had to make a material concession to the FTC or DOJ to obtain HSR Clearance or to avoid the litigation described in clause (i).

SECTION 5.2. REPRESENTATIONS AND WARRANTIES. Each of the Liggett Parties shall give written notice to PM promptly upon the occurrence of any event that would cause or

constitute a material breach or would have caused a material breach, had such event occurred or been known to the Liggett Parties prior to the date hereof, of any representations or warranties of the Liggett Parties contained in any of the Transaction Agreements.

SECTION 5.3. ACCESS TO INFORMATION. Prior to the Closing, the Liggett Parties shall, and shall cause each of their respective Subsidiaries to, give PM and its representatives, employees, counsel and accountants full access, during normal business hours, and upon reasonable notice to the employees, agents, independent contractors, properties, books and records relating to the Marks, only to the extent, in the reasonable judgment of counsel, permitted by law, including antitrust law, and provided that the Liggett Parties and their Subsidiaries shall not be obligated to make any disclosure which would cause forfeiture of attorney-client privilege. The Liggett Parties shall notify PM in writing if any disclosure is withheld in order to avoid such forfeiture. No investigation pursuant to this Section shall affect or be deemed to affect any representation or warranty made by the Liggett Parties. PM agrees that all information received pursuant to this Section 5.3 shall be kept confidential and PM shall not disclose such information to any third party unless, and only to the extent, required to do so by applicable law.

ARTICLE VI

COVENANTS OF PM

PM covenants and agrees as follows:

SECTION 6.1. HSR ACT.

(a) PM shall promptly prepare and file all filings required to be made by it in connection with the Transaction Agreements and the License Agreement under the HSR Act, as well as any other Governmental Filings. PM shall provide any information required by the HSR Act and any other Governmental Filing, and shall cooperate with the Liggett Parties in connection with obtaining any approval required from any Governmental Entity in order to consummate the transactions contemplated hereby and thereby. PM shall use its reasonable best efforts to obtain promptly any consent, order or approval of, or any exemption by, any Governmental Entity in connection with the consummation of the transactions contemplated by the Transaction Agreements and the License Agreement (including without limitation to cause the prompt expiration of the waiting period under the HSR Act applicable to the exercise of the Class A Option and the entering into of the License Agreement); PROVIDED, HOWEVER, that notwithstanding anything to the contrary in this Agreement, PM shall not be required to agree to divest or hold separate any brand, product, business or assets or to take or agree to take any action that limits its freedom of action with respect to, or its ability to retain, any of the Marks or the Brands or any brand, product, business or other asset of PM or its Affiliates.

(b) Unless and until HSR Clearance is obtained, PM shall, upon the request of the Liggett Parties, attempt periodically to obtain HSR Clearance; PROVIDED, HOWEVER, that PM shall not be required to attempt to obtain HSR Clearance more than once in any two-year period or more than four times during the period ending on the Class A Option Termination Date. The

Liggett Parties shall cooperate with PM (pursuant to the terms of Section 5.1 hereof) in obtaining HSR Clearance each time that PM seeks HSR Clearance. Notwithstanding the foregoing, PM shall not be required to attempt to obtain any such approval (other than the initial filings for HSR Clearance) at any time at which it reasonably believes that attempting to obtain such approval is likely to interfere with any pending transaction so long as PM does not defer any request for more than six months or more than once in any two-year period.

(c) In the event PM fails to comply (prior to exercise of the Class A Option) with Section 6.1 (a) hereof and shall not have cured such failure to comply to Brooke's reasonable satisfaction within 120 days of written notice thereof from Brooke to PM, a "MATERIAL BREACH BY PM" shall be deemed to occur; PROVIDED, HOWEVER, that a Material Breach by PM shall not be deemed to have occurred unless as a direct or indirect result of such failure, (i) HSR Clearance shall not have been obtained within nine months of the initial filings for HSR Clearance or (ii) the FTC or DOJ has commenced litigation to enjoin the transactions contemplated by the Transaction Agreements. In the event a Material Breach by PM has occurred, PM shall promptly prepay to the Liggett Parties the fall amount of the Class A Exercise Price of the Class A Option minus $1.00, and the Class A Exercise Price shall be reduced to $1.00.

ARTICLE VII

CONDITIONS TO THE OBLIGATIONS OF THE LIGGETT PARTIES

The obligations of the Liggett Parties under this Agreement are subject to the fulfillment of the following conditions prior to or at the Closing Date (any of which may be waived by them):

SECTION 7.1. REPRESENTATIONS, WARRANTIES, COVENANTS. The representations and warranties of PM made or incorporated in this Agreement shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and PM shall have performed or complied in all material respects with the obligations and covenants required by this Agreement or the LLC Agreement to be performed or complied with by it by the time of the Closing; PM shall have delivered to the Liggett Parties a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

SECTION 7.2. NO INJUNCTION OR GOVERNMENTAL LITIGATION. There shall be no effective temporary restraining order, preliminary or permanent injunction or order issued by any Governmental Entity which would prevent the consummation of the transactions contemplated by the Transaction Agreements or the License Agreement, and no Governmental Entity shall have commenced litigation to enjoin the transactions contemplated by the Transaction Agreements or the License Agreement.

SECTION 7.3. REGULATORY APPROVALS. The HSR Clearance shall have been received and all other authorizations, approvals, consents and waivers of any Governmental Entities required to consummate the transactions contemplated by this Agreement, the other Transaction Agreements or the License Agreement shall have been obtained and shall not have been terminated, suspended or withdrawn as of the Closing Date.

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF PM

Once PM has delivered a Notice of Exercise, its obligation to purchase the Class A Shares is subject to the fulfillment of the following conditions prior to or at the Closing Date (any of which may be waived by it):

SECTION 8.1. REPRESENTATIONS, WARRANTIES, COVENANTS. The representations and warranties of the Liggett Parties made or incorporated in this Agreement shall be true and correct in all material respects as of the date hereof on and as of the Closing Date, as though made on and as of the Closing Date, and the Liggett Parties shall have performed or complied in all material respects with the obligations and covenants required by this Agreement or the LLC Agreement to be performed or complied with by the Liggett Parties by the time of the Closing; the Liggett Parties shall have delivered to PM a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

SECTION 8.2. NO INJUNCTION OR GOVERNMENTAL LITIGATION. There shall be no effective temporary restraining order, preliminary or permanent injunction or order issued by any Governmental Entity which would prevent the consummation of the transactions contemplated by the Transaction Agreements or the License Agreement, and no Governmental Entity shall have commenced litigation to enjoin the transactions contemplated by the Transaction Agreements or the License Agreements.

SECTION 8.3. REGULATORY APPROVALS. The HSR Clearance shall have been received and all other authorizations, approvals, consents and waivers of any Governmental Entities required to consummate the transactions contemplated by this Agreement shall have been obtained and shall not have been terminated, suspended or withdrawn as of the Closing Date.

ARTICLE IX

TERMINATION

SECTION 9.1. TERMINATION.

(a) This Agreement may be terminated at any time prior to the Closing by:

(i) the mutual consent of the Liggett Parties and PM; or

(ii) by PM upon a Material Breach by the Liggett Parties; PROVIDED that a termination under this Section 9.1(a)(ii) must occur no later than 10 days after the date of repayment of the Class A Option Consideration.

(b) This Agreement will terminate automatically on March 1, 2009 if the Class A Option is not exercised prior to such date.

SECTION 9.2. PROCEDURE AND EFFECT OF TERMINATION. In the event of termination of this Agreement by either or both of PM and the Liggett Parties pursuant to Section 9.1, written notice thereof shall forthwith be given by the terminating party to the other party hereto, and this Agreement shall thereupon terminate and become void and have no effect, and the transactions contemplated hereby shall be abandoned without further action by the parties hereto; PROVIDED, HOWEVER, that such termination shall not relieve any party hereto of any liability for any breach of any representation or warranty made herein as of the date hereof or of any covenant contained herein. If this Agreement is terminated as provided herein, all filings, applications and other submissions made hereunder shall, to the extent practicable, be withdrawn from the persons to which they were made.

ARTICLE X

MISCELLANEOUS

SECTION 10.1. REASONABLE BEST EFFORTS. Each of the parties to this Agreement agrees to use its reasonable best efforts to cause the conditions to the Closing to be satisfied; PROVIDED, HOWEVER, that, subject to the terms and conditions of the License Agreement, PM shall not be required to agree to divest or hold separate any brand, product, business or assets or to take or agree to take any action that limits its freedom of action with respect to, or its ability to retain, any of the Marks or any brand, product, business or other asset of PM or its Affiliates.

SECTION 10.2. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. Copies of executed counterparts transmitted by telecopy, telefax or other electronic transmission service shall be considered original executed counterparts for purposes of this Section, provided receipt of copies of such counterparts is confirmed.

SECTION 10.3. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the choice of law principles thereof.

SECTION 10.4. ENTIRE AGREEMENT. There are no oral agreements, understandings, representations or warranties between the parties with respect to the subject matter hereof.

SECTION 10.5. EXPENSES. Whether or not the transactions contemplated hereby are consummated, all legal and other costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

SECTION 10.6. NOTICES. All notices provided for in this Agreement shall be in writing, duly signed by the party giving such notice, and shall be hand delivered, faxed or mailed by registered or certified mail or overnight courier service, as follows:

(a) if given to PM or its designee:

Philip Morris Incorporated
120 Park Avenue
New York,NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Facsimile: (212) 403-2000
Attention: Elliott V. Stein

(b) if given to the Liggett Parties:

c/o Brooke Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131
Facsimile: (305) 579-8009
Attention: Richard J. Lampen

with a copy to:

Milbank Tweed Hadley & McCloy
1 Chase Manhattan Plaza
New York, New York 10005
Facsimile: (212) 530-5219
Attention: Michael W. Goroff

All such notices shall be deemed to have been given when received. The address for receipt of notice may be changed by providing written notice to the Company.

SECTION 10.7. SUCCESSORS AND ASSIGNS. PM may Assign this Agreement at any time; PROVIDED, that the assignee assumes all obligations of PM under this Agreement, and PM is not relieved of any payment obligations hereunder. The Liggett Parties may not Assign this Agreement without the written consent of PM.

SECTION 10.8. HEADINGS; DEFINITIONS. The Section, Article and other headings contained in this Agreement are inserted for convenience of reference only and will not

affect the meaning or interpretation of this Agreement. All references to Sections or Articles contained herein mean Sections or Articles of this Agreement unless otherwise stated. All capitalized terms defined herein are equally applicable to both the singular and plural forms of such terms.

SECTION 10.9. AMENDMENTS AND WAIVERS. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. PM, on the one hand, or the Liggett Parties, on the other hand, may, only by an instrument in writing, waive compliance by the other with any term or provision hereof on the part of such other party hereto to be performed or complied with. The waiver by any party hereto of a breach of any term or provision hereof shall not be construed as a waiver of any subsequent breach.

SECTION 10.10. INTERPRETATION; ABSENCE OF PRESUMPTION. (a) For the purposes hereof, (i) words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other genders as the context requires, (ii) the terms "hereof," "herein," and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits hereto) and not to any particular provision of this Agreement, and Article, Section, paragraph and Exhibit references are to the Articles, Sections, paragraphs and Exhibits to this Agreement unless otherwise specified, (iii) the word "including" and words of similar import when used in this Agreement shall mean "including, without limitation," unless the context otherwise requires or unless otherwise specified, (iv) the word "or" shall not be exclusive, and (v) provisions shall apply, when appropriate, to successive events and transactions.

(b) This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted.

SECTION 10.11. SEVERABILILY. Any provision hereof which is invalid or unenforceable shall be ineffective to the extent of such invalidity or unenforceability, without affecting in any way the remaining provisions hereof.

SECTION 10.12. FURTHER ASSURANCES; SPECIFIC PERFORMANCE. The Liggett Parties, and PM agree that, from time to time, whether before, at or after the Closing Date, each of them will, and will cause their respective Affiliates to, execute and deliver such further instruments of conveyance and transfer and take such other action as may be necessary to carry out the purposes and intents hereof. PM and the Liggett Parties each acknowledge that, in view of the uniqueness of the Marks, PM would not have an adequate remedy at law for money damages in the event that this Agreement were not performed in accordance with its terms, and therefore agree that PM shall be entitled to specific enforcement of the terms hereof in addition to any other remedy to which PM may be entitled at law or in equity.

SECTION 10.13. NO LIMITATION OF REMEDIES. The remedies provided herein with respect to a Material Breach by the Liggett Parties or a Material Breach by PM are not liquidated damages, and the parties shall be entitled to pursue all remedies available at law or equity in addition to such remedies.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the day first above written.

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT & MYERS INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Vice President

EVE HOLDINGS INC.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT GROUP INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Senior Vice President

PHILIP MORRIS INCORPORATED

By: /s/ M.E. Szymanczyk

Name: M.E. Szymanczyk
Title: Chief Executive Officer

EXHIBIT 10.62

THIS CLASS B OPTION AGREEMENT (the "AGREEMENT"), dated as of January 12, 1999, is entered into among Brooke Group Ltd., a Delaware corporation ("BROOKE"), Liggett & Myers Inc., a Delaware corporation ("LMI"), Liggett Group Inc., a Delaware corporation ("LIGGETT"), and Eve Holdings Inc., a Delaware corporation (the "GRANTOR", and together with Brooke, LMI and Liggett, the "LIGGETT PARTIES"), on the one hand, and Philip Morris Incorporated, a Virginia corporation ("PM"), on the other hand.

WHEREAS, concurrently with the execution of this Agreement, the Liggett Parties and PM will execute the Formation and Limited Liability Company Agreement of Brands LLC, a Delaware limited liability company (the "COMPANY"), pursuant to which, among other things, the Grantor will contribute the Marks to the Company in exchange for 100% of the Class A Shares and 100% of the Class B Shares of the Company; and

WHEREAS, the Grantor desires to grant to PM an option to acquire all of the Class B Shares, on the terms and subject to the conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

As used in this Agreement the following terms shall have the following respective meanings:

"AFFILIATE" shall mean, with respect to any Person, any direct or indirect subsidiary of such Person, any other Person that directly or through one or more intermediaries, is controlled by, or is under common control with, the specified Person, and, if such a Person is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any person who is controlled by any such member or trust. As used in this definition, the term "CONTROL" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise. Notwithstanding the foregoing, for purposes of this Agreement (i) the Liggett Parties and their Subsidiaries shall not be deemed to be Affiliates of PM, and (ii) PM and its Subsidiaries (including the Company) shall not be deemed to be Affiliates of the Liggett Parties.

"AGREEMENT" shall have the meaning set forth in the recitals hereof.

"ASSIGN" shall mean to, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any Class B Shares.

"BRANDS" shall mean "Lark," "Chesterfield" and "L&M."

"BROOKE" shall have the meaning set forth in the preamble hereof.

"CERTIFICATE" shall mean the Certificate of Formation of the Company filed on behalf of the Company with the office of the Secretary of State of the State of Delaware pursuant to the Delaware Act.

"CLASS A CLOSING" shall mean the closing of the exercise of the Class A Option, as defined in Section 2.5 of the Class A Option.

"CLASS A OPTION AGREEMENT" shall mean that certain option agreement, dated as of the date hereof pursuant to which PM (or any Permitted Assignee thereunder) may purchase from the Grantor the Class A Shares owned by it.

"CLASS B EXERCISE PRICE" shall have the meaning set forth in Section 2.3.

"CLASS B OPTION" shall have the meaning set forth in Section 2.1.

"CLASS B OPTION CONSIDERATION" shall have the meaning set forth in Section 2.1.

"CLASS B OPTION EXERCISE PERIOD" shall have the meaning set forth in Section 2.2.

"CLASS B OPTIONHOLDER" shall have the meaning set forth in Section 2.2.

"CLOSING" shall have the meaning set forth in Section 2.5(a).

"CLOSING DATE" shall mean the date on which the Closing occurs.

"COMPANY" shall have the meaning set forth in the preamble hereto.

"DELAWARE ACT" means the Delaware Limited Liability Company Act (6 Del. Co. section 18-101, ET SEQ.), as amended from time to time.

"GOVERNMENTAL ENTITY" means any government or subdivision thereof, domestic, foreign or supranational or any administrative, governmental or regulatory authority, agency, commission, tribunal or body, domestic, foreign or supranational.

"GRANTOR" shall have the meaning set forth in the preamble hereof.

"GUARANTORS" shall mean the guarantors of the Company's obligations under the Loan Agreement (see definition of Loan Agreement below).

"LICENSE AGREEMENT" shall mean that certain license agreement, attached as Exhibit A to the LLC Agreement, between the Company and PM and dated as of the Closing Date, pursuant to which PM and its Affiliates will obtain the exclusive (including with respect to the Company) license to use the Marks within the United States (as defined in the License Agreement).

"Lien" shall have the meaning set forth in Section 3.2. preamble hereof.

"LIGGETT" and "LIGGETT PARTIES" shall have the respective meanings set forth in the preamble hereof.

"LLC AGREEMENT" shall mean that certain Formation and Limited Liability Company Agreement to be entered into by the Liggett Parties and PM concurrently with the execution of this Agreement.

"LMI" shall have the meaning set forth in the preamble hereof.

"LOAN AGREEMENT" shall mean the loan agreement entered into between the Company and the lending institutions named therein, with respect to the Loan Amount, which borrowing shall be guaranteed by the Grantor or such other entity designated by the Liggett Parties which has received the Class B Option Consideration and by any other holder of Class B Shares (such entities are referred to herein as the Guarantors).

"LOAN AMOUNT" shall mean $134.9 million or, if less, the maximum amount that the Company is able to borrow in the circumstances described in Section 5.2 of the LLC Agreement.

"MARKS" shall mean all of the interest of the Liggett Parties and any Affiliate of any Liggett Party in all trademarks, trade names, trade dress, service marks, registrations and applications for registrations therefor, in each case relating to each of the Brands, including any variation or product line extension thereof and any derivative pertaining thereto.

"MATERIAL BREACH BY THE LIGGETT PARTIES" shall have the meaning set forth in Section 2.4(a) of the Class A Option Agreement.

"MATERIAL BREACH BY PM" shall have the meaning set forth in Section 6.1(c) of the Class A Option Agreement.

"NOTICE OF EXERCISE" shall have the meaning set forth in Section 2.5(a).

"PERSON" includes any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

"PERMITTED ASSIGNEE" shall have the meaning set forth in Section 2.2.

"PERMITTED LIEN" shall have the meaning set forth in Section 3.2.

"PM" shall have the meaning set forth in the preamble hereof.

"REDEMPTION PRICE" shall have the meaning set forth in Section 9.5(b) of the LLC Agreement.

"SUBSIDIARIES" shall mean, with respect to any Person, any other Person in which such Person owns, directly or indirectly, 50% or more of the voting interests.

"TRANSACTION AGREEMENTS" mean this Agreement, the Class A Option Agreement and the LLC Agreement.

ARTICLE 11

GRANT AND EXERCISE OF OPTION; RELEASE OF OBLIGATIONS OF GUARANTORS; CLOSING

SECTION 2.1. GRANT OF CLASS B OPTION. The Grantor hereby grants to PM (or a Permitted Assignee) an irrevocable option (THE "CLASS B OPTION") to purchase 100% of the Class B Shares, on the terms and subject to the conditions set forth in this Agreement. In consideration of the grant of the Class B Option, PM has delivered to the Grantor $145 million (the "CLASS B OPTION CONSIDERATION"), receipt of which is hereby acknowledged.

SECTION 2.2. EXERCISE PERIOD. PM, any third party to whom PM assigns the Class B Option in accordance with Section 10.6 (such assignee, a "PERMITTED ASSIGNEE"), or any subsequent Permitted Assignee (a "CLASS B OPTIONHOLDER") may exercise the Class B Option during the period beginning on December 2, 2008 and ending at 5: 00 p.m. (New York City time) on March 1, 2009; PROVIDED, however, that the Class B Optionholder may give the Liggett Parties written notice extending such period to 5:00 p.m. (New York City time) on September 1, 2009 if for any reason (including any legal or financial impediment) the Class B Optionholder is unable to exercise the Class B Option (or to cause the Company to redeem the Class B Shares in accordance with the LLC Agreement) prior to March 1, 2009 (such period, as extended, the "CLASS B OPTION EXERCISE PERIOD").

SECTION 2.3. CLASS B EXERCISE PRICE.

(a) Subject to Sections 2.3(b) and 23(c), the Class B Exercise Price shall be the Redemption Price.

(b) If a Material Breach by PM occurs, and upon payment of the amount required by the last sentence of Section 6.1(c) hereof, the Class B Exercise Price shall become $1.00.

(c) If the Liggett Parties refund the Class B Option Consideration in accordance with Section 2.4 hereof, the Class B Exercise Price shall become the sum of the Redemption Price and $145 million.

SECTION 2.4. REFUND OF CLASS B OPTION CONSIDERATION.

The Class B Option Consideration shall be repayable to PM by the Liggett Parties in full promptly following demand by PM upon any Material Breach by the Liggett Parties that is not cured to PM's reasonable satisfaction within 120 days of written notice thereof from PM to the Liggett Parties.

SECTION 2.5. NOTICE OF EXERCISE; CLOSING; RELEASE OF GUARANTOR OBLIGATIONS.

(a) In order to exercise the Class B Option, the Class B Optionholder must give written notice (a "NOTICE OF EXERCISE") to the Liggett Parties reciting its intention to exercise the Class B Option and setting forth the time and place of the closing (the "CLOSING"); PROVIDED that the date of the Closing set forth in such Notice of Exercise may not be more than 30 days from the date thereof.

(b) At the Closing, the Liggett Parties shall deliver the Class B Shares to the Class B Optionholder free and clear of any Liens, other than Permitted Liens, and the Class B Optionholder shall deliver the Class B Option Exercise Price and shall cause each Guarantor to be released of its obligations as guarantor under the Loan Agreement.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE LIGGETT PARTIES

Each of the Liggett Parties hereby jointly and severally represents and warrants to PM as follows:

SECTION 3. 1. INCORPORATION OF CERTAIN REPRESENTATIONS AND Warranties. The representations and warranties of the Liggett Parties contained in Article III of the LLC Agreement are hereby incorporated by reference in this Agreement and shall have the same effect as if made in this Agreement.

SECTION 3.2. OWNERSHIP OF CLASS B SHARES. Immediately prior to the Closing, the Grantor will have good and valid title to the Class B Shares free and clear of any liens, claims, charges, security interests, options or other legal or equitable encumbrances or restrictions (any of the foregoing, a "Lien") other than Liens under the Loan Agreement ("PERMITTED LIENS"), and assuming the person exercising the Class B Option has the requisite power and authority to enter into this Agreement and to be the lawful owner of the Class B Shares, upon delivery of the Class B Shares, good and valid title to such Class B Shares will pass to the person exercising the Class B Option free and clear of any Lien (other than Permitted Liens). Other than the Transaction Agreements, the Class B Shares are not subject to any voting trust agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement, arrangement, commitment or understanding restricting or otherwise relating to voting, distribution rights or disposition of such Class B Shares.

ARTICLE TV

REPRESENTATIONS AND WARRANTIES OF PM

PM hereby represents and warrants to the Liggett Parties as follows:

SECTION 4.1. INCORPORATION OF CERTAIN REPRESENTATIONS AND WARRANTIES. The representations and warranties of PM contained in Article IV of the LLC Agreement are hereby incorporated by reference in this Agreement and shall have the same effect as if made in this Agreement.

ARTICLE V

COVENANTS OF THE LIGGETT PARTIES

SECTION 5.1. APPROVALS. The Liggett Parties shall use their respective reasonable best efforts to obtain promptly any consent, order or approval of, or any exemption by, any Governmental Entity in connection with the consummation of the transactions contemplated by this Agreement, if any such consent, order, approval or exemption is required.

SECTION 5.2. REPRESENTATIONS AND WARRANTIES. Each of the Liggett Parties shall give written notice to PM promptly upon the occurrence of any event that would cause or constitute a material breach or would have caused a material breach, had such event occurred or been known to the Liggett Parties prior to the date hereof, of any representations or warranties of the Liggett Parties contained in any of the Transaction Agreements.

SECTION 5.3. ACCESS TO INFORMATION. Prior to the Closing, the Liggett Parties shall, and shall cause each of their respective Subsidiaries to, give PM and its representatives, employees, counsel and accountants full access, during normal business hours and upon reasonable notice, to the employees, agents, independent contractors, properties, books and records relating to the Marks, only to the extent, in the reasonable judgment of counsel, permitted by law, including antitrust law, and provided that the Liggett Parties and their Subsidiaries shall not be obligated to make any disclosure which would cause forfeiture of attorney-client privilege. The Liggett Parties shall notify PM in writing if any disclosure is withheld in order to avoid such forfeiture. No investigation pursuant to this Section shall affect or be deemed to affect any representation or warranty made by the Liggett Parties. PM agrees that all information received pursuant to this Section 5.3 shall be kept confidential and PM shall not disclose such information to any third party unless, and only to the extent, required to do so by applicable law.

ARTICLE VI

COVENANTS OF PM

PM covenants and agrees as follows:

SECTION 6.1. APPROVALS.

(a) PM shall use its reasonable best efforts to obtain promptly any consent, order or approval of, or any exemption by, any Governmental Entity in connection with the consummation of the transactions contemplated by this Agreement, if any such consent, order, approval or exemption is required.

(b) In the event a Material Breach by PM has occurred, PM shall promptly prepay to the Liggett Parties the full amount of the Class B Exercise Price minus $1.00, and the Class B Exercise Price shall be reduced to $1.00.

ARTICLE VII

CONDITIONS TO THE OBLIGATIONS OF THE LIGGETT PARTIES

The obligations of the Liggett Parties under this Agreement are subject to the fulfillment of the following conditions prior to or at the Closing Date (any of which may be waived by them):

SECTION 7.1. REPRESENTATIONS, WARRANTIES, COVENANTS. The representations and warranties of PM made or incorporated in this Agreement shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and PM shall have performed or complied in all material respects with the obligations and covenants required by this Agreement to be performed or complied with by it by the time of the Closing; PM shall have delivered to the Liggett Parties a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

SECTION 7.2. NO INJUNCTION OR GOVERNMENTAL LITIGATION. There shall be no effective temporary restraining order, preliminary or permanent injunction or order issued by any Governmental Entity which would prevent the consummation of the transactions contemplated by the Transaction Agreements or the License Agreement, and no Governmental Entity shall have commenced litigation to enjoin the transactions contemplated by the Transaction Agreements or the License Agreement.

SECTION 7.3. REGULATORY APPROVALS. All authorizations, approvals, consents and waivers of any Governmental Entities required to consummate the transactions contemplated by this Agreement, the other Transaction Agreements or the License Agreement shall have been obtained and shall not have been terminated, suspended or withdrawn as of the Closing Date.

ARTICLE VIII

CONDITIONS TO THE OBLIGATIONS OF PM

Once PM has delivered a Notice of Exercise, its obligation to purchase the Class B Shares is subject to the fulfillment of the following conditions prior to or at the Closing Date (any of which may be waived by it):

SECTION 8.1. REPRESENTATIONS, WARRANTIES, COVENANTS. The representations and warranties of the Liggett Parties made or incorporated in this Agreement (other than those contained in Section 3.3 of the LLC Agreement) shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and the Liggett Parties shall have performed or complied in all material respects with the obligations and covenants required by this Agreement to be performed or complied with by the Liggett Parties by the time of the Closing; the representations and warranties of the Liggett Parties contained in Section 3.3 of the LLC Agreement shall be true and correct in all material respects as of the date hereof and on and as of the date of the closing under the Class A Option Agreement, as though made on and as of such date; and the Liggett Parties shall have delivered to PM a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

SECTION 8.2. NO INJUNCTION OR GOVERNMENTAL LITIGATION. There shall be no effective temporary restraining order, preliminary or permanent injunction or order issued by any Governmental Entity which would prevent the consummation of the transactions contemplated by the Transaction Agreements or the License Agreement, and no Governmental Entity shall have commenced litigation to enjoin the transactions contemplated by the Transaction Agreements or the License Agreements.

SECTION 8.3. REGULATORY APPROVALS. All authorizations, approvals, consents and waivers of any Governmental Entities required to consummate the transactions contemplated by this Agreement, if any, shall have been obtained and shall not have been terminated, suspended or withdrawn as of the Closing Date.

ARTICLE IX

TERMINATION

SECTION 9.1. TERMINATION.

(a) This Agreement may be terminated at any time prior to the Closing by:

(i) the mutual consent of the Liggett Parties and PM; or

(ii) by PM upon a Material Breach by the Liggett Parties; provided that a termination under this

SECTION 9.1 (a)(ii) must occur no later than 10 days after the date of repayment of the Class B Option Consideration.

(b) This Agreement will terminate automatically at the expiration of the Class B Option Exercise Period if the Class B Optionholder does not deliver a Notice of Exercise during the Class B Option Exercise Period.

SECTION 9.2. PROCEDURE AND EFFECT OF TERMINATION. In the event of termination of this Agreement by either or both of PM and the Liggett Parties pursuant to Section 9.1, written notice thereof shall forthwith be given by the terminating party to the other party hereto, and this Agreement shall thereupon terminate and become void and have no effect, and the transactions contemplated hereby shall be abandoned without further action by the parties hereto; PROVIDED, HOWEVER, that such termination shall not relieve any party hereto of any liability for any breach of any representation or warranty made herein as of the date hereof or of any covenant contained herein. If this Agreement is terminated as provided herein, all filings, applications and other submissions made hereunder shall, to the extent practicable, be withdrawn from the persons to which they were made.

ARTICLE X

MISCELLANEOUS

SECTION 10.1. REASONABLE BEST EFFORTS. Each of the parties to this Agreement agrees to use its reasonable best efforts to cause the conditions to the Closing to be satisfied; PROVIDED, HOWEVER, that, subject to the terms and conditions of the License Agreement, PM shall not be required to agree to divest or hold separate any brand, product, business or assets or to take or agree to take any action that limits its freedom of action with respect to, or its ability to retain, any of the Marks or any brand, product, business or other asset of PM or its Affiliates.

SECTION 10.2. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. Copies of executed counterparts transmitted by telecopy, telefax or other electronic transmission service shall be considered original executed counterparts for purposes of this Section, provided receipt of copies of such counterparts is confirmed.

SECTION 10.3. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the choice of law principles thereof.

SECTION 10.4. ENTIRE AGREEMENT. There are no oral agreements, understandings, representations or warranties between the parties with respect to the subject matter hereof

SECTION 10.5. EXPENSES. Whether or not the transactions contemplated hereby are consummated, all legal and other costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

SECTION 10.6. NOTICES. All notices provided for in this Agreement shall be in writing, duly signed by the party giving such notice, and shall be hand delivered, faxed or mailed by registered or certified mail or overnight courier service, as follows:

(a) if given to PM or its designee:

Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York,NY 10019
Facsimile: (212) 403-2000
Attention: Elliott V. Stein

(b) if given to the Liggett Parties:

c/o Brooke Group Ltd.
100 S.E. Second Street, 32nd floor
Miami, Florida 33131
Facsimile: (305) 579-8009
Attention: Richard J. Lampen

with a copy to:

Milbank Tweed Hadley & McCloy
1 Chase Manhattan Plaza
New York, New York 10005
Facsimile: (212) 530-5219
Attention: Michael W. Goroff

All such notices shall be deemed to have been given when received. The address for receipt of notice may be changed by providing written notice to the Company.

SECTION 10.7. SUCCESSORS AND ASSIGNS. PM may Assign this Agreement at any time; PROVIDED, that the assignee assumes all obligations of PM under this Agreement, and

PM is not relieved of any payment obligations hereunder. The Liggett Parties may not Assign this Agreement without the written consent of PM.

SECTION 10.8. HEADINGS; DEFINITIONS. The Section, Article and other headings contained in this Agreement are inserted for convenience of reference only and will not affect the meaning or interpretation of this Agreement. All references to Sections or Articles contained herein mean Sections or Articles of this Agreement unless otherwise stated. All capitalized terms defined herein are equally applicable to both the singular and plural forms of such terms.

SECTION 10.9. AMENDMENTS AND WAIVERS. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. PM, on the one hand, or the Liggett Parties, on the other hand, may, only by an instrument in writing, waive compliance by the other with any term or provision hereof on the part of such other party hereto to be performed or complied with. The waiver by any party hereto of a breach of any term or provision hereof shall not be construed as a waiver of any subsequent breach.

SECTION 10.10. INTERPRETATION; ABSENCE OF PRESUMPTION. (a) For the purposes hereof, (i) words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other genders as the context requires, (ii) the terms "hereof," "herein," and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits hereto) and not to any particular provision of this Agreement, and Article, Section, paragraph and Exhibit references are to the Articles, Sections, paragraphs and Exhibits to this Agreement unless otherwise specified, (iii) the word "including" and words of similar import when used in this Agreement shall mean "including, without limitation," unless the context otherwise requires or unless otherwise specified, (iv) the word "or" shall not be exclusive, and (v) provisions shall apply, when appropriate, to successive events and transactions.

(b) This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted.

SECTION 10.11. SEVERABILITY. Any provision hereof which is invalid or unenforceable shall be ineffective to the extent of such invalidity or unenforceability, without affecting in any way the remaining provisions hereof.

SECTION 10.12. FURTHER ASSURANCES; SPECIFIC PERFORMANCE. The Liggett Parties, and PM agree that, from time to time, whether before, at or after the Closing Date, each of them will, and will cause their respective Affiliates to, execute and deliver such further instruments of conveyance and transfer and take such other action as may be necessary to carry out the purposes and intents hereof. PM and the Liggett Parties each acknowledge that, in view of the uniqueness of the Marks, PM would not have an adequate remedy at law for money damages in the event that this Agreement were not performed in accordance with its terms, and therefore agree that PM shall be entitled to specific enforcement of the terms hereof in addition to any other remedy to which PM may be entitled at law or in equity.

SECTION 10. 13. NO LIMITATION OF REMEDIES. The remedies provided herein with respect to a Material Breach by the Liggett Parties or a Material Breach by PM are not liquidated damages, and the parties shall be entitled to pursue all remedies available at law or equity in addition to such remedies.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the day first above written.

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT & MYERS INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Vice President

EVE HOLDINGS INC.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT GROUP INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Senior Vice President

By: /s/ M.E. Szymanczyk

Name: M.E. Szymanczyk
Title: Chief Executive Officer

EXHIBIT 10.63

AMENDMENT

This AMENDMENT (the "Amendment"), dated as of February 19, 1999, to the Class A Option Agreement, dated as of January 12, 1999 (the "Class A Option Agreement"), is entered into among Brooke Group Ltd., a Delaware corporation ("Brooke"), Liggett & Myers Inc., a Delaware corporation ("LMI"), Liggett Group Inc., a Delaware corporation ("Liggett"), and Eve Holdings Inc., a Delaware corporation (the "Grantor", and together with Brooke, LMI and Liggett, the "Liggett Parties"), on the one hand, and Philip Morris Incorporated, a Virginia corporation ("PM"), on the other hand. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Class A Option Agreement.

WHEREAS, the Liggett Parties and PM are parties to the Class A Option Agreement pursuant to which, among other things, PM has certain due diligence rights with respect to the Marks; and

WHEREAS, the Liggett Parties and PM desire to amend the Class A Option Agreement to extend certain deadlines set forth therein which relate to PM's due diligence rights.

NOW, THEREFORE, in consideration of the mutual promises set forth herein and in the Class A Option Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. The references in paragraph (a) of Section 2.2 of the Class A Option Agreement to "the 10th day following HSR Clearance" and "the 30th day following HSR Clearance" are hereby being amended to refer to "the 17th day following HSR Clearance" and "the 37th day following HSR Clearance", respectively, and accordingly paragraph (a) of Section 2.2 of the Class A Option Agreement is hereby amended to read in its entirety as follows:

> "(a) PM may conduct further due diligence with respect to the Marks from the date hereof until 5:00 P.M. (New York City time) on the 17th day following HSR Clearance (the "INITIAL DUE DILIGENCE Period"); PROVIDED, that in the event any information requested by PM in the course of its due diligence is withheld due to competitive considerations or otherwise, such information will be provided to PM by the Liggett Parties no later than 5:00 P.M. (New York City time) on the 17th day following HSR Clearance, and PM may continue its due diligence until 5:00 P.M. (New York City time) on the 37th day following HSR Clearance (such period, the "EXTENDED DUE DILIGENCE PERIOD" and together with the Initial Due Diligence Period, the "DUE DILIGENCE PERIOD")."

2. The reference to "90 days" contained in the PROVISO in Section 2.5 of the Class A Option Agreement is hereby being amended to refer to the "83 days" and accordingly Section 2.5 of the Class A Option Agreement is hereby amended to read in its entirety as follows:

"Section 2.5. NOTICE OF EXERCISE; CLOSING. In order to exercise the Class A Option, a Class A Optionholder must give written notice (a "NOTICE OF EXERCISE") to the Liggett Parties reciting its intention to exercise the Class A Option and setting forth the time and place of the closing (the "CLOSING"); PROVIDED that the date of the Closing set forth in such Notice of Exercise may not be more than 83 days from the date thereof. At the Closing, the events set forth in Section 2.7 of the LLC Agreement shall also occur or have occurred. Notwithstanding the foregoing and for the avoidance of doubt the failure of any such event to occur is not a condition to the Closing unless set forth in Article VII or Article VIII hereof."

3. The foregoing amendments to paragraph (a) of Section 2.2 and to Section 2.5 of the Class A Option Agreement are, and shall be deemed for all purposes to be, effective on the date hereof.

4. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5. Except as expressly amended hereby, the Class A Option Agreement shall continue in full force and effect in accordance with the provisions thereof.

6. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, this Amendment has been signed by or on behalf of each of the parties as of the day first written above.

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

LIGGETT & MYERS INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Vice President

LIGGETT GROUP INC.

By: /s/ Samuel M. Veasey

Name: Samuel M. Veasey
Title: Senior Vice President

EVE HOLDINGS INC.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman of the Board and President

PHILIP MORRIS INCORPORATED

By: /s/ Michael Szymanczyk

Name: Michael Szymanczyk
Title: President

EXHIBIT 10.64

February 17, 1999

BGLS, Inc.
100 S.E. Second Street
Miami, Florida 33131

RE: PURCHASE AND SALE OF $31,139,000 ORIGINAL PRINCIPAL AMOUNT OF BGLS, INC. 15.75% SERIES B SENIOR SECURED NOTES DUE 2001 (THE "SECURITIES")

Gentlemen/Ladies:

BGLS, Inc. ("Buyer") hereby agrees to purchase from U.S. Bancorp Investments, Inc., acting through its U.S. Bancorp Libra division ("Seller"), and Seller hereby agrees to sell to Buyer, the above described Securities (including Seller's rights to all accrued but unpaid interest with respect to the Securities) at the price, on the terms and subject to the conditions hereinafter set forth.

The purchase price payable by Buyer to Seller for the Securities shall be equal to 95.0% of the sum of (i) the original principal amount of the Securities of $31,139,000 and (ii) the accrued but unpaid interest due with respect to the Securities as of the settlement date of the purchase and sale of the Securities contemplated hereby (the "Settlement Date"), with such interest to accrue in accordance with the Indenture for the Securities and that certain Amended and Restated Standstill Agreement, dated as of February 9, 1999. According to Buyer, as of February 17, 1999, the principal and accrued interest per each $1,000 of original principal amount of the Securities is $1,364.78.

Settlement of the purchase and sale contemplated hereby (the "Sale") shall be effected through accounts of Seller and Buyer maintained at Schroder & Co., Inc. ("Schroder") in the manner in which transactions in securities similar to the Securities are customarily consummated. Buyer acknowledges that Seller is a broker-dealer with a clearing arrangement with Schroder, and Buyer agrees to open an account with Schroder introduced by Seller as soon as practicable after the date hereof for the purpose of such settlement.

Buyer's and Seller's obligation hereunder to consummate the sale shall be subject to Buyer and/or one or more affiliates of Buyer, including without limitation, Liggett Group, Inc. or an affiliate thereof, receiving proceeds in amounts (in addition to the $150 million option fee paid in December 1998 by Philip Morris Incorporated ("Philip Morris")) of approximately $145 million substantially in accordance with and in transactions substantially consistent with the terms of the transactions between Buyer and Philip Morris as referred to in Buyer's Form 8-K, dated November 20, 1998 (the "Closing Condition") on or before close of business (New York City Time) on July 31, 1999 (the "Condition Deadline"); provided, that Seller, at its option exercisable by written notice to Buyer received on or prior to close of business (New York City Time) on July 20, 1999, may extend the Condition Deadline to a date not later than close of business (New York City Time) on August 31, 1999; provider further, that Buyer may, at its option upon written notice to Seller, elect to so consummate the sale and purchase of the securities together with accrued interest thereon, prior to the Condition Deadline.

Upon occurrence of the Closing Condition on or prior to the Condition Deadline (or if Buyer at its option elects to so consummate the sale and purchase of the Securities prior to the Condition Deadline), Buyer and Seller shall settle the Sale as soon as practicable thereafter. To effect such settlement, Seller shall cause Schroder to issue a trade confirmation to Buyer setting forth the Settlement Date and the purchase price for the Securities (as determined hereunder as of such Settlement Date), and Buyer and Seller shall cause the Sale to be effected on the Settlement Date as set forth in the trade confirmation. If the Closing Condition is not satisfied by the Condition Deadline this agreement shall terminate and neither Seller nor Buyer shall have any obligation hereunder.

Please confirm your agreement to the foregoing by signing in the place indicated below. This agreement may be executed in counterparts, all of which taken together constituting a single agreement.

Very truly yours,

U.S. BANCORP INVESTMENTS, INC.

By: /s/ Jess M. Ravich

Jess M. Ravich
Co-Chief Executive Officer

AGREED TO AND ACCEPTED:

BGLS, INC.

By: /s/ Richard J. Lampen

Name: Richard J. Lampen
Title: Executive Vice President

EXHIBIT 10.67

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement") made and entered as of April 15, 1994 by and between BROOKE GROUP LTD., 100 S.E. 2nd Street, Miami, Florida 33131 (the "Company"), a Delaware corporation, and MARC N. BELL, 3047 Lakewood Drive, Fort Lauderdale, Florida 33332 (the "Employee").

WHEREAS, Company desires to employ Employee as its General Counsel and Employee desires to accept such employment; and

WHEREAS, the parties further desire to set forth herein the terms and conditions of Employee's employment by Company;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and the mutual benefits to be derived herefrom, and intending to be legally bound hereby, the parties hereto agree as follows:

1. EMPLOYMENT.

(a) DUTIES. Company shall employ Employee, on the terms set forth in this Agreement, as its General Counsel. Employee accepts such employment with Company and shall perform and fulfill such duties as are reasonably assigned to him either by the Chief Executive Officer of Company ("Chief Executive Officer") or the Board of Directors of Company (the "Board"), devoting his best efforts and entire professional time and attention to the performance and fulfillment of his duties and to the advancement of the interests of Company, subject only to the lawful and proper direction, approval, control and directives of the Company. Nothing contained herein shall be construed, however, to prevent Employee from (i) trading in or managing, for his own account and benefit, stocks, bonds, securities, real estate, commodities or other forms of investments (subject to law and Company policy with respect to trading in Company securities) or (ii) making minority investments in other businesses or enterprises provided that Employee agrees not to become engaged in any other business activity which may interfere with his ability to discharge his duties and responsibilities to Company.

(b) PLACE OF PERFORMANCE. In connection with his employment by Company, Employee shall be based in Miami, Florida, except for required travel on Company business. Company shall furnish Employee with office space, stenographic assistance and such other facilities and services as shall be suitable to Employee's position and sufficient and satisfactory to Employee for the performance of his duties as General Counsel.

2. TERM. Employee's employment under this Agreement shall commence as of May 2, 1994, or such other date upon mutual agreement of the parties, and shall, unless sooner terminated in accordance with the provisions of this Agreement, continue uninterrupted for an initial two (2) year term expiring May 1, 1996. Thereafter, this Agreement shall be automatically renewed for successive one (1) year periods unless terminated by either party upon sixty (60) days written notice prior to the end of any such year. As used herein the "Term" shall refer to such initial term and any renewal term, if any, then in effect.

3. COMPENSATION.

(a) BASE SALARY. Company shall pay Employee at a minimum annual rate of $175,000 for each full year of the Term (the "Base Salary") payable in installments at such regular intervals as Company customarily pays its other senior executive employees (but in any event no less often than monthly). The Base Salary in any year may be increased from time to time by Company as conditions warrant including, but not limited to, Employee's performance as determined by Company. In no event shall Employee's Base Salary be reduced.

(b) BONUS. Employee may also be paid a bonus above the amount of the Base Salary as determined by Company in its sole and absolute discretion.

(c) HEALTH INSURANCE AND OTHER BENEFITS. Employee shall receive all employee benefits offered by Company to its senior executives and key management employees, including, without limitation, all pension, profit sharing, retirement, salary continuation, deferred compensation, disability insurance, hospitalization insurance, major medical insurance, medical reimbursement, survivor income, life insurance and any other benefit plan or arrangement established and maintained by Company or its affiliates, subject to the rules and regulations then in effect regarding participation therein.

4. REIMBURSEMENT OF EXPENSES. Employee shall be reimbursed for all items of travel, entertainment and miscellaneous expenses which Employee reasonably incurs in connection with the performance of his duties hereunder, provided that Employee shall submit to Company such statements and other evidence supporting said expenses as Company may reasonably require.

5. INCENTIVE AWARDS.

(a) Company agrees that it will, within one year after execution of this Agreement, provided that Employee is still employed by Company, enter into an agreement or agreements with Employee with respect to the provision of additional incentive awards (the "Incentive Awards"). Incentive Awards may include, but shall not be limited to, any one or more of the following:

stock options, stock appreciation rights, restricted stock, cash (other than payments referred to in Section 3 above), convertible securities, warrants, units, dividend equivalents or performance awards.

(b) MATERIAL INDUCEMENT. Company acknowledges that the provisions of this Section 5 served as a material inducement to Employee to enter into this Agreement.

6. VACATIONS. Employee shall be entitled to the number of paid vacation days in each calendar year determined by Company from time to time for its senior executive officers, but not less than four (4) weeks in any calendar year (prorated in any calendar year during which Employee is employed hereunder for less than the entire year in accordance with the number of days in such calendar year during which he is so employed). Employee shall also be entitled to all paid holidays given by Company to its senior executive officers.

7. TERMINATION OF EMPLOYMENT.

(a) DEATH OR TOTAL DISABILITY. In the event of the death of Employee during the Term, this Agreement shall terminate as of the date of Employee's death, except for Employee's Incentive Awards. In the event of Employee's Total Disability (as that term is defined below) for more than six (6) months in the aggregate during any period of twelve (12) calendar months, during which time Employee shall continue to be compensated as provided in Section 3 hereof, Company shall have the right to terminate this Agreement by giving Employee written notice thereof. Upon termination of this Agreement under this Section 7(a), Company shall have no further obligations or liabilities under this Agreement, except to pay to Employee's estate or Employee, as the case may be, the portion of Base Salary, if any, that remains unpaid for the period prior to termination, or as otherwise provided in this Agreement; PROVIDED, HOWEVER, that in the event of termination for Total Disability, Company shall continue to pay Employee his Base Salary for twelve (12) months thereafter, reduced by the amount of any payments under any long term disability benefit plan which may be in effect for employees of Company and in which Employee participated.

The term "Total Disability," as used herein, shall mean a mental or physical condition which, in the reasonable opinion of Employee's medical doctor, renders Employee unable or incompetent to carry out the material duties and responsibilities of Employee under this Agreement at the time the disabling condition was incurred. Notwithstanding the foregoing, if Employee is covered under any policy of disability insurance under Section 3(c), under no circumstances shall the definition of Total Disability be different from the definition of that term in such policy. In the event of a dispute under this Section 7(a), Employee agrees to submit to an examination of a medical doctor mutually selected by Company and Employee.

(b) DISCHARGE FOR CAUSE. Company may discharge Employee for "Cause" and thereby terminate his employment under this Agreement upon thirty (30) days' prior written notice (the "Dismissal Notice") of such termination, in which event all payments under this Agreement shall cease, except for Base Salary to the extent already accrued. For purposes of this Agreement Company shall have "Cause" to terminate Employee's employment if Employee (i) in the reasonable judgment of Company, materially breaches any of his agreements, duties or obligations under this Agreement and has not cured or commenced in good faith to cure such breach within thirty (30) days after notice; (ii) in the reasonable judgment of Company, engages in embezzlement, gross misconduct, dishonesty, or deliberate and premeditated acts against the interest of Company; or (iii) is convicted of a felony.

(c) TERMINATION WITHOUT CAUSE. RESIGNATION BY EMPLOYEE.

(1) Company may terminate Employee's employment at any time prior to the expiration of the Term, without Cause, upon prior written notice to Employee ("Termination Notice"). Employee shall be under no obligation to render any additional services to Company subsequent to receipt of the Termination Notice and shall be allowed to seek other employment. In the event Company terminates Employee's employment pursuant to this subsection, Company shall pay Employee, a sum equal to the Base Salary for the year in which such termination occurs, but in no event less than $175,000, as liquidated damages for severance of employment ("Severance Pay"). The Severance Pay shall be payable in a lump sum upon delivery of the Termination Notice. In addition, Company shall pay Employee any portion of the Base Salary that is accrued and unpaid on the date that Employee leaves the employment of Company.

(2) Employee may voluntarily terminate his employment at any time upon the giving of written notice to Company (the "Resignation Notice"). In the event that Employee resigns during

the first year of the Term, for any reason whatsoever, then Company shall pay Employee the Severance Pay, payable in three (3) installments as follows:

(i) $58,334 on the first day of the calendar month following the Resignation Notice;

(ii) $58,333 on the first day of the fifth calendar month following the Resignation Notice; and

(iii) $58,333 on the first day of the ninth calendar month following the Resignation Notice.

In addition, Company shall pay Employee any portion of the Base Salary that is accrued and unpaid on the date of the Resignation Notice.

(3) In the event of a termination pursuant to Section 7(c)(1) or a resignation pursuant to Section 7(c)(2) above, Company shall continue to provide to Employee, for a period of six (6) months after termination or resignation, the then existing health and medical insurance plans as was provided to Employee prior to such termination or resignation.

(d) DISPUTE OF TERMINATION. In the event that Employee disputes Company's determination that Cause exists for terminating his employment hereunder pursuant to Section 7 (b), Employee shall serve Company with written notice of such dispute within thirty (30) days after receipt of the Dismissal Notice and the dispute will proceed to arbitration pursuant to the terms and provision of Section 11 below.

(e) MATERIAL INDUCEMENT. Company acknowledges that the provisions of this Section 7 served as a material inducement to Employee to enter into this Agreement.

8. NO MITIGATION. Employee shall not be required to mitigate the amount of any payment or benefit provided for in this Agreement by seeking other employment or otherwise nor, except as provided herein, shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of his employment by another employer.

9. INDEMNITY. Company shall indemnify and hold Employee harmless to the maximum extent permitted by law against any claim, action, demand, loss, damage, cost, expense, liability or penalty arising out of any act, failure to act, omission or decision by him while performing services as an officer, director or employee of Company, other than an act, omission or decision by Employee which is

not in good faith and is without his reasonable belief that same is, or was, in the best interests of Company or otherwise prohibited by law. To the extent permitted by law, Company shall pay all attorneys' fees, expenses and costs actually incurred by Employee in connection with the defense of any of the claims referenced herein.

10. CONFIDENTIALITY. Employee acknowledges that in the course of his employment with Company he will acquire access to and knowledge of financial and proprietary information relating to Company or its subsidiaries ("Confidential Information") and he hereby acknowledges that the Confidential Information is a valuable, special and unique asset of the business of Company and its subsidiaries. Employee hereby covenants and agrees that he will not, during the term of his employment and thereafter, disclose any of the Confidential Information to any person, firm, corporation, association or other entity for any reason or purpose whatsoever, nor shall he make use of the Confidential Information for his own purposes or for the benefit of any other party under any circumstances whatsoever, unless such information is in the public domain through no fault of Employee or except as may be required by law.

11. ARBITRATION. In the event of a dispute under this Agreement, within sixty (60) days of notifying the other party of such dispute, the disputing party shall, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association (the "AAA"), file a petition with the AAA for arbitration of the dispute, the costs thereof to be shared equally by Employee and Company, unless an order of the AAA provides otherwise, and each party shall be responsible for his or its legal fees. Such proceeding shall also determine all other disputes between the parties relating to Employee's employment. The parties covenant and agree that the decision of the AAA shall be final and binding and hereby waive their right to appeal therefrom.

12. MISCELLANEOUS.

(a) NOTICES. Any notice, demand or communication required or permitted under this Agreement shall be in writing and shall either be hand-delivered to the other party or mailed to the addresses set forth below by registered or certified mail, return receipt requested or sent by overnight express mail or courier to such address. Notice shall be deemed to have been given and received when so hand-delivered or after three (3) business days when so deposited in the U.S. Mail, or when sent by express mail properly addressed to the other party according to the following instructions:

If to Company:

Brooke Group Ltd.
100 SE 2nd Street
Miami, FL 33131
Attn: Bennett S. LeBow

If to Employee:

Mr. Marc N. Bell
3047 Lakewood Drive
Ft. Lauderdale, FL 33332

The foregoing addresses may be changed at any time by notice given in the manner herein provided.

(b) INTEGRATION; MODIFICATION. This Agreement constitutes the entire understanding and agreement between Company and Employee regarding its subject matter and supersedes all prior negotiations and agreements, whether oral or written, between them with respect to its subject matter. This Agreement may not be modified except by a written agreement signed by Employee and a duly authorized officer of Company.

(c) ENFORCEABILITY. If any provision of this Agreement shall be invalid or unenforceable, in whole or in part, such provision shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Agreement, as the case may require, and this Agreement shall be construed and enforced to the maximum extent permitted by law as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be.

(d) BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties, including their respective heirs, executors, successors and assigns, except that this Agreement may not be assigned or delegated in whole or in part by Employee. Company shall require any successor or successors (whether direct or indirect, by purchase, merger, consolidation, exchange, reorganization or otherwise) to all or substantially all of the assets or business of Company or its affiliates, by agreement in form and substance satisfactory to Employee, to acknowledge expressly that this Agreement is binding upon and enforceable against Company in accordance with the terms hereof, and to become jointly and severally obligated with Company to perform this Agreement in the same manner and to the same extent that Company would be required to perform if no such succession

or successions had taken place. Failure of Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement.

(e) WAIVER OF BREACH. No waiver by either party of any condition or of the breach by the other of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition, or the breach of any other term or covenant set forth in this Agreement. Moreover, the failure of either party to exercise any right hereunder shall not bar the later exercise thereof.

(f) NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit Employee's future participation in or rights under any benefit, bonus, incentive or other plan or program provided by Company or any subsidiary or affiliate and for which Employee may qualify.

(g) GOVERNING LAW AND INTERPRETATION. This Agreement shall be governed by the laws of the State of Florida. Each of the parties agrees that he or it, as the case may be, shall deal fairly and in good faith with the other party in performing, observing and complying with the covenants, promises, duties, obligations, terms and conditions to be performed, observed or complied with by him or it, as the case may be, hereunder; and that this Agreement shall be interpreted, construed and enforced in accordance with the foregoing covenant notwithstanding any law to the contrary.

(h) HEADINGS. The headings of the various sections and paragraphs have been included herein for convenience only and shall not be considered in interpreting this Agreement.

(i) COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which when taken together will constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed by Employee and on behalf of Company by its duly authorized officer on the date first above written.

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Name: Bennett S. Lebow
Title: Chairman of the Board, President and Chief Executive Officer

/s/ Marc N. Bell

Marc N. Bell

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

The following is a list of the active subsidiaries of the Company as of March 26, 1999, indicating the jurisdiction of incorporation of each and the names under which such subsidiaries conduct business. In the case of each subsidiary which is indented, its immediate parent owns beneficially all of the voting securities, except New Valley Corporation, of which BGLS Inc. and New Valley Holdings, Inc. collectively own approximately 42% of such voting securities.

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

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Brooke Group Ltd. on Form S-8 (File Nos. 333-24217, 333-50189 and 333-59615) of: (i) our report, dated March 30, 1999, on our audits of the consolidated financial statements and financial statement schedule of Brooke Group Ltd. and Subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998 (ii) our report, dated March 19, 1999 on our audits of the consolidated financial statements of New Valley Corporation and Subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, which reports are included in this Annual Report on Form 10-K of Brooke Group Ltd. for the year ended December 31, 1998.

/S/ PRICEWATERHOUSECOOPERS LLP

Miami, Florida
April 6, 1999

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated January 23, 1998 in the registration statements on Form S-8 (No. 333-24217, No. 333-50189, and No. 333-59615) of Brooke Group Ltd., relating to the consolidated balance sheets of Thinking Machines Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' investment and cash flows for the year ended December 31, 1997 and the period from February 8, 1996 (inception) to December 31, 1996, which report appears in the December 31, 1998 annual report on Form 10-K of New Valley Corporation.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Boston, Massachusetts
April 6, 1999

5
0000059440
BROOK GROUP LTD.
1,000
DOLLARS

YEAR	
	DEC-31-1998
	JAN-01-1998
	DEC-31-1998
	1
	7,396
	0
	15,160
	0
	36,316
	73,147
	122,560
	0
	228,982
	273,441
	240,475
	0
	0
	2,094
	(392,081)
	228,982
	444,56
	444,566
	200,996
	200,996
	27,284
	0
	79,704
	(35,394)
	(59,613)
	24,219
	3,208
	0
	0
	27,427
	1.44
	1.11

5
0000927388
BGLS INC
1,000
DOLLARS

YEAR	
DEC-31-1998	
JAN-31-1998	
DEC-31-1998	
1	
7,396	
0	
15,160	
0	
36,316	
122,188	
93,481	
0	
227,396	
304,516	
240,475	
0	
0	
0	
(430,702)	
227,396	
444,566	
444,566	
200,996	
200,996	
27,589	
0	
84,194	
(37,255)	
(59,613)	
22,358	
3,208	
0	
0	
25,566	
0	
0	

EXHIBIT 99.1

I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

1. COUNTY OF LOS ANGELES V. R.J. REYNOLDS, ET AL., Case No. 707651, Superior Court of California, County of San Diego (case filed 8/5/97). County 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.

2. ELLIS, ON BEHALF OF THE GENERAL PUBLIC V. R.J. REYNOLDS, ET AL., Case No. 00706458, Superior Court of California, County of San Diego (case filed 12/13/96). Plaintiffs, two individuals, seek equitable and injunctive relief for damages incurred by the State of California in paying for the expenses of indigent smokers.

3. 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).

4. 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).

5. 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.

6. 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.

7. ST. LOUIS COUNTY, 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.

EXHIBIT 99.1

8. CITY OF NEW YORK, ET AL. V. THE TOBACCO INSTITUTE, ET AL., Case No. 97-CIV-0904, Supreme Court of New York, New York County (case filed 10/17/96). City of New York seeks to obtain declaratory and equitable relief and restitution as well as to recover money damages resulting from payment by the City for tobacco-related medical treatment for its citizens and health insurance for its employees.

9. COUNTY OF ERIE V. THE TOBACCO INSTITUTE, INC., ET AL, Case No. I 1997/359, Supreme Court of New York, Erie County (case filed 1/14/97). County seeks equitable relief and economic reimbursement for moneys expended on payments for healthcare for Medicaid recipients and non-Medicaid care for indigent smokers.

10. ALLEGHENY GENERAL HOSPITAL, ET AL V. PHILIP MORRIS, ET AL, Case No. 98-18956, Court of Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/10/98). Hospitals seek to recover past and future costs expended to provide healthcare to Medicaid, medically indigent, and non-paying patients suffering from tobacco-related illnesses.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

EXHIBIT 99.1

II. THIRD-PARTY PAYOR ACTIONS

1. 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.

2. 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.

3. 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.

4. BAY AREA AUTOMOTIVE GROUP WELFARE FUND, ET AL V. PHILIP MORRIS, INC. ET AL, Case No. 994380, Superior Court of California, County of San Francisco (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

5. 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.

6. NEWSPAPER PERIODICAL DRIVERS LOCAL 921 SAN FRANCISCO NEWSPAPER AGENCY HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL, Case No. 404469, Superior Court of California, County of San Mateo, (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

7. 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.

8. 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.

9. OPERATING ENGINEERS LOCAL 12 HEALTH AND WELFARE TRUST V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV-97-7620 TJH, USDC, Central District of California (case filed 11/6/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

10. 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.

11. SAN FRANCISCO NEWSPAPER PUBLISHERS AND NORTHERN CALIFORNIA NEWSPAPER GUILD HEALTH & WELFARE TRUST V. PHILIP MORRIS, INC., ET AL, Case No .994409, Superior Court of California, County of San Francisco (case filed 4/17/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

12. 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.

13. 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.

14. 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 benefaciaries suffering from smoking-related illnesses.

15. 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.

16. 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.

17. 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.

18. 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.

19. UA LOCAL NO. 467 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL, Case No. 404308, Superior Court of California, County of San Mateo. Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

20. CONNECTICUT PIPE TRADES HEALTH FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 397CV01305CT, USDC, District of Connecticut (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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.

30. KENTUCKY LABORERS DISTRICT COUNCIL HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No.3-97-394, USDC, Western District of Kentucky (case filed 6/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Trust Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

31. ARK-LA-MISS LABORERS WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-1944, USDC, Eastern District of Louisiana (case filed 6/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

32. MASSACHUSETTS LABORERS' HEALTH & WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. C.A. 97-2892G, Superior Court of Massachusetts, Suffolk County (case filed 6/2/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

33. OPERATING ENGINEERS LOCAL 324 HEALTH CARE FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 598--CV-60020, Circuit Court of Michigan, Wayne County, (case filed 3/9/98). 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.

34. 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.

35. CONWED CORPORATION, ET AL V. R.J. REYNOLDS TOBACCO COMPANY, ET AL. Case No. C1-98-3620, District Court, Ramsey County, State of Minnesota (case filed 4/30/98). Plaintiffs operate several industrial plants in the state of Minnesota, and seek reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

36. 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.

37. 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.

38. 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.

39. 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.

40. NEW JERSEY CARPENTERS HEALTH FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-3421, USDC, District of New Jersey (case filed 10/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

41. 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.

42. 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.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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 benefaciaries suffering from smoking-related illnesses.

54. 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.

55. 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.

56. 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.

57. 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.

58. 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.

59. IRON WORKERS LOCAL UNION NO.17 INSURANCE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 1:97CV 1422, USDC, Northern District of Ohio, Eastern Division (case filed 5/20/97). Health and Welfare Trust Fund seeks economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

60. 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.

61. RHODE ISLAND LABORERS' HEALTH & WELFARE FUND V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-500L, USDC, District of Rhode Island (case filed 10/24/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

62. STEAMFITTERS LOCAL UNION NO. 614 HEALTH AND WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 92260-2, Circuit Court for the 30th Judicial District at Memphis, State of Tennessee (case filed 1/7/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

63. 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.

64. UTAH LABORERS' HEALTH AND WELFARE TRUST FUND, ET AL V. PHILIP MORRIS INCORPORATED, ET AL, Case No. 2:98CV403C, USDC, District of Utah, Central Division (case filed 6/11/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

65. NORTHWEST LABORERS-EMPLOYERS HEALTH & SECURITY TRUST FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. C97-849-WD, USDC, Western District of Washington (case filed 6/26/97). Health and Welfare Trust Fund seeks economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

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

67. 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.

68. 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.

69. 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.

EXHIBIT 99.1

III. CLASS ACTION CASES

1. CROZIER, ET AL V. AMERICAN TOBACCO COMPANY, ET AL, Case No. CV 96-1508 PR, Circuit Court of Montgomery County, Alabama (case filed 8/2/96). This taxpayer putative class action seeks reimbursement of Medicaid expenses made by the government of the State of Alabama for smokers resident in Alabama allegedly injured by tobacco products.

2. 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.

3. 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.

4. DANIELS, ET AL V. PHILIP MORRIS COMPANIES, INC., ET AL, Case No. 719446, Superior Court of California, County of San Diego (case filed 8/13/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

5. PECHANGA BAND OF LUISENO MISSION INDIANS, ET AL V. PHILIP MORRIS, INC., 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.

6. 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.

7. REED, ET AL V. PHILIP MORRIS, ET AL, Case No. 96-05070, Superior Court of the District of Columbia (case filed 6/21/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in the District of Columbia.

8. BROIN, ET AL. V. PHILIP MORRIS, ET AL., Case No. 91-49738 CA 22, Circuit Court, State of Florida, Dade County (case filed 10/31/91). This action brought on behalf of all flight

attendants that have allegedly been injured by exposure to environmental tobacco smoke was certified as a class action on December 12, 1994. This case was settled with respect to all defendants on October 10, 1997, which settlement was finally approved by the court on February 2, 1998. An appeal is currently pending.

9. 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, and is currently on trial.

10. PETERSON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-0490-02, First Circuit Court of the First Circuit, State of Hawaii (case filed 2/6/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Hawaii.

11. 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.

12. 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.

13. 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.

14. 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.

15. EMIG, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-1121-MLB, USDC, District of Kansas (case filed 4/11/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Kansas.

16. 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.

17. 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.

18. 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.

19. 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.

20. BAKER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No.97-703444-NP, Circuit Court of Michigan, Wayne County (case filed 2/4/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured adult smokers resident in Michigan.

21. TAYLOR, TERRY, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-715975, Circuit Court of Michigan, Wayne County (case filed 7/28/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Michigan.

22. 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.

23. WHITE, HENRY LEE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 5:97-CV-91BRS, Chancery Court of Mississippi, Jefferson County (case filed 4/24/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Mississippi.

24. 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.

25. 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.

26. 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.

27. AVALLONE, ET AL V. THE AMERICAN TOBACCO COMPANYO, 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.

28. CONSENTINO, ET AL. V. PHILIP MORRIS, ET AL., Case No. L-5135-97, Superior Court of New Jersey, Law Division, Middlesex County (case filed 5/21/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

29. PISCITELLO, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-CIV-4613, Superior Court of New Jersey, Middlesex County (case filed 3/6/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

30. TEPPER AND WATKINS, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. BER-L-4983-97-E, Superior Court of New Jersey, Middlesex County (case filed 5/28/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in New Jersey.

31. 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.

32. 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.

33. CREEKMORE, ESTATE OF, ET AL V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL, Case No. 98 CV 03403, Superior Court of North Carolina, Buncombe County (case filed 11/19/98). This personal injury class action is brought on behalf of plaintiffs and all similarly situated allegedly injured smokers resident in North Carolina.

34. CHAMBERLAIN, ET AL. V. THE AMERICAN TOBACCO COMPANY, Case No. 1:96CV2005, USDC,

Northern District of Ohio (case filed 8/20/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Ohio.

35. BARNES, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 96-5903, USDC, Eastern District of Pennsylvania (case filed 8/8/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Pennsylvania.

36. BROWN, REV. JESSE, ET AL V. PHILIP MORRIS, INC., ET AL, Case No. 98-CV-5518, USDC, Eastern District of Pennsyvania (case filed 10/22/98). This civil rights putative class action is brought by several national African-American organizations, on behalf of all African-Americans resident in the United States who have smoked menthol cigarettes.

37. 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.

38. 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.

39. NEWBORN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2938 GV, USDC, Western District of Tennessee (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 Tennessee.

40. 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.

41. 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.

42. 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.

43. 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.

44. 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.

45. 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.

46. 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 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.

47. INSOLIA, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-CV-230-J, Circuit Court of Wisconsin, Rock County (case filed 4/4/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Wisconsin.

48. BOWDEN, ET AL V. R.J. REYNOLDS TOBACCO COMPANY, ET AL, Case No. 98-0068-L, USDC, Western District of Virginia (case filed 1/6/99). This personal injury class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in Virginia.

49. FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., 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. A hearing on final approval is scheduled for April 27, 1999.

EXHIBIT 99.1

IV. INDIVIDUAL SMOKER CASES

1. 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.

2. COLFIELD, ET AL V. THE AMERICAN TOBACCO COMPANY, ET AL, Case No. CIV S-98-1695, USDC, Eastern District of California (case filed 9/3/98). Eleven individuals suing.

3. COOK, ET AL V. THE AMERICAN TOBACCO COMPANY, ET AL, Case No. CIV. S-98-1698, USDC, Eastern District of California (case filed 9/2/98). Eight individuals suing.

4. 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.

5. 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.

6. HELT, ET AL V. THE AMERICAN TOBACCO COMPANY, ET AL, Case No. CIV S-98-1697, USDC, Eastern District of California (case filed 9/3/98). Eight individuals suing.

7. 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.

8. ROVAI V. RAYBESTOS-MANHATTAN, ET AL, Case No. 996380, Superior Court of California, County of San Francisco (case filed 7/23/98). One individual suing.

9. 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.

10. 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.

11. VAN FOSSEN V. THE AMERICAN TOBACCO COMPANY, ET AL, Case No. CIV S-98-1694, USDC, Eastern District of the State of California (case filed 9/3/98). One individual suing.

12. 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.

13. ALLMAN V. LIGGETT GROUP INC., ET AL., Case No. 97-91348 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). Two individuals suing.

14. ALTIERI V. PHILIP MORRIS, ET AL., Case No. CI 97-4289, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (cased filed 8/12/97). One individual suing.

15. 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.

16. 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.

17. ATKINS V. R.J. REYNOLDS, ET AL., Case No. CI97-6597, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). One individual suing.

18. 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.

19. 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.

20. 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.

21. 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.

22. BOUCHARD V. PHILIP MORRIS, ET AL., Case No. 97-31347, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). Two individuals suing.

23. 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.

24. BROWN V. BROWN & WILLIAMSON, ET AL., Case No. CI-97-5050, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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.

30. 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.

31. DELL V. PHILIP MORRIS, ET AL., Case No.97 1023-CA-10-A, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). One individual suing.

32. DICK V. LIGGETT GROUP INC., ET AL., Case No. CI 97-4544, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 8/21/97). Two individuals suing.

33. 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.

34. 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.

35. DRISCOLL V. R.J. REYNOLDS, ET AL., Case No. 97 1049-CA-10, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). Two individuals suing.

36. 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.

37. 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.

38. FERGUSON, ET VIR. V. LIGGETT GROUP INC., ET AL., Case No. 97-32331CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 10/10/97). Two individuals suing.

39. FISCHETTI V. R.J. REYNOLDS, ET AL., Case No. CI 97-9792, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 11/17/97). One individual suing.

40. FLAKS, ET AL. V. BROWN & WILLAIMSON, 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.

41. 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.

42. GATTO, ET UX. V. R.J. REYNOLDS, ET AL., Case No. 97-2680-CA, Circuit Court, State of Florida, Citrus County (case filed 10/14/97). Two individuals suing.

43. 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.

44. GONZALEZ V. LIGGETT GROUP INC., ET AL., Case No. 96-00009-Div. D, Circuit Court, State of Florida, Hillsborough County (case filed 1/2/96). Two individuals suing.

45. 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.

46. HABIB V. R.J. REYNOLDS, ET AL., Case No. 97-30960 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/10/97). One individual suing.

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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).

54. HUMPAL, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97-10456 CIDL, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/30/97). Two individuals suing.

55. 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.

56. 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.

57. 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.

58. 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.

59. LASCHKE, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 96-8131-CI-008, Circuit Court of the 6th Judicial Circuit, State of Florida, Pinellas County (case filed 12/20/96). Two individuals suing.

60. 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.

61. LEHMAN V. LIGGETT GROUP INC., ET AL., Case No. 97-31346 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). One individual suing.

62. LEOMBRUNO, ET AL. V. PHILIP MORRIS, ET AL., Case No. CI 97-4540, Circuit Court of the 9th

Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

63. 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.

64. 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.

65. 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.

66. 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.

67. 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.

68. MCMAHON V. R.J. REYNOLDS, ET AL., Case No. G-97-1391, Circuit Court of the 10th Judicial Circuit, State of Florida, Polk County (case filed 4/29/97). Two individuals suing.

69. MEAGHER V. PHILIP MORRIS, ET AL., Case No. CI 97-4543, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 5/22/97). Two individuals suing.

70. 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.

71. 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.

72. MULLINS V. PHILIP MORRIS, ET AL., Case No. 97-4749-37, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

73. 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.

74. 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.

75. 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.

76. 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.

77. POYTHRESS V. R.J. REYNOLDS, ET AL, Case No. 97-30844, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 5/5/97). One individual suing.

78. 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.

79. 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.

80. REILLY, ET AL V. BROWN & WILLIAMSON, ET AL, Case No. 97-2468-CA, Circuit Court of the 5th Judicial Circuit, State of Florida, Lake County (case filed 10/22/97). Two individuals suing.

81. 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.

82. 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.

83. SHIRA V. PHILIP MORRIS, ET AL, Case No. CI 97-4576, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 5/30/97). Two individuals suing.

84. 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.

85. 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.

86. STEWART V. R.J. REYNOLDS, ET AL, Case No. 97 2025 CA, Circuit Court of the 5th Judicial Circuit, State of Florida, Lake County (case filed 9/16/97). Two individuals suing.

87. 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.

88. 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.

89. 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.

90. 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.

91. 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.

92. UFFNER V. PHILIP MORRIS, ET AL., Case No. 18142, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 12/31/96). Two individuals suing.

93. 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.

94. 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.

95. 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.

96. 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.

97. 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.

98. 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.

99. DALEY, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No.97L07963, USDC, Northern District of Illinois (case filed 8/13/97). 17 individuals suing.

100. 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.

101. 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.

102. 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.

103. 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.

104. 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.

105. 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.

106. 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.

107. 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.

108. 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.

109. 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.

110. KENNON V. BROWN & WILLIAMSON, ET AL. Case No. 98-586, USDC, Middle District of Louisiana (case filed 12/5/97). One individual suing.

111. 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.

112. 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.

113. RACCA, ET AL. V. R.H. REYNOLDS, ET AL., Case No. 10-14999, 38th Judicial District Court, State of Louisiana, Cameron Parish (case filed 7/16/98). Eleven individuals suing.

114. BAKOIAN, ESTATE OF MYDA V. R.J. REYNOLDS, ET AL., Case No. 98-3737, Superior Court of Massachusetts, Middlesex County (case filed 6/22/98). One individual suing.

115. BOHL V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-6195, Superior Court of Massachusetts, Middlesex County (case filed 12/18/98). One individual suing.

116. BRANDANO V. THE TOBACCO INSTITUTE, INC., ET AL., Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.

117. 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.

118. CARMICHAEL-FOLEY V. LOWNEY, ET AL., Case No. 98-3694, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.

119. CURTIS V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4488, Superior Court of Massachusetts, Middlesex County (case filed 8/27/98). One individual suing.

120. FEENEY V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4241, Superior Court of Massachusetts, Middlesex County (case filed 7/15/98). One individual suing.

121. FRANCIS, ESTATE OF RALPH V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4963, Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.

122. GORDON V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-5417, Superior Court of Massachusetts, Middlesex County (case filed 8/10/98). One individual suing.

123. HARB V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-597, Superior Court of Massachusetts, Middlesex County (case filed 9/10/98). One individual suing.

124. HISCOCK V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No.98-446, Superior Court of Massachusetts, Middlesex County (case filed 7/15/98). One individual suing.

125. JONES V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4940, Superior Court of

Massachusetts, Middlesex County (case filed 8/1/98). One individual suing.

126. MAIENZA V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4888, Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). Two individuals suing.

127. MCKENNEY, ET AL. V.R.J. REYNOLDS TOBACCO CO., ET AL. Case No. 98-3910, Superior Court of Massachusetts, Middlesex County (case filed 7/27/98). One individual suing.

128. MULCAHY V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-5208, Superior Court of Massachusetts, Middlesex County (case filed 9/5/98). One individual suing.

129. REEDY, ESTATE OF MARIE, ET AL. V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-5056, Superior Court of Massachusetts, Middlesex County (case filed 8/13/98). One individual suing.

130. SEMPRUCCI V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-6268, Superior Court of Massachusetts, Middlesex County (case filed 12/21/98). One individual suing.

131. TENERILLO V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4214, Superior Court of Massachusetts, Middlesex County (case filed 7/14/98). One individual suing.

132. VARGHESSE V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-6124, Superior Court of Massachusetts, Middlesex County (case filed 12/17/98). One individual suing.

133. WAJDA V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4959, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.

134. WATT V. LIGGETT GROUP INC., ET AL., Case No. 98-5499, USDC, District of Massachusetts (case filed 8/18/98). One individual suing.

135. WHITING V. LIGGETT GROUP, INC., ET AL., Case No. 98-5026, Superior Court of Massachusetts, Middlesex County (case filed 9/4/98). One individual suing.

136. 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.

137. 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.

138. BLYTHE V. RAPID AMERICAN CORPORATION, ET AL., Case No. CI 96-0080-AS, Circuit Court, State of Mississippi, Jackson County (case filed 9/23/96). One individual suing.

139. BUTLER, ESTATE OF BURL V. PHILIP MORRIS, ET AL., Case No. 94-5-53, Circuit Court of the 2nd

Judicial District, State of Mississippi, Jones County (case filed 5/12/94). One individual suing.

140. EVANS V. PHILIP MORRIS, ET AL., Case No. 97-0027, Circuit Court of the 1st Judicial District, State of Mississippi, Jasper County (case filed 6/10/97). One individual suing.

141. ROSE V. R.J. REYNOLDS, ET AL., Case No. 2:98 CV 132, USDC, Northern District of Mississippi (case filed 7/30/98). One individual suing.

142. GATLIN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 982-10021, Circuit Court, State of Missouri, City of St. Louis (case filed 1/19/99). One individual suing.

143. MURPHY V. THE AMERICAN TOBACCO CO., ET AL., Case No. CV-S-98-00021-HDM (RJJ), USDC, Southern District of Nevada (case filed 1/6/98). Liggett has not yet been served. One individual suing.

144. 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.

145. 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.

146. 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.

147. 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.

148. 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.

149. 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.

150. 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.

151. 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.

152. 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.

153. 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.

154. 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.

155. 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.

156. 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.

157. 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.

158. 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.

159. 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.

160. 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.

161. 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.

162. 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.

163. 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.

164. 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.

165. 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.

166. 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.

167. 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.

168. 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.

169. 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.

170. 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.

171. 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.

172. 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.

173. 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.

174. 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.

175. 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.

176. 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.

177. 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.

178. 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.

179. 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.

180. KROCHTENGEL V. THE AMERICAN TOBACCO CO., ET AL., Case No. 24663/98, Supreme Court of New York, Kings County (case filed 7/15/98). One individual suing.

181. 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.

182. 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.

183. 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.

184. 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.

185. 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.

186. 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.

187. 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.

188. 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.

189. 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.

190. 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.

191. 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.

192. 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.

193. 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.

194. 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.

195. 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.

196. 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.

197. 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.

198. 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.

199. 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.

200. 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.

201. 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.

202. 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.

203. 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.

204. 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.

205. 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.

206. 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.

207. 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.

208. 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.

209. 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.

210. 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.

211. 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.

212. 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.

213. 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.

214. RICO, ET AL V. THE AMERICAN TOBACCO COMPASTATE OF NEW YORK, ET AL, Case No. 120693/98, Supreme Court of New York, New York County (case filed 11/16/98). Nine individuals suing.

215. 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.

216. 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.

217. ROSEFF V. THE AMERICAN TOBACCO CO., ET AL., Case No. 123143/97, Supreme Court of New York, New York County (case filed 12/10/97). One individual suing.

218. 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.

219. 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.

220. 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.

221. 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.

222. 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.

223. 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.

224. 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.

225. 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.

226. 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.

227. 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.

228. 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.

229. STERN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97 Civ 1175 (ss), USDC, Southern District of New York (case filed 1/29/97). Two individuals suing.

230. 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.

231. 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.

232. 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.

233. 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.

234. ZIMMERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Supreme Court of New York, Queens County (case filed 1997).

235. 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.

236. ROBISON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 1:98 CV 1360, USDC, Northern District of Ohio (case filed 6/12/98). Two individuals suing.

237. TOMPKIN, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 5:94 CV 1302, USDC, Northern District of Ohio (case filed 7/25/94). One individual suing.

238. HISE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98 cv 947 C (E), USDC, Northern District of Oklahoma (case filed 12/15/98). Two individuals suing. Price-fixing action concerning price increases resulting from the M.S.A.

239. HALL V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 4:97-cv-01723, USDC, Middle District of Pennsylvania (case filed 2/18/98). One individual suing.

240. TABB V. PHILIP MORRIS, ET AL., Case No. 98-3223, USDC, Eastern District of Pennsylvania (case filed 6/23/98). One individual suing.

241. TANTUM V. AMERICAN TOBACCO CO., ET AL., Case No. 3762, Court of Common Pleas, State of Pennsylvania, Philadelphia County (case filed 1/26/99). Two individuals suing.

242. BROWN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 98-5447, Superior Court of Rhode Island (case filed 10/30/98). One individual suing.

243. NICOLO V. PHILIP MORRIS, ET AL., Case No. 96-528 B, USDC, District of Rhode Island (case filed 9/24/96). One individual suing.

244. LABELLE V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 2-98-1879-23, USDC, District of South Carolina (case filed 11/4/98). One individual suing.

245. LITTLE V. BROWN & WILLIAMSON, ET AL., Case No. 98-CD-10-2156, USDC, District of South Carolina (case filed 6/26/98). Two individuals suing.

246. PERRY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 2-473-95, Circuit Court, State of Tennessee, Knox County (case filed 7/20/95). One individual suing.

247. ADAMS V. BROWN & WILLIAMSON, ET AL., Case No. 96-17502, District Court of the 164th Judicial District, State of Texas, Harris County (case filed 4/30/96). One individual suing.

248. BUSH, ET AL. V. PHILIP MORRIS, ET AL., Case No. 597CV180, USDC, Eastern District of Texas (case filed 9/22/97). Two individuals suing. This case currently is stayed until 5/10/99.

249. 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.

250. COLUNGA V. AMERICAN BRANDS, INC., ET AL., Case No. C-97-265, USDC, Southern District

of Texas (case filed 4/17/97). One individual suing.

251. DIESTE V. PHILIP MORRIS, ET AL., Case No.597CV117, USDC, Eastern District of Texas (case filed 11/3/97). Two individuals suing.

252. HALE, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No. C-6568-96B, District Court of the 93rd Judicial District, State of Texas, Hidalgo County (case filed 1/30/97). One individual suing.

253. HAMILTON, ET AL. V. BGLS, INC., ET AL., Case No. C 70609 6 D, USDC, Southern District of Texas (case filed 2/26/97). Five individuals suing.

254. LUNA V. AMERICAN BRANDS, ET AL., Case No. 96-5654-H, USDC, Southern District of Texas (case filed 2/18/97). One individual suing.

255. MCLEAN, ET AL. V. PHILIP MORRIS, ET AL., Case No. 2-96-CV-167, USDC, Eastern District of Texas (case filed 8/30/96). Three individuals suing.

256. MIRELES V. AMERICAN BRANDS, INC., Case No. 966143A, District Court of the 28th Judicial District, State of Texas, Nueces County (case filed 2/14/97). One individual suing.

257. MISELL, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 96-6287-H, District Court of the 347th Judicial District, State of Texas, Nueces County (case filed 1/3/97). Four individuals suing.

258. RAMIREZ V. AMERICAN BRANDS, INC., ET AL., Case No. M-97-050, USDC, Southern District of Texas (case filed 12/23/96). One individual suing.

259. SANCHEZ V. AMERICAN BRANDS, ET AL., Case No. 97-04-35562, USDC, Southern District of Texas (case filed 7/22/97). Two individuals suing.

260. THOMPSON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2981-D, District Court of the 105th Judicial District, State of Texas, Nueces County (case filed 12/15/97). Two individuals suing.

261. WEINGARTEN V. THE LIGGETT GROUP INC., Case No. 98-1541, USDC, Western District of Vermont (case filed 7/19/97). One individual suing. Liggett only defendant.

262. VAUGHAN V. MARK L. EARLEY, ET AL., Case No. 760 CH 99 K 00011-00, Circuit Court, State of Virginia, Richmond (case filed 1/8/99). One individual suing.

263. ALLEN, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-C-2337 through 2401, Circuit Court, State of West Virginia, Kanawha County (case filed 10/1/98). 118 individuals suing.

264. ANDERSON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-C-1773 through 1799, Circuit Court, State of West Virginia, Kanawha County (case filed 7/31/98). 50 individuals suing.

265. BALL V. LIGGETT & MYERS INC., ET AL., Case No. 2:97-0867, USDC, Southern District of West Virginia (case filed 5/1/98). One individual suing.

266. 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.

267. FERRELL V. BROWN & WILLIAMSON, ET AL., Case No. 2:98-0439, USDC, Southern District of West Virginia (case filed 5/21/98). One individual suing.

268. HISSOM, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-C-1479, Circuit Court, State of West Virginia, Kanawha County (case filed 9/13/97). Two individuals suing.

269. HUFFMAN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-C-276, Circuit Court, State of West Virginia, Kanawha County (case filed 2/13/98). Two individuals suing.

270. JIVIDEN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-C-278, Circuit Court, State of West Virginia, Mason County (case filed 1/19/99). Two individuals suing.

271. NEWKIRK, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 98-C-1699, Circuit Court, State of West Virginia, Kanawha County (case filed 7/22/98). One individual suing.

EXHIBIT 99.2

LIGGETT GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998

LIGGETT GROUP INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and the
Stockholder of Liggett Group Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of Liggett Group Inc. (the "Company") at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards 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, 1999

LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	DECEMBER 31,	
	1998	1997
ASSETS		
Current assets:		
Accounts receivable:		
Trade, less allowances of $1,686 and $1,062, respectively.....	$14,510	$ 9,572
Other	821	743
Inventories	25,974	35,057
Other current assets	10,561	738
Total current assets	51,866	46,110
Property, plant and equipment, at cost, less accumulated depreciation of $30,893 and $29,452, respectively.....	16,195	17,756
Intangible assets, at cost, less accumulated amortization of $20,550 and $19,111, respectively	171	1,609
Other assets and deferred charges, at cost, less accumulated amortization of $15,343 and $9,000, respectively	6,491	3,000
Total assets	$74,723	$68,475

(continued)

LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands, except per share amounts)

	DECEMBER 31, 1998	DECEMBER 31, 1997
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	$ --	$ 28
Cash overdraft	63	891
Accounts payable, principally trade	3,206	6,413
Accrued expenses:		
Promotional	23,760	26,993
Income taxes	115	--
Other taxes, principally excise taxes	3,397	3,643
Estimated allowance for sales returns	7,100	4,750
Interest	12	8,070
Settlement accruals	1,120	4,030
Proceeds received for options	150,000	--
Other	10,697	8,834
Total current liabilities	199,470	63,652
Long-term debt, less current maturities	2,538	168,112
Non-current employee benefits	10,902	11,168
Other long-term liabilities	6,999	18,400
Commitments and contingencies (Notes 6 and 13)		
Stockholder's equity (deficit):		
Redeemable preferred stock (par value $1.00 per share; authorized 1,000 shares; no shares issued and outstanding)		
Common stock (par value $0.10 per share; authorized 2,000 shares; issued and outstanding 1,000 shares) and contributed capital	57,380	50,218
Accumulated deficit	(202,566)	(243,075)
Total stockholder's deficit	(145,186)	(192,857)
Total liabilities and stockholder's equity (deficit)	$ 74,723	$ 68,475

The accompanying notes are an integral part of these financial statements.

LIGGETT GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Net sales*	$ 347,129	$ 312,268	$ 401,062
Cost of sales*	129,287	139,310	187,799
Gross profit	217,842	172,958	213,263
Selling, general and administrative expenses	178,348	151,186	203,214
Legal settlements	(14,928)	16,527	--
Restructuring	--	1,557	3,296
Operating income	54,422	3,688	6,753
Other income (expense):			
Interest income	449	60	23
Interest expense	(26,342)	(23,755)	(23,901)
Equity in income (loss) of affiliates	--	498	(1,116)
Sale of assets	764	1,017	3,669
Miscellaneous, net	3	1,735	--
Income (loss) before income taxes	29,296	(16,757)	(14,572)
Income tax (benefit) provision	(11,213)	--	3,800
Net income (loss)	$ 40,509	$ (16,757)	$ (18,372)

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* Net sales and cost of sales include federal excise taxes of $69,200, $75,316 and $104,518 respectively.

The accompanying notes are an integral part of these financial statements.

LIGGETT GROUP INC.

STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)

(Dollars in thousands)

	Common Stock and Contributed Capital	Deficit	Total Stockholder's Equity Deficit
Balance at December 31, 1995	$ 53,240	$(207,946)	$(154,706)
Net loss	--	(18,372)	(18,372)
Consideration for option to acquire affiliate stock in excess of its net assets (Note 14)	(3,400)	--	(3,400)
Balance at December 31, 1996	49,840	(226,318)	(176,478)
Net loss	--	(16,757)	(16,757)
Sale of equipment to affiliate	2,578	--	2,578
Excess of investment over cost basis of net assets acquired from indirect parent	(2,200)	--	(2,200)
Balance at December 31, 1997	50,218	(243,075)	(192,857)
Net income	--	40,509	40,509
Capital contribution received	4,224	--	4,224
Effectiveness fee on debt	4,105	--	4,105
Transfer of ownership interest in an affiliate	(1,167)	--	(1,167)
Balance at December 31, 1998	$ 57,380	$(202,566)	$(145,186)

The accompanying notes are an integral part of these financial statements.

LIGGETT GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 40,509	$ (16,757)	$ (18,372)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	6,678	7,025	7,969
Deferred income taxes	(11,587)	--	3,800
Gain on sale of property, plant and equipment	(757)	(1,017)	(3,669)
Gain on retirement of notes	--	(2,963)	--
Effectiveness fee on debt	3,648	--	--
Non-cash stock-based expense	4,192	--	--
Deferred finance charges and debt discount written off	558	130	--
Equity in (income) loss of affiliate	--	(498)	1,116
Changes in assets and liabilities:			
Accounts receivable	(5,016)	9,745	4,691
Inventories	9,083	15,065	4,220
Accounts payable	(5,335)	(12,092)	(330)
Accrued expenses	(9,213)	(5,442)	8,479
Non-current employee benefits	(508)	(172)	(276)
Other, net	(14,477)	12,027	(1,461)
Net cash provided by operating activities	17,775	5,051	6,167
Cash flows from investing activities:			
Proceeds received for options	150,000	--	--
Proceeds from sale of property, plant and equipment	1,159	1,494	4,424
Proceeds from sale of equipment to an affiliate	--	3,000	--
Capital expenditures	(1,859)	(2,462)	(4,319)
Investment in affiliates	--	(2,200)	(5,500)
Net cash provided by (used in) investing activities	149,300	(168)	(5,395)
Cash flows from financing activities:			
Repayments of long-term debt	(144,919)	(4,775)	(254)
Borrowings under revolving credit facility	266,404	278,442	351,428
Repayments under revolving credit facility	(287,293)	(279,286)	(348,173)
Deferred finance charges	(439)	(149)	(18)
Increase (decrease) in cash overdraft	(828)	885	(3,755)
Net cash used in financing activities	(167,075)	(4,883)	(772)
Net change in cash and cash equivalents	--	--	--
Cash and cash equivalents:			
Beginning of period	--	--	--
End of period	$ --	$ --	$ --
Supplemental cash flow information:			
Cash payments during the period for:			
Interest	$ 29,528	$ 23,491	$ 23,228
Income taxes	$ 163	$ 162	$ 189

The accompanying notes are an integral part of these financial statements.

LIGGETT GROUP INC.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

1. BASIS OF PRESENTATION

Liggett Group Inc. ("Liggett" or the "Company") is a wholly-owned subsidiary of BGLS Inc. ("BGLS"), a wholly-owned subsidiary of Brooke Group Ltd. ("BGL"). Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Certain management and administrative functions are performed by affiliates (see Note 14).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Liquidity:

On December 28, 1998, Liggett redeemed all of its 11.50% Series B and 19.75% Series C Senior Secured Notes due 1999 (the "Series B Notes" and the "Series C Notes", collectively, the "Liggett Notes"), together with accrued interest, using $150,000 in proceeds received from the sale of options in an entity that will hold certain Liggett trademarks. (See Note 3.) Liggett has a $40,000 revolving credit facility expiring March 8, 2000 (the "Facility"), under which $2,538 was outstanding at December 31, 1998 and $18,607 was available to the Company. As of December 31, 1998, Liggett had net worth and working capital deficiencies of $145,186 and $147,604, respectively.

b. Principles of Consolidation

The consolidated financial statements include the accounts of Liggett and its wholly-owned subsidiaries, Eve Holdings Inc. ("Eve"), Cigarette Exporting Company of America Ltd. ("CECOA") and Carolina Tobacco Express Company ("CTEC"). Intercompany accounts and transactions have been eliminated.

c. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at December 31, 1998 and 1997 and the reported amounts of revenues and expenses during the three year period ended December 31, 1998. 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. Per Share Data

All of the Company's common shares (1,000 shares, issued and outstanding for all periods presented herein) are owned by BGLS. Accordingly, earnings and dividends per share data are not presented in these consolidated financial statements.

e. Inventories

Inventories are valued at the lower of cost (LIFO) or market. Although portions of leaf tobacco inventories may not be used or sold within one year because of the time required for aging, they are included in current assets, which is common practice in the industry. It is not practicable to determine the amount that will not be used or sold within one year.

f. Property, Plant and Equipment

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets which are twenty years for buildings and four to ten years for machinery and equipment.

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

The Company is required to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment and intangibles in relation to the operating performance and estimates of future discounted cash flows of the underlying business.

g. Trademarks

Trademarks are amortized using the straight-line method over twelve years. Amortization expense for the years ended December 31, 1998, 1997 and 1996 amounted to $1,419, $1,723 and $1,726, respectively. Management periodically reviews the carrying value of trademarks to determine whether asset values are impaired.

h. Sales and Sales Returns

Revenue from sales is recognized upon the shipment of finished goods to customers. The Company provides for expected sales returns, net of related inventory cost recoveries. As Liggett does not have any other lines of business, the Company's financial position and its results of operations could be materially adversely affected by significant unit sales volume declines, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes.

i. Advertising and Promotional Costs

Advertising and promotional costs are expensed as incurred. Advertising expenses were $44,540, $40,534 and $74,238 for the years ended December 31, 1998, 1997 and 1996, respectively.

j. Employee Benefits

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

BGLS maintains defined benefit retirement plans for substantially all of the Company's employees. The Company records as an expense the portion of BGLS' annual funding requirements applicable to the Company.

The Company sponsors a postretirement benefit plan and records an actuarially determined liability and charges operations for the estimated cost of postretirement benefits for current employees and retirees.

k. Income Taxes

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

l. Legal Costs

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

m. Fair Value of Financial Instruments

The estimated fair values of the Liggett Notes at December 31, 1997 was based upon market quotations (see Note 11). The carrying amount of borrowings outstanding under the revolving credit facility and other long-term debt is a reasonable estimate of fair value, based upon estimated current borrowing rates for loans with similar terms and maturities. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

n. New Accounting Pronouncements.

The Company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS No. 132"), for the year ended December 31, 1998. SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information and changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful. The Company has not yet determined the impact of this pronouncement.

3. PHILIP MORRIS BRAND TRANSACTIONS

On November 20, 1998, Liggett and BGL entered into a definitive agreement with Philip Morris Incorporated ("PM") which provided for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK (the "Marks"), held by Liggett's subsidiary Eve. As contemplated by the agreement, Liggett and PM entered into additional agreements (collectively, the "PM Agreements") on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC ("LLC"), a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Voting Interest (the "Class A Interest") and the Class B Redeemable Nonvoting Interest (the "Class B Interest"). PM acquired two options to purchase such interests (the "Class A Option" and the "Class B Option"). On December 2, 1998, PM paid Eve a total of $150,000 for such options, $5,000 for the Class A Option and $145,000 for the Class B Option. The payments were used to fund the redemption of the Liggett Notes on December 28, 1998. (Refer to Note 11).

The Class A Option entitles PM to purchase the Class A Interest for $10,100. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for June 10, 1999, subject to customary closing conditions.

The Class B Option will entitle PM 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 PM 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 the LLC for $139,900 during the same period the Class B Option may be exercised.

The LLC will seek to borrow $134,900 (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's 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, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure 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 LLC income or loss.

The LLC will grant PM an exclusive license of the Marks for an 11-year term at an annual royalty based on sales of cigarettes under the Marks, subject to a minimum annual royalty payment equal to the annual debt service obligation on the Loan plus $1,000.

If PM fails to exercise the Class B Option, Eve will have an option to put its Class B Interest to PM, or PM's designees (the "Eve Put Option"), at a put price that is $5,000 less than the exercise price of the Class B Option (and includes PM's procuring 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, the LLC's 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% LLC interest.

The $150,000 in proceeds received from the sale of the Class A and B Options is presented as a liability on the consolidated balance sheet until the closing of the exercise of the Class A Option and the distribution of the Loan proceeds which is scheduled to occur during the second quarter of 1999. Upon such closing, PM will obtain control of the LLC, and the Company anticipates, based on the expected structure of the transactions, to recognize a gain 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. CHANGES IN ACCOUNTING ESTIMATES

Liggett increased its valuation allowance for deferred tax assets by $3,800 in the third quarter of 1996. In December 1996, Liggett increased its estimate of coupon promotions which resulted in a decrease in the Company's operating income of $1,800 for the year ended December 31, 1996.

As a consequence of certain litigation settlements (see Note 13), Liggett charged approximately $16,421 to operations in the fourth quarter of 1997. As a result of Liggett's participation in the Master Settlement Agreement (see Note 13), net charges accrued for the prior settlements were reversed in 1998.

5. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables.

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Liggett's largest single customer accounted for approximately 26.9% in 1998, approximately 19.4% in 1997 and approximately 13.9% of net sales in 1996. Sales to this customer were primarily in the private label discount market segment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the remainder of the Company's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's estimates.

6. INVENTORIES

Inventories consist of the following:

	December 31, 1998	December 31, 1997
Leaf tobacco	$ 10,796	$ 19,088
Other raw materials	1,741	2,123
Work-in-process	1,828	1,926
Finished goods	12,231	13,273
Replacement parts and supplies	3,150	3,545
Inventories at current cost	29,746	39,955
LIFO adjustment	(3,772)	(4,898)
Inventories at LIFO cost	$ 25,974	$ 35,057

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. Liggett had leaf tobacco purchase commitments of approximately $6,721 at December 31, 1998.

7. SALE OF ASSETS

On November 20, 1998 Liggett and BGL sold options to PM to purchase interests in the LLC. (See Note 3.)

On May 14, 1996, Liggett sold to the County of Durham certain surplus realty in Durham, North Carolina, for a sale price of $4,300 and recognized a gain of approximately $3,600.

On April 29, 1996, Liggett executed a definitive agreement (as amended) with Blue Devil Ventures for the sale of certain surplus realty in Durham, North Carolina, for a sale price of $2,200. The transaction closed on March 11, 1997. A gain of $1,147 was recognized, net of costs required to prepare the properties for sale and selling costs. (See Note 14 for sales to affiliates.)

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31, 1998	December 31, 1997
Land and improvements	$ 412	$ 411
Buildings	5,823	6,228
Machinery and equipment	40,853	40,569
Property, plant and equipment	47,088	47,208
Less accumulated depreciation	(30,893)	(29,452)
Property, plant and equipment, net	$ 16,195	$ 17,756

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

9. EMPLOYEE BENEFITS PLANS

DEFINED BENEFIT RETIREMENT PLANS

Prior to 1994, substantially all of Liggett's employees participated in two noncontributory defined benefit retirement plans sponsored by BGLS. The Company records as an expense the portion of BGLS' annual funding requirements applicable to the Company. There was no pension expense recorded in 1998, 1997 or 1996.

FUTURE PENSION BENEFITS TO BE FUNDED BY BGLS

Actuarial estimates of the total future minimum pension benefits to be funded by BGLS, prior to the effect of unamortized purchase accounting adjustments, are as follows:

1999	$ 200
2000	200
2001	200
2002	200
2003	200
Thereafter	2,000
Total	$3,000

POSTRETIREMENT MEDICAL AND LIFE INSURANCE PLANS

Substantially all of Liggett's employees are eligible for certain postretirement benefits if they reach retirement age while working for the Company. Effective January 1, 1995, retirees are required to fund 100% of participant medical premiums.

The components of net periodic postretirement benefit cost for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Service cost benefits earned during the year.....	$ 43	$ 24	$ 68
Interest cost on accumulated postretirement benefit obligation.....	583	703	829
Charge for special termination benefits.....		47	137
Amortization of net (gain) loss.....	(284)	(193)	(92)
Net periodic postretirement benefit expense.....	$342	$581	$942

The following sets forth the actuarial present value of the Accumulated Postretirement Benefit Obligation ("APBO") at December 31, 1998 and 1997 applicable to each employee group for benefits:

	1998	1997
Change in benefit obligation:		
Benefit obligation at Janaury 1.....	$ (8,178)	$ (9,225)
Service cost.....	(43)	(24)
Interest cost.....	(583)	(703)
Benefits paid.....	934	960
Actuarial (losses) gains.....	(1,246)	814
Benefit obligation at December 31.....	$ (9,116)	$ (8,178)
Change in plan assets:		
Contributions.....	$ 934	$ 960
Benefits paid.....	(934)	(960)
Fair value of plan assets at December 31.....	$	$
Accumulated post retirement benefit obligation in excess of the plan assets.....	$ (9,116)	$ (8,178)
Unrecognized actuarial gains	(2,462)	(3,992)
Purchase accounting valuation adjustments relating to income taxes.....	676	1,002
Postretirement liability included in the December 31 balance sheet.....	$(10,902)	$(11,168)

The APBO at December 31, 1998 and 1997 was determined using discount rates of 7.5% and 7.5%, respectively, and a health care cost trend rate of 4% in 1998 and 1997. A 1% increase in the trend rate for health care costs would have increased the APBO and net periodic postretirement benefit cost by $363 and $26, respectively, for the year ended December 31, 1998. The Company does not hold any assets reserved for use in the plan.

PROFIT SHARING PLANS

Liggett's 401(k) plans originally called for Company contributions matching up to a 3% employee contribution, plus additional Company contributions of up to 6% of salary based on the achievement of Company profit objectives. Effective January 1, 1994, the Company suspended the 3% match for the salaried employees' 401(k) Plan, but reinstated it on April 1, 1996. The Company contributed and expensed $469, $497 and $591 to the 401(k) plans for the years ended December 31, 1998, 1997 and 1996, respectively.

10. INCOME TAXES

Liggett's operations are included in the consolidated federal income tax return of its indirect parent, BGL. Pursuant to a tax allocation agreement, the Company's federal income tax provision is calculated as if the Company filed a separate federal income tax return except that the tax sharing agreement with BGL effectively limits the ability of the Company to carry back losses for refunds.

The amounts provided for income taxes are as follows:

	Year Ended December 31,		
	1998	1997	1996
Current:			
Federal	$ 374	$ --	$ --
State	--	--	--
Deferred:			
Federal	(11,587)	--	3,800
State	--	--	--
Total tax provision	$(11,213)	$ --	$ 3,800

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

	1998		1997	
	Deferred Tax		Deferred Tax	
	Asset	Liability	Asset	Liability
Sales and product allowances	$ 3,465	$ --	$ 1,738	$ --
Inventory	560	1,220	457	1,568
Coupon accruals	1,004	--	2,369	--
Property, plant and equipment	--	3,695	--	4,427
Employee benefit plan accruals	4,289	--	4,680	--
USDA marketing assessment	471	--	1,312	--
Tobacco litigation settlements	1,565	--	7,872	--
Difference in basis in investment	--	--	2,535	--
Net operating loss carryforward	5,148	--	11,506	--
Valuation allowance	--	--	(26,474)	--
Reclassifications	--	--	(5,995)	(5,995)
Total deferred taxes	$ 16,502	$ 4,915	$ --	$ --

The Company reversed its valuation allowance against deferred tax assets in 1998, based on the weight of evidence that it is more likely than not that its deferred tax assets will be realized.

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

	Year Ended December 31,		
	1998	1997	1996
Income (loss) before income taxes	$ 29,296	$(16,757)	$(14,572)
Federal income tax at statutory rates	$ 10,253	$ (5,865)	$ (5,100)
Increases (decreases) resulting from:			
State income tax expense (benefit) net of federal income tax expense (benefit)	--	--	(634)
Alternative Minimum Tax	374	--	--
Other, net	4,634	(596)	(247)
Change in valuation allowance	(26,474)	6,461	9,781
Total tax provision	$(11,213)	$ --	$ 3,800

As of December 31, 1998, the Company's net operating loss ("NOL") carryforward pursuant to its tax sharing agreement with BGL is approximately $13,000 which expires from 2007 to 2012. However, if the Company were deconsolidated from BGL, its allocable share of NOL could be significantly different. The liability method of accounting for deferred income taxes requires 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 established a valuation allowance against deferred tax assets of $26,474 at December 31, 1997.

11. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,		
	1998		1997
	Estimated Fair Value	Carrying Value	Carrying Value
11.5% Senior Secured Notes due February 1, 1999 net of unamortized discount of $ -0- and $206 ...	$ --	$ --	$ 112,406
Variable Rate Series C Senior Secured Notes due February 1, 1999 ...	--	--	32,279
Borrowings outstanding under revolving credit facility ...	2,538	2,538	23,427
Other ...	--	--	28
	2,538	2,538	168,140
Current portion ...	--	--	(28)
Amount Due After One Year ...	$ 2,538	$ 2,538	$ 168,112

SENIOR SECURED NOTES

On February 14, 1992, Liggett issued $150,000 in Series B Notes. Interest on the Series B Notes was payable semiannually on February 1 and August 1 at an annual rate of 11.5%. The Liggett Series B and Series C Notes, which were issued in 1994 and are discussed below, required mandatory principal redemptions of $7,500 on February 1 in each of the years 1993 through 1997 and $37,500 on February 1, 1998 with the balance of the Liggett Notes due on February 1, 1999. In February 1997, $7,500 of the Series B Notes were purchased using revolver availability and credited against the mandatory redemption requirements. The transaction resulted in a net gain of $2,963. The Liggett Notes were redeemed on December 28, 1998 at a price equal to 100% of the principal amount together with accrued interest. As discussed in Note 3, proceeds of $150,000 from the purchase by PM of the two options to purchase the Class A Interest and the Class B Interest in the LLC were used to fund the redemption.

On January 30, 1998, with the consent of the required majority of the holders of the Liggett Notes, Liggett had entered into various amendments to the Indenture governing the Liggett Notes, which provided, among other things, for a deferral of the February 1, 1998 mandatory redemption payment of $37,500 to the date of final maturity of the Liggett Notes on February 1, 1999. In connection with the deferral, on February 2, 1998, the Company issued 483,002 shares of the Company's common stock to the holders of record on January 15, 1998 of the Liggett Notes. As a result of this transaction, Liggett recorded a deferred charge of $4,105 during the first quarter of 1998 reflecting the fair value of the instruments issued. This deferred charge was amortized over a period of eleven months.

The Series C Notes had the same terms (other than interest rate which was 19.75%) and stated maturity as the Series B Notes. As discussed above, they were also redeemed on December 28, 1998 together with accrued interest.

REVOLVING CREDIT FACILITY

On March 8, 1994, Liggett entered into the Facility under which it can borrow up to $40,000 (depending on the amount of eligible inventory and receivables as determined by the lenders) from a syndicate of commercial lenders. The Facility, which expires March 8, 2000, is collateralized by all inventories and receivables of the Company. Availability under the Facility was approximately $18,607 based upon eligible collateral at December 31, 1998. Borrowings under the Facility whose interest is calculated at a rate equal to 1.5% above Philadelphia National Bank's prime rate bore a rate of 9.25% at December 31, 1998. The Facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended April 8, 1998, imposes requirements with respect to Liggett's permitted maximum adjusted net worth (not to fall below a deficit of $195,000 as computed in accordance with the agreement, this computation was $141,414 at December 31, 1998) and net working capital (not to fall below a deficit of $17,000 as computed in accordance with the agreement, this computation was $6,168 at December 31, 1998).

On August 29, 1997, the Facility was amended to permit Liggett to borrow an additional $6,000 which was used on that date in making the interest payment of $9,700 due on August 1, 1997 to the holders of the Liggett Notes. BGLS guaranteed the additional $6,000 advance under the Facility and collateralized the guarantee with $6,000 in cash, deposited with Liggett's lender. At December 31, 1998, BGLS had recovered the $6,000 collateral from the lender together with accrued interest.

12. OPERATING LEASES

At December 31, 1998, the Company has operating leases for building space and computer equipment. The future minimum lease payments are as follows:

1999	$1,172
2000	458
2001	--
2002	--
2003	--
Total	$1,630

Rental expense for the years ended December 31, 1998, 1997 and 1996 amounted to approximately $2,068, $2,919 and $3,121, respectively.

13. COMMITMENTS AND CONTINGENCIES

TOBACCO-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 from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are reported hereinafter as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Liggett or BGL). 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 four categories: (i) smoking and health cases alleging personal injury brought on behalf of individual smokers ("Individual Actions"); (ii) smoking and health cases alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. In 1996 and 1997, Liggett incurred counsel fees and costs in connection with tobacco-related litigation in the amount of approximately $3,500 and $5,750, respectively. Certain fees and expenses were paid by others in the industry, but, this assistance terminated in 1997. In 1998, Liggett incurred counsel fees and costs totaling approximately $7,828.

INDIVIDUAL ACTIONS. As of December 31, 1998, there were approximately 270 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 ETS and seek compensatory and, in some cases, punitive damages. Of these, 89 are pending in Florida, 91 in New York, 29 in Massachusetts and 19 in Texas. The balance of the individual cases were pending in 21 states. There are four individual cases pending where Liggett is the only named defendant.

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, special duty, voluntary undertaking, 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, indemnity, market share liability and violations of deceptive trade practices laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO") and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including 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.

CLASS ACTIONS. As of December 31, 1998, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Two of these cases, FLETCHER, ET AL. v. BROOKE GROUP LTD., ET AL. and WALKER, ET AL. v. LIGGETT GROUP INC., ET AL., have been settled by the Company, subject to court approval. These two settlements are more fully discussed below under the "Settlements" section.

In October 1991, an action entitled BROIN, ET AL. v. PHILIP MORRIS INCORPORATED, ET AL., Circuit Court of the Eleventh Judicial District in and for Dade County, Florida, was filed against Liggett and others. This case was brought by plaintiffs on behalf of all flight attendants that worked or are presently working for airlines based in the United States and who never regularly smoked cigarettes but allege that they have been damaged by involuntary exposure to ETS. In October 1997, the other major tobacco companies settled this matter, which settlement provides for a release of Liggett and BGL. In February 1998, the Circuit Court approved the settlement; however, an objector filed a Notice of Appeal of the settlement in the Third District Court of Appeal. (See "Subsequent Events" below.)

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

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

The extent of the impact of the CASTANO decision on tobacco-related class action litigation is still uncertain, although the decertification of the CASTANO class by the Fifth Circuit may preclude other federal courts from certifying a nationwide class action for trial purposes with respect to tobacco-related claims. The CASTANO decision has had to date, however, only limited effect with respect to courts' decisions regarding narrower tobacco-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, courts in New York, Louisiana and Maryland have certified "addiction-as-injury" class actions that covered only citizens in those states. Two class actions pending in state court in Florida have also been certified one of which, the BROIN case, was settled in 1997. The CASTANO decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

Class certification motions are pending in a number of putative class actions. Class certification has been denied or reversed in 13 actions while classes remain certified in two cases in Florida and Maryland. A number of class certification decisions are on appeal.

GOVERMENTAL ACTIONS. As of December 31, 1998, actions against Liggett and BGL were filed by each of the 50 states and certain territories. As more fully discussed below, Liggett and BGL have settled these actions. In addition, actions against Liggett and BGL have been filed by foreign countries and counties, municipalities and public hospitals. As of December 31, 1998, there were approximately 15 Governmental Actions pending against Liggett. In these proceedings, the governmental entities seek reimbursement for Medicaid and other health care expenditures allegedly caused by use of tobacco products. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or 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, 1998, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross and Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District Courts in New York, Chicago, and Seattle and seek billions of dollars in damages. The lawsuits allege conspiracy, fraud, misrepresentation and violation of federal

racketeering and antitrust laws as well as other claims. 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. (See "Subsequent Events" below.)

SETTLEMENTS. In March 1996, Liggett and BGL entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. Under the CASTANO settlement agreement, upon final court approval of the settlement, the CASTANO class would be entitled to receive up to five percent of Liggett's pretax income (income before income taxes) each year (up to a maximum of $50,000 per year) for the next 25 years, subject to certain reductions provided for in the agreement and a $5,000 payment from Liggett if Liggett or BGL fail to consummate a merger or similar transaction with another non-settling tobacco company defendant within three years of the date of settlement. Liggett and BGL have the right to terminate the CASTANO settlement under certain circumstances. On March 14, 1996, Liggett, the CASTANO Plaintiffs Legal Committee and the CASTANO plaintiffs entered into a letter agreement. According to the terms of the letter agreement, for the period ending nine months from the date of Final Approval (as defined in the letter), if granted, of the CASTANO settlement or, if earlier, the completion by Liggett or BGL of a combination with any defendant in CASTANO, except PM, the CASTANO plaintiffs and their counsel agree not to enter into any more favorable settlement agreement with any CASTANO defendant which would reduce the terms of the CASTANO settlement agreement. If the CASTANO plaintiffs or their counsel enter into any such settlement during this period, they shall pay Liggett $250,000 within 30 days of the more favorable agreement and offer Liggett and BGL the option to enter into a settlement on terms at least as favorable as those included in such other settlement. The letter agreement further provides that during the same time period, and if the CASTANO settlement agreement has not been earlier terminated by Liggett in accordance with its terms, Liggett and its affiliates will not enter into any business transaction with any third party which would cause the termination of the CASTANO settlement agreement. If Liggett or its affiliates enter into any such transaction, then the CASTANO plaintiffs will be entitled to receive $250,000 within 30 days from the transacting party. In May 1996, the CASTANO Plaintiffs Legal Committee filed a motion with the United States District Court for the Eastern District of Louisiana seeking preliminary approval of the CASTANO settlement. In September 1996, shortly after the class was decertified, the CASTANO plaintiffs withdrew the motion for approval of the CASTANO settlement.

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

On November 23, 1998, PM, B&W, R.J. Reynolds Tobacco Company ("RJR") and Lorillard Tobacco Company ("Lorillard") (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. As described below, Liggett and BGL had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 40 states and territories.

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.

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). 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 pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nations" protection for both Liggett and BGL, the payments due these states by Liggett (other than Minnesota and Mississippi) have been eliminated. With respect to all non-economic obligations under the previous settlements, both Liggett and BGL 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 March 1997, Liggett, BGL 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, and in May 1997, a similar mandatory class settlement agreement was filed in an action entitled WALKER, ET AL. v. LIGGETT GROUP INC., ET AL., United States District Court, Southern District of West Virginia. On July 2, 1998, Liggett, BGL and plaintiffs filed an amended class action settlement agreement in FLETCHER which agreement was preliminarily approved by the court on December 8, 1998. A hearing on final approval of the settlement is scheduled for April 27, 1999. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of $1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, Liggett anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and BGL. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in FLETCHER encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution of tobacco-related claims against Liggett and BGL.

The WALKER court also granted preliminary approval and preliminary certification of the nationwide class; however, in August 1997, the court vacated its preliminary certification of the settlement class, which decision is currently on appeal. The WALKER court relied on the Supreme Court's decision in AMCHEM PRODUCTS INC. v. WINDSOR in reaching its decision to vacate preliminary certification of the class. In AMCHEM, the Supreme Court affirmed a decision of the Third Circuit vacating the certification of a settlement class that involved asbestos-exposure claims. The Supreme Court held that the proposed settlement class did not meet the requirements of Rule 23 of the Federal Rules of Civil Procedure for predominance of common issues and adequacy of representation. The Third Circuit had held that, although classes could be certified for settlement purposes, Rule 23's requirements had to be satisfied as if the case were going to be litigated. The Supreme Court agreed that the fairness and adequacy of the settlement are not pertinent to the predominance inquiry under Rule 23(b)(3), and thus, the proposed class must have sufficient unity so that absent class members can fairly be bound by decisions of class representatives.

After the AMCHEM opinion was issued by the Supreme Court in June 1997, objectors to Liggett's settlement in WALKER moved for decertification. Although Liggett's settlement in the WALKER action is a "limited fund" class action settlement proceeding under Rule 23(b)(1) and AMCHEM was a Rule 23 (b)(3) case, the court in the WALKER action, nonetheless, decertified the WALKER class. Applying AMCHEM to the WALKER case, the District Court, in a decision issued in August 1997, determined that while plaintiffs in WALKER have a common interest in "maximizing the limited fund available from the defendants," there remained "substantial conflicts among class members relating to distribution of the fund and other key concerns" that made class certification inappropriate.

The AMCHEM decision's ultimate affect on the viability of both the WALKER and FLETCHER settlements remains uncertain given the Fifth Circuit's recent ruling reaffirming a limited fund class action settlement in IN RE ASBESTOS LITIGATION ("AHEARN"). In June 1997, the Supreme Court remanded AHEARN to the Fifth Circuit for consideration in light of AMCHEM. On remand, the Fifth Circuit made two decisive distinctions between AMCHEM and AHEARN. First, the AHEARN class action proceeded under Rule 23(b)(1) while AMCHEM was a Rule 23(b)(3) case, and second, in AHEARN, there was no allocation or difference in award, according to nature or severity of injury, as there was in AMCHEM. The Fifth Circuit concluded that all members of the class and all class representatives share common interests and none of the uncommon questions abounding in AMCHEM exist. On June 22, 1998, the Supreme Court granted certiorari to review the Fifth Circuit decision.

Liggett accrued approximately $4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and $16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of Liggett's treatment under the MSA, $14,928 of net charges accrued for the prior settlements were reversed in 1998.

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

TRIALS. In July 1998, trial commenced in the ENGLE, ET AL. v. PHILIP MORRIS INCORPORATED, ET al., case, a class action pending in Miami Dade County, Florida, brought on behalf of all Florida residents allegedly injured by smoking. Plaintiffs seek compensatory and punitive damages ranging into the billions of dollars, as well as equitable relief including, but not limited to, a medical fund for future health care costs, attorneys' fees and court costs. The class consists of all Florida residents and citizens, and their survivors, who claim to have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine.

The current trial plan calls for the case to be tried in three "Phases". Phase One, which is currently underway, involves evidence concerning certain "common" class issues relating to the plaintiff class' causes of action. Entitlement to punitive damages will be decided at the end of Phase One, but no amount will be set at that time.

If plaintiffs prevail in Phase One, the first two stages of Phase Two will involve individual determinations of specific causation and other individual issues regarding entitlement to compensatory damages for the class representatives. Stage three of Phase Two will involve an assessment of the amount of punitive damages, if any, that individual class representatives will be awarded. Stage four of Phase Two will involve the setting of a percentage or ratio of punitive damages for absent class members, assuming entitlement was found at the end of Phase One.

Phase Three of the trial will be held before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

Additional cases are currently scheduled for trial during 1999, including two Third-Party Payor Actions brought by unions in Washington (September) and New York (September), and three Class Actions in Alabama (August), Wisconsin (September) and New York (November). Also, six Individual Actions are currently scheduled for trial during 1999. Trial dates, however, are subject to change.

OTHER RELATED MATTERS. A grand jury investigation is being conducted by the office of the United States Attorney for the Eastern District of New York (the "Eastern District Investigation") regarding possible violations of criminal law relating to the activities of The Council for Tobacco Research - USA, Inc. (the "CTR"). Liggett was a sponsor of the CTR at one time. In May 1996, Liggett received a subpoena from a Federal grand jury sitting in the Eastern District of New York, to which Liggett has responded.

In March 1996, and in each of March, July, October and December 1997, Liggett and/or BGL received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of: the health consequences of smoking cigarettes; the targeting of children by the industry; and the addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas The Company understands that the Eastern District Investigation and the DOJ Investigation essentially have been consolidated into one investigation conducted by the Department of Justice (the "DOJ"). Liggett and BGL are unable, at this time, to predict the outcome of this investigation.

In April 1998, BGL announced that Liggett had reached an agreement with the DOJ to cooperate in both the Eastern District Investigation and the DOJ Investigation. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation.

In September 1998, Liggett received a subpoena from a federal grand jury in the Eastern District of Philadelphia investigating possible antitrust violations in connection with the purchase of tobacco by and for tobacco companies. Liggett has responded to this subpoena. Liggett and BGL are unable, at this time, to predict the outcome of this investigation.

Litigation is subject to many uncertainties, and it is possible that some of the aforementioned actions could be decided unfavorably against Liggett or BGL. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Liggett is unable to make a meaningful estimate with respect to the amount of loss that could result from an unfavorable outcome of many of the cases pending against the Company, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

Liggett has been involved in certain environmental proceedings, none of which, either individually or in the aggregate, rises to the level of materiality. Liggett's management believes that current operations are conducted in material compliance with all environmental laws and regulations. Management is unaware of any material environmental conditions affecting its existing facilities. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

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

SUBSEQUENT EVENTS. On January 4, 1999, a federal judge in Seattle dismissed a Third-Party Payor Action brought by seven Blue Cross/Blue Shields against the tobacco industry. The court ruled that the insurance providers did not have standing to bring the lawsuit. However, on February 26, 1999, a federal judge in the Eastern District of New York denied pleas by the industry to dismiss the Third-Party Payor Action brought by 24 Blue Cross/Blue Shields.

On February 10, 1999, a state court jury in San Francisco awarded $51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by PM. The award includes $1,500 in compensatory damages and $50,000 in punitive damages.

On February 17, 1999, Liggett settled the IRON WORKERS LOCAL UNION NO. 17 INSURANCE FUND, ET AL. v. PHILIP MORRIS INC., ET AL. matter. This Third-Party Payor Action was brought on behalf of all health and welfare union funds in Ohio in order to recover monies allegedly expended to treat members' smoking-related illnesses. Liggett has no payment obligations under the settlement unless Liggett reaches a monetary settlement with any other health and welfare fund. On March 18, 1999, a defense verdict was rendered in this action.

On January 19, 1999, at the State of the Union Address, President Clinton announced that the DOJ was preparing a litigation plan to take the tobacco industry to court to recover monies that Medicare and other programs allegedly expended to treat smoking-related illnesses. The effects of this lawsuit cannot be predicted at this time; however, an adverse verdict could have a material adverse effect on the Company and Liggett.

On March 24, 1999, the Florida appeals court upheld the 1997 BROIN settlement involving the other major tabacco companies.

On March 30, 1999, a state court jury in Portland awarded $80,311 in damages to the family of a deceased smoker who smoked Marlboro made by PM. The award includes $79,500 in punitive damages.

LEGISLATION AND REGULATION:

In January 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of ETS which concludes that ETS 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 ETS, 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 ETS was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, the court ruled that the EPA made procedural and scientific mistakes when it declared in its 1993 report that secondhand smoke caused as many as 3,000 cancer deaths a year among nonsmokers.

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

In August 1996, the FDA filed in the Federal Register a Final Rule (the "FDA Rule") classifying tobacco as a drug, asserting jurisdiction by the FDA over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The Fourth Circuit Court reversed the district court on appeal and on August 14, 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. Liggett and BGL support the FDA Rule and have begun to phase in compliance with certain of the proposed interim FDA regulations. See discussions of the CASTANO and Governmental Actions settlements above.

In August 1996, the Commonwealth of 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; 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.

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 24 cents, would rise 10 cents in the year 2000 and 5 cents more in the year 2002. Additionally, in November 1998, the citizens of California voted in favor of a 50 cents per pack tax on cigarettes sold in that state.

In addition to the foregoing, there have been a number of other restrictive regulatory actions, adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, the effects of which, at this time, Liggett is not able to evaluate.

YEAR 2000 COSTS:

Liggett utilizes management information systems and software technology that may be affected by Year 2000 issues throughout its operations. The Company has evaluated the costs to implement century date change compliant systems conversions and is in the process of executing a planned conversion of its systems prior to the Year 2000. To date, the focus of Year 2000 compliance and verification efforts has been directed at the implementation of new customer service, inventory control and financial reporting systems at each of the three regional Strategic Business Units, part of the Company's reorganization which began in January 1997. Liggett estimates that approximately $138 of the expenditures related to this reengineering effort related to Year 2000 compliance, validation and testing. In January of 1998, Liggett initiated a major conversion of factory accounting, materials management and information systems at its Durham production facility with upgrades that have been successfully tested for Year 2000 compliance. This conversion was completed in November 1998. Program upgrades to Liggett's human resources and payroll systems, budgeted at $160, are scheduled for completion in July of 1999. Enhancements to the Company's finished goods inventory system are expected to be completed in September 1999. It is anticipated that all factory, corporate, field sales and physical distribution systems will be completed in sufficient time to support Year 2000 compliance and verification.

Although such costs may be a factor in describing changes in operating profit in any given reporting period, the Company currently does not believe that the anticipated costs of Year 2000 systems conversions will have a material impact on its future consolidated results of operations. Based on the progress Liggett has made in addressing Year 2000 issues and its strategy and timetable to complete its compliance program, the Company does not foresee significant risks associated with its Year 2000 initiatives at this time. Although the Company is in the process of confirming that service providers are adequately addressing Year 2000 issues, there can be no complete assurance of success, or that interaction with other service providers will not impair the Company's service.

14. RELATED PARTY TRANSACTIONS

During the third quarter of 1998, BGL contributed 470,000 shares of its common stock to Liggett. On August 28, 1998, Liggett transferred the 470,000 shares of BGL common stock to members of a law firm which represents the Company and BGL. The Company recognized charges of $1,686 related to this transaction.

On March 12, 1998, BGL granted an option for 1,250,000 shares of BGL's common stock to a law firm that represents Liggett and BGL. On October 12, 1998, BGL amended the option agreement by reducing the original exercise price from $17.50 per share to $6.00 per share and extending the initial exercise date on all 1,250,000 shares to April 1, 2000, subject to earlier exercise under certain circumstances. The option expires on March 31, 2003. The fair value of the equity instrument 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 a dividend rate of 0%. Liggett will recognize expenses of $5,113 over the vesting period.

On April 28, 1997, BOL purchased excess production equipment from Liggett for $3,000. The difference of $2,578 between the sale price and the carrying value is accounted for as a credit to contributed capital.

On July 5, 1996, Liggett purchased 140,000 shares (19.97%) of Liggett-Ducat's tobacco operations from BOL, for $2,100. Liggett also acquired on that date for $3,400 a ten-year option to purchase from BOL at the same per share price up to 292,407 additional shares of Liggett-Ducat, thereby entitling Liggett to increase its interest in Liggett-Ducat to approximately 62%. On March 13, 1997, Liggett acquired a second ten-year option to purchase BOL's remaining shares in Liggett-Ducat (an additional 33%) for $2,200 of which $2,049 was paid in cash, with the balance settled through intercompany accounts. Liggett's equity in the net income of Liggett-Ducat amounted to $498 for the year ended December 31, 1997 and its equity in the loss of Liggett-Ducat amounted to $1,116 for the year ended December 31, 1996. On December 31, 1997, the carrying value of Liggett-Ducat amounted to $1,208. The excess of the cost of the option over the carrying amount of net assets to be acquired under the option was charged to stockholder's deficit. On January 30, 1998, in connection with the restructuring of the Liggett Notes, BOL acquired the Liggett-Ducat shares and options held by Liggett. (Refer to Note 11.)

During 1996, Liggett provided certain administrative and technical support to Liggett-Ducat in exchange for which Liggett-Ducat provided assistance to Liggett in its pursuit of selling cigarettes in the Russian Republic. The expenses associated with Liggett's activities amounted to $76 for the year ended December 31, 1996.

Liggett is a party to an agreement dated February 26, 1991, as amended October 1, 1995, with BGL to provide various management and administrative services to the Company in consideration for an annual management fee of $900 paid in monthly installments and annual overhead reimbursements of $864 paid in quarterly installments.

In addition, Liggett has entered into an annually renewable Corporate Services Agreement with BGLS wherein BGLS agreed to provide corporate services to the Company at an annual fee paid in monthly installments. Corporate services provided by BGLS under this agreement include the provision of administrative services related to Liggett's participation in its parent company's multi-employer benefit plan, external publication of financial results, preparation of consolidated financial statements and tax returns and such other administrative and managerial services as may be reasonably requested by Liggett. The charges for services rendered under the agreement amounted to $3,484 in 1998, $3,318 in 1997 and $3,160 in 1996.

Since before January, 1996, the Company has leased equipment from BGLS for $50 per month.

Liggett is party to a Tax-Sharing Agreement dated June 29, 1990 with BGL and certain other entities pursuant to which Liggett has paid taxes to BGL as if it were filing a separate company tax return, except that the agreement effectively limits the ability of Liggett to carry back losses for refunds. Liggett is entitled to recoup overpayments in a given year out of future payments due under the agreement.

15. RESTRUCTURING CHARGES

During 1997, the Company reduced its headcount by 108 full-time positions and recorded a $1,964 restructuring charge to operations ($407 of which was included in cost of sales) for severance programs, primarily salary continuation and related benefits for terminated employees. The Company expects to continue its cost reduction programs. Of the total restructuring recorded during 1997, $1,671 was funded during 1997, and $293 during 1998.

During 1996, the Company reduced its headcount by 38 positions and recorded a $3,428 restructuring charge to operations ($132 of which was included in cost of sales) for severance programs, primarily salary continuation and related benefits for terminated employees. Of the total restructuring recorded during 1996, $1,416 was funded during 1996, with $2,012 funded in subsequent years.

Exhibit 99.3

NEW VALLEY HOLDINGS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 1998

NEW VALLEY HOLDINGS, INC.

FINANCIAL STATEMENTS

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Report of Independent Accountants

To the Board of Directors and the
Stockholder of New Valley Holdings, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of New Valley Holdings, Inc. (the "Company") at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards 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, 1999

NEW VALLEY HOLDINGS, INC.

BALANCE SHEETS
(Dollars In Thousands, Except Per Share Amounts)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 21	$ 6
Investment in New Valley:		
Redeemable preferred stock	61,833	59,359
Common stock	(61,833)	(59,359)
Total investment in New Valley		
Total assets	$ 21	$ 6
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Payable to parent		$ 56
Current income taxes payable to parent	6,324	6,298
Total liabilities	6,324	6,354
Commitments and contingencies		
Common stock, $0.01 par value, 100 shares authorized, issued and outstanding		
Additional paid-in capital	7,633	7,633
Deficit	(51,185)	(25,737)
Other comprehensive income	37,219	11,756
Total stockholder's equity (deficit)	$ (6,303)	(6,348)
Total liabilities and stockholder's equity (deficit)	$ 21	$ 6

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

NEW VALLEY HOLDINGS, INC.
STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 1998	December 31, 1997	December 31, 1996
Equity in loss of New Valley	$(28,673)	$(26,519)	$(8,517)
Interest income	97	6	55
General and administrative expenses	(24)	(47)	(28)
Loss from continuing operations before income taxes	(28,600)	(26,560)	(8,490)
(Benefit) provision for income taxes:			
Current	26	(14)	1,840
Deferred	(1,123)	(673)	(800)
Income tax (benefit) provision	(1,097)	(687)	1,040
Loss from continuing operations	(27,503)	(25,873)	(9,530)
Income from discontinued operations of New Valley net of taxes of $1,123, $673 and $800 in 1998, 1997 and 1996, respectively	2,085	863	2,182
Net loss	$(25,418)	$(25,010)	$(7,348)

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

NEW VALLEY HOLDINGS, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Other Comprehensive Income	Total
Balance, December 31, 1995	100		$11,020	$ 32,128	$ 5,541	$ 48,689
Net loss				(7,348)		(7,348)
Proportionate share of New Valley's unrealized appreciation in investments, net of tax					2,227	2,227
Increase in unrealized holding loss on investment in New Valley, net of tax					(20,996)	(20,996)
Total other comprehensive loss						(18,769)
Total comprehensive loss						(26,117)
Increase in capital from New Valley's repurchase of Class A Shares, net of tax			1,152			1,152
Increase in valuation allowance on deferred tax assets			(4,539)			(4,539)
Dividends				(25,507)		(25,507)
Balance, December 31, 1996	100		7,633	(727)	(13,228)	(6,322)
Net loss				(25,010)		(25,010)
Proportionate share of New Valley's unrealized appreciation in investments					3,179	3,179
Reduction of unrealized holding loss on investment in New Valley					21,805	21,805
Total other comprehensive income						24,984
Total comprehensive loss						(26)
Balance, December 31, 1997	100		7,633	(25,737)	11,756	(6,348)
Net loss				(25,418)		(25,418)
Incremental unrealized holding gain on investment in New Valley					25,463	25,463
Total other comprehensive income						25,463
Total comprehensive income						45
Balance, December 31, 1998	100		$ 7,633	$(51,155)	$ 37,219	$ (6,303)

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

NEW VALLEY HOLDINGS, INC.
STATEMENTS OF CASH FLOWS
(Dollars In Thousands, Except Per Share Amounts)

	December 31, 1998	December 31, 1997	December 31, 1996
Cash flows from operating activities:			
Net (loss) income	$(25,418)	$(25,010)	$ (7,348)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Equity in (loss) earnings of New Valley	(28,673)	26,908	7,877
Deferred income taxes		(673)	(800)
Income from discontinued operations of New Valley	(3,208)	(1,252)	(1,542)
(Decrease) increase in income taxes payable	26	(14)	1,840
Other	(58)	46	10
Net cash provided by operating activities	15	5	37
Cash flows from investing activities:			
Dividends received from New Valley			24,733
Net cash provided by investing activities			24,733
Cash flows from financing activities:			
Distributions paid to parent			(25,507)
Net cash used in financing activities			(25,507)
Net increase (decrease) in cash and cash equivalents	15	5	(737)
Cash and cash equivalents at beginning of period	6	1	738
Cash and cash equivalents at end of period	$ 21	$ 6	$ 1

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

NEW VALLEY HOLDINGS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars In Thousands, Except Per Share Amounts)

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Organization. New Valley Holdings, Inc. (the "Company") was formed on September 9, 1994, pursuant to the laws of Delaware, by BGLS Inc. ("BGLS") to act as a holding company for certain stock investments in New Valley Corporation ("New Valley"). BGLS, which owns 100% of the authorized, issued and outstanding common stock of the Company, is a wholly-owned subsidiary of Brooke Group Ltd. ("Brooke"), a Delaware corporation whose stock is traded on the New York Stock Exchange.

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. Actual results could differ from those estimates.

Cash and Cash Equivalents. For purposes of statements of cash flows, cash includes 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.

Other Comprehensive Income. The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting Comprehensive Income" effective in the first quarter of 1998 with prior periods restated. Other comprehensive income is a component of stockholder's equity and includes such items as the Company's proportionate interest in New Valley's capital transactions and unrealized gains and losses on investment securities. The implementation of SFAS No. 130 did not have any material effect on the consolidated financial statements.

2. Investment in New Valley Corporation

At December 31, 1998 and 1997, the Company's investment in New Valley consisted of a 41.5% voting interest. At December 31, 1998 and 1997, the Company owned 57.7% of the outstanding $15.00 Class A Increasing Rate Cumulative Senior Preferred Shares ($100 Liquidation Value), $.01 par value ("Class A Preferred Shares") and 41.5% of New Valley's common shares, $.01 par value (the "Common Shares").

The Class A Preferred Shares are accounted for as debt and equity securities pursuant to the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and are classified as available-for-sale. The Common Shares are accounted for pursuant to Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock".

The Company determines the fair value of the Class A Preferred Shares based on the quoted market price. Through September 1996, earnings on the Class A Preferred Shares were comprised of dividends accrued during the period and the accretion of the difference between the Company's basis and their mandatory redemption price. During the quarter ended September 30, 1996, the decline in the market value of the Class A Preferred Shares, the dividend received on the Class A Preferred Shares and the Company's equity in losses incurred by New Valley caused the carrying value of the Company's investment in New Valley to be reduced to zero. Beginning in the fourth quarter of 1996, the Company suspended the recording of its earnings on the dividends accrued and the accretion of the difference between the Company's basis in the Class A Preferred Shares and their mandatory redemption price.

(Dollars In Thousands, Except Per Share Amounts)-(Continued)

The Company's investment in New Valley at December 31, 1998 and 1997, respectively, is summarized below:

	Number of Shares	Fair Value	Carrying Amount
1998			
Class A Preferred Shares.....	618,326	$61,833	$ 61,833
Common Shares.....	3,969,962	1,861	(61,833)
		$63,694	$
1997			
Class A Preferred Shares.....	618,326	$59,359	$ 59,359
Common Shares.....	3,969,962	1,995	(59,359)
		$61,354	$

In November 1994, New Valley's First Amended Joint Chapter 11 Plan of Reorganization, as amended ("Joint Plan"), was confirmed by order of the United States Bankruptcy Court for the District of New Jersey and on January 18, 1995, New Valley emerged from bankruptcy reorganization proceedings and completed substantially all distributions to creditors under the Joint Plan. Pursuant to the Joint Plan, among other things, the Class A Preferred Shares, the Class B Preferred Shares, the Common Shares and other equity interests were reinstated and retained all of their legal, equitable and contractual rights.

During 1996, New Valley repurchased 72,104 Class A Preferred Shares for a total amount of $10,530. The Company has recorded its proportionate interest in the excess of the carrying value of the shares over the cost of the shares repurchased as a credit to additional paid-in capital in the amount of $1,782 for the year ended December 31, 1996.

The Class A Preferred Shares of New Valley are required to be redeemed on January 1, 2003 for $100.00 per share plus dividends accrued to the redemption date. The shares are redeemable, at any time, at the option of New Valley, at $100.00 per share plus accrued dividends. The holders of Class A Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board of Directors, payable at the rate of $19.00 per annum. At December 31, 1998 and 1997, respectively, the accrued and unpaid dividends arrearage was $219,068 ($204.46 per share) and $163,302 ($152.41 per share). The Company received $24,733 ($40.00 per share) in dividend distributions in 1996.

(Dollars In Thousands, Except Per Share Amounts)-(Continued)

3. NEW VALLEY CORPORATION

Summarized financial information for New Valley follows:

	1998	1997	1996
Current assets, primarily cash and marketable securities.....	$ 91,451	$118,642	
Noncurrent assets.....	181,271	322,749	
Current liabilities.....	83,581	125,628	
Noncurrent liabilities.....	78,251	187,524	
Redeemable preferred stock.....	316,202	258,638	
Shareholders' equity (deficit).....	(205,312)	(130,399)	
Revenues.....	102,087	114,568	$130,865
Costs and expenses.....	127,499	139,989	149,454
Loss from continuing operations.....	(23,329)	(24,260)	(14,168)
Income from discontinued operations.....	7,740	3,687	7,158
Net loss applicable to common shares(A).....	(96,553)	(89,048)	(65,160)
Company's share of discontinued operations.....	3,208	1,536	2,982

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(A) Considers all preferred accrued dividends, whether or not declared and, in 1995 and 1996, the excess of carrying value of redeemable preferred shares over cost of shares purchased.

On January 31, 1997, New Valley entered into a stock purchase agreement with Brooke (Overseas) Ltd. ("BOL"), a wholly-owned subsidiary of BGLS, and acquired all of BOL's shares (the "BML Shares") in BrookeMil Ltd. ("BML"), representing 99.1% of the common stock of BML, which is engaged in real estate development in Russia. New Valley paid BOL a purchase price of $55,000 for the BML Shares, consisting of $21,500 in cash and a New Valley $33,500 9% promissory note. The note was paid in full in 1997.

In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to $58,750 including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded $32,364 of its investment in Western Realty Ducat.

The ownership and voting interests in Western Realty Ducat are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Ducat to the extent of its investment ($40,000), together with a 15% annual rate of return, and New Valley will then be entitled to a return of $20,000 of BML-related expenses incurred and cash invested by New Valley since March 1, 1997, together with a 15% annual rate of return; subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Ducat will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Ducat generally require the unanimous consent of the Board of Managers. Accordingly, New Valley has accounted for its non-controlling interest in Western Realty Ducat using the equity method of accounting.

New Valley recorded its basis in the investment in Western Realty Ducat in the amount of $60,169 based on the carrying value of assets less liabilities transferred. There was no difference between the carrying value of the investment and New Valley's proportionate interest in the underlying value of net assets of Western Realty Ducat.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a $30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat Ltd. and the new factory being constructed by Liggett-Ducat on the outskirts of Moscow. (Refer to Note 2.)

In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a $25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment ($18,750) together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment ($6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced $19,067 (of which $14,300 was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of New Valley's shares of BML.

As of December 31, 1998, BML had invested $18,013 in the Kremlin sites and held $252, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional $6,000 in 1999 and $22,000 in 2000 in the development of the property. BML funded $4,800 of this amount in the first quarter of 1999.

The development of Ducat Place III and the Kremlin Sites will require significant amounts of debt and other financing. New Valley is actively pursuing various financing alternatives on behalf of Western Realty Ducat and BML. However, in light of the recent economic turmoil in Russia, no assurance can be given that such financing will be available on acceptable terms. Failure to obtain sufficient capital for the projects would force Western Realty Ducat and BML to curtail or delay the planned development of Ducat Place III and the Kremlin Sites.

In 1998, New Valley's United States real estate operations sold all of its office buildings, realizing a gain of $4,682. In 1997, New Valley sold one of its shopping centers, realizing a gain of $1,200.

On October 31, 1995, New Valley sold substantially all the assets of its wholly-owned subsidiary, Western Union Data Services Company, Inc. (the "Messaging Service Business"), and conveyed substantially all of the liabilities of the Messaging Service Business for $17,540 in cash and $2,460 in cancellation of intercompany indebtedness. The financial statements of the Company reflect its portion of the gain in gain on disposal of discontinued operations in 1998, 1997 and 1996.

Subsequent Event - Recapitalization Plan:

New Valley intends to submit for approval of its shareholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of $12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of New Valley's shares, effectiveness of the New Valley proxy statement and prospectus for the annual meeting, receipt of a fairness opinion and compliance with the Hart-Scott-Rodino Act.

Brooke has agreed to vote all of its shares in New Valley in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its warrants, Brooke will increase its ownership of the outstanding Common Shares of New Valley from 42.3% to 55.1% and its total voting power from 42.3% to 55.1%.

The Joint Plan places restrictions on and requires approvals for certain transactions with the Company and its affiliates to which New Valley or a subsidiary of, or entity controlled by, New Valley may be party, including the requirements, subject to certain exceptions for transactions involving less than $1 million in a year or pro rata distributions on New Valley's capital stock, of approval by not less than two-thirds of the entire Board, including at least one of the directors elected by the holders of New Valley's preferred shares, and receipt of a fairness opinion from an investment banking firm. In addition, the Joint Plan requires that, whenever New Valley's Certificate of Incorporation provides for the vote of the holders of the Class A Senior Preferred Shares acting as a single class, such vote must, in addition to satisfying all other applicable requirements, reflect the affirmative vote of either (x) 80% of the outstanding shares of that class or (y) a simple majority of all shares of that class voting on the issue exclusive of shares beneficially owned by Brooke. The foregoing provisions of the Joint Plan will terminate upon consummation of the Recapitalization Plan.

(Dollars In Thousands, Except Per Share Amounts)-(Continued)

4. RJR NABISCO HOLDINGS CORP.

During 1997 and 1996 New Valley expensed $100 and $11,724, respectively, for costs relating to its investment in the common stock of RJR Nabisco Holdings Corp. ("RJR Nabisco"). Pursuant to a December 27, 1995 agreement between the Company and New Valley whereby New Valley agreed to reimburse the Company and its subsidiaries for certain reasonable out-of-pocket expenses in connection with RJR Nabisco, New Valley paid the Company and its subsidiaries a total of $17 and $2,370 in 1997 and 1996, respectively.

On February 29, 1996, New Valley entered into a total return equity swap transaction (the "Swap") with an unaffiliated financial institution relating to 1,000,000 shares of RJR Nabisco common stock. During the third quarter of 1996, the Swap was terminated in connection with New Valley's reduction of its holdings of RJR Nabisco common stock and New Valley recognized a loss on the Swap of $7,305 for the year ended December 31, 1996.

5. FEDERAL INCOME TAX

The Company's operations are included in the consolidated tax return of Brooke. Income taxes in these financial statements are shown as if the Company filed a separate tax return.

The amounts provided for income taxes are as follows:

	December 31,		
	1998	1997	1996
Current:			
U.S. Federal	$ 26	$ (14)	$1,840
State			
Deferred:			
U.S. Federal	(1,123)	(673)	(800)
State			
Total provision (benefit) for continuing operations	$(1,097)	$ (687)	$1,040

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

	December 31, 1998	
	Deferred Tax Asset	Deferred Tax Liability
Excess of tax basis over book basis of non-consolidated entities	$ 8,400	$
Valuation allowance	(8,400)	
Total	$	$

	December 31, 1997	
	Deferred Tax Asset	Deferred Tax Liability
Excess of book basis over tax basis of non-consolidated entities.....	$ 8,400	$
Valuation allowance.....	(8,400)	
Total.....	$	$

Differences between the amounts provided for income taxes and amounts computed at the federal statutory rate of 35% are summarized as follows:

	December 31,		
	1998	1997	1996
Loss from continuing operations before income taxes.....	$(28,600)	$(26,560)	$(8,490)
Federal income tax (benefit) provision at statutory rate.....	(9,316)	(9,432)	(2,748)
Net effect of equity transactions.....	8,219	8,745	
Establishment of valuation allowance.....			3,788
Total.....	$ (1,097)	$ (687)	$ 1,040

At December 31, 1998, the Company had $8,400 of unrecognized net deferred tax assets, comprised primarily of future deductible temporary differences. A valuation allowance has been provided against this deferred tax asset as it is presently deemed more likely than not that the benefit of the tax asset will not be utilized. The Company continues to evaluate the realizability of its deferred tax assets and its estimate is subject to change.

6. CONTINGENCIES

BGLS has pledged its ownership interest in the Company's common stock and the Company's investments in the New Valley securities as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes ("BGLS Notes") due 2001.

Exhibit 99.4

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Accountants

To the Board of Directors and the
Stockholder of Brooke (Overseas) Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of Brooke (Overseas) Ltd. and Subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 13 to the consolidated financial statements, the operations of the Company, and those of similar companies in the Russian Federation, have been significantly affected, and will continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Russian Federation.

/s/ PricewaterhouseCoppers LLP

Miami, Florida
March 30, 1999

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars In Thousands, Except Per Share Amounts)

	December 31, 1998	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,722	$ 968
Accounts receivable - trade	650	1,584
Inventories	10,342	4,255
Other current assets	2,928	9,290
Total current assets	16,642	16,097
Property, plant and equipment, at cost, less accumulated depreciation of $2,959 and $1,020	77,286	29,122
Goodwill, net		1,001
Other	5,782	2
Total assets	$ 99,710	$ 46,222
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 20,005	$ 5,000
Accounts payable - trade	10,415	3,798
Due to affiliates	51,533	67,539
Accrued taxes	7,658	18,077
Accrued interest	228	
Other accrued liabilities	3,628	8,398
Total current liabilities	93,467	102,812
Long-term portion of notes payable	19,652	
Deferred gain	20,392	25,498
Participating loan	30,000	
Other liabilities	6,243	2,000
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value $1 per share, 701,000 shares authorized, issued and outstanding	701	701
Additional paid-in-capital	17,104	5,600
Deficit	(87,849)	(90,389)
Total stockholder's equity (deficit)	(70,044)	(84,088)
Total liabilities and stockholder's equity (deficit)	$ 99,710	$ 46,222

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars In Thousands, Except Per Share Amounts)

	December 31, 1998	December 31, 1997	December 31, 1996
Net sales*	$ 97,437	$77,349	$56,835
Cost of sales*	72,309	63,819	52,799
Gross profit	25,128	13,530	4,036
Operating, selling, administrative and general expenses	11,894	9,293	14,008
Operating income (loss)	13,234	4,237	(9,972)
Other income (expense):			
Interest income		1,508	
Interest expense	(13,400)	(10,187)	(7,548)
Gain on sale of assets	4,897	27,055	
(Loss) gain on foreign currency exchange	(4,293)	80	1,199
Other, net	(1,379)	(126)	(3,027)
(Loss) income before income taxes	(941)	22,567	(19,348)
(Benefit) provision for income taxes	(4,756)	11,868	1,454
Net income (loss)	$ 3,815	$ 10,699	$(20,802)

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* Net sales and Cost of sales include excise taxes of $13,413, $12,367 and $7,700 for the years ended December 31, 1998, 1997 and 1996, respectively.

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
(Dollars In Thousands, Except Per Share Amounts)

	Common Stock		Additional Paid-In		
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 1995	701,000	$701	$	$(24,731)	$(24,030)
Net loss				(20,802)	(20,802)
Capital contribution			3,400		3,400
Balance, December 31, 1996	701,000	701	3,400	(45,533)	(41,432)
Net income				10,699	10,699
Distributions to parent				(55,555)	(55,555)
Capital contribution			2,200		2,200
Balance, December 31, 1997	701,000	701	5,600	(90,389)	(84,088)
Net income				3,815	3,815
Distributions to parent				(1,275)	(1,275)
Capital contribution			11,504		11,504
Balance, December 31, 1998	701,000	$701	$17,104	$(87,849)	$(70,044)

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars In Thousands, Except Per Share Amounts)

	December 31, 1998	December 31, 1997	December 31, 1996
Cash flows from operating activities:			
Net (loss) income	$ 3,815	$ 10,699	$(20,802)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,708	783	1,399
Gain on sale of assets	(5,106)	(27,055)	
Non-cash interest	1,991		
Deferred taxes			1,061
Currency translation loss	4,294	(81)	125
Changes in assets and liabilities (net of effect of disposition):			
Accounts receivable	784	(1,418)	796
Inventories	(6,086)	(686)	2,364
Accounts payable and accrued liabilities	(6,838)	5,463	12,717
Deferred gain		(2,985)	
Due to affiliates	(16,978)	30,404	7,606
Unearned revenue			9,227
Other assets and liabilities, net	(1,775)	(2,012)	1,365
Net cash (used in) provided by operating activities	(24,191)	13,112	15,858
Cash flows from investing activities:			
Capital expenditures	(19,121)	(20,680)	(29,860)
Proceeds from sale of assets, net		55,000	
Purchase of stock in Liggett-Ducat		(25)	(2,829)
Proceeds from sale of stock in Liggett-Ducat, net			2,100
Proceeds from sale of option to purchase stock in Liggett-Ducat		2,200	3,400
Net cash (used in) provided by investing activities	(19,121)	36,495	(27,189)
Cash flows from financing activities:			
Proceeds from participating loan	30,000		
Proceeds from debt	3,000	10,305	12,995
Repayments of debt	(887)	(5,190)	(1,329)
Borrowings under credit facility	15,600		1,677
Repayments on credit facility	(9,000)	(155)	(1,672)
Distributions paid to parent	(1,275)	(55,555)	
Capital contributions	9,000		
Net cash provided by (used in) financing activities	46,438	(50,595)	11,671
Effect of exchange rate changes on cash and cash equivalents	(1,372)	81	(125)
Net increase (decrease) in cash and cash equivalents	1,754	(907)	215
Cash and cash equivalents, beginning of period	968	1,875	1,660
Cash and cash equivalents, end of period	$ 2,722	$ 968	$ 1,875
Supplemental cash flow information:			
Cash payments during the period for:			
Interest	$ 2,883	$ 1,919	$ 5,573
Income taxes	2,588	1,280	393

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)

1. ORGANIZATION

Brooke (Overseas) Ltd. ("the Company"), a Delaware corporation, is a wholly-owned subsidiary of BGLS Inc. ("BGLS") and an indirect subsidiary of Brooke Group Ltd. ("Brooke"). The consolidated financial statements of the Company include Western Tobacco Investments LLC ("Western Tobacco"), a Delaware limited liability company. Western Tobacco is a company which was formed to hold the Company's interest in Liggett-Ducat Ltd. ("Liggett-Ducat"), a Russian closed joint stock company engaged in the manufacture and sale of cigarettes in Russia, and Liggett-Ducat Tobacco ("LDT"), a wholly-owned subsidiary of Liggett-Ducat engaged in the construction of a new cigarette factory. Prior to January 31, 1997, BrookeMil Ltd. ("BML") was a wholly-owned subsidiary engaged in construction of office buildings and property management in Moscow, Russia. On January 31, 1997, the Company sold its shares (which represented 99.1% of all shares outstanding) in BML to New Valley Corporation ("New Valley"). (Refer to Note 3.)

On July 5, 1996, Liggett Group Inc. ("Liggett"), a wholly-owned subsidiary of BGLS, purchased from the Company 140,000 shares (19.97%) of the tobacco operations of Liggett-Ducat for $2,100. Ten-year option agreements then in place would have enabled Liggett to increase its ownership in Liggett-Ducat to 95%. (Refer to Note 10.)

On January 30, 1998, in connection with the restructuring of Liggett's long-term debt, Liggett agreed to transfer to the Company all of its shares of Liggett-Ducat and to cancel its option agreements to acquire additional shares of Liggett-Ducat. At December 31, 1998, the Company held 99.9% of the common shares of Liggett-Ducat through its subsidiary, Western Tobacco.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation:

The consolidated financial statements and accompanying notes include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

b) Liquidity:

The Company has historically relied on Brooke and BGLS for sources of financing. At December 31, 1998, the Company had a working capital deficiency of $76,825 and a net capital deficiency of $70,044. On February 2, 1998, Brooke and BGLS cancelled a note and interest which amounted to $20,384 at December 31, 1997. On February 5, 1998, Brooke made a capital contribution of $9,000 to the Company, which was used to repay intercompany indebtedness to BGLS. These contributions to capital reduced the net capital deficiency and amounts due affiliates by $29,384. During 1998, Western Tobacco obtained a participating loan of $30,000 from Western Realty Development LLC ("Western Realty") for use in construction of a new cigarette factory and to reduce Liggett-Ducat's indebtedness to BGLS. In addition, factory management is currently

using credit facilities totaling $15,000 and will obtain funding from Russian banks and BOL to complete the factory. (Refer to Notes 6 and 8.) In connection with the move to the new factory in mid-1999, the Company plans to begin the manufacture and marketing of western style cigarettes. Management believes that such activities will result in improved operations and cash flow, but there can be no assurances in this regard.

c) Estimates and Assumptions:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

d) Foreign Currency Translation:

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

e) Cash and Cash Equivalents:

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

f) Inventories:

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) basis.

g) Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation has been calculated on the straight-line method based upon the following useful lives: buildings - 20 years, factory machinery and equipment - 10-15 years, office furniture and equipment - 5 years, and computers and vehicles - 3 years. Depreciation is not provided on construction-in-progress until the related assets are placed in service.

Interest costs are capitalized in connection with the construction of major facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life.

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

h) Goodwill:

Goodwill is being amortized using the straight-line method over ten years and relates to the purchase by the Company of additional shares of Liggett-Ducat stock. Amortization expense for the years ended December 31, 1998, 1997 and 1996 was $1,001, $118 and $51, respectively.

i) 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.

j) Deferred Finance Costs:

Deferred finance costs consist of the discounts on lease prepayments which are being amortized over the life of the leases and the fees incurred in obtaining a bank loan which are being amortized over the term of the loan.

k) Revenue Recognition:

Sales, net of sales returns and discounts are recognized upon the shipment of finished goods to customers. In 1996, rental income was recognized ratably over the life of the lease.

l) Income Taxes:

Applicable income and deferred taxes have been provided for based on tax rates applicable to the Company in the United States and Russia. A valuation allowance is provided against deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized.

m) Concentration of Credit and Other Risks:

The Company sells its products primarily to companies in the wholesale distribution and retail industries in the Russian Federation. Three distributors accounted for approximately 54% of sales in 1998; two distributors accounted for approximately 47% of sales in 1997. Although certain distributors account for concentrations of the Company's revenues, in many cases, prepayments are received for goods and services which is a customary business practice in Russia. Since the

Company does not require collateral and, as a consequence, is exposed to credit risk with respect to its tobacco operations, the Company does perform ongoing credit evaluations of its customers and suppliers and believes that its trade accounts receivable and prepayments risk exposure is limited. At December 31, 1998 and 1997, the Company had made prepayments of $1,232 and $8,756, respectively, to suppliers of raw materials. The Company also had made prepayments for equipment of $2,219 and $483 at December 31, 1998 and 1997, respectively.

The Company maintains its cash deposits with United States and various foreign banks and assesses the financial condition of the institutions on an on-going basis.

3. SALE OF BROOKEMIL

On January 31, 1997, the Company sold its 99.1% of the outstanding shares of BML to New Valley Corporation ("New Valley") for $21,500 in cash and a promissory note of $33,500, collateralized by the BML shares. The note, with an annual interest rate of 9%, was paid in full in 1997. The consideration received exceeded the carrying value of the Company's investment in BML by $52,500. The Company recognized a gain on the sale in 1997 in the amount of $25,500. The remaining $27,000 was deferred, reflecting recognition that the Company's parent, BGLS, retains an interest in BML through its 42% equity ownership in New Valley, and, further, that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BML, which is currently used by Liggett-Ducat for its existing cigarette factory) is subject to a put option held by New Valley. The option allows New Valley to put this site back to the Company at the greater of the appraised fair value of the property at the date of exercise or $13,600, during the period Liggett-Ducat operates the factory on such site. The Company distributed the $21,500 cash proceeds and the proceeds from the $33,500 promissory note received from the sale of BML to BGLS.

On April 18, 1997, BML sold one of its office buildings, Ducat Place I, to a third party. Accordingly, the Company recognized approximately $1,490 of the deferred gain. In 1998, New Valley contributed the BML real estate assets to Western Realty Development LLC ("Western Realty Ducat"), a joint venture between New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo"). The Company recognized a portion of the deferred gain, $5,106, to the extent of Apollo's interest in Western Realty Ducat. (Refer to Notes 6 and 8.)

In connection with the sale of the BML shares, certain specified liabilities aggregating $40,800, including a Russian bank loan with a balance of $20,418, remained with BML. The bank loan was paid in full during the third quarter, 1997. Further, the Company, Brooke and BGLS each contributed to the capital of BML, through cancellation of all indebtedness of BML to each such entity, the aggregate amount of which was $19,275 including accrued interest thereon. In addition, Liggett-Ducat entered into a Use Agreement with BML whereby Liggett-Ducat is permitted to continue to utilize the existing factory site on the same basis as in the past which includes obligations for costs involved in carrying the site. The Use Agreement is terminable by BML on 270 days' prior notice.

(Dollars in Thousands, Except Per Share Amounts) - (Continued)

4. NON-MONETARY TRANSACTIONS

During 1998, 1997 and 1996, certain supplies and inventory purchase transactions were made whereby payment for such transactions was facilitated by the Company's customers who forwarded payment on the Company's behalf to raw material suppliers. Such transactions amounted to approximately $6,860, $4,753 and $3,040 in 1998, 1997 and 1996, respectively. Sales and purchases were priced at what management believes are normal sales price for cigarettes and the normal market price for tobacco and other raw materials.

5. INVENTORIES

Inventories consist of:

	December 31, 1998	December 31, 1997
Leaf tobacco	$ 3,086	$1,304
Other raw materials	2,888	1,980
Work-in-process	173	50
Finished goods	3,215	
Replacement parts and supplies	980	921
	$10,342	$4,255

Replacement parts and supplies are shown net of a provision for obsolescence of $545 at December 31, 1998.

Purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At December 31, 1998, the Company had leaf tobacco purchase commitments of approximately $9,137 and replacement parts commitments of $2,274.

(Dollars in Thousands, Except Per Share Amounts) - (Continued)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of:

	December 31, 1998	December 31, 1997
Factory machinery and equipment.....	$10,589	$10,864
Computers and software.....	466	293
Office furniture and equipment.....	470	272
Vehicles.....	1,767	534
Construction-in-progress.....	66,953	18,179
	80,245	30,142
Less accumulated depreciation.....	(2,959)	(1,020)
	$77,286	$29,122

The amounts provided for depreciation for the years ended December 31, 1998, 1997 and 1996 were $996, $641 and $469, respectively. Capitalized interest included in property, plant and equipment was $761 and $693 in 1998 and 1997, respectively.

Liggett-Ducat is in the process of constructing a new cigarette factory on the outskirts of Moscow which is currently scheduled to be operational in mid-1999. Liggett-Ducat has entered into a construction contract for the plant. The remaining liability under that contract, as amended, at December 31, 1998 is approximately $7,825. A 49-year land lease was renegotiated in 1996 for the factory site.

Equipment purchase agreements in place at December 31, 1998 total $35,846, of which $29,438 is being financed by the manufacturers. BOL is a guarantor on payments for equipment in the amount of $13,677.

In February 1998, New Valley, in which Brooke has a 42% voting interest, and Apollo organized Western Realty Ducat to make real estate and other investments in Russia. Through December 31, 1998, Western Realty Ducat had made a $30,000 participating loan to Western Tobacco. A total of $30,000 has been funded through December 31, 1998, with part of the proceeds used by the Company for payments on the new factory construction contracts. (Refer to Notes 3 and 8.)

7. EMPLOYEE BENEFITS

The Company complies with Russian Federation regulations covering pensions, education, day care, medical and other benefits to employees. These items are funded as a percentage of gross wages and are paid on a current basis. Medical clinic and day care facilities are provided on site and related costs are expensed as incurred. All Russian citizen employees are required to participate in the pension fund. The total expense for these programs recognized in 1998, 1997 and 1996 was approximately $3,385, $2,638 and $860, respectively.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts) - (Continued)

8. NOTES PAYABLE, CREDIT FACILITIES AND PARTICIPATING LOAN

Notes payable, credit facilities and participating loan consist of the following:

	December 31, 1998	December 31, 1997
Notes payable	$28,057	$
Credit facilities	11,600	5,000
Total notes payable and credit facilities	39,657	5,000
Less:		
Current maturities	20,005	5,000
Amount due after one year	$19,652	$

At December 31, 1998, the Company had two credit facilities outstanding. One, for $10,000, expires in May 1999 and was fully utilized at December 31, 1998. The interest rate was 25% at December 31, 1998. The second, for $5,000, expires in December 1999; the interest rate is 21%. This facility had $1,600 utilized at December 31, 1998. The facilities are collateralized by the factory equipment and tobacco stock. Interest expense on facilities outstanding during 1998 was $1,910.

At December 31, 1997, Liggett-Ducat had two 6-month credit facilities open with a Russian bank. The first, for $2,000, expired on April 30, 1998, initially bore an interest rate of 21%, subsequently raised to 28% on December 2, 1997. The second, for $3,000, expired on May 16, 1998, initially bore an interest rate of 25%, subsequently raised to 28% on December 2, 1997. Interest expense on facilities outstanding during 1997 was $944.

In 1997, Western Tobacco entered into two contracts for the purchase of cigarette manufacturing equipment. A portion (85%) of both contracts is being financed with promissory notes. One contract is financed by ten half-year promissory notes payable at the rate of 6.71% per annum interest, with the first note due in May 1999. The outstanding balance on the contract is $13,677 at December 31, 1998. The second contract is financed by 60 monthly promissory notes payable at the rate of 7.5% interest. The first note was paid in December 1998. The outstanding balance at December 31, 1998 is $10,754. The Company also has a promissory note for $1,514 at December 31, 1998 covering deposits for equipment being purchased for the factory. The note which was due March 31, 1999, has been extended for an additional year.

On July 29, 1998, the Company borrowed $3,000, subsequently reduced to $2,202, from an unaffiliated third party with interest at 14% per annum. The note, which is due on August 1, 1999, is collateralized by factory equipment. Payments of $50 toward principal and interest are made monthly, with the remaining principal balance due at maturity.

(Dollars in Thousands, Except Per Share Amounts) - (Continued)

In connection with the sale of its BML shares to New Valley, certain specified liabilities aggregating $40,800 remained with BML, including a Russian bank loan with a balance of $20,418, which was paid in full during the third quarter, 1997.

Scheduled maturities of notes payable for each of the next five year are as follows:

Year ending December 31:	
1999	$20,005
2000	4,910
2001	4,910
2002	4,910
2003	4,922
	$39,657

As discussed in Note 6, in February 1998, New Valley and Apollo organized Western Realty Ducat to make real estate and other investments in Russia. Through December 31, 1998, Western Realty Ducat had made a $30,000 participating loan to Western Tobacco with the proceeds used by the Company to reduce intercompany debt to BGLS and for payments on the new factory construction contracts. The loan, which bears no fixed interest, is payable out of 30% of distributions, if any, made by Western Tobacco to the Company. After the prior payment of debt services on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to the Company will be applied first to pay the principal of the loans 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 the Company. For the year ended December 31, 1998, a preference requirement equal to 30% of Western Tobacco's net income, $1,991, has been charged to interest expense. (Refer to Note 3.)

9. COMMITMENTS

The following is a schedule of the Company's future minimum rental payments required under operating leases with noncancelable lease terms in excess of one year as of December 31, 1998:

Year ending December 31:	
1999	$ 147
2000	55
2001	53
2002	53
2003	53
Thereafter	2,025
	$2,386

Lease commitments for 2002 and thereafter relate primarily to the remaining 45 years of a land lease and 23 years of an equipment lease.

The Company's rental expense for the years ended December 31, 1998, 1997 and 1996 was $679, $375 and $1,026, respectively.

10. STOCK OF LIGGETT-DUCAT

During 1996, the Company increased its ownership of Liggett-Ducat through the purchase of additional shares from the former chairman, general director and employees of Liggett-Ducat for approximately $2,838. In July 1996, the Company sold 140,000 shares (19.97%) of Liggett-Ducat's tobacco operations to Liggett for $2,100. In 1996 and 1997, Liggett also acquired ten-year options to buy additional shares for $3,400 and $2,200, respectively.

In 1997, the Company purchased 1,666 additional shares of Liggett-Ducat stock from other shareholders for $25. At December 31, 1997, the Company owned 75.3% of the stock of Liggett-Ducat and Liggett owned 19.97%.

On January 30, 1998, in connection with the restructuring of Liggett's long-term debt, Liggett agreed to transfer to the Company all of its shares and to cancel its option agreements to acquire additional shares, so that the Company then owned approximately 96% of the shares of common stock of Liggett-Ducat. During 1998, the Company acquired additional shares through a capital contribution of equipment. At December 31, 1998, the Company owns 99.1% of the shares of Liggett-Ducat through its subsidiary, Western Tobacco. (Refer to Note 1.)

11. RELATED PARTY TRANSACTIONS

The Company has obtained funding through a revolving credit facility with Brooke and BGLS at an annual interest rate of 20% to cover certain expenses including the cost of certain administrative services and personnel, tobacco and material purchases and upgrades of factory equipment. Prior to the sale of BML on January 30, 1997, Brooke and BGLS had advanced funds to BML for its real estate developments projects. In February 1998, Brooke and BGLS contributed $29,384 to the Company, in order to reduce intercompany debt. (Refer to Note 2(b).) Amounts due to Brooke and BGLS under this facility at December 31, 1998 and 1997 were $51,433 and $68,437 including interest of $25,451 and $19,367, respectively.

In July 1996, the Company repaid portions of outstanding loans to BGLS in principal amount of $3,679 together including interest of $1,521.

In 1996, Liggett provided certain administrative and technical support to Liggett-Ducat. Liggett's expenses associated with these activities were $76 for the year ended December 31, 1996.

In April, 1996, the Company entered into stock purchase agreements (the "purchase agreements") with the former chairman and the former general director of Liggett-Ducat. Under the purchase agreements, the Company acquired the 142,558 shares of Liggett-Ducat for approximately $2,143.

Concurrently, the Company entered into a consulting and non-compete agreement with the former chairman for services through December 31, 1998. Under the terms of the

(Dollars in Thousands, Except Per Share Amounts) - (Continued)

agreements, the Company will pay him approximately $5,232 over five years. At December 31, 1998, the remaining liability under the agreements was $2,700.

The Company also entered into a consulting and non-compete agreement with the general director for services through December 31, 1998. Under the terms of the agreement, the Company paid the general director approximately $1,000 during 1997 and $1,000 during 1998. Also, Liggett-Ducat extended the Director's employment agreement with Liggett-Ducat until December 31, 1998 at $175 annually.

Refer to Notes 6 and 8 for information concerning the participating loan to Western Tobacco by Western Realty.

12. INCOME TAXES

The provision for income taxes relates to income taxes payable in United States and Russian jurisdictions.

The provision for income taxes consists of the following:

	1998	1997	1996
Current	$(4,311)	$11,868	$ 393
Deferred	(445)		1,061
	$(4,756)	$11,868	$1,454

Deferred taxes have been recognized for significant temporary differences arising between the financial statement and tax basis of assets and liabilities. The principal items giving rise to temporary differences relate to management fees and interest expense incurred during 1998 and 1997 which are not deductible for Russian tax purposes until paid. The tax effect of these temporary differences and net deferred taxes recorded as of December 31, 1998 and 1997 are summarized as follows:

	1998	1997
Deferred tax assets	$ 4,256	$ 2,151
Deferred tax liability	(266)	
Net deferred tax asset	3,990	2,151
Valuation allowance	(3,545)	(2,151)
Net deferred taxes	$ 445	$

In 1996, Russian tax authorities assessed Liggett-Ducat $7,600 for outstanding tax liabilities relating to 1995. The liability is payable in two parts, 50% within 2-1/2 years, the remaining 50% over the succeeding five years. At December 31, 1998, the remaining liability was $396.

13. CONTINGENCIES

BGLS has pledged its ownership interest in the Company's common stock as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes ("BGLS Notes") due 2001.

On March 2, 1998, BGLS entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together, the "Apollo Holders") (and any transferees), who held approximately 41.8% of the BGLS Notes in which the Apollo Holders agreed to defer the payment of interest on the BGLS Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the BGLS Notes on January 31, 2001 or upon an event of default under the Indenture for the BGLS Notes. In connection with the agreement, the Company pledged 50.1% of Western Tobacco to hold the Company's shares of Liggett-Ducat to collateralize the BGLS Notes held by the Apollo Holders (and any transferees).

During the year ended December 31, 1998, the economy of the Russian Federation entered a period of economic instability. The impact includes, but is not limited to a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of Liggett-Ducat. The operations of Liggett-Ducat, and those of similar companies in the Russian Federation, have been significantly affected by these factors, and will continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Russian Federation.