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Securities And Exchange Commission  
Washington, D.C. 20549

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FORM 10-Q  
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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

1-5759  
Commission File Number

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

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)

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

Indicate by check mark whether the Registrant is an accelerated filer as  
defined in Rule 12b-2 of the Exchange Act. [X] Yes [ ] No

At May 14, 2003, Vector Group Ltd. had 36,962,073 shares of common stock  
outstanding.

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VECTOR GROUP LTD.

FORM 10-Q

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

	March 31, 2003	December 31, 2002
	-----	-----
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents.....	\$ 85,963	\$100,027
Investment securities available for sale.....	108,183	128,430
Accounts receivable - trade.....	23,929	13,395
Other receivables.....	2,663	3,853
Inventories.....	129,753	104,649
Restricted assets.....	1,199	-
Deferred income taxes.....	18,089	12,825
Other current assets.....	14,285	17,912
	-----	-----
<b>Total current assets.....</b>	<b>384,064</b>	<b>381,091</b>
Property, plant and equipment, net.....	179,849	181,972
Long-term investments, net.....	2,588	3,150
Investments in non-consolidated real estate businesses.....	16,592	7,811
Restricted assets.....	5,208	4,857
Deferred income taxes.....	11,820	12,501
Intangible asset.....	107,511	107,511
Pension assets.....	445	1,225
Other assets.....	8,019	8,377
	-----	-----
<b>Total assets.....</b>	<b>\$716,096</b>	<b>\$708,495</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Current liabilities:		
Current portion of notes payable and long-term debt.....	\$ 41,697	\$ 31,277
Accounts payable.....	22,483	17,046
Accrued promotional expenses.....	32,547	24,998
Accrued taxes payable, net.....	41,236	39,370
Settlement accruals.....	50,446	40,528
Deferred income taxes.....	5,277	5,277
Accrued interest.....	3,433	7,556
Prepetition claims and restructuring accruals.....	657	674
Other accrued liabilities.....	17,384	17,658
	-----	-----
<b>Total current liabilities.....</b>	<b>215,160</b>	<b>184,384</b>
Notes payable, long-term debt and other obligations, less current portion.....	304,165	307,028
Noncurrent employee benefits.....	10,835	11,121
Deferred income taxes.....	135,219	134,762
Other liabilities.....	4,682	4,866
Minority interests.....	41,425	44,037
Commitments and contingencies.....		
Stockholders' equity:		
Preferred stock, par value \$1.00 per share, authorized 10,000,000 shares.....		
Common stock, par value \$0.10 per share, authorized 100,000,000 shares, issued 40,053,712 and 39,530,924 and outstanding 36,962,073 and 36,439,285.....	3,696	3,643
Additional paid-in capital.....	266,487	279,305
Deficit.....	(241,567)	(236,718)
Accumulated other comprehensive income.....	(11,703)	(11,630)
Less: 3,091,639 shares of common stock in treasury, at cost.....	(12,303)	(12,303)
	-----	-----
<b>Total stockholders' equity.....</b>	<b>4,610</b>	<b>22,297</b>
	-----	-----
<b>Total liabilities and stockholders' equity.....</b>	<b>\$716,096</b>	<b>\$708,495</b>
	=====	=====

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

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

	Three Months Ended	
	March 31, 2003	March 31, 2002
Revenues:		
Tobacco* .....	\$ 131,343	\$ 96,758
Real estate leasing .....	1,799	424
Total revenues .....	133,142	97,182
Expenses:		
Cost of goods sold* .....	83,791	61,002
Operating, selling, administrative and general expenses .....	49,580	52,039
Settlement charges .....	-	(807)
Operating loss .....	(229)	(15,052)
Other income (expenses):		
Interest and dividend income .....	1,445	2,820
Interest expense .....	(7,149)	(5,385)
(Loss) gain on investments, net .....	(62)	1,321
Gain (loss) on sale of assets .....	29	(344)
Equity loss from non-consolidated New Valley real estate businesses .....	(717)	-
Other, net .....	(7)	(157)
Loss from operations before benefit for income taxes and minority interests .....	(6,690)	(16,797)
Benefit for income taxes .....	(593)	(4,262)
Minority interests .....	1,248	672
Net loss .....	\$ (4,849)	\$ (11,863)
Per basic common share:		
Net loss applicable to common shares .....	\$ (0.13)	\$ (0.34)
Basic weighted average common shares outstanding .....	36,602,470	34,904,874
Per diluted common share:		
Net loss applicable to common shares .....	\$ (0.13)	\$ (0.34)
Diluted weighted average common shares outstanding .....	36,602,470	34,904,874

\*Revenues and Cost of goods sold include excise taxes of \$49,818 and \$38,444 for the three months ended March 31, 2003 and 2002, respectively.

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

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

	Common Stock		Additional Paid-In Capital	Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balance, December 31, 2002.....	36,439,285	\$3,643	\$279,305	\$(236,718)	\$(12,303)	\$(11,630)	\$ 22,297
Net loss.....	-	-	-	(4,849)	-	-	(4,849)
Unrealized loss on investment securities..	-	-	-	-	-	(73)	(73)
Total other comprehensive loss.....	-	-	-	-	-	-	(73)
Total comprehensive loss.....	-	-	-	-	-	-	(4,922)
Distributions on common stock.....	-	-	(14,794)	-	-	-	(14,794)
Exercise of warrants and options.....	522,788	53	454	-	-	-	507
Tax benefit of options exercised.....	-	-	1,298	-	-	-	1,298
Amortization of deferred compensation, net..	-	-	149	-	-	-	149
Effect of New Valley share repurchase.....	-	-	75	-	-	-	75
Balance, March 31, 2003.....	<u>36,962,073</u>	<u>\$3,696</u>	<u>\$266,487</u>	<u>\$(241,567)</u>	<u>\$(12,303)</u>	<u>\$(11,703)</u>	<u>\$ 4,610</u>

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

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

	Three Months Ended	
	March 31, 2003	March 31, 2002
Net cash used in operating activities.....	\$ (12,708)	\$ (17,995)
Cash flows from investing activities:		
Proceeds from sale of assets, net.....	660	1,822
Sale or maturity of investment securities.....	45,578	3,040
Purchase of investment securities.....	(27,541)	-
Investment in non-consolidated real estate businesses.....	(9,500)	-
Increase in restricted assets.....	(4)	(6)
Issuance of note receivable, net.....	-	(1,500)
Payment of prepetition claims.....	(17)	(7)
New Valley purchase of subsidiary shares.....	(1,346)	-
Capital expenditures.....	(1,804)	(22,897)
Net cash provided by (used in) investing activities.....	6,026	(19,548)
Cash flows from financing activities:		
Proceeds from debt.....	-	9,158
Repayments of debt.....	(4,894)	(1,704)
Borrowings under revolver.....	154,916	141,092
Repayments on revolver.....	(143,117)	(141,092)
Distributions on common stock.....	(14,794)	(13,289)
Proceeds from exercise of warrants and options.....	507	1,441
Net cash used in financing activities.....	(7,382)	(4,394)
Net decrease in cash and cash equivalents.....	(14,064)	(41,937)
Cash and cash equivalents, beginning of period.....	100,027	217,761
Cash and cash equivalents, end of period.....	\$ 85,963	\$ 175,824

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The consolidated financial statements of Vector Group Ltd. (the "Company" or "Vector") include the accounts of VGR Holding Inc. ("VGR Holding"), Vector Tobacco Inc. ("Vector Tobacco"), Liggett Group Inc. ("Liggett"), New Valley Corporation ("New Valley") and other less significant subsidiaries. The Company owned 58.1% of New Valley's common shares at March 31, 2003. All significant intercompany balances and transactions have been eliminated.

Vector Tobacco is engaged in the development and marketing of low nicotine, nicotine-free and reduced carcinogen cigarette products. Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. New Valley is currently engaged in the real estate business and is seeking to acquire additional operating companies.

As discussed in Note 3, a subsidiary of the Company acquired The Medallion Company, Inc. on April 1, 2002.

The interim consolidated financial statements of the Company are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

(b) Estimates and Assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 inventory valuation, deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans, settlement accruals and litigation and defense costs. Actual results could differ from those estimates.

VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

(c) Reclassifications:

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform to the 2003 presentation.

(d) Earnings Per Share:

Information concerning the Company's common stock has been adjusted to give effect to the 5% stock dividend paid to Company stockholders on September 27, 2002. In connection with the stock dividend, the Company increased the number of warrants and stock options by 5% and reduced the exercise prices accordingly. All share amounts have been presented as if the stock dividend had occurred on January 1, 2002.

The Company had a net loss for the three months ending March 31, 2003 and March 31, 2002. Therefore, the effect of the common stock equivalents and convertible securities is excluded from the computation of diluted net loss per share since the effect is anti-dilutive for the three months ended March 31, 2003 and March 31, 2002.

(e) Comprehensive Loss:

Comprehensive loss is a component of stockholders' equity and includes such items as the unrealized gains and losses on investment securities and minimum pension liability adjustments. Total comprehensive loss was \$4,922 for the three months ended March 31, 2003 and \$11,833 for the three months ended March 31, 2002.

(f) New Accounting Pronouncements:

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to that statement's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The transition and disclosure provisions of this statement are effective for financial statements for fiscal years ending after December 15, 2002 and for interim financial statements commencing after that date. The Company has not elected the fair value-based method of accounting for stock-based compensation under SFAS No. 123, as amended by SFAS No. 148. (See Note 7.)

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to EITF 94-3, which allowed a cost to be recognized when a commitment to an



VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

exit plan was made. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement did not have an impact on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee and expanded disclosure of certain guarantees existing at December 31, 2002. The adoption of this statement did not have an impact on the Company's consolidated financial statements.

In January 2003, FIN No. 46, "Consolidation of Variable Interest Entities" was issued. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective February 1, 2003 for variable interest entities created after January 31, 2003, and July 1, 2003 for variable interest entities created prior to February 1, 2003. The Company does not believe this interpretation will have a material impact on its consolidated financial statements.

2. LIGGETT VECTOR BRANDS

In 2002, the Company approved a plan to combine the sales and marketing functions of its Liggett and Vector Tobacco subsidiaries into a new entity, Liggett Vector Brands Inc., in order to enhance the effectiveness of the Company's sales and marketing operations. This company coordinates and executes the sales and marketing efforts for all of the Company's tobacco operations. As a result of this plan, during the first quarter of 2002, the Company recognized a pre-tax restructuring charge of approximately \$3,460, consisting of approximately \$2,000 in involuntary severance and other exit costs and an impairment charge of approximately \$1,500 related to certain long-lived assets. The Company has substantially completed all of these restructuring activities as of March 31, 2003. The Company's restructuring accrual has been reduced by payments of \$1,865 and impairments of \$1,450 as of March 31, 2003. At March 31, 2003, the restructuring accrual of \$145 is reflected in other current liabilities in the accompanying consolidated balance sheet.

3. MEDALLION ACQUISITION

On April 1, 2002, a subsidiary of the Company acquired 100% of the stock of The Medallion Company, Inc. ("Medallion"), and related assets from Medallion's principal stockholder. Following the purchase of the Medallion stock, Vector Tobacco merged into Medallion and Medallion changed its name to Vector Tobacco Inc. The total purchase price consisted of \$50,000 in cash and \$60,000 in notes, with the notes guaranteed by the Company and Liggett.

VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

(See Note 6.) Medallion, a discount cigarette manufacturer, is a participant in the Master Settlement Agreement between the state Attorneys General and the tobacco industry. Medallion has no payment obligations under the Master Settlement Agreement except to the extent its market share exceeds approximately 0.28% of total cigarettes sold in the United States. The results of operations of Medallion are included in the Company's financial statements beginning April 1, 2002.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

At April 1, 2002  
-----

Receivable from seller.....	\$ 3,189
Inventory.....	1,019
Property, plant and equipment.....	2,181
Intangible asset.....	107,511
	-----
Total assets acquired.....	113,900
	-----
Accrued merger costs.....	300
Allowance for sales returns.....	500
Accrued MSA liability.....	3,100
	-----
Total liabilities assumed.....	3,900
	-----
Net assets acquired.....	\$110,000
	=====

The \$107,511 intangible asset, which is not subject to amortization, relates to Medallion's exemption under the Master Settlement Agreement and has been included with the Liggett segment for segment reporting purposes.

The following table presents unaudited pro forma results of operations as if the Medallion acquisition had occurred immediately prior to January 1, 2002. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had these transactions been consummated as of such date.

Three Months Ended  
March 31, 2002  
-----

Revenues.....	\$112,043
	=====
Net loss.....	\$(13,027)
	=====
Net loss per common share:	
Basic.....	\$ (0.37)
	=====
Diluted.....	\$ (0.37)
	=====

VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

4. INVENTORIES

Inventories consist of:

	March 31, 2003	December 31, 2002
	-----	-----
Leaf tobacco.....	\$ 78,696	\$ 63,196
Other raw materials.....	3,848	5,438
Work-in-process.....	3,027	2,888
Finished goods.....	41,542	30,014
Replacement parts and supplies.....	5,081	4,878
	-----	-----
Inventories at current cost.....	132,194	106,414
LIFO adjustments.....	(2,441)	(1,765)
	-----	-----
	\$129,753	\$104,649
	=====	=====

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At March 31, 2003, Liggett had leaf tobacco purchase commitments of approximately \$16,184 and Vector Tobacco had leaf tobacco purchase commitments of approximately \$1,969.

LIFO inventories represent approximately 62.0% and 61.4% of total inventories at March 31, 2003 and December 31, 2002, respectively. Included in the above table is approximately \$45,000 and \$38,000 at March 31, 2003 and December 31, 2002, respectively, of inventory associated with Vector Tobacco's new product initiatives.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	March 31, 2003	December 31, 2002
	-----	-----
Land and improvements.....	\$ 10,019	\$ 10,019
Buildings.....	72,616	72,811
Machinery and equipment.....	138,056	136,738
Leasehold improvements.....	2,424	2,147
Construction-in-progress.....	4,344	3,566
	-----	-----
	227,459	225,281
Less accumulated depreciation.....	(47,610)	(43,309)
	-----	-----
	\$179,849	\$181,972
	=====	=====

VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

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

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

	March 31, 2003	December 31, 2002
	-----	-----
Vector:		
6.25% Convertible Subordinated Notes due 2008.....	\$132,500	\$132,500
VGR Holding:		
10% Senior Secured Notes due 2006, net of unamortized discount of \$10,100 and \$10,751.....	71,900	71,249
Liggett:		
Revolving credit facility.....	11,799	--
Term loan under credit facility.....	5,190	5,190
Other notes payable.....	12,349	13,195
Vector Tobacco:		
Notes payable.....	7,180	7,357
Equipment loans.....	166	452
Notes payable - Medallion acquisition.....	47,500	50,625
V.T. Aviation:		
Notes payable.....	16,885	17,237
New Valley:		
Notes payable - operating real estate.....	40,393	40,500
	-----	-----
Total notes payable, long-term debt and other obligations.	345,862	338,305
Less:		
Current maturities.....	(41,697)	(31,277)
	-----	-----
Amount due after one year.....	\$304,165	\$307,028
	=====	=====

6.25% Convertible Subordinated Notes Due July 15, 2008 - Vector:

In July 2001, Vector completed the sale of \$172,500 (net proceeds of approximately \$166,400) of its 6.25% convertible subordinated notes due July 15, 2008 through a private offering to qualified institutional investors in accordance with Rule 144A under the Securities Act of 1933. The notes pay interest at 6.25% per annum and are convertible into Vector's common stock, at the option of the holder, at a conversion price of \$30.11 per share at March 31, 2003. The conversion price is subject to adjustment for various events, and any cash distribution on Vector's common stock will result in a corresponding decrease in the conversion price. In December 2001, \$40,000 of the notes were converted into Vector's common stock, and \$132,500 of the notes were outstanding at March 31, 2003.

The notes may be redeemed by Vector, in whole or in part, between July 15, 2003 and July 15, 2004, if the closing price of Vector's common stock exceeds 150% of the conversion price then in effect for a period of at least 20 trading days in any consecutive 30 day trading period, at a price equal to 100% of the principal amount, plus accrued interest and a "make whole" payment. Vector may redeem the notes, in whole or in part, at a price of 103.125% in the year beginning July 15, 2004, 102.083% in the year beginning July 15, 2005, 101.042% in the year beginning July 15, 2006 and 100% in the year beginning July 15, 2007, together with accrued

VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

interest. If a change of control occurs, Vector will be required to offer to repurchase the notes at 101% of their principal amount, plus accrued interest and, under certain circumstances, a "make whole" payment.

10% Senior Secured Notes Due March 31, 2006 - VGR Holding:

On May 14, 2001, VGR Holding issued at a discount \$60,000 principal amount of 10% senior secured notes due March 31, 2006 in a private placement. VGR Holding received net proceeds from the offering of approximately \$46,500. On April 30, 2002, VGR Holding issued at a discount an additional \$30,000 principal amount of 10% senior secured notes due March 31, 2006 in a private placement and received net proceeds of approximately \$24,500. The notes were priced to provide the purchasers with a 15.75% yield to maturity. The new notes are on the same terms as the \$60,000 principal amount of senior secured notes previously issued. All of the notes have been guaranteed by the Company and by Liggett.

The notes are collateralized by substantially all of VGR Holding's assets, including a pledge of VGR Holding's equity interests in its direct subsidiaries, including Brooke Group Holding, Brooke (Overseas), Vector Tobacco and New Valley Holdings, Inc. ("NV Holdings"), as well as a pledge of the shares of Liggett and all of the New Valley securities held by VGR Holding and NV Holdings. The purchase agreement for the notes contains covenants, which among other things, limit the ability of VGR Holding to make distributions to the Company to 50% of VGR Holding's net income, unless VGR Holding holds \$75,000 in cash after giving effect to the payment of the distribution, and limit additional indebtedness of VGR Holding, Liggett and Vector Tobacco to 250% of EBITDA (as defined in the purchase agreements) for the trailing 12 months plus, for periods through December 31, 2003, additional amounts including up to \$100,000 during the period commencing on December 31, 2002 and ending on March 31, 2003, \$115,000 during the period commencing on April 1, 2003 and ending on June 29, 2003, \$100,000 during the period commencing on June 30, 2003 and ending on September 29, 2003 and \$50,000 during the period commencing on September 30, 2003 and ending on December 31, 2003. The covenants also restrict transactions with affiliates subject to exceptions which include payments to Vector not to exceed \$9,500 per year for permitted operating expenses, and limit the ability of VGR Holding to merge, consolidate or sell certain assets. In November 2002, in connection with an amendment to the note purchase agreement, VGR Holding repurchased \$8,000 of the notes at a price of 100% of the principal amount plus accrued interest. The Company recognized a loss of \$1,320 in the fourth quarter 2002 on the early extinguishment of debt.

In April 2003, in connection with an additional amendment to the note purchase agreement, VGR Holding repurchased \$4,000 of the notes at a price of 100% of the principal amount plus accrued interest. VGR Holding also agreed to repurchase, under certain conditions, an additional \$4,000 of the notes on each of June 30, 2003 and September 30, 2003, at a price of 100% of the principal amount plus accrued interest. The Company will recognize a loss of approximately \$1,250 in the second quarter and \$625 in the third quarter of 2003 on the early extinguishment of debt if VGR Holding repurchases the \$12,000 of the notes.

VGR Holding has the right (which it has not exercised) under the purchase agreement for the notes to elect to treat Vector Tobacco as a "designated subsidiary" and exclude the losses of Vector Tobacco in determining the amount of additional indebtedness permitted to be incurred.

VECTOR GROUP LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)  
(UNAUDITED)

If VGR Holding were to make this election, future cash needs of Vector Tobacco would be required to be funded directly by Vector or by third-party financing as to which neither VGR Holding nor Liggett could provide any guarantee or credit support.

VGR Holding may redeem the notes, in whole or in part, at a redemption price of 100% of the principal amount beginning May 14, 2003. During the term of the notes, VGR Holding is required to offer to repurchase all the notes at a purchase price of 101% of the principal amount, in the event of a change of control, and to offer to repurchase notes, at 100% of the principal amount, with the proceeds of material asset sales.

Revolving Credit Facility - Liggett:

Liggett has a \$40,000 credit facility, under which \$11,799 was outstanding at March 31, 2003. Availability under the credit facility was approximately \$23,011 based on eligible collateral at March 31, 2003. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Wachovia's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 5.25% at March 31, 2003. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At March 31, 2003, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$33,226 and net working capital was \$15,836, as computed in accordance with the agreement. The facility expires on March 8, 2004 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to such date or the anniversary of such date.

In November 1999, 100 Maple LLC, a new company formed by Liggett to purchase an industrial facility in Mebane, North Carolina, borrowed \$5,040 from the lender under Liggett's credit facility. In July 2001, Maple borrowed an additional \$2,340 under the loan, and a total of \$5,190 was outstanding at March 31, 2003. In September 2002, the lender agreed that no further regularly scheduled principal payments would be due under the Maple loan until March 1, 2004. Thereafter, the loan is payable in 27 monthly installments of \$77 with a final payment of \$3,111. Interest is charged at the same rate as applicable to Liggett's credit facility, and borrowings under the Maple loan reduce the maximum availability under the credit facility. Liggett has guaranteed the loan, and a first mortgage on the Mebane property and equipment collateralizes the Maple loan and Liggett's credit facility. Liggett completed the relocation of its manufacturing operations to this facility in October 2000.

On April 15, 2003, the credit facility was amended to increase the maximum credit available under the facility to \$45,000 for the period through July 15, 2003. Vector has guaranteed \$10,000 of borrowings under the facility and collateralized the guarantee with \$10,000 in cash. Vector's guarantee and the pledge of the cash collateral will terminate July 16, 2003 subject to satisfaction of various conditions.

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Equipment Loans - Liggett:

In March 2000, Liggett purchased equipment for \$1,000 through the issuance of a note, payable in 60 monthly installments of \$21 with an effective annual interest rate of 10.14%. In April 2000, Liggett purchased equipment for \$1,071 through the issuance of notes, payable in 60 monthly installments of \$22 with an effective interest rate of 10.20%.

In October and December 2001, Liggett purchased equipment for \$3,204 and \$3,200, respectively, through the issuance of notes guaranteed by the Company, each payable in 60 monthly installments of \$53 with interest calculated at the prime rate.

In March 2002, Liggett purchased equipment for \$3,023 through the issuance of a note, payable in 30 monthly installments of \$62 and then 30 monthly installments of \$51 with an effective annual interest rate of 4.68%.

In May 2002, Liggett purchased equipment for \$2,871 through the issuance of a note, payable in 30 monthly installments of \$59 and then 30 monthly installments of \$48 with an effective annual interest rate of 4.64%.

In September 2002, Liggett purchased equipment for \$1,573 through the issuance of a note guaranteed by the Company, payable in 60 monthly installments of \$26 plus interest calculated at LIBOR plus 4.31%.

Notes Payable - Vector Tobacco:

In June 2001, Vector Tobacco purchased for \$8,400 an industrial facility in Timberlake, North Carolina. Vector Tobacco financed the purchase with an \$8,200 loan, payable in 60 monthly installments of \$85, plus annual interest at 4.85% above LIBOR with a final payment of approximately \$3,160. The loan, which is collateralized by a mortgage and a letter of credit of \$1,750, is guaranteed by VGR Holding and Vector.

During December 2001, Vector Tobacco borrowed an additional \$1,159 from the same lender to finance building improvements. This loan is payable in 30 monthly installments of \$39 plus accrued interest, with an annual interest rate of LIBOR plus 5.12%.

Notes for Medallion Acquisition - Vector Tobacco:

The purchase price for the acquisition of Medallion included \$60,000 in notes of Vector Tobacco, guaranteed by the Company and Liggett. Of the notes, \$25,000 bear interest at a 9.0% annual rate and mature \$3,125 per quarter commencing June 30, 2002 and continuing through March 31, 2004. At March 31, 2003, \$12,500 of these notes were outstanding. The remaining \$35,000 of notes bear interest at 6.5% per year, payable semiannually, and mature on April 1, 2007.

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Notes Payable - V.T. Aviation:

In February 2001, V.T. Aviation LLC, a subsidiary of Vector Research Ltd., purchased an airplane for \$15,500 and borrowed \$13,175 to fund the purchase. The loan, which is collateralized by the airplane and a letter of credit from the Company for \$775, is guaranteed by Vector Research, VGR Holding and the Company. The loan is payable in 120 monthly installments of \$125, including annual interest of 2.31% above the 30-day commercial paper rate with a final payment of \$6,125.

In February 2002, V.T. Aviation purchased an airplane for \$6,575 and borrowed \$6,150 to fund the purchase. The loan is guaranteed by Vector Research and the Company. The loan is payable in 120 monthly installments of \$44, including annual interest of 2.75% above the 30-day average commercial paper rate.

Note Payable - New Valley:

In December 2002, New Valley financed a portion of its purchase of two office buildings in Princeton, N.J. with a mortgage loan of \$40,500 from HSBC Realty Credit Corporation (USA). The loan has a term of four years, bears interest at a floating rate of 2% above LIBOR, and is secured by a first mortgage on the office buildings, as well as by an assignment of leases and rents. Principal is amortized to the extent of \$54 per month during the term of the loan. The loan may be prepaid without penalty and is non-recourse against New Valley, except for various specified environmental and related matters, misapplications of tenant security deposits and insurance and condemnation proceeds, and fraud or misrepresentation by New Valley in connection with the indebtedness.

7. EQUITY

At March 31, 2003, the Company accounts for employee stock compensation plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees", with the intrinsic value-based method permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148. Accordingly, no compensation expense is recognized when the exercise price is equal to the market price of the underlying common stock on the date of grant.

Awards under the Company's stock compensation plans generally vest over periods ranging from four to five years from the date of grant. The expense related to stock option compensation included in the determination of net income for the three months ended March 31, 2003 and March 31, 2002 is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value provisions of SFAS No. 123:



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	Three Months Ended	
	March 31, 2003	March 31, 2002
Net loss.....	\$(4,849)	\$(11,863)
Add: stock option employee compensation expense included in reported net loss, net of related tax effects.....	1,354	1,328
Deduct: total stock option employee compensation expense determined under the fair value method for all awards, net of related tax effects.....	(2,233)	(2,568)
Pro forma net loss.....	\$(5,728) =====	\$(13,103) =====
Loss per share:		
Basic and diluted - as reported.....	\$(0.13)	\$(0.34)
Basic and diluted - pro forma.....	\$(0.16)	\$(0.38)

For purposes of this pro forma presentation, the fair value of each option grant was estimated at the date of the grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price characteristics which are significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock-based compensation awards.

During the quarter ended March 31, 2003, 127,331 warrants, exercisable at \$3.98 per share, and 395,457 options, exercisable at \$4.93 per share, were exercised for \$507 of cash and the surrender of 225,388 options.

8. CONTINGENCIES

SMOKING-RELATED LITIGATION:

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

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cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various foreign and domestic 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 are not quantifiable at this time. For the three months ended March 31, 2003, Liggett incurred counsel fees and costs totaling approximately \$1,113 compared to \$1,711 for the three months ended March 31, 2002.

Individual Actions. As of March 31, 2003, there were approximately 310 cases pending against Liggett, and in most cases the other tobacco companies, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 86 were pending in Florida, 55 in Maryland, 53 in New York, 29 in Mississippi and 19 in California. The balance of the individual cases were pending in 20 states. There are six individual cases pending where Liggett is the only named defendant. In addition to these cases, an action against cigarette manufacturers involving approximately 1,260 named individual plaintiffs has been consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. In January 2002, the court severed Liggett from the trial of the consolidated action, which is scheduled to begin in June 2003.

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

Jury awards in California and Oregon have been entered against other cigarette manufacturers. The awards in these individual actions are for both compensatory and punitive damages and represent a material amount of damages. In 1999, a jury awarded \$800 in compensatory damages and \$79,500 in punitive damages in an Oregon state court case involving Philip Morris. The trial court later determined that the punitive damage award was excessive and reduced it to \$32,000. In June 2002, an Oregon intermediate appellate court

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reinstated the jury's punitive damages award. The Oregon Supreme Court refused to hear Philip Morris' appeal of the appellate court ruling in December 2002, and Philip Morris has appealed to the United States Supreme Court. In June 2001, a jury awarded \$5,500 in compensatory damages and \$3,000,000 in punitive damages in a California state court case involving Philip Morris. In March 2002, a jury awarded \$169 in compensatory damages and \$150,000 in punitive damages in an Oregon state court case also involving Philip Morris. The punitive damages awards in both the California and Oregon actions were subsequently reduced to \$100,000 by the trial courts. In September 2002, a jury awarded \$850 in compensatory damages and \$28,000,000 in punitive damages in a California state court case involving Philip Morris. In December 2002, the trial court reduced the punitive damages award to \$28,000. Both the verdict and damage awards in these cases are being appealed. In November 2001, in another case, a \$25,000 punitive damages judgment against Philip Morris was affirmed by a California intermediate appellate court. In October 2002, the California Supreme Court vacated the decision and remanded the case to the intermediate appellate court for reconsideration in light of its August 2002 ruling that a state statute in effect from January 1988 to December 1997 conferred immunity to cigarette manufacturers for conduct during that ten-year period. In March 2003, the appellate court reaffirmed its earlier decision approving the jury's verdict, and Philip Morris has indicated it will appeal to the California Supreme Court. During 2001, as a result of a Florida Supreme Court decision upholding the award, another cigarette manufacturer paid \$1,100 in compensatory damages and interest to a former smoker and his spouse for injuries they allegedly incurred as a result of smoking. In December 2001, in an individual action involving another cigarette manufacturer, a Florida jury awarded a smoker \$165 in compensatory damages. The defendant has appealed the verdict. In February 2002, a federal district court jury in Kansas awarded a smoker \$198 in compensatory damages from two other cigarette manufacturers and, in June 2002, the trial court assessed punitive damages of \$15,000 against one of the defendants. The defendant has appealed the verdict. In April 2003, in an individual Florida state court action involving two other cigarette manufacturers, a jury awarded compensatory damages of \$3,250. The defendants intend to appeal the verdict.

Class Actions. As of March 31, 2003, there were approximately 41 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the Castano case, reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

The extent of the impact of the Castano decision on smoking-related class action litigation is still uncertain. The Castano decision has had a limited effect with respect to courts' decisions regarding narrower smoking-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, a court in Louisiana (Liggett is not a defendant in this proceeding) has certified "addiction-as-injury" class actions that covered only citizens in those states. Two other class actions, Broin and Engle, were certified in state court in Florida prior to the Fifth Circuit's decision. In April 2001, the Brown case was certified as a class action in California.

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In May 1994, an action entitled Engle, et al. v. R.J. Reynolds Tobacco Company, et al., Circuit Court, Eleventh Judicial Circuit, Miami-Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. Phase I of the trial commenced in July 1998 and in July 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that: smoking cigarettes causes 20 diseases or medical conditions, cigarettes are addictive or dependence producing, defective and unreasonably dangerous, defendants made materially false statements with the intention of misleading smokers, defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. In April 2000, the jury awarded compensatory damages of \$12,704 to the three plaintiffs, to be reduced in proportion to the respective plaintiff's fault. The jury also decided that the claim of one of the plaintiffs, who was awarded compensatory damages of \$5,831, was not timely filed. In July 2000, the jury awarded approximately \$145,000,000 in the punitive damages portion of Phase II against all defendants including \$790,000 against Liggett. The court entered a final order of judgment against the defendants in November 2000. The court's final judgment, which provides for interest at the rate of 10% per year on the jury's awards, also denied various post-trial motions, including a motion for new trial and a motion seeking reduction of the punitive damages award. Liggett intends to pursue all available post-trial and appellate remedies. Oral argument before Florida's Third District Court of Appeals was held in November 2002. An opinion from this intermediate appellate court is expected in 2003. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on the Company. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

It is unclear how the Engle court's order regarding the determination of punitive damages will be implemented. The order provides that the punitive damage amount should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal. The order does not address whether defendants will be required to pay the punitive damage award prior to a determination of claims of all class members, a process that could take years to conclude. In May 2000, legislation was enacted in Florida that limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict to the lesser of the punitive award plus twice the statutory rate of interest, \$100,000 or 10% of the net worth of the defendant, but the limitation on the bond does not affect the amount of the underlying verdict. Liggett has filed the \$3,450 bond required by the Florida law in order to stay execution of the Engle judgment. Similar legislation has been

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enacted in Arkansas, Georgia, Idaho, Indiana, Kentucky, Louisiana, Michigan, Nevada, North Carolina, Ohio, Oklahoma, South Carolina, Virginia and West Virginia. The Mississippi Supreme Court has also placed limits on appeal bonds by court rule.

In May 2001, Liggett, along with Philip Morris and Lorillard Tobacco Co., reached an agreement with the class in the Engle case, which will provide assurance of Liggett's ability to appeal the jury's July 2000 verdict. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. As a result, the Company recorded a \$9,723 pre-tax charge to the consolidated statement of operations for the first quarter of 2001. The agreement, which was approved by the court, assures that the stay of execution, currently in effect pursuant to the Florida bonding statute, will not be lifted or limited at any point until completion of all appeals, including an appeal to the United States Supreme Court. If Liggett's balance sheet net worth falls below \$33,781 (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the stay granted in favor of Liggett in the agreement would terminate and the Engle class would be free to challenge the Florida bonding statute.

In June 2002, the jury in a Florida state court action entitled *Lukacs v. Philip Morris, et al.* awarded \$37,500 in compensatory damages in a case involving Liggett and two other tobacco manufacturers. The jury found Liggett 50% responsible for the damages incurred by the plaintiff. The *Lukacs* case was the first individual case to be tried as part of Phase III of the Engle case; the claims of all other individuals who are members of the class have been stayed pending resolution of the appeal of the Engle verdict. The *Lukacs* verdict will be subject to the outcome of the Engle appeal, and the plaintiff has agreed not to seek the entry of a final judgment on the jury verdict until after completion of all review of the Engle final judgment. In March 2002, the court reduced the amount of the compensatory damages to \$25,100.

Class certification motions are pending in a number of putative class actions. Classes remain certified against Liggett in Florida (Engle), in West Virginia (Blankenship), in California (Brown), in New York (Simon) and in Kansas (Smith). A number of class certification denials are on appeal.

In August 2000, in *Blankenship v. Philip Morris, Inc.*, a West Virginia state court conditionally certified (only to the extent of medical monitoring) a class of present or former West Virginia smokers who desire to participate in a medical monitoring plan. The trial of this case ended in January 2001, when the judge declared a mistrial. In an order issued in March 2001, the court reaffirmed class certification of this medical monitoring action. In July 2001, the court issued an order severing Liggett from the retrial of the case which began in September 2001. In November 2001, the jury returned a verdict in favor of the defendants. In January 2002, the trial court denied plaintiffs' motion for a new trial, and plaintiffs have appealed.

In April 2001, the California state court in the case of *Brown v. The American Tobacco Company, Inc., et al.*, granted in part plaintiff's motion for class certification and certified a class comprised of adult residents of California who smoked at least one of defendants' cigarettes "during the applicable time period" and who were exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that

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defendants violated California's unfair business practices statute. The court subsequently defined "the applicable class period" for plaintiff's claims, pursuant to a stipulation submitted by the parties, as June 10, 1993 through April 23, 2001. The California Court of Appeals denied defendants' writ application, which sought review of the trial court's class certification orders. Defendants filed a petition for review with the California Supreme Court, which was subsequently denied. Trial is currently scheduled to begin in September 2003. Liggett is a defendant in the case.

In September 2002, in *In Re Simon II* Litigation, the federal district court for the Eastern District of New York granted plaintiffs' motion for certification of a nationwide non-opt-out punitive damages class action against the tobacco companies, including Liggett. The class is not seeking compensatory damages, but was created to determine whether smokers across the country may be entitled to punitive damages. In its order, the court set a trial date of January 2003, but has since stayed the order pending the tobacco companies' appeal to the U.S. Court of Appeals for the Second Circuit. In February 2003, the Second Circuit agreed to review the district court's class certification decision.

In March 2003, in a class action brought against Philip Morris on behalf of smokers of light cigarettes, a state court judge in Illinois awarded \$7,100,000 in actual damages to the class members, \$3,000,000 in punitive damages to the State of Illinois (which was not a plaintiff in this matter), and approximately \$1,800,000 in attorney's fees and costs. Entry of judgment has been stayed. Philip Morris has stated it will appeal the verdict.

Approximately 38 purported state and federal class action complaints have been filed against the cigarette manufacturers for alleged antitrust violations, including Liggett. The actions allege that the cigarette manufacturers have engaged in a nationwide and international conspiracy to fix the price of cigarettes in violation of state and federal antitrust laws. Plaintiffs allege that defendants' price-fixing conspiracy raised the price of cigarettes above a competitive level. Plaintiffs in the 31 state actions purport to represent classes of indirect purchasers of cigarettes in 16 states; plaintiffs in the seven federal actions purport to represent a nationwide class of wholesalers who purchased cigarettes directly from the defendants. The federal class actions have been consolidated and, in July 2000, plaintiffs in the federal consolidated action filed a single consolidated complaint that did not name Liggett as a defendant, although Liggett has complied with discovery requests. The court granted defendants' motion for summary judgment in the consolidated federal cases in July 2002, which decision has been appealed by plaintiffs to the U.S. Court of Appeals for the Eleventh Circuit. Oral argument is scheduled for April 2003. State court cases have been dismissed in Arizona, which is currently on appeal, and in New York and Florida. Class certification has been denied by courts in Minnesota and Michigan. A Kansas state court in the case of *Smith v. Philip Morris Companies Inc., et al.* granted class certification in November 2001, and the trial in that case is currently scheduled to commence in October 2003. Liggett is one of the defendants in the Kansas case.

Governmental Actions. As of March 31, 2003, there were approximately 40 Governmental Actions pending against Liggett. In these proceedings, both foreign and domestic governmental entities seek reimbursement for Medicaid and other health care expenditures. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by

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

Third-Party Payor Actions. As of March 31, 2003, there were approximately 6 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. Eight United States Circuit Courts of Appeal have ruled that Third-Party Payors did not have standing to bring lawsuits against the tobacco companies. The United States Supreme Court has denied petitions for certiorari in the cases decided by five of the courts of appeal. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

In June 2001, a jury in a third party payor action brought by Empire Blue Cross and Blue Shield in the Eastern District of New York rendered a verdict awarding the plaintiff \$17,800 in damages against the major tobacco companies. As against Liggett, the jury awarded the plaintiff damages of \$89. In February 2002, the court awarded plaintiff's counsel \$37,800 in attorneys' fees, without allocating the fee award among the several defendants. Liggett has appealed both the jury verdict and the attorneys' fee award. Oral argument before the United States Court of Appeals for the Second Circuit was held in February 2003.

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

Federal Government Action. In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of health care costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20,000,000 annually. The action asserts claims under three federal statutes, the Medical Care Recovery Act ("MCRA"), the Medicare Secondary Payer provisions of the Social Security Act ("MSP") and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide the basis for the relief sought. In September 2000, the court dismissed the government's claims based on MCRA and MSP, and the court reaffirmed its decision in July 2001. In the September 2000 decision, the court also determined not to

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dismiss the government's claims based on RICO, under which the government continues to seek court relief to restrain the defendant tobacco companies from allegedly engaging in fraud and other unlawful conduct and to compel disgorgement.

In June 2001, the United States Attorney General assembled a team of three Department of Justice ("DOJ") lawyers to work on a possible settlement of the federal lawsuit. The DOJ lawyers met with representatives of the tobacco industry, including Liggett, in July 2001. No settlement was reached, and no further meetings are planned. In a January 2003 filing with the court, the government alleged that disgorgement by defendants of approximately \$289,000,000 is an appropriate remedy in the case. Discovery in the case has commenced, and trial has been scheduled for September 2004.

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

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

In November 1998, Philip Morris, Brown & Williamson Tobacco Corporation, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. The MSA has received final judicial approval in each of the 52 settling jurisdictions.

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, 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 20 cigarettes.



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

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. As a result of the Medallion acquisition on April 1, 2002, Vector Tobacco has no payment obligations under the MSA except to the extent its market share exceeds a base amount of approximately 0.28% of total cigarettes sold in the United States. During 1999 and 2000, Liggett's market share did not exceed the base amount. Based on published industry sources, domestic shipments by Liggett and Vector Tobacco accounted for approximately 2.2% of the total cigarettes shipped in the United States during 2001 and 2.5% during 2002. On April 15 of any year following a year in which Liggett's and Vector Tobacco's market shares exceed their base shares, Liggett and Vector Tobacco will pay on each excess unit an amount equal (on a per-unit basis) to that due during the same following year by the OPMS under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. In March and April 2002, Liggett and Vector Tobacco paid a total of \$31,130 for their 2001 MSA obligations. In March and April 2003, Liggett and Vector Tobacco paid a total of \$37,541 for their 2002 MSA obligations. Liggett and Vector Tobacco have expensed \$7,583 for their estimated MSA obligations for the first three months of 2003 as part of cost of goods sold. Under the annual and strategic contribution payment provisions of the MSA, the OPMS (and Liggett and Vector Tobacco to the extent their market shares exceed their base shares) are required to pay the following annual amounts (subject to certain adjustments):

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

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

Trials. Cases currently scheduled for trial during the next six months include two individual actions in Florida state court scheduled for June 2003 and July 2003, in both of which Liggett is the only defendant, and an individual action in New Hampshire state court scheduled for October 2003, involving Liggett and Philip Morris as defendants. In addition, in September 2003, the Brown class action is scheduled for trial in California state court and the Smith antitrust class action is scheduled in Kansas state court in October 2003. Trial dates, however, are subject to change.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict was returned in the first phase of the Engle smoking and health class action trial pending in Florida. In July 2000, the jury awarded \$790,000 in punitive damages against Liggett in the second phase of the trial, and the court has entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it will have a material adverse effect on the Company. Liggett has filed the \$3,450 bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. On May 7, 2001, Liggett reached an agreement with the class in the Engle case, which will provide assurance to Liggett that the stay of execution, currently in effect pursuant to the Florida bonding statute, will not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. As a result, the Company recorded a \$9,723 pre-tax charge to the consolidated statement of operations for the first quarter of 2001. In June 2002, the jury in an individual case brought under the third phase of the Engle case awarded \$37,500 (subsequently reduced by the court to \$25,100) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict will be subject to the outcome of the Engle appeal. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. The complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

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

Liggett has been served in three reparations actions brought by descendants of slaves. Plaintiffs in these actions claim that defendants, including Liggett, profited from the use of slave labor. Seven additional cases have been filed in California, Illinois and New York. Liggett is a named defendant in only one of these additional cases, but has not been served.

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

LEGISLATION AND REGULATION:

In January 1993, the Environmental Protection Agency ("EPA") released a report on the respiratory effect of secondary smoke which concludes that secondary smoke is a known human lung carcinogen in adults and in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest of the major domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate secondary smoke, and that given the current body of scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's classification of secondary smoke was arbitrary and capricious. In July 1998, a federal district court vacated those sections of the report relating to lung cancer, finding that the EPA may have reached different conclusions had it complied with relevant statutory requirements. The federal government appealed the court's ruling. In December 2002, the United States Court of Appeals for the Fourth Circuit rejected the industry challenge to the EPA report ruling that it was not subject to court review. Issuance of the report may encourage efforts to limit smoking in public areas.

In February 1996, the United States Trade representative issued an "advance notice of proposed rule making" concerning how tobacco is imported under a previously established tobacco tariff 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

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suggested an "end-user licensing" system under which the right to import tobacco under the quota would be initially assigned based on domestic market share. Such an approach, if adopted, could have a material adverse effect on the Company and Liggett.

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

Since the Supreme Court decision, various proposals and recommendations have been made for additional federal and state legislation to regulate cigarette manufacturers. Congressional advocates of FDA regulations have introduced legislation that would give the FDA authority to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health, thereby allowing the FDA to reinstate its prior regulations or adopt new or additional regulations. The ultimate outcome of these proposals cannot be predicted.

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts preliminarily enjoined this legislation from going into effect on the grounds that it is preempted by federal law. In November 1999, the United States Court of Appeals for the First Circuit affirmed this ruling. In September 2000, the federal district court permanently enjoined enforcement of the law. In October 2001, the First Circuit reversed the district court's decision, ruling that the ingredients disclosure provisions are valid. The entire court, however, agreed to re-hear the appeal, reinstating the district court's injunction in the meantime. In December 2002, the First Circuit ruled that the ingredients disclosure provisions violated the constitutional prohibition against unlawful seizure of property by forcing firms to reveal trade secrets. The decision was not appealed by the state. Notwithstanding the foregoing, in December 1997, Liggett began voluntarily 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.

Cigarettes are subject to substantial federal, state and local excise taxes which, in general, have been increasing. The federal excise tax on cigarettes is currently \$0.39 per pack. State and local sales and excise taxes vary considerably and, when combined with sales taxes, local taxes and the current federal excise tax, may currently be as high as \$4.10 per pack. Proposed further tax increases in various jurisdictions are currently under consideration or pending. In 2002, 21 states passed excise tax increases, ranging from \$0.07 per pack in Tennessee to as much as \$1.81 per pack in New York City and New York State combined. In addition, since January 1, 2003, seven states and the District of Columbia approved increases in excise taxes. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and significant increases in excise and other cigarette-related taxes have been proposed or enacted at the state and local levels. In the opinion of the Company, increases in excise and similar taxes have had an adverse impact on sales of cigarettes.

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In August 2000, the New York state legislature passed legislation charging the state's Office of Fire Prevention and Control ("OFPC") with developing standards for "fire safe" or self-extinguishing cigarettes. On December 31, 2002, the OFPC issued proposed standards for public comment. The public comment period ended on April 15, 2003. Six months from the issuance of the final standards, all cigarettes offered for sale in New York state will be required to be manufactured to those standards. It is not possible to predict the impact of this law on the Company until the final standards are published. Similar legislation is being considered by other state governments and at the federal level.

Federal or state regulators may object to Vector Tobacco's reduced carcinogen and low nicotine and nicotine-free cigarette products as unlawful or allege they bear deceptive or unsubstantiated product claims, and seek the removal of the products from the marketplace, or significant changes to advertising claims. Various concerns regarding Vector Tobacco's advertising practices have been expressed to Vector Tobacco by certain state attorneys general. Vector Tobacco is negotiating in an effort to resolve these concerns. Allegations by federal or state regulators, public health organizations and other tobacco manufacturers that Vector Tobacco's products are unlawful, or that its public statements or advertising contain misleading or unsubstantiated health claims or product comparisons, may result in litigation or governmental proceedings. Vector Tobacco's business may become subject to extensive domestic and international government regulation. Various proposals have been made for federal, state and international legislation to regulate cigarette manufacturers generally, and reduced constituent cigarettes specifically. It is possible that laws and regulations may be adopted covering issues like the manufacture, sale, distribution and labeling of tobacco products as well as any express or implied health claims associated with reduced carcinogen and low nicotine and nicotine-free cigarette products and the use of genetically modified tobacco. A system of regulation by agencies like the FDA, the Federal Trade Commission or the United States Department of Agriculture may be established. In addition, a group of public health organizations have submitted a petition to the FDA, alleging that the marketing of the OMNI product is subject to regulation by the FDA under existing law. Vector Tobacco has filed a response in opposition to the petition. The FTC has also expressed interest in the regulation of tobacco products made by tobacco manufacturers, including Vector Tobacco, which bear reduced carcinogen claims. The ultimate outcome of any of the foregoing cannot be predicted, but any of the foregoing could have a material adverse impact on the Company.

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

OTHER MATTERS:

In March 1997, a stockholder derivative suit was filed in Delaware Chancery Court against New Valley, as a nominal defendant, its directors and Brooke Group Holding by a stockholder of New Valley. The suit alleges that New Valley's purchase of the BrookeMil Ltd. shares from Brooke (Overseas) in January 1997 constituted a self-dealing transaction which involved the

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payment of excessive consideration by New Valley. The plaintiff seeks a declaration that New Valley's directors breached their fiduciary duties and Brooke Group Holding aided and abetted such breaches and that damages be awarded to New Valley. In December 1999, another stockholder of New Valley commenced an action in Delaware Chancery Court substantially similar to the March 1997 action. This stockholder alleges, among other things, that the consideration paid by New Valley for the BrookeMil shares was excessive, unfair and wasteful, that the special committee of New Valley's board lacked independence, and that the appraisal and fairness opinion were flawed. By order of the court, both actions were consolidated. In January 2001, the court denied a motion to dismiss the consolidated action. Brooke Group Holding and New Valley believe that the allegations in the case are without merit. Discovery in the case has commenced.

In July 1999, a purported class action was commenced on behalf of New Valley's former Class B preferred shareholders against New Valley, Brooke Group Holding and certain directors and officers of New Valley in Delaware Chancery Court. The complaint alleges that the recapitalization, approved by a majority of each class of New Valley's stockholders in May 1999, was fundamentally unfair to the Class B preferred shareholders, the proxy statement relating to the recapitalization was materially deficient and the defendants breached their fiduciary duties to the Class B preferred shareholders in approving the transaction. The plaintiffs seek class certification of the action and an award of compensatory damages as well as all costs and fees. The Court has dismissed six of plaintiff's nine claims alleging inadequate disclosure in the proxy statement. Brooke Group Holding and New Valley believe that the remaining allegations are without merit. Discovery in the case has commenced.

Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of these matters will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

As of March 31, 2003, New Valley had \$657 of remaining prepetition bankruptcy-related claims and restructuring accruals including claims for lease rejection damages. The remaining claims may be subject to future adjustments based on potential settlements or decisions of the court.

9. NEW VALLEY CORPORATION

In December 2002, New Valley purchased two office buildings in Princeton, N.J. for a total purchase price of \$54,000. New Valley financed a portion of the purchase price through a borrowing of \$40,500 from HSBC Realty Credit Corporation (USA). (See Note 6.)

Also in December 2002, New Valley and the other owners of Prudential Long Island Realty contributed their interests in Prudential Long Island Realty to Montauk Battery Realty LLC, a newly formed entity. New Valley acquired a 50% ownership interest in Montauk, an increase from its previous 37.2% interest in Prudential Long Island Realty as a result of an additional investment of \$1,413 by New Valley and the redemption by Prudential Long Island Realty of various ownership interests.

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On March 14, 2003, Montauk purchased the New York City-based residential brokerage firm, Insignia Douglas Elliman, and an affiliated property management company for \$71,250. New Valley invested an additional \$9,500 in subordinated debt and equity of Montauk to help fund the acquisition.

New Valley accounts for its interest in Montauk on the equity method and recorded a loss of \$577 for the three months ended March 31, 2003 associated with Montauk.

10. PHILIP MORRIS BRAND TRANSACTION

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

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

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

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

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

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

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

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

Upon the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999, Philip Morris obtained control of Trademarks, and the Company recognized a pre-tax gain of \$294,078 in its consolidated financial statements and established a deferred tax liability of \$103,100 relating to the gain. Upon exercise of the options in 2009 or 2010, the Company will be required to pay tax in the amount of the deferred tax liability, which will be offset by the benefit of any deferred tax assets, including any net operating losses, available to the Company at that time. The Company's 1998 and 1999 federal income tax returns are being examined, and, although the Company believes the positions reflected on its income tax returns are correct, there can be no assurance that relevant taxing authorities may not challenge certain positions. If taxing authorities were to assert that the Company incurred a tax obligation prior to the exercise date of these options and the Company was required to make such tax payments prior to 2009 or 2010, its liquidity could be adversely affected.

11. SEGMENT INFORMATION

The Company's significant business segments for the three months ended March 31, 2003 and 2002 were Liggett, Vector Tobacco and real estate. The Liggett segment consists of the manufacture and sale of conventional cigarettes and, for segment reporting purposes, includes the operations of Medallion acquired on April 1, 2002 (which operations are held for legal purposes as part of Vector Tobacco). The Vector Tobacco segment includes the development and marketing of low nicotine, nicotine-free and reduced carcinogen cigarette products and, for segment reporting purposes, excludes the operations of Medallion.



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Financial information for the Company's operations before taxes and minority interest for the three months ended March 31, 2003 and 2002 follows:

	Liggett -----	Vector Tobacco -----	Real Estate -----	Corporate and Other -----	Total -----
<b>Three Months Ended March 31, 2003:</b>					
Revenues.....	\$124,915	\$ 6,428	\$ 1,799	\$ -	\$133,142
Operating income (loss).....	30,233	(24,081)	(188)	(6,193)	(229)
Identifiable assets.....	308,127	100,287	72,847	234,835	716,096
Depreciation and amortization...	2,039	1,157	321	678	4,195
Capital expenditures.....	860	733	-	211	1,804
<b>Three Months Ended March 31, 2002:</b>					
Revenues.....	\$ 94,092	\$ 2,666	\$ 424	\$ -	\$ 97,182
Operating income (loss).....	18,478	(24,519)	(316)	(8,695)	(15,052)
Identifiable assets.....	170,180	87,254	12,580	389,680	659,694
Depreciation and amortization...	1,246	967	123	491	2,827
Capital expenditures.....	8,250	9,394	688	4,565	22,897

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts)  
(Unaudited)

INTRODUCTION

We are a holding company for a number of businesses. We are engaged principally in:

- o the development and marketing of the low nicotine and nicotine-free QUEST cigarette products and the reduced carcinogen OMNI cigarette products through our subsidiary Vector Tobacco Inc. and
- o the manufacture and sale of cigarettes in the United States through our subsidiary Liggett Group Inc.

Our majority-owned subsidiary, New Valley Corporation, is currently engaged in the real estate business and is seeking to acquire additional operating companies. In December 2002, New Valley acquired two office buildings in Princeton, N.J. and increased its ownership to 50% in Montauk Battery Realty LLC, which owns the largest residential brokerage company in the New York metropolitan area.

RECENT DEVELOPMENTS

Quest Introduction. In January 2003, Vector Tobacco introduced QUEST, its brand of low nicotine and nicotine-free cigarette products. QUEST is designed for adult smokers who are interested in reducing their levels of nicotine intake and is available in three different varieties, each with decreasing amounts of nicotine - QUEST 1, 2 and 3. QUEST 1, the low nicotine variety, contains 0.6 milligrams of nicotine. QUEST 2, the extra-low nicotine variety, contains 0.3 milligrams of nicotine. QUEST 3, the nicotine-free variety, contains only trace levels of nicotine - no more than 0.05 milligrams of nicotine per cigarette. QUEST cigarettes utilize a proprietary process that enables the production of nicotine-free tobacco that tastes and smokes like tobacco in conventional cigarettes.

QUEST is initially available in New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois and Michigan. These seven states account for approximately 30% of all cigarette sales in the United States. Based on the success of the product in these markets, Vector Tobacco will determine whether to market QUEST nationwide later in 2003. All three QUEST varieties are being sold in hard packs and are priced comparable to other premium brands. A multi-million dollar advertising and marketing campaign, with advertisements running in magazines and regional newspapers, is supporting the product launch. The brand is also supported by significant point-of-purchase campaigns.

Liggett Vector Brands. During 2002, the sales and marketing functions, along with certain support functions, of our Liggett and Vector Tobacco subsidiaries were combined into a new entity, Liggett Vector Brands Inc. This company coordinates and executes the sales and marketing efforts for all of our tobacco operations. With the combined resources of Liggett and Vector Tobacco, Liggett Vector Brands has approximately 430 salespersons, and enhanced distribution and marketing capabilities. In connection with the formation of the new Liggett Vector Brands entity, we took a charge of approximately \$3,460 in the first quarter of 2002, related to the reorganization of our business. As of March 31, 2003, these restructuring activities were substantially completed and our reorganization accrual had been reduced by payments and impairments of \$3,315. The remaining balance was \$145 at that date.

Acquisition of Medallion. On April 1, 2002, a subsidiary of ours acquired the stock of The Medallion Company, Inc., and related assets from Medallion's principal stockholder. The total purchase price consisted of \$50,000 in cash and \$60,000 in notes, with the notes guaranteed by us and Liggett. Medallion, a discount cigarette manufacturer, is a participant in the Master Settlement Agreement between the state Attorneys General and the tobacco industry. Medallion has no payment obligations under the Master Settlement Agreement unless its market share exceeds approximately 0.28% of total cigarettes sold in the United States.

VGR Holding Notes. In April 2003, in connection with an amendment to the note purchase agreement for VGR Holding's 10% senior secured notes due March 31, 2006, VGR Holding repurchased \$4,000 of the notes at a price of 100% of the principal amount plus accrued interest. VGR Holding also agreed to repurchase, under certain conditions, an additional \$4,000 of the notes on each of June 30, 2003 and September 30, 2003 at a price of 100% of the principal amount plus accrued interest. We will recognize a loss of approximately \$1,250 in the second quarter and \$625 in the third quarter of 2003 if we repurchase the \$12,000 of the notes.

Real Estate Acquisitions. In December 2002, New Valley purchased two office buildings in Princeton, N.J. for a total purchase price of \$54,000. New Valley financed a portion of the purchase price through a borrowing of \$40,500 from HSBC Realty Credit Corporation (USA).

The loan has a term of four years, bears interest at a floating rate of 2% above LIBOR, and is collateralized by a first mortgage on the office buildings, as well as by an assignment of leases and rents. Principal is amortized to the extent of \$54 per month during the term of the loan. The loan may be prepaid without penalty and is non-recourse against New Valley, except for various specified environmental and related matters, misapplications of tenant security deposits and insurance and condemnation proceeds, and fraud or misrepresentation by New Valley in connection with the indebtedness.

Also in December 2002, New Valley and the other owners of Prudential Long Island Realty contributed their interests in Prudential Long Island Realty to Montauk Battery Realty LLC, a newly formed entity. New Valley acquired a 50% ownership interest in Montauk, an increase from its previous 37.2% interest in Prudential Long Island Realty as a result of an additional investment of \$1,413 by New Valley and the redemption by Prudential Long Island Realty of various ownership interests. New Valley accounts for its interest in Montauk on the equity method.

On March 14, 2003, Montauk purchased the leading New York City-based residential brokerage firm, Insignia Douglas Elliman, and an affiliated property management company for \$71,250. With that acquisition, the combination of Prudential Long Island Realty with Douglas Elliman has created the largest residential brokerage company in the New York metropolitan area. New Valley invested an additional \$9,500 in subordinated debt and equity of Montauk to help fund the acquisition.

#### RECENT DEVELOPMENTS IN LEGISLATION, REGULATION AND LITIGATION

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of March 31, 2003, there were approximately 310 individual suits, 41 purported class actions and 46 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. A civil lawsuit has been filed by the United States federal government seeking disgorgement of approximately \$289,000,000 from various cigarette manufacturers, including Liggett. In addition to these cases, during 2000, an action against cigarette manufacturers involving approximately 1,260 named individual plaintiffs was consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. Approximately 38 other purported class action complaints have

been filed against the cigarette manufacturers for alleged antitrust violations. As new cases are commenced, the costs associated with defending these cases and the risks relating to the inherent unpredictability of litigation continue to increase.

An unfavorable verdict was returned in the first phase of the Engle smoking and health class action trial pending in Florida. In July 2000, the jury awarded \$790,000 in punitive damages against Liggett in the second phase of the trial, and the court entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it will have a material adverse effect on Vector. Liggett filed the \$3,450 bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. In May 2001, Liggett reached an agreement with the class in the Engle case, which will provide assurance to Liggett that the stay of execution, currently in effect under the Florida bonding statute, will not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. In June 2002, the jury in an individual case brought under the third phase of the Engle case awarded \$37,500 (subsequently reduced by the court to \$25,100) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict will be subject to the outcome of the Engle appeal. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met.

In recent years, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. We are not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any smoking-related litigation. See Note 8 to our consolidated financial statements for a description of legislation, regulation and litigation.

#### CRITICAL ACCOUNTING POLICIES

General. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 inventory valuation, deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans, settlement accruals and litigation and defense costs. Actual results could differ from those estimates.

Revenue Recognition. Revenues from sales of cigarettes are recognized upon the shipment of finished goods to the customer, there is persuasive evidence of an arrangement, the sale price is determinable and collectibility is reasonably assured. We provide an allowance for expected sales returns, net of related inventory cost recoveries. Since our primary line of business is tobacco, our financial position and our results of operations and cash flows have been and could continue to be materially adversely effected 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. Effective January 1, 2002, we adopted new required accounting standards mandating that certain sales incentives previously reported as operating, selling, general and administrative expenses be shown as a reduction of operating revenues. The adoption of the new accounting standards did not have an impact on our net earnings or basic or diluted earnings per share.

**Marketing Costs.** We record marketing costs as an expense in the period to which such costs relate. We do not defer the recognition of any amounts on our consolidated balance sheets with respect to marketing costs. We expense advertising costs as incurred, which is the period in which the related advertisement initially appears. We record consumer incentive and trade promotion costs as an expense in the period in which these programs are offered, based on estimates of utilization and redemption rates that are developed from historical information. As discussed above under "Revenue Recognition", beginning January 1, 2002, we have adopted the previously mentioned revenue recognition accounting standards that mandate that certain costs previously reported as marketing expense be shown as a reduction of operating revenues. The adoption of the new accounting standards did not have an impact on our net earnings or basic or diluted earnings per share.

**Contingencies.** As discussed in Note 8 of our consolidated financial statements and above under the heading "Recent Developments in Legislation, Regulation and Litigation", legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against Liggett. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of pending smoking-related litigation or the costs of defending such cases, and we have not provided any amounts in our consolidated financial statements for unfavorable outcomes, if any. Litigation is subject to many uncertainties, and it is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

**Inventories.** Tobacco inventories are stated at lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method at Liggett and the first-in, first-out (FIFO) method at Vector Tobacco. Although portions of leaf tobacco inventories may not be used or sold within one year because of time required for aging, they are included in current assets, which is common practice in the industry. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

**Employee Benefit Plans.** Since 1997, income from our defined benefit pension plans, partially offset by the costs of postretirement medical and life insurance benefits, have contributed to our reported operating income up to and including 2002. The determination of our net pension and other postretirement benefit income or expense is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and healthcare costs. In accordance with accounting principles generally accepted in the United States of America, actual results that differ from our assumptions are accumulated and amortized over future periods and therefore, generally affect our recognized income or expense in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our future net pension and other postretirement benefit income or expense.

Based on the declines in the securities markets, we recorded a non-cash charge of \$11,090 net of tax to stockholders' equity in the fourth quarter of 2002 relating primarily to one of Liggett's defined benefit plans. The charge was based on the extent to which our accumulated

benefit obligations under the pension plan on September 30, 2002 exceeded the fair value of the pension plan's assets on that date. We also currently anticipate net pension expense for defined benefit pension plans and other postretirement benefit expense aggregating approximately \$4,100 for 2003. In contrast, our funding obligations under the pension plans are governed by ERISA. To comply with ERISA's minimum funding requirements, we do not currently anticipate that we will be required to make any funding to the pension plans for the pension plan year beginning on January 1, 2003 and ending on December 31, 2003. Any additional funding obligation that we may have for subsequent years is contingent on several factors and is not reasonably estimable at this time.

#### RESULTS OF OPERATIONS

The following discussion provides an assessment of our results of operations, capital resources and liquidity and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. The consolidated financial statements include the accounts of VGR Holding, Liggett, Vector Tobacco, Liggett Vector Brands, New Valley and other less significant subsidiaries. Our interest in New Valley's common shares was 58.1% at March 31, 2003.

For purposes of this discussion and other consolidated financial reporting, our significant business segments for the three months ended March 31, 2003 and 2002 were Liggett, Vector Tobacco and real estate. The Liggett segment consists of the manufacture and sale of conventional cigarettes and, for segment reporting purposes, includes the operations of Medallion acquired on April 1, 2002 (which operations are held for legal purposes as part of Vector Tobacco). The Vector Tobacco segment includes the development and marketing of reduced nicotine, nicotine-free and reduced carcinogen cigarette products and, for segment reporting purposes, excludes the operations of Medallion.

	Three Months Ended March 31,	
	2003	2002
	----	----
Revenues:		
Liggett.....	\$124,915	\$ 94,092
Vector Tobacco.....	6,428	2,666
	-----	-----
Total tobacco.....	131,343	96,758
Real estate.....	1,799	424
	-----	-----
Total revenues.....	\$133,142	\$ 97,182
	=====	=====
Operating loss:		
Liggett.....	\$ 30,233	\$ 18,478
Vector Tobacco.....	(24,081)	(24,519)
	-----	-----
Total tobacco.....	6,152	(6,041)
Real estate.....	(188)	(316)
Corporate and other.....	(6,193)	(8,695)
	-----	-----
Total operating loss.....	\$ (229)	\$(15,052)
	=====	=====

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Revenues. Total revenues were \$133,142 for the three months ended March 31, 2003 compared to \$97,182 for the three months ended March 31, 2002. This 37.0% (\$35,960) increase in revenues was due to a \$30,823 or 32.8% increase in revenues at Liggett, a \$3,762 or 141% increase in revenues at Vector Tobacco and an increase of \$1,375 in real estate revenues at New Valley.

Tobacco Revenues. On April 2, 2002, the major manufacturers announced list price increases of \$1.20 per carton. Liggett matched the increase on its premium brands only. On July 1, 2002, Liggett announced a list price increase of \$.60 per carton on LIGGETT SELECT. On December 2, 2002, Liggett announced a list price increase of \$.80 per carton on LIGGETT SELECT. In February 2003, Liggett increased its net sales price for other selected discount brands by \$.80 per carton.

Tobacco revenues at Liggett for the three months ended March 31, 2003 increased due to a 25.5% (\$23,988) gain in unit sales volume (approximately 497.6 million units) and price increases of \$7,191, discussed above, offset by \$356 in unfavorable sales mix. Net sales for the 2003 period included \$6,996 related to sales of cigarette brands acquired in the April 2002 Medallion transaction. Tobacco revenues at Vector Tobacco for the three months ended March 31, 2003 were \$6,428 and relate primarily to sales of QUEST, introduced in January 2003.

Premium sales at Liggett for the first quarter of 2003 amounted to \$5,337 and represented 4.3% of total Liggett sales, compared to \$10,035 and 10.7% of total sales for the first quarter of 2002. In the premium segment, revenues decreased by 46.8% (\$4,698) for the three months ended March 31, 2003, compared to the prior year first quarter, due to an unfavorable volume variance of \$4,173, reflecting a 41.6% decrease in unit sales volume (approximately 66.0 million units), coupled with an unfavorable price variance of \$525, primarily associated with promotional activities.

The decline in Liggett's premium sales revenue that has occurred during 2002 and in the first quarter of 2003 reflects both the decrease in sales volume of premium-priced cigarettes and increased promotional spending on premium brands driven primarily by weak economic conditions, substantial excise tax increases in many states, and continued significant promotional and pricing activity among the major U.S. cigarette manufacturers.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for the three months ended March 31, 2003 amounted to \$119,578 and represented 95.7% of total Liggett sales, compared to \$84,057 and 89.3% of total Liggett sales for the three months ended March 31, 2002. In the discount segment, revenues grew by 42.3% (\$35,521) for the three months ended March 31, 2003 compared to the prior year period, due to a 31.4% gain in unit sales volume (approximately 563.6 million units) accounting for \$26,420 in positive volume variance, price increases of \$7,716, and a favorable product mix of \$1,385.

Tobacco Gross Profit. Tobacco gross profit was \$47,552 for the three months ended March 31, 2003 compared to \$35,756 for the three months ended March 31, 2002, an increase of \$11,796 or 33.0% when compared to the same period last year, due primarily to the volume and price increases discussed above at Liggett. Liggett's premium brands contributed 4.5% to our gross profit, the discount segment contributed 99.3% and Vector Tobacco's QUEST and OMNI products cost 3.8% for the three months ended March 31, 2003. Over the same period in 2002, Liggett's premium brands contributed 14.7%, the discount segment contributed 92.0% and Vector Tobacco's OMNI product cost 6.7%.

Liggett's gross profit of \$49,345 for the three months ended March 31, 2003 increased \$11,378 from gross profit of \$37,967 for the three months ended March 31, 2002, due primarily to the price and unit volume increases discussed above, offset by higher estimated payment obligations under the Attorneys General Master Settlement Agreement, an increase of \$3,416. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett decreased to 64.1% for the three months ended March 31, 2003 compared to 67.5% for the same period in 2002, with gross profit for the premium segment decreasing to 60.9% for the three months ended March 31, 2003 compared to 74.9% in the same period in 2002 and gross profit for the discount segment decreasing to 64.2% in the three months ended March 31, 2003 from 66.6% in the same period in 2002. This decrease is due primarily to the higher estimated payment obligations under the Attorneys General Master Settlement Agreement within cost of goods sold, the increase in promotional spending and the disproportionate rise in Liggett's discount brand sales, offset by the overall growth in sales volume and the 2002 and 2003 price increases.

Real Estate Revenues. New Valley's real estate revenues were \$1,799 for the three months ended March 31, 2003. This compares to revenues of \$424 from real estate activities for the three months ended March 31, 2002, with the increase primarily due to the additional rental revenue resulting from the two commercial office buildings in Princeton, N.J. acquired in December 2002, offset by the absence of rental revenue from a U.S. shopping center disposed of in May 2002.

Expenses. Operating, selling, general and administrative expenses were \$49,580 for the three months ended March 31, 2003 compared to \$52,039 for the same period last year. The decrease of \$2,459 was due primarily to the absence of the restructuring charge taken in the prior year period, offset by increased costs of a significantly larger sales force. Expenses at Liggett were \$19,112 for the three months ended March 31, 2003 compared to \$20,296 including a restructuring charge of \$3,460 for the same period last year. Expenses at Vector Tobacco for the three months ended March 31, 2003 were \$22,288, compared to expenses of \$22,158 for the three months ended March 31, 2002.

Other Income (Expenses). For the three months ended March 31, 2003, other expense was \$6,461 compared to other expense of \$1,745 for the three months ended March 31, 2002. Interest and dividend income of \$1,445 was offset primarily by increased interest expense and an equity loss of \$717 which includes a \$577 loss from Montauk, one of New Valley's non-consolidated real estate businesses.

Interest expense was \$7,149 for the three months ended March 31, 2003 compared to \$5,385 for the same period last year, due to the issuance of long-term debt in connection with the Medallion acquisition and the New Valley acquisition of two office buildings in Princeton, N.J.

Loss from Operations. The loss from operations before income taxes and minority interests for the three months ended March 31, 2003 was \$6,690 compared to a loss of \$16,797 for the three months ended March 31, 2002. Income tax benefit was \$593 and minority interests in losses of subsidiaries were \$1,248 for the three months ended March 31, 2003. This compared to income tax benefit of \$4,262 and minority interests in losses of subsidiaries of \$672 for the three months ended March 31, 2002. The effective tax rates for the three months ended March 31, 2003 and March 31, 2002 do not bear a customary relationship to pre-tax accounting income principally as a consequence of non-deductible expenses and state income taxes.



## CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents decreased \$14,064 for the three months ended March 31, 2003 and decreased \$41,937 for the three months ended March 31, 2002.

Net cash used in operations for the three months ended March 31, 2003 was \$12,708 compared to net cash used in operations of \$17,995 for the comparable period of 2002. Cash used in operations in 2003 resulted primarily from an increase in accounts receivable and inventories offset by an increase in accounts payable and the non-cash impact of depreciation and amortization. Cash used in operations in 2002 resulted primarily from the first quarter operating loss, increased inventories and reduced receivables offset by the non-cash impact of depreciation and amortization, non-cash stock-based expense, losses on the sale of assets and minority interests.

Cash provided by investing activities of \$6,026 in 2003 compares to cash used of \$19,548 in 2002. In the first quarter of 2003, cash was provided through the sale or maturity of investment securities and other assets for \$46,238 offset primarily by the purchase of investment securities and the purchase of the real estate businesses at New Valley for \$37,041. In the first quarter of 2002, cash was used principally for acquisition of machinery and equipment in the amount of \$22,897 and net issuance of a note receivable for \$1,500 at New Valley offset primarily by proceeds received upon sale of investment securities and other assets of \$4,862.

Cash used in financing activities was \$7,382 in 2003 compared to cash used of \$4,394 in 2002. In the first quarter of 2003, cash was used for dividends of \$14,794 and repayments on debt of \$4,894 offset by net borrowings of \$11,799 under the revolver and proceeds from the exercise of warrants and options of \$507. In the first quarter of 2002, cash was used primarily for dividends of \$13,289 and repayments of debt of \$1,704 offset by proceeds from debt of \$9,158 and proceeds from the exercise of options of \$1,441.

Liggett. Liggett has a \$40,000 credit facility under which \$11,799 was outstanding at March 31, 2003. Availability under the facility was approximately \$23,011 based on eligible collateral at March 31, 2003. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Wachovia's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 5.25% at March 31, 2003. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At March 31, 2003, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$33,226 and net working capital was \$15,836 as computed in accordance with the agreement. The facility expires on March 8, 2004 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to such date or the anniversary of such date.

In November 1999, 100 Maple LLC, a new company formed by Liggett to purchase an industrial facility in Mebane, North Carolina, borrowed \$5,040 from the lender under Liggett's credit facility. In July 2001, Maple borrowed an additional \$2,340 under the loan, and a total of \$5,190 was outstanding at March 31, 2003. In September 2002, the lender agreed that no further regularly scheduled principal payments would be due under the Maple loan until March 1, 2004. Thereafter, the loan is payable in 27 monthly installments of \$77 with a final payment of \$3,111. Interest is charged at the same rate as applicable to Liggett's credit facility, and borrowings under the Maple loan reduce the maximum availability under the credit facility. Liggett has guaranteed

the loan, and a first mortgage on the Mebane property and equipment collateralizes the Maple loan and Liggett's credit facility. Liggett completed the relocation of its manufacturing operations to this facility in October 2000.

On April 15, 2003, the credit facility was amended to increase the maximum credit available under the facility to \$45,000 for the period through July 15, 2003. We have guaranteed \$10,000 of borrowings under the facility and collateralized the guarantee with \$10,000 in cash. Our guarantee and the pledge of the cash collateral will terminate July 16, 2003 subject to satisfaction of various conditions.

In March 2000, Liggett purchased equipment for \$1,000 through the issuance of a note, payable in 60 monthly installments of \$21 with an effective annual interest rate of 10.14%. In April 2000, Liggett purchased equipment for \$1,071 through the issuance of notes, payable in 60 monthly installments of \$22 with an effective interest rate of 10.20%.

Beginning in October 2001, Liggett upgraded the efficiency of its manufacturing operation at Mebane with the addition of four new state-of-the-art cigarette makers and packers, as well as related equipment. The total cost of these upgrades was approximately \$20,000. Liggett took delivery of the first two of the new lines in the fourth quarter of 2001 and financed the purchase price of \$6,404 through the issuance of notes, guaranteed by us and payable in 60 monthly installments of \$106 with interest calculated at the prime rate. In March 2002, the third line was delivered, and the purchase price of \$3,023 was financed through the issuance of a note, payable in 30 monthly installments of \$62 and then 30 monthly installments of \$51 with an effective annual interest rate of 4.68%. In May 2002, the fourth line was delivered, and Liggett financed the purchase price of \$2,871 through the issuance of a note, payable in 30 monthly installments of \$59 and then 30 monthly installments of \$48 with an effective annual interest rate of 4.64%. In September 2002, Liggett purchased additional equipment for \$1,573 through the issuance of a note, guaranteed by us, payable in 60 monthly installments of \$26 plus interest rate calculated at LIBOR plus 4.31%.

In May 1999, in connection with the Philip Morris brand transaction, Eve Holdings Inc., a subsidiary of Liggett, guaranteed a \$134,900 bank loan to Trademarks LLC. The loan is secured by Trademarks' three premium cigarette brands and Trademarks' interest in the exclusive license of the three brands by Philip Morris. The license provides for a minimum annual royalty payment equal to the annual debt service on the loan plus \$1,000.

Liggett (and, in certain cases, Brooke Group Holding, our predecessor and a wholly-owned subsidiary of VGR Holding) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke from cigarettes. We believe, and have been so advised by counsel handling the respective cases, that Brooke Group Holding and Liggett have a number of valid defenses to claims asserted against them. Litigation is subject to many uncertainties. An unfavorable verdict was returned in the first phase of the Engle smoking and health class action trial pending in Florida. In July 2000, the jury awarded \$790,000 in punitive damages against Liggett in the second phase of the trial, and the court entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it will have a material adverse effect on Vector. Liggett has filed the \$3,450 bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. In May 2001, Liggett reached an agreement with the class in the Engle case, which will provide assurance to Liggett that the stay of execution, currently in effect pursuant to the Florida bonding statute, will not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid \$6,273 into an escrow

account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. In June 2002, the jury in an individual case brought under the third phase of the Engle case awarded \$37,500 (subsequently reduced by the court to \$25,100) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict will be subject to the outcome of the Engle appeal. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. In recent years, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither we nor Liggett are able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See Note 8 to our consolidated financial statements.

Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. It is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

V.T. Aviation. In February 2001, V.T. Aviation LLC, a subsidiary of Vector Research Ltd., purchased an airplane for \$15,500 and borrowed \$13,175 to fund the purchase. The loan, which is collateralized by the airplane and a letter of credit from us for \$775, is guaranteed by Vector Research, VGR Holding and us. The loan is payable in 120 monthly installments of \$125 including annual interest of 2.31% above the 30-day commercial paper rate with a final payment of \$6,125.

In February 2002, the V.T. Aviation purchased an airplane for \$6,575 and borrowed \$6,150 to fund the purchase. The loan is guaranteed by Vector Research and us. The loan is payable in 120 monthly installments of \$44, including annual interest at 2.75% above the 30-day commercial paper rate.

Vector Tobacco. In June 2001, Vector Tobacco purchased for \$8,400 an industrial facility in Timberlake, North Carolina. Vector Tobacco financed the purchase with an \$8,200 loan. The loan is payable in 60 monthly installments of \$85, plus interest at 4.85% above the LIBOR rate, with a final payment of approximately \$3,160. The loan, which is collateralized by a mortgage and a letter of credit of \$1,750, is guaranteed by us and by VGR Holding.

During December 2001, Vector Tobacco borrowed an additional \$1,159 from the same lender to finance building improvements. This loan is payable in 30 monthly installments of \$39 plus accrued interest, with an annual interest rate of LIBOR plus 5.12%.

On April 1, 2002, a subsidiary of ours acquired the stock of The Medallion Company, Inc., a discount cigarette manufacturer, and related assets from Medallion's principal stockholder. Following the purchase of the Medallion stock, Vector Tobacco merged into Medallion and Medallion changed its name to Vector Tobacco Inc. The total purchase price for the Medallion shares and the related assets consisted of \$50,000 in cash and \$60,000 in notes, with the notes guaranteed by us and by Liggett. Of the notes, \$25,000 bear interest at a 9.0% annual rate and mature \$3,125 per quarter commencing June 30, 2002 and continuing through March 31, 2004. At March 31, 2003, \$12,500 of these notes were outstanding. The remaining \$35,000 of notes bear interest at 6.5% per year, payable semiannually, and mature on April 1, 2007.

VGR Holding. On May 14, 2001, VGR Holding issued at a discount \$60,000 principal amount of 10% senior secured notes due March 31, 2006 in a private placement. VGR Holding received net proceeds from the offering of approximately \$46,500. On April 30, 2002, VGR Holding issued at a discount an additional \$30,000 principal amount of 10% senior secured notes due March 31, 2006 in a private placement and received net proceeds of approximately \$25,000. The notes were priced to provide purchasers with a 15.75% yield to maturity. The notes are on the same terms as the \$60,000 principal amount of senior secured notes previously issued. All of the notes have been guaranteed by us and by Liggett.

The notes are collateralized by substantially all of VGR Holding's assets, including a pledge of VGR Holding's equity interests in its direct subsidiaries, including Brooke Group Holding, Brooke (Overseas) Ltd., Vector Tobacco and New Valley Holdings, Inc., as well as a pledge of the shares of Liggett and all of the New Valley securities held by VGR Holding and New Valley Holdings. The purchase agreement for the notes contains covenants, which among other things, limit the ability of VGR Holding to make distributions to us to 50% of VGR Holding's net income, unless VGR Holding holds \$75,000 in cash after giving effect to the payment of the distribution, and limit additional indebtedness of VGR Holding, Liggett and Vector Tobacco to 250% of EBITDA (as defined in the purchase agreements) for the trailing 12 months plus, for periods through December 31, 2003, additional amounts including up to \$100,000 during the period commencing on December 31, 2002 and ending on March 31, 2003, \$115,000 during the period commencing on April 1, 2003 and ending on June 29, 2003, \$100,000 during the period commencing on June 30, 2003 and ending on September 29, 2003 and \$50,000 during the period commencing on September 30, 2003 and ending on December 31, 2003. The covenants also restrict transactions with affiliates subject to exceptions which include payments to us not to exceed \$0,500 per year for permitted operating expenses, and limit the ability of VGR Holding to merge, consolidate or sell certain assets. In November 2002, in connection with an amendment to the note purchase agreement, VGR Holding repurchased \$8,000 of the notes at a price of 100% of the principal amount plus accrued interest. We recognized a loss of \$1,320 in 2002 on the early extinguishment of debt.

In April 2003, in connection with an additional amendment to the note purchase agreement, VGR Holding repurchased \$4,000 of the notes at a price of 100% of the principal amount plus accrued interest. VGR Holding also agreed to repurchase, under certain conditions, an additional \$4,000 of the notes on each of June 30, 2003 and September 30, 2003, at a price of 100% of the principal amount plus accrued interest. We will recognize a loss of approximately \$1,250 in the second quarter and \$625 in the third quarter of 2003 on the early extinguishment of debt if we repurchase the \$12,000 of the notes.

VGR Holding has the right (which it has not exercised) under the purchase agreement for the notes to elect to treat Vector Tobacco as a "designated subsidiary" and exclude the losses of Vector Tobacco in determining the amount of additional indebtedness permitted to be incurred. If VGR Holding were to make this election, future cash needs of Vector Tobacco would be required to be funded directly by us or by third-party financing as to which neither VGR Holding nor Liggett could provide any guarantee or credit support.

VGR Holding may redeem the notes, in whole or in part, at a redemption price of 100% of the principal amount beginning May 14, 2003. During the term of the notes, VGR Holding is required to offer to repurchase all the notes at a purchase price of 101% of the principal amount, in the event of a change of control, and to offer to repurchase notes, at 100% of the principal amount, with the proceeds of material asset sales.

New Valley. In December 2002, New Valley financed a portion of its purchase of two office buildings in Princeton, N.J. with a \$40,500 mortgage loan from HSBC Realty Credit Corporation (USA). The loan has a term of four years, bears interest at a floating rate of 2% above LIBOR, and is secured by a first mortgage on the office buildings, as well as by an assignment of leases and rents. Principal is amortized to the extent of \$54 per month during the

term of the loan. The loan may be prepaid without penalty and is non-recourse against New Valley, except for various specified environmental and related matters, misapplication of tenant security deposits and insurance and condemnation proceeds, and fraud or misrepresentation by New Valley in connection with the indebtedness.

Vector. We believe that we will continue to meet our liquidity requirements through 2003, although the covenants in the purchase agreement for VGR Holding's notes limit the ability of VGR Holding to make distributions to us unless certain tests are met. Under the terms of these covenants, at March 31, 2003, VGR Holding was generally not permitted to pay distributions to us except for tax sharing payments and specified amounts of operating expenses. Corporate expenditures (exclusive of Liggett, Vector Research, Vector Tobacco and New Valley) over the next twelve months for current operations include cash interest expense of approximately \$16,500, dividends on our outstanding shares (currently at an annual rate of approximately \$60,000) and corporate expenses. In addition, VGR Holding repurchased in April 2003 \$4,000 of the notes at a price of 100% of the principal amount plus accrued interest. VGR Holding also agreed to repurchase, under certain conditions, an additional \$4,000 of the notes on each of June 30, 2003 and September 30, 2003. We anticipate funding our expenditures for current operations with available cash resources, proceeds from 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.

In July 2001, we completed the sale of \$172,500 (net proceeds of approximately \$166,400) of our 6.25% convertible subordinated notes due July 15, 2008 through a private offering to qualified institutional investors in accordance with Rule 144A under the Securities Act of 1933. The notes pay interest at 6.25% per annum and are convertible into our common stock, at the option of the holder. The conversion price, which was \$30.11 at May 14, 2003, is subject to adjustment for various events, and any cash distribution on our common stock results in a corresponding decrease in the conversion price. In December 2001, \$40,000 of the notes were converted into our common stock, and \$132,500 principal amount of the notes were outstanding at March 31, 2003.

Our consolidated balance sheets include deferred income tax assets and liabilities, which represent temporary differences in the application of accounting rules established by generally accepted accounting principles and income tax laws. As of March 31, 2003, our deferred income tax liabilities exceeded our deferred income tax assets by \$110,587. The largest component of our deferred tax liabilities exists because of differences that resulted from a transaction with Philip Morris where a subsidiary of Liggett contributed three of its premium brands to Trademarks LLC, a newly-formed limited liability company. In such transaction, Philip Morris acquired an option to purchase the remaining interest in Trademarks commencing in 2009, and we have an option to require Philip Morris to purchase the remaining interest commencing in 2010. For additional information concerning the Philip Morris brand transaction, see Note 10 to our consolidated financial statements. In connection with the transaction, we recognized in 1999 a pre-tax gain of \$294,078 in our consolidated financial statements and established a deferred tax liability of \$103,100 relating to the gain. Upon exercise of the options in 2009 or 2010, we will be required to pay tax in the amount of the deferred tax liability, which will be offset by the benefit of any deferred tax assets, including any net operating losses, available to us at that time. Our 1998 and 1999 federal income tax returns are being examined, and, although we believe the positions reflected on our income tax returns are correct, there can be no assurance that relevant taxing

authorities may not challenge certain positions. If taxing authorities were to assert that we incurred a tax obligation prior to the exercise date of these options and we were required to make such tax payments prior to 2009 or 2010, our liquidity could be adversely affected.

#### MARKET RISK

We are exposed to market risks principally from fluctuations in interest rates, foreign currency exchange rates and equity prices. We seek to minimize these risks through our regular operating and financing activities and our long-term investment strategy. The market risk management procedures of us and New Valley cover all market risk sensitive financial instruments.

As of March 31, 2003, approximately \$87,312 of our outstanding debt had variable interest rates, which increases the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our variable rate borrowings, which could adversely affect our cash flows. As of March 31, 2003, we had no interest rate caps or swaps. Based on a hypothetical 100 basis point increase or decrease in interest rates (1%), our annual interest expense could increase or decrease by approximately \$838.

We held investment securities available for sale totaling \$108,183 at March 31, 2003. Adverse market conditions could have a significant effect on the value of these investments.

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

#### NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to that statement's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The transition and disclosure provisions of this statement are effective for financial statements for fiscal years ending after December 15, 2002 and for interim financial statements commencing after that date. The Company has not elected the fair value-based method of accounting for stock-based compensation under SFAS No. 123, as amended by SFAS No. 148. (See Note 7 to our consolidated financial statements.)

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to EITF 94-3, which allowed a cost to be recognized when a commitment to an exit plan was made. The provisions of this SFAS are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement did not have an impact on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a

liability for the fair value of the obligation it assumes under the guarantee and expanded disclosure of certain guarantees existing at December 31, 2002. The adoption of this statement did not have an impact on the Company's consolidated financial statements.

In January 2003, FIN No. 46, "Consolidation of Variable Interest Entities", was issued. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective February 1, 2003 for variable interest entities created after January 31, 2003, and July 1, 2003 for variable interest entities created prior to February 1, 2003. We do not believe this interpretation will have a material impact on our consolidated financial statements.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We and our representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995, including any statements that may be contained in the foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in our reports to stockholders, which reflect our expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Private Securities Reform Act, we have identified under "Risk Factors" in Item 1 of our Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of us.

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

#### ITEM 3. 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 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.



PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 8, incorporated herein by reference, to our consolidated financial statements included elsewhere in this report which contains a general description of certain legal proceedings to which Brooke Group Holding, VGR Holding, New Valley or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending smoking-related material legal proceedings to which Brooke Group Holding and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to holders of our securities and the securities of our subsidiaries without charge upon written request to us at our principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn. Investor Relations.

Item 2. Changes in Securities and Use of Proceeds

No securities of ours which were not registered under the Securities Act of 1933, as amended, have been issued or sold by us during the three months ended March 31, 2003, except for grants of stock options to purchase 15,000 shares of our common stock at \$13.25 per share to employees of us and/or our subsidiaries and the issuance of 522,788 shares of our common stock upon exercise of warrants and options as described in Note 7, incorporated herein, to our consolidated financial statements included elsewhere in this report. The foregoing transactions were effected in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 or did not involve a sale under the Securities Act of 1933.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 Fourth Amendment to Note Purchase Agreement, dated as of March 31, 2003, between VGR Holding Inc. and TCW High Income Partners, Ltd., TCW High Income Partners II, Ltd., Pioneer High Yield Cayman Unit Trust, TCW Shared Opportunity Fund III, L.P., TCW Leveraged Income Trust IV, L.P., TCW Leveraged Income Trust, L.P., TCW Leveraged Income Trust II, L.P., TCW LINC III CBO Ltd., Captiva II Finance Ltd., AIMCO CDO, Series 2000-A and TCW Shared Opportunity Fund II, L.P., relating to the 10% Senior Secured Notes due March 31, 2006.
- 99.1 Material Legal Proceedings.
- \*99.2 New Valley Corporation's Interim Consolidated Financial Statements for the quarterly periods ended March 31, 2003 and 2002 (incorporated by reference to New Valley's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, Commission File No. 1-2493).
- 99.3 Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.4 Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\*Incorporated by reference

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the first quarter of 2003.

SIGNATURE

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

VECTOR GROUP LTD.  
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

-----  
Joselynn D. Van Siclen  
Vice President and Chief  
Financial Officer

Date: May 15, 2003

CERTIFICATION

I, Bennett S. LeBow, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Bennett S. LeBow

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Bennett S. LeBow  
Chairman and Chief Executive Officer

CERTIFICATION

I, Joselynn D. Van Siclen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Joselynn D. Van Siclen

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Joselynn D. Van Siclen  
Vice President and Chief Financial Officer

## FOURTH AMENDMENT TO NOTE PURCHASE AGREEMENT

This Fourth Amendment to Note Purchase Agreement is dated as of March 31, 2003 (this "Fourth Amendment") and amends the Note Purchase Agreement, dated as of May 14, 2001, as amended as of November 6, 2001, April 30, 2002 and September 30, 2002 (the "Note Purchase Agreement"), by and among (i) VGR Holding Inc. (formerly known as BGLS Inc.), a Delaware corporation (the "Company"), and (ii) the signatories hereto who, collectively, are the Majority Holders (as defined in the Note Purchase Agreement). Capitalized terms used but not otherwise defined in this Fourth Amendment shall have the meanings ascribed to such terms in the Note Purchase Agreement as amended by this Fourth Amendment.

WHEREAS, the Company and the Majority Holders desire to amend the Note Purchase Agreement as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

## 1. AMENDMENTS TO NOTE PURCHASE AGREEMENT.

a. SECTION 8.4. Section 8.4 of the Note Purchase Agreement is hereby amended by deleting paragraph (f) in its entirety and inserting in lieu thereof the following:

"(f) During the period commencing on April 1, 2002 and ending on December 31, 2003, SECTION 8.4(A) shall not prohibit the Company and its Restricted Subsidiaries from incurring Indebtedness in an aggregate amount not exceeding the Permitted Amount at any one time outstanding (in addition to Indebtedness otherwise permitted to be incurred under this Agreement); PROVIDED, HOWEVER, that (i) if the Leverage Ratio is not less than 2.50 to 1 as of June 30, 2003, on June 30, 2003 the Company shall repurchase from the Majority Holders \$4,000,000 in aggregate principal amount of Notes at 100% of the principal amount thereof, plus accrued and unpaid interest thereon, (ii) if the Leverage Ratio is not less than 2.50 to 1 as of September 30, 2003, on or before September 30, 2003 the Company shall repurchase from the Majority Holders \$4,000,000 in aggregate principal amount of Notes at 100% of the principal amount thereof, plus accrued and unpaid interest thereon and (iii) on January 1, 2004 either (x) the Leverage Ratio shall be less than 2.50 to 1 or (y) Indebtedness equal to the amount incurred pursuant to this SECTION 8.4(F) shall have been repaid, extinguished or otherwise retired."

b. SCHEDULE B. Schedule B of the Note Purchase Agreement is hereby amended so that the defined term "Permitted Amount" is amended in its entirety to read as follows:

"`PERMITTED AMOUNT' means (i) \$75,000,000 during the period commencing on April 1, 2002 and ending on September 29, 2002, (ii) \$115,000,000 during the period commencing on September 30, 2002 and ending on December 30, 2002, (iii) \$100,000,000 during the period commencing on December 31, 2002 and ending on March 31, 2003, (iv) \$115,000,000 during the period commencing on April 1, 2003 and ending on June 29, 2003, (v) \$100,000,000 during the period commencing on June 30, 2003 and ending on September 29, 2003 and (vi) \$50,000,000 during the period commencing on September 30, 2003 and ending on December 31, 2003. Notwithstanding the foregoing, the Permitted Amount shall be \$0 on the earlier of (i) the date VTUSA is designated as a Designated Subsidiary, (ii) June 30, 2003, if the Leverage Ratio is less than 2.50 to 1 as of June 30, 2003 and the Company shall not have repurchased the \$4,000,000 of the Notes as contemplated by Section 8.4(f)(i) by June 30, 2003, and (iii) September 30, 2003, if the Leverage Ratio is less than 2.5 to 1 as of September 30, 2003 and the Company shall not have repurchased the \$4,000,000 of Notes contemplated by Section 8.4(f)(ii) by September 30, 2003."

c. DISCLOSURE SCHEDULES. Certain portions of Schedule 5.4, Schedule 5.5, Schedule 5.8, Schedule 5.15 and Schedule 5.23 to the Note Purchase Agreement are hereby amended as set forth on Exhibit A attached to this Third Amendment.

2. REPRESENTATIONS AND WARRANTIES. To induce the Majority Holders to enter into this Fourth Amendment, the Company hereby represents and warrants to each other signatory hereto that as of the date hereof:

A. CONTINUATION OF REPRESENTATIONS AND WARRANTIES IN NOTE PURCHASE AGREEMENT. The representations and warranties made by it in the Note Purchase Agreement are true and correct in all material respects after giving effect to the transactions contemplated in this Fourth Amendment (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date).

B. LEVERAGE RATIO. After reducing the amount of outstanding Indebtedness by the Permitted Amount, the Leverage Ratio shall be less than 2.50 to 1.

C. NO MATERIAL ADVERSE EFFECT. During the period from September 30, 2002 through the date hereof, there will have been no development or event which could reasonably be expected to have a Material Adverse Effect.

D. LEGAL, VALID AND BINDING OBLIGATION. This Fourth Amendment constitutes the legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, fraudulent conveyances, reorganization, moratorium or similar laws affecting creditor's rights.

E. NO DEFAULT. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the transactions contemplated in this Fourth Amendment.

3. REPURCHASE OF NOTES. The effectiveness of this Fourth Amendment shall be conditioned upon the repurchase by the Company from the Majority Holders, on or before April 7, 2003, of \$4,000,000 in aggregate principal amount of the Notes at 100% of the principal amount thereof, plus accrued and unpaid interest thereon.

4. REFERENCE TO THE NOTE PURCHASE AGREEMENT. Each reference in the Note Purchase Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import referring to the Note Purchase Agreement, shall mean and be a reference to such Note Purchase Agreement as amended by this Fourth Amendment.

5. LIMITED EFFECT. Except as expressly amended and modified by this Fourth Amendment, the Note Purchase Agreement shall continue to be, and shall remain, in full force and effect in accordance with its terms.

6. SUCCESSORS. All agreements of the parties to this Fourth Amendment shall bind their respective successors.

7. COUNTERPARTS. This Fourth Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Fourth Amendment by facsimile or electronic mail transmission shall be effective as delivery of a manually executed counterpart of this Fourth Amendment.

8. GOVERNING LAW. THIS FOURTH AMENDMENT AND ALL ISSUES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK.

9. SEVERABILITY. In case any one or more of the provisions in this Fourth Amendment shall be held invalid, illegal or unenforceable, in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions shall not in any way be affected or impaired thereby, it being intended that all of the provisions hereof shall be enforceable to the full extent permitted by law.

10. HEADINGS. The headings of the Sections of this Fourth Amendment have been inserted for convenience of reference only, are not to be considered a part of this Fourth Amendment and shall in no way modify or restrict any of the terms or provisions of this Fourth Amendment.

[SIGNATURE PAGES FOLLOW]



IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment and to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

VGR HOLDING INC.

By: /s/ RICHARD J. LAMPEN

-----  
Name: Richard J. Lampen  
Title: Executive Vice President

TCW HIGH INCOME PARTNERS, LTD.

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ C. SHAWN BOOKIN

-----  
Name: C. Shawn Bookin  
Title: Senior Vice President

TCW HIGH INCOME PARTNERS II, LTD.

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

PIONEER HIGH YIELD CAYMAN UNIT TRUST

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

TCW SHARED OPPORTUNITY FUND III, L.P.

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ MARK L. ATTANASIO

-----  
Name: Mark L. Attanasio  
Title: Group Managing Director

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

TCW LEVERAGED INCOME TRUST IV, L.P.

By: TCW Asset Management Company, as its  
Investment Advisor

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

AND

By: TCW Asset Management Company, as its  
Managing Member of TCW (LINC IV)  
L.L.C., the General Partner

By: /s/ MARK L. ATTANASIO

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Name: Mark L. Attanasio  
Title: Group Managing Director

TCW LEVERAGED INCOME TRUST, L.P.

By: TCW Advisers (Bermuda), Ltd., as its  
General Partner

By: /s/ MARK L. ATTANASIO

-----  
Name: Mark L. Attanasio  
Title: Group Managing Director

By: TCW Investment Management Company,  
as Investment Adviser

By: /s/ C. SHAWN BOOKIN

-----  
Name: C. Shawn Bookin  
Title: Senior Vice President

TCW LEVERAGED INCOME TRUST II, L.P.

By: TCW (LINC II), L.P., as its General  
Partner

By: TCW Advisers (Bermuda), Ltd., its General  
Partner

By: /s/ MARK L. ATTANASIO

-----  
Name: March L. Attanasio  
Title: Group Managing Director

By: TCW Investment Management Company,  
as Investment Adviser

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President



TCW LINC III CBO LTD.

By: TCW Investment Management Company,  
as Collateral Manager

By: /s/ MARK L. ATTANASIO

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Name: Mark L. Attanasio  
Title: Group Managing Director

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

AIMCO CDO, SERIES 2000-A

By: Allstate Investment Management Company, its  
Collateral Manager

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ MARK L. ATTANASIO

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Name: Mark L. Attanasio  
Title: Group Managing Director

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

CAPTIVA II FINANCE LTD.

By: TCW Advisors, Inc., its Financial Manager

By: /s/ MARK L. ATTANASIO

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Name: Mark L. Attanasio  
Title: Group Managing Director

By: /s/ C. SHAWN BOOKIN

-----  
Name: C. Shawn Bookin  
Title: Senior Vice President

TCW SHARED OPPORTUNITY FUND II, L.P.

By: TCW Investment Management Company,  
its Investment Manager

By: /s/ MARK L. ATTANASIO

-----  
Name: Mark L. Attanasio  
Title: Group Managing Director

By: /s/ C. SHAWN BOOKIN

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Name: C. Shawn Bookin  
Title: Senior Vice President

## I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

People of the State of California, et al. v. Philip Morris Incorporated, et al., Case No. BC194217, Superior Court of California, County of Los Angeles (case filed 7/14/98). People seek injunctive relief and economic reimbursement with respect to damages allegedly caused by environmental tobacco smoke (ETS).

United States of America v. Philip Morris, Inc., et al., Case No. 1:99CV02496, USDC, District of Columbia (case filed 9/22/99). The United States of America seeks to recover the proceeds received, and to be received, by tobacco company defendants and certain affiliates for wrongful sales of tobacco products. In October 2000, the District Court dismissed the government's claims pursuant to the Medicare Secondary Payor Act and the Medical Cost Recovery Act, but denied motions to dismiss RICO claims. Trial is scheduled for September 2004.

City of Belford Roxo, Brazil v. Philip Morris Companies, Inc., et al., Case No.01-10911-CA-10, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Belford Roxo seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

Republic of Belize v. Philip Morris Companies, Inc., et al., Case No. 00-8320-CA-01, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 4/5/01). The Republic of Belize seeks reimbursement of the funds expended on behalf of those injured by and addicted to tobacco products.

City of Belo Horizonte, Brazil v. Philip Morris Companies, Inc., et al., Case No.01-10920-CA-04, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Belo Horizonte seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Carapicubia, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10910-CA-24, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Carapicuibia seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Duque De Caxias, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10917-CA-13, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Duque De Caxias seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

Republic of Ecuador v. Philip Morris Companies, Inc., et al., Case No. 00-1951-CA-27, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 1/21/00). The Republic of Ecuador seeks reimbursement of the funds expended on behalf of those injured by and addicted to tobacco products.

Republic of Ecuador v. Philip Morris International, Inc., et al., Case No. 01-5113, USDC, Florida, Southern District (case filed 12/21/00). The Republic of Ecuador seeks to recover damages suffered by Ecuador, due to alleged misconduct of defendants, specifically loss of taxes and violations to Florida RICO law.

The State of Espirito Santo, Brazil v. Brooke Group Ltd., et al., Case No. 00-07472-CA-03, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The State of Espirito Santo, Brazil seeks reimbursement for all costs and damages incurred by the State.

The State of Goias, Brazil v. Philip Morris Companies, Inc., et al., Case No. 99-24202-CA 02, Circuit Court of the 11th Judicial Circuit, Florida-Dade County (case filed 10/19/99). The State of Goias, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Joao Pessoa, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10919-CA-01, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Joao Pessoa seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Jundiai, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10924-CA-10, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The State of Jundiai seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The Kyrgyz Republic v. The Brooke Group Ltd., et al., Case No. 01-01740 CA-25, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The Kyrgyz Republic seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Mage, Brazil v. Philip Morris Companies, Inc., et al., Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Mage seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Mato Grosso do Sul , Brazil, et al. v. Philip Morris Companies, Inc., et al., Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 7/19/00). The State of Mato Grasso do Sul, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Nilopolis - RJ, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10916-CA-01, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Nilopolis seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Nova Iguacu - RJ, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10909-CA-24, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Nova Iguacu seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Para, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10925-CA-23, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The State of Para seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Parana, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10908-CA-02, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The State of Parana seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Pernambuco, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-31241-CA-20, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 12/28/01). The State of Pernambuco seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Piaui, Brazil v. Philip Morris Companies, Inc, et al., Case No. 00-32238 CA 30, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 12/13/00). The State of Piaui, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Rio De Janerio, Brazil v. Philip Morris Companies, Inc., et al., Case No. 01-10911-CA-10, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Rio De Janerio seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Rondonia, Brazil v. Philip Morris Companies, Inc, et al., Case No. 01-10907-CA-09, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The State of Rondonia seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The Russian Federation , et al. v. Philip Morris Companies, Inc, et al., Case No. 00-20918 CA 24, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 8/28/00). The Russian Federation seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

City of Sao Bernardo Do Carmo, Brazil v, Philip Morris Companies, Inc., et al., Case No. 01-10918-CA-11, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 5/8/2001). The City of Sao Bernardo Do Carmo seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

Republic of Tajikistan v. The Brooke Group Ltd., et al., Case No. 01-01736 CA-24, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The Republic of Tajikistan seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

The State of Tocantins, Brazil, et al. v. The Brooke Group Ltd., Inc., et al., Case No. 00-28101 CA 05, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. The State of Tocantins, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

Republic of Venezuela v. Philip Morris Companies, Inc., et al., Case No. 99-01943-CA-01, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 1/27/99). The Republic of Venezuela seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.



County of McHenry, et al. v. Philip Morris, Inc., et al., Case No. 00L 007949, Circuit Court, Illinois, Cook County (case filed 7/13/00). County of McHenry seeks monetary damages, civil penalties, declaratory and injunctive relief, restitution, and disgorgement of profits.

General Sick Fund (Kupat Holim Clalit) v. Philip Morris, Inc., et al., Case No. 1571/98, District Court, Israel, Jerusalem (case filed 9/28/98). General Sick Fund seeks monetary damages and declaratory and injunctive relief on behalf of itself and all of its members.

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. Transferred to the Judicial Panel on Multidistrict Litigation in the United States District Court of the District of Columbia on 11/6/00.

The State of Sao Paulo v. The American Tobacco Company, et al., Case No. 20 00-02058, Civil District Court, Louisiana, Parish of Orleans (case filed 2/9/00). The State of Sao Paulo seeks reimbursement of the funds expended on behalf of those injured by and addicted to defendants' tobacco products.

County of Wayne v. Philip Morris Incorporated, et al., USDC, Eastern District, Michigan. County of Wayne seeks to obtain damages, remediation through tobacco education and anti-addiction programs, injunctive relief, attorneys' fees and costs.

City of St. Louis, et al. v. American Tobacco Company, Inc., et al., Case No. CV-982-09652, Circuit Court, State of Missouri, City of St. Louis (case filed 12/4/98). City of St. Louis and area hospitals seek to recover past and future costs expended to provide healthcare to Medicaid, medically indigent, and non-paying patients suffering from tobacco-related illnesses.

County of St. Louis, Missouri v. American Tobacco Company, Inc., et al., Case No. 982-09705, Circuit Court, State of Missouri, City of St. Louis (case filed 12/10/98). County seeks to recover costs from providing healthcare services to Medicaid and indigent patients, as part of the State of Missouri terms as a party to the Master Settlement Agreement.

The Crow Creek Sioux Tribe v. The American Tobacco Company, et al., Case No. CV 97-09-082, Tribal Court of The Crow Creek Sioux Tribe, State of South Dakota (case filed 9/26/97). Indian tribe seeks equitable and injunctive relief for damages incurred by the tribe in paying for the expenses of indigent smokers.

Alabama Coushatta Tribe of Texas, The v. The American Tobacco Company, et al., Case No. 1: 00CV-596, USDC, Texas, Eastern District (case filed 8/30/2000). The Tribe seeks to have the tobacco companies' liability to the Tribe judicially recognized and to restore to the Tribe those funds spent for smoking-attributable costs by the Tribe itself and various state and federal health services.

Republic of Bolivia v. Philip Morris Companies, Inc., et al., Case No. 6949\*JG99, District Court, State of Texas, Brazoria County, State of Texas (case filed 1/20/99). The Republic of Bolivia seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

The State of Rio de Janerio of The Federated Republic of Brazil v. Philip Morris Companies, Inc., et al., Case No. CV-32198, District of Angelina County, State of Texas (case filed 7/12/99). The State of Rio de Janerio of The Federated Republic of Brazil seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

## II. THIRD-PARTY PAYOR ACTIONS

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.

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.

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.

Kaiser Aluminum & Chemical Corporation, et al v. RJR Nabisco, et al., Case No. 2000-615, Circuit Court of Mississippi, Jefferson County (case filed 12/15/00). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

Owens-Illinois, Inc. v. R.J. Reynolds Tobacco Company, et al., Case No. 00-0077, Circuit Court, Mississippi, Sharkey County (case filed 4/9/01). Asbestos manufacturer seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

Blue Cross and Blue Shield of New Jersey, et al. v. Philip Morris Inc., et al., Case No. 98-3287, New York, Eastern District. Action brought on behalf of twenty-four Blue Cross/Blue Shield insurers seeking to recover health care costs attributable to smoking. Judgment has been entered on a jury verdict and award of attorneys fees in favor of one plan, Empire Blue Cross and Blue Shield. The case is on appeal to the U.S. Court of Appeals for the Second Circuit. See Note 8, Contingencies, for a more detailed discussion of this case.

### III. SLAVERY REPARATIONS

Johnson, et al. v. Aetna, Inc., et al., Case No. 02-2712, USDC, Louisiana, Eastern District. This class action is brought on behalf of all African American slave descendants for slavery reparations.

Bankhead, et al. v. Lloyd's of London, et al., Case No. 05 CV 6966, USDC, Southern District of New York (case filed 9/3/02). This class action is brought on behalf of all African American slave descendants for slavery reparations.

Timothy Hurdle v. FleetBoston Financial, et al., Case No. 02-02653, USD, Northern District of California (case filed 09/10/02). This class action is brought on behalf of all African American slave descendants for slavery reparations.

### IV. CLASS ACTION CASES

Jefferson County, et al. v. Philip Morris, Inc., et al., Case No. CV 02-6170, Circuit Court, Jefferson County, Alabama (case filed 10/10/02). This action is for injunctive relief and damages. Plaintiffs allege a class action against the tobacco defendants for their smoking related medical expenses unpaid by Medicaid.

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. In April 2001, the court granted in part plaintiff's motion for class certification, and trial is scheduled to begin in October 2003. See Note 8, Contingencies, for a more detailed discussion of this case.

Sims, et al. v. Philip Morris, Inc., et al., Case No. 1:01CV01107, USDC, District of Columbia (case filed 5/23/01). Plaintiffs bring this class action to recover the purchase price paid by plaintiffs and class members while they were under age through the use of fraud, deception, misrepresentation and other activities constituting racketeering, in violation of federal law.

Engle, et al. v. R.J. Reynolds, et al., Case No. 94-08273 CA 20, Circuit Court, Florida, Dade County (case filed 5/5/94). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Florida. The case was certified as a class action on October 31, 1994. Trial commenced in July 1998. A judgment for compensatory and punitive damages, which judgment presently is on appeal was entered in November 2000. See Note 8, Contingencies, for a more detailed discussion of this case.

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.

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.

Young, et al. v. The American Tobacco Company, et al., Case No. 2:97-CV-03851, Civil District Court, State of Louisiana, Orleans Parish (case filed 11/12/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Louisiana.

Richardson, et al. v. Philip Morris, et al., Case No. 96145050/CL212596, Circuit Court, Baltimore City, Maryland (case filed on 5/29/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Maryland.

Brown, Charlene, et al. v. Philip Morris Incorporated, et al., District of the Trial Court, Massachusetts, Hampden (case filed on 01/10/03). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Massachusetts.

Lewis, Tarji, et al. v. Philip Morris, Incorporated, et al., Case No. MICV2000-03447, Superior Court, Massachusetts, Middlesex County. This class action is brought on behalf of Massachusetts residents who began smoking under the legal age and who now wish to quit.

White, et al. v. Philip Morris, et al., Case No. 5:97-CV-91BRS, Chancery Court of Mississippi, Jefferson County (case filed 4/24/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Mississippi.

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.

Birchall, et al. v. Philip Morris Inc., et al., Case No. A453181, 8th Judicial District Court, Nevada, Clark County (case filed 7/10/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Deller, et al. v. Philip Morris Inc., et al., Case No. A456031, 8th Judicial District Court, Nevada, Clark County (case filed 9/9/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Ellington, et al. v. Philip Morris Inc., et al., Case No. A454215, 8th Judicial District Court, Nevada, Clark County (case filed 7/31/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Ginsberg, et al. v. Philip Morris Inc., et al., Case No. A455983, 8th Judicial District Court, Nevada, Clark County (case filed 9/6/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Goldfarb, et al. v. Philip Morris Inc., et al., Case No. A453907, 8th Judicial District Court, Nevada, Clark County (case filed 7/25/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Hamil, et al. v. Philip Morris Inc., et al., Case No. A455985, 8th Judicial District Court, Nevada, Clark County (case filed 9/6/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Hudson, et al. v. Philip Morris Inc., et al., Case No. A456030, 8th Judicial District Court, Nevada, Clark County (case filed 9/9/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Martinez, et al. v. Philip Morris Inc., et al., Case No. A455846, 8th Judicial District Court, Nevada, Clark County (case filed 9/4/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Ramsden, et al. v. Philip Morris Inc., et al., Case No. A455989, 8th Judicial District Court, Nevada, Clark County (case filed 9/6/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Vandina, et al. v. Philip Morris Inc., et al., Case No. A454216, 8th Judicial District Court, Nevada, Clark County (case filed 7/31/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Vavrek, et al. v. Philip Morris Inc., et al., Case No. A454217, 8th Judicial District Court, Nevada, Clark County (case filed 7/31/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

Avallone, et al. v. The American Tobacco Company, et al., Case No. MID-L-4883-98, Superior Court of New Jersey, Middlesex County (case filed 5/5/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated non-smokers allegedly injured from exposure to second hand smoke resident in New Jersey.

Cosentino, et al. v. Philip Morris, et al., Case No. L-5135-97, Superior Court of New Jersey, Law Division, Middlesex County (case filed 5/21/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

Browne, et al. v. Philip Morris USA, et al., Case No CV-2-599, USDC, Eastern District, of New York (case filed 1/28/02). This personal injury class action is brought on behalf of plaintiffs to recover compensatory damages from smoking related injuries.

Ebert, et al. v. Philip Morris Incorporated, et al., Case No. 00-CV-4632, New York Eastern District. Liggett has not been served.

Mason, et al. v. The American Tobacco Company, et al., Case No. CV00-4442, USDC, Eastern District of New York. This nationwide taxpayer putative class action seeks reimbursement of Medicare expenses made by the United States government. Action was dismissed and is on appeal taken by plaintiff. Transferred from the Eastern District of Texas.

Simon, et al. v. Philip Morris Inc, et al., Case No CV 99 1988, USDC, Eastern District of New York (case filed 4/9/99). This personal injury action is brought on behalf of plaintiffs seeking certification of a nationwide class under the applicable provisions of Rule 23 of the Federal Rules of Civil Procedure, on behalf of persons who have smoked defendant's cigarettes and who presently have a claim for personal injuries or damages, or wrongful death, arising from the smoking of defendants' cigarettes.

In Re Simon (II) Litigation, Case No 00-CV-5332, USDC, Eastern District of New York (case filed 9/6/2000). This action consolidates claims of ten other individual and class action personal injury tobacco cases, and is brought on behalf of plaintiffs seeking certification of a nationwide class under the applicable provisions of Rule 23 of the Federal Rules of Civil Procedure. In September 2002, the court granted plaintiff's motion for certification of a nationwide punitive damages class. Defendants have taken an appeal of the class certification order to the United States Court of Appeals for the Second Circuit. See Note 8, Contingencies, for a more detailed discussion of this case. (Consolidated Cases: 99-CV-1988, 00-CV-2340, 00-CV-4632, 00-CV-4442, 98-CV-1492, 99-CV-6142, 98-CV-3287, 98-CV-7658, 98-CV-0675, 99-CV-7392)

Creekmore, et al. v. Brown & Williamson Tobacco Corporation, et al., Case No. 98 CV 03403, Superior Court of North Carolina, Buncombe County (case filed 11/19/98). This personal injury class action is brought on behalf of plaintiffs and all similarly situated allegedly injured smokers resident in North Carolina.

Trivisonno, et al. v. Philip Morris Incorporated, et al., Case No. 459031, Court of Common Pleas, Ohio, Cuyahoga County. This personal injury class action is brought by behalf of plaintiff and all Ohio residents.

Lowe, et al. v. Philip Morris Incorporated, et al., Case No. 0111-11835, Circuit Court, Oregon, Multnomah County. This personal injury class action is brought on behalf of plaintiff and all Oregon residents who have smoked cigarettes, but who have been diagnosed with lung cancer or smoking-related pulmonary disease.

Myers, et al. v. Arthur A. Hayes, Jr., et al., Case No. 00C1773, Circuit Court, Davidson County, Tennessee. This action is for injunctive relief and damages. Plaintiffs allege a class action against the tobacco defendants for their smoking related medical expenses paid by Medicaid and/or Tennessee health care providers in violation of 42 USCS 1981 et seq., 18 USCS 241, and 42 USCS 1986.

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.

Martinez, et al. v. Philip Morris Incorporated, et al., Case No. 030900239, 3rd Judicial Court of Utah, Salt Lake County (case filed 01/07/03). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Utah.

Ingle, et al. v. Philip Morris, et al., Case No. 97-C-21-S, Circuit Court, State of West Virginia, McDowell County (case filed 2/4/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in West Virginia.

In Re Tobacco MM (6000) (Blankenship), Case No. 00-C-6000, Circuit Court, West Virginia, Ohio County. Class action seeking payments for costs of medical monitoring for current and former smokers. Liggett was severed from trial of other tobacco company defendants. Judgment upon jury verdict in favor of other tobacco company defendants on appeal.

McCune v. The American Tobacco Company, et al., Case No. 97-C-204, Circuit Court, State of West Virginia, Kanawha County (case filed 1/31/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in West Virginia.

Parsons, et al. v. Liggett Group Inc., et al., Case No. 98-C-388, Circuit Court, State of West Virginia, Kanawha County (case filed 4/9/98). This personal injury class action is brought on behalf of plaintiff's decedent and all West Virginia residents having claims for personal injury arising from exposure to both cigarette smoke and asbestos fibers.

Walker, et al. v. Liggett Group Inc., et al., Case No. 2:97-0102, USDC, Southern District of West Virginia (case filed 2/12/97). Nationwide class certified and limited fund class action settlement preliminarily approved with respect to Liggett and Brooke Group on May 15, 1997. Class decertified and preliminary approval of settlement withdrawn by order of district court on August 5, 1997, which order currently is on appeal to the Fourth Circuit.



V. INDIVIDUAL SMOKER CASES

Springer v. Liggett Group Inc. and Liggett & Myers, Inc., Case No. LR-C-98-428, USDC, Eastern District of Arkansas (case filed 7/19/98). Two individuals suing. Liggett is the only defendant.

Birren, D., et al. v. Philip Morris Incorporated, et al., Case No. RIC 356880, Superior Court, Riverside County, California (case filed 04/03/01). Two individuals suing.

Brown, D., et al. v. Philip Morris Incorporated, et al., Case No. BC 226245, Superior Court, Los Angeles County, California (case filed 3/9/00). One individual suing. Liggett has not been served.

Brown V., et al. v. The American Tobacco Company, et al., Case No. 00AS02085, Superior Court, Sacramento County, California (case filed 4/18/00). Two individuals suing.

Crayton v. Safeway, Inc., et al., Case No. RDC 820871-0, Superior Court, Alameda County, California (case filed 1/18/00). One individual suing.

Donaldson, et al. v. Raybestos Manhattan, Inc., et al., Case No. 998147, Superior Court of California, County of San Francisco (case filed 9/25/98). Two individuals suing.

Fleury v. Philip Morris Inc., et al., Case No. BC 261184, Superior Court of California, County of Los Angeles. One individual suing.

King v. Phillip Morris Incorporated., et al., Case No. 2002068646, Superior Court of California, County of Alameda ( case filed 10/11/2002). One individual suing.

Long, et al. v. Philip Morris Incorporated, et al., Case No. CV-00-12679, USDC, Central District, California (case filed 3/2/00). Two Individuals suing.

Lamb, et al. v. Philip Morris Incorporated, et al., Case No. RIC 343417, Superior Court, Riverside County, California (case filed 5/26/00). Two individuals suing.

McDonald, et al. v. Philip Morris Incorporated, et al., Case No. 2002-044907, Superior Court, Alameda County, California (case filed 0321/02).Three individuals suing.

Morse v. R.J. Reynolds Tobacco Company, et al., Case No. 822825-9, Superior Court, Alameda County, California. One individual suing.

Rein v. Philip Morris Incorporated, et al., Case No. 807453-1, Superior Court of California, County of Alameda (case filed 5/5/99). One individual suing.

Robinson, et al. v. Raybestos-Manhattan, Inc., et al., Case No. 996378, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

Robinson, et al. v. Raybestos-Manhattan, et al., Case No. 309286, Superior Court, California, County of San Francisco (case filed 1/18/00). Three individuals suing.

Sellers, et al. v. Raybestos-Manhattan, et al., Case No. 996382, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

Smith, et al. v. Liggett Group Inc., et al., Case No. AS02275998, Superior Court, California, County of Santa Clara. Two individuals suing.

Soliman v. Philip Morris Incorporated, et al, Case No. 31105, Superior Court, San Francisco County, California (case filed 3/28/00). One individual suing.

Stern, et al. V. Liggett Group Inc., et al., Case No. M37696, Superior Court of California, County of Monterey (case filed 4/28/97). Two individuals suing.

Williams, Kathleen, et al. v. Philip Morris Incorporated, et al., Case No. C01-04164, Superior Court, California, Contra Costa County (case filed 10/16/2001). Two individuals suing.

Plummer, Brenda, et al. v. The American Tobacco., Case No. 6480, Superior Court, District of Columbia. Three individuals suing.

Armand v. Philip Morris, et al., Case No. 97-31179-CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 7/9/97). Two individuals suing.

Atcheson v. R. J. Reynolds, et al., Case No. 97-31148-CICU, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 7/29/97). One individual suing.

Bartley, et al. v. Brown & Williamson, et al., Case No. 97-11153, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/21/97). Two individuals suing.

Blake, et al. v. R. J. Reynolds, et al., Case No. 01-13549, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 6/7/01). Two individuals suing.

Blair v. R. J. Reynolds, et al., Case No. 97-31177, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 7/29/97). One individual suing.

Blank v. Philip Morris, et al., Case No. 97-05443, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/10/97). Two individuals suing.

Bowdell, et al. v. Brown & Williamson Tobacco, et al., Case No. 02-7726-CI-11, Circuit Court for the 6th Judicial Circuit, Pinellas County (case filed 9/30/02). Two individuals suing.

Bradley, et al. v. American Tobacco, et al., Case No. 6:02-CV-01385, USDC, Middle District, Florida. Two individuals.

Britan, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 01-13451, County Court of the 11th Judicial Circuit, Florida, Miami-Dade County. One individual suing.

Bronstein, et al. v. Brown & Williamson, et al., Case No. 97-008769, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

Brown, M. , et al. v. Liggett Group Inc., et al., Case No. 825999, Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 5/28/02). Two individuals suing.

Buford, Charles, A., et al. v. Liggett Group Inc., et al., Case No. 02-8243-CI-8, Circuit Court of the 6th Judicial Circuit, Florida, Pinellas County (case filed 10/17/02). Two individuals suing.

Burns, et al. v. Liggett Group Inc., et al., Case No. 97-11175-27, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/3/98). One individual suing.

Cagle, et al. v. Brown & Williamson Corporation, et al., Case No. 02 10718, 13th Judicial Circuit, Florida, Hillsborough County (case filed 11/22/02). Two individuals suing.

Calhoun, C., et al. v. Brown & Williamson Corporation, et al., Case No. 02-7970, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 8/27/02). Two individuals suing.

Cotto, et al. v. Brown & Williamson Corporation, et al., Case No. 03-748, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 1/22/03). Two individuals suing.

Clark v. Liggett Group Inc., Case No. 95-3333-CA, Circuit Court of the 4th Judicial Circuit, Florida, Dade County (case filed 8/18/95). One individual suing. Liggett only defendant.

Clark, Carol M. v. R. J. Reynolds Tobacco Company, et al., Case No. 02-16981, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County, (case filed 7/3/02). One individual suing.

Coffey v. Brown & Williamson Corporation, et al., Case No. 01-09335, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

Cowart v. Liggett Group Inc, et al., Case No.98-01483CA, Circuit Court of the 11th Judicial Circuit, Florida, Duval County (case filed 3/16/98). One individual suing.

Davis, et al. v. Liggett Group Inc., et al., Case No. 97-11145, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

Davis, Beverly, et al. v. Liggett Group Inc., et al., Case No. 02-48914, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 10/4/02). Two individuals suing.

Davison, et al. v. Brown & Williamson, et al., Case No. 97008776, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

De La Torre, et al. v. Brown & Williamson, et al., Case No. 97-11161, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

Dill v. Philip Morris, et al., Case No. 97-05446, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/10/97). One individual suing.

Dougherty v. Philip Morris Inc., et al., Case No. 1999 32074 CICI, Circuit Court, Florida, Volusia County (case filed 11/17/99). One individual suing.

Duecker v. Liggett Group Inc., Case No. 98-03093 CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 7/5/98). One individual suing. Liggett is the only defendant.

Eastman v. Brown & Williamson Tobacco Corp., et al., Case No. 01-98-1348, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 3/11/98). One individual suing.

Flaks, et al. v. Brown & Williamson, et al., Case No. 97-008750, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

Garretson, et al. v. R.J. Reynolds, et al., Case No. 97-32441 CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 10/22/96). One individual suing.

Goldberg, et al. v. Liggett Group Inc., et al., Case No. 97-008780, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

Grant, et al. v. Brown & Williamson Corporation, et al., Case No. 03-2673-Div. I, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

Gray, et al. v. The American tobacco Co., et al., Case No. 97-21657 CA 42, Circuit Court of the 11th Judicial Circuit, Florida, Putnam County (case filed 10/15/97). Two individuals suing.

Guarch, et al. v. Philip Morris Incorporated, et al., Case No. 02-3308 CA 22, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 2/5/02). Two individuals suing.

Halen v. R.J. Reynolds, et al., Case No. CL 96005308, Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 6/19/96). One individual suing.

Harris, et al. v. Brown & Williamson, et al., Case No. 97-1151, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). Two individuals suing.

Harris, Donald, et al. v. Brown & Williamson Corporation, et al., Case No. 02-8105, 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

Hart, et al. v. Brown & Williamson, et al., Case No. 9708781, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). One individual suing.

Hayes, et al. v. R.J. Reynolds, et al., Case No. 97-31007, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 6/30/97). Two individuals suing.

Henin v. Philip Morris, et al., Case No. 97-29320 CA 05, Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 12/26/97). One individual suing.

Henning. et al. v. Brown & Williamson, et al., Case No. 97-11159, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). Two individuals suing.

Hitchens, et al. v. Brown & Williamson, et al., Case No. 97008783, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97).

Jones, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 02-21922 CA 22, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 08/29/02). Two individuals suing.

Katz v. Brown & Williamson, et al., Case No. 95-15307-CA-01, USDC, Southern District of Florida (case filed 8/3/95). One individual suing. Plaintiff has dismissed all defendants except Liggett Group Inc.

Kaloustian v. Liggett Group Inc., et al., Case No. 95-5498, Circuit Court for the 13th Judicial Circuit, Florida, Hillsborough County (case filed 8/28/95). Two individuals suing.

Krueger, et al. v. Brown & Williamson, et al., Case No. 96-1692-CIV-T-24A, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

Lappin v. R.J. Reynolds, et al., Case No. 97-31371 CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 6/2/97). One individual suing.

Levine v. R.J. Reynolds, et al., Case No. CL 95-98769 (AH), Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 7/24/96). One individual suing.

Lobley v. Philip Morris, et al., Case No. 97-1033-CA-10-L, Circuit Court of the 18th Judicial Circuit, Florida, Seminole County (case filed 7/29/97). Two individuals suing.

Lukacs, John v. R. J. Reynolds Tobacco Company, et al., Circuit Court of the 11th Judicial Circuit Court, Florida, Miami-Dade County. One individual suing.

Lustig, et al. v. Brown & Williamson Tobacco Co., et al., Case No. 97 11168, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

Magaldi, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 02-2120 CA 11, Circuit court of the 11th Judicial Court, Florida, Miami-Dade County (case filed 8/21/02). Two individuals suing.

Magliarisi, et al. v. Brown & Williamson, et al., Case No. 97008895, Circuit Court of the 17 Judicial Circuit, Florida, Broward County (case filed 6/11/97). One individual suing.

Manley, et al. v. Liggett Group Inc., et al., Case No. 97-11173-27, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/3/98). Two individuals suing.

Martinez, et al. v. Liggett Group Inc., Case No. 02-20943-CA15, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 10/14/02). One individual suing. Liggett is the only defendant.

McBride, et al. v. Brown & Williamson, et al., Case No. 02-0585, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 6/4/02). One individual suing.

Meckler, et al. v. Brown & Williamson, et al., Case No. 97-03949-CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 7/10/97). One individual suing.

Mullin v. Philip Morris, et al., Case No. 95-15287 CA 15, Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 11/7/95). One individual suing.

O'Rourke v. Liggett Group Inc., et al., Case No. 97-31345-CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 6/2/97). One individual suing.

Perez, et al. v. Brown & Williamson, et al., Case No. 96-1721-CIV-T-24B, USDC, Middle District of Florida (case filed 8/20/96). One individual suing.

Phillips v. R.J. Reynolds, et al., Case No. 97-31278, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 5/27/97). One individual suing.

Pipolo v. Philip Morris, et al., Case No. 97-05448, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/10/97). Two individuals suing.

Pullara, Ruby M., et al. v. Liggett Group, Inc., et al., Case No. 01-1626-Div. C, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individuals suing. Consortium claim only.

Pullara, Estate of Ruby M., et al. v. Liggett Group, Inc., et al., Case No. 03-2653-Div. F, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individuals suing.

Rauch, et al. v. Brown & Williamson, et al., Case No. 97-11144, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). Two individuals suing.

Rawls, et al. v. Liggett Group Inc., et al., Case No. 97-01354 CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 3/6/97). One individual suing.

Rebane, et al. v. Brown & Williamson, et al., Case No. CI0-00-0000750, Circuit Court, Florida, Orange County, (case filed 2/1/00). Two individuals suing.

Rodriguez v. Philip Morris Incorporated, et al., Case No. 02-04912-CA-11, Circuit Court, Florida, Miami-Dade County. One individual suing.

Schultz v. Philip Morris Incorporated, et al., Case No. 99019898, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 11/24/99). One individual suing.

Schwartz, et al. v. Liggett Group Inc., et al., Case No. CA 030027078, Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 02/24/03). Two individuals suing. Liggett is the only defendant.

Shaw, et al. v. Brown & Williamson, et al., Case No. 97-008755, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

Sheehan v. Brown & Williamson Corporation, et al., Case No. 01-9559, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

Shirah, et al. v. Brown & Williamson Corporation, et al., Case No. 03-1589-Div. C, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individual suing.

Spotts v. R.J. Reynolds, et al., Case No. 97-31373 CICI, Circuit Court of the 4th Judicial Circuit, Florida, Volusia County (case filed 9/16/97). One individual suing.

Stafford v. Brown & Williamson, et al., Case No. 97-7732-CI-019, Circuit Court of the 6th Judicial Circuit, Florida, Pinellas County (case filed 11/14/97). One individual suing.

Stewart, et al. v. R.J. Reynolds, et al., Case No. 97 2025 CA, Circuit Court of the 5th Judicial Circuit, Florida, Lake County (case filed 9/16/97). Two individuals suing.

Strickland, et al. v. The American Tobacco Company, et al., Case No. 98-00764, Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 1/8/98). Two individuals suing.

Strohmetz v. Philip Morris, et al., Case No. 98-03787 CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 7/16/98). One individual suing.

Swank-Reich v. Brown & Williamson, et al., Case No. 97008782, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). One individual suing.

Thomson, Barry, v. R.J. Reynolds, et al., Case No. 97-400-CA, Circuit Court of the 7th Judicial Circuit, Florida, Flagler County (case filed 9/2/97). One individual suing.

Thomson, Eileen, et al. v. Brown & Williamson, et al., Case No. 97-11170, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

Ventura v. R.J. Reynolds Tobacco Co., et al., Case No. 97-27024 CA (09), Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 11/26/97). One individual suing.

Washington, et al. v. Philip Morris, et al., Case No. 97-10575 CIDL, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 9/16/97). Two individuals suing.

Wells v. R. J. Reynolds Tobacco Company, et al., Case No. 02 21340 CA 30, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 8/22/02). One individual suing.

Weiffenbach, et ux. v. Philip Morris, et al., Case No. 96-1690-CIV-T-24C, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

Wisch v. Liggett Group Inc., et al., Case No. 97-008759, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). One individual suing.



Brown-Jones v. The American Tobacco Co., et al., Case No. 98-RCCV-28, Superior Court of Georgia, Richmond County (case filed 1/13/98). Two individuals suing.

DeLuca v. Liggett & Myers, et al., Case No. 00L13792, Circuit Court, Cook County, Illinois (case filed 11/29/00). One individual suing.

Denberg, et al. v. American Brands, Inc., et al., Case No. 97L07963, USDC, Northern District of Illinois (case filed 8/13/97) (formerly Daley). Four individuals suing.

Gronberg, et al. v. Liggett & Myers, et al., Case No. LA-CV-080487, District Court, State of Iowa, Black Hawk County (case filed 3/30/98). Two individuals suing.

Kobold, et al. v. BAT Industries, et al., Case No. CL-77551, District Court, State of Iowa, Polk County (case filed 9/15/98). Two individuals suing.

Mahoney v. The American Tobacco Company, et al., Case No. LALA5187(S), District Court, Iowa, Lee County (case filed 4/13/01). One individual suing.

Mason v. American Brands, Inc., et al., Case No. CL7922, District Court, State of Iowa, Polk County (case filed 4/13/99). One individual suing.

Mitchell, et al. v. Liggett & Myers, et al., Case No. C00-3026, USDC, State of Iowa, Northern District (case filed 4/19/00). Two individuals suing.

Mitchell, Estate of Loren H. et al. v. Liggett & Myers, et al., Case No. C03-3025, USDC, State of Iowa, Northern District (case filed 3/18/03). Two individuals suing.

Welch, et al. v. The American Tobacco Company, et al., Case No. LA CV 017535, District Court, Iowa, Shelby County (case filed 10/16/2000). Two individuals suing.

Wright, et al. v. Brooke Group Limited, et al., Case No. LA CV 05867, District Court, State of Iowa, Cerro Gordo County (case filed 11/10/99). Two individuals suing.

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.

Dimm, et al. v. R.J. Reynolds, et al., Case No. 53919, 18th Judicial District Court, Parish of Iberville, Louisiana. Seven individuals suing.

Hunter, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002/18748m District Court, Parish of Orleans, Louisiana. (12/4/2002) Two Individuals suing.

Newsom, et al. v. R.J. Reynolds, et al., Case No. 105838, 16th Judicial District Court, Parish of St. Mary, Louisiana (case filed 5/17/00). Five individuals suing.

Oser v. The American Tobacco Co., et al., Case No. 97-9293, Civil District of the Judicial District Court, State of Louisiana, Orleans Parish (case filed 5/27/97). One individual suing.

Racca, et al. v. R. J. Reynolds, et al., Case No. 10-14999, 38th Judicial District Court, State of Louisiana, Cameron Parish (case filed 7/16/98). Eleven individuals suing.

Allen, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-92335504, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Arata, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-91184521, Circuit Court, Maryland, Baltimore City. Four individuals suing.

Bondura, et al. v. A C and S Inc., et al., Case No. 24-X-94-077502, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Cavey, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-98-093530, Circuit Court, Maryland, Baltimore City. Two individuals suing

Caravello, et al. v. A C and S Inc., et al., Case No. 24-X-95-15350, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Carnes, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-98-028535, Circuit Court, Maryland, Baltimore City. Two individuals suing

Cerro, et al., v. A C and S Inc., et al., Case No. 24-X-95-146536, Circuit Court, Maryland, Baltimore City. Four Individuals suing.

Chatham, et al. v. A C and S Inc., et al., Case No. 24-X-01-000780, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Christensen, et al. v. Philip Morris, Inc., et al., Case No. 24-C-01-003927, Circuit Court, Maryland, Baltimore City. One individual suing.

Dingus, et al. v. A C and S Inc., et al., Case No. 24-X-91290503, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Dolbow, et al. v. A C and S Inc., et al., Case No. 24-X-95146535, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Dreyer, et al. v. A C and S Inc., et al., Case No. 24-X-90-358501, Circuit Court, Maryland, Baltimore City (case filed 12/28/95). Two individuals suing.

Ercole, et al. v. A C and S Inc., et al., Case No. 24-X-97127510, Circuit Court, Maryland, Baltimore City (case filed 5/7/97). Three individuals suing.

Foster, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-95160532, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Fox, et al. v. A C and S Inc., et al., Case No. 24-X-96-239541, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Gerber, Ellen, et al. v. A C & S Inc., et al., Case No. 24-X-95-146532, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Gordon, et al. v. Porter-Hayden Company, et al., Case No. 24-X-9236510, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Heath, et al. v. A C and S Inc., et al., Case No. 24-X-01-001681, Circuit Court, Maryland, Baltimore City (case filed 10/24/01). Two individuals suing.

Hendricks, et al. v. A C and S Inc., et al., Case No. 24-X87294545, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Holmes, et al. v. A C and S Inc., et al., Case No. 24-X-90-264509, Circuit Court, Maryland, Baltimore City. One individual suing.

Hrica, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-94334514, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Huffman, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-90-358501, Circuit Court, Maryland, Baltimore City (6/18/90). Two individuals suing

Hunter, et al. v. Eagle Picher Industry, Inc., et al., Case No. 24-X-90274519, Circuit Court, Maryland, Baltimore City (case filed 2/27/98). Two individuals suing.

Ingram, et al. v. B. F. Goodrich Company, et al., Case No. 24-X-01-002030, Circuit Court, Maryland, Baltimore City (case filed 12/10/01). Two individuals suing.

Johnson, et al. v. A C and S Inc., et al., Case No. 24-X-95146511, Circuit Court, Maryland, Baltimore City (case filed 1/6/97). Two individuals suing.

Jones, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-95146513, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Jordon, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X95-055503, Circuit Court, Maryland, Baltimore City. Three individuals suing.

Kelly, et al. v. A C and S Inc., et al., Case No. 24-X-95265505, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Knowles, et al. v. A C and S Inc., et al., Case No. 24-X-98-072534, Circuit Court, Maryland, Baltimore City. ( case filed 3/13/98) Two individuals suing.

Lingham, et al. v. A C and S Inc., et al., Case No. 24-X-90-250514, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Loschiavo, et al. v. Owens Corning Fiberglass, et al., case No. 24-X-96-355503, Circuit Court, Maryland, Baltimore City (case files 12/20/96). Two individuals suing.

Mayes, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 94028509, Circuit Court, Maryland, Baltimore City (case filed 10/18/01). Two individuals suing.

McCormack, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-90-358501, Circuit Court, Maryland, Baltimore City (case filed 8/1/90). Two individuals suing.

McMillion v. A C and S Inc., et al., Case No. 24-X-96-239526, Circuit Court, Maryland, Baltimore City (case filed 8/26/96). One individual suing.

Perouty, et al. v. A C and S Inc., et al., Case No. 24-X-96-289542, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Polling, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-95-146550, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Purdy, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-95153533, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Przywara, et al., v. A C and S Inc., et al., Case No. 24-X-97339519, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Robinson, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-97-010506, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Ruscito, et al. v. A C and S Inc., et al., Case No. 24-X-89258530, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Ryan, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-97-045529, Circuit Court, Maryland, Baltimore City. One individuals suing.

Sassler, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X96341506, Circuit Court, Maryland, Baltimore City. Three individuals suing.

Schaffer, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-95146529, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Scott, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-90-358501, Circuit Court, Maryland, Baltimore City (case filed 10/2/95). Two individuals suing.

Seawell, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-95-349515, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Silbersack, et al. v. A C and S Inc., et al., Case No. 24-X-97083510, Circuit Court, Maryland, Baltimore City (case filed 3/24/96). Three individuals suing.

Stover, et al. v. A C and S Inc., et al., Case No. 24-X-95167503, Circuit Court, Maryland, Baltimore City. Three individuals suing.

Thames, et al. v. A C and S Inc., et al., Case No. 24-X94-325506, Circuit Court, Maryland, Baltimore City (case filed 11/21/94). Two individuals suing.

Thompson, et al. v. A C and S Inc., et al., Case No. 24-X-94-308507, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Walton, et al. v. Owens Corning Corporation, et al., Case No. 24-X-94028508, Circuit Court, Maryland, Baltimore City. Two individuals suing.

Wilson, et al. v. A C and S Inc., et al., Case No. 24-X-95146533, Circuit Court, Maryland, Baltimore City (case filed 5/26/95). Three individuals suing.

Williams, et al. v. A C and S Inc., et al., Case No. 24-X-99-000113, Circuit Court, Maryland, Baltimore City (case filed 1/20/99). Two individuals suing.

Van Daniker, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 97139541CX835, Circuit Court, Maryland, Baltimore City (case filed 10/26/01). One individual suing.

Young, et al. v. Owens Corning Fiberglass Corporation, et al., Case No. 24-X-97-139547, Circuit Court, Maryland, Baltimore City (case filed 5/19/97). Two individuals suing.

Znovena, et al. v. AC and S Inc., et al., Case No. 24-X-97240553CX1848, Circuit Court, Maryland, Baltimore City (case filed 8/24/98). Two individuals suing.

Adams, Estate of Phyllis, et al. v. R. J. Reynolds, et al., Case No. 00-2636, Superior Court, Middlesex County, Massachusetts. Two individuals suing.

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.

Monty v. Harvard Pilgrim Health Care, et al., Demand Letter. Superior Court, Massachusetts.

Nysko, et al. v. R. J. Reynolds Tobacco Company, et al., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. Three individual suing.

Piscione v. R. J. Reynolds Tobacco Company, et al., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. One individual suing.

Serrano, Pablo, et al. v. Philip Morris Inc., et al., Case o. 99-11921-AP, United States District Court, Massachusetts.

Satchell v. The Tobacco Institute, Inc., et al., Demand Letter. Superior Court, Massachusetts.

Anderson, Harvey, L., et al. v. R. J. Reynolds, et al., Case No. 2002-309, Chancery Court, Mississippi, Adams County (case filed 4/25/02). Two individuals suing.

Banks, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2000-136, Circuit Court, Mississippi, Jefferson County (case filed 12/22/2000). Six individuals suing.

Barker, Pearl, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2001-64, Circuit Court, Mississippi, Jefferson County (case filed 3/30/01). Three individuals suing.

Bell, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2001-271, Chancery Court, Mississippi, Jefferson County (case filed 12/18/01). Six individuals suing.

Blythe v. Rapid American Corporation, et al., Case No. CI 96-0080-AS, Circuit Court, Mississippi, Jackson County (case filed 9/23/96). One individual suing.

Brown, Glayson, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 2001-0022(1) Circuit Court, Mississippi, George County (case filed 3/30/01). Two Hundred Twenty-Four (223) individuals suing.

Chambliss, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2001-273, Circuit Court, Mississippi, George County (case filed 12/21/01). Four individuals suing.

Cochran, et al. v. R. J. Reynolds, et al., Case No. 2002-0366(3), Circuit Court, Mississippi, George County (case filed 12/31/02). One individual suing.

Colenberg, et al. v. R. J. Reynolds, et al., Case No. 200-169, Circuit Court, Mississippi, Jefferson County (case filed 10/18/00). Twenty-eight individuals suing.

Cook, et al. v. Philip Morris Incorporated, et al., Case No. 2001-166, Chancery Court, Mississippi, Claiborne County (case filed 10/01/01). Two individuals suing.

Estate of Ed Doss, et al. v. R. J. Reynolds, et al., Case No. 99-0108, Circuit Court, State of Mississippi, Jefferson County (case filed 8/17/99). Nine individuals suing. Liggett has not been served.

Gales, et al. v. R. J. Reynolds, et al., Case No. 2000-170, Circuit Court, Mississippi, Jefferson County (case filed 9/18/00). Seven individuals suing.

Glass, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-338, Circuit Court, Mississippi, Jefferson County (case filed 12/20/02). Seven individuals suing.

Goss, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-308, Chancery Court, Mississippi, Adams County (case filed 4/25/02). Three individuals suing.

Holmes, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-424, Chancery Court, Mississippi, Copiah County (case filed 9/11/02). Five individuals suing.

Harried, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-041, Chancery Court, Mississippi, Jefferson County (case filed 03/01/02). Two individuals suing.

Hess, et al. v. British American Tobacco Company, et al., Case No. 01-0124, Circuit Court, Mississippi, Wilkerson County (case filed 11/27/01). One individual suing.

Hill, et al. v. Philip Morris Incorporated, et al., Case No. 2001-163, Chancery Court, Mississippi, Claiborne County (case filed 9/27/01). Two individuals suing.

Jennings, et al. v. R. J. Reynolds, et al., Case No. 2000-238, Circuit Court, Mississippi, Claiborne County (case filed 11/2/00). Fourteen individuals suing.

Lane, et al. v. R. J. Reynolds, et al., Case No. CI 00-00239, Circuit Court, Mississippi, Forrest County (case filed 2/6/01). Six individuals suing.

McDougel, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-040, Chancery Court, Mississippi, Jefferson County (case filed 03/01/02). Three individuals suing.

McGee, et al. v. Philip Morris Incorporated, et al., Case No. 2000-596, Circuit Court, Mississippi, Jefferson County (case filed 11/16/00). Nineteen individuals suing.

Mitchell, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-392, Chancery Court, Mississippi, Adams County (case filed 05/28/02). Three individuals suing.

Murphy, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-390, Chancery Court, Mississippi, Adams County (case filed 05/28/02). Three individuals suing.

Pilgram, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. G2002-2374W/4, Chancery Court, Mississippi, Hinds County (case filed 12/30/02). Eighteen individuals suing.

Smith, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-391, Chancery Court, Mississippi, Adams County (case filed 05/28/02). Three individuals suing.

Starks, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-071, Chancery Court, Mississippi, Jefferson County (case filed 04/25/02). Three individuals suing.

Walters, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-845, Chancery Court, Mississippi, Adams County (case filed 12/31/02). Thirteen individuals suing.

Wilson, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 2002-208, Chancery Court, Mississippi, Adams County (case filed 03/15/02). Four Individuals suing.

Bayro, et al. v. Philip Morris, Inc., et al., Circuit Court, Missouri, Jackson County. Three individuals suing. Liggett has not yet been served with the complaint.

Beckman v. Brown & Williamson Tobacco Corporation, et al., Case No. 02 CV228047, Circuit Court, Missouri, Jackson County (case filed 10/9/02). One individual.

Davis, et al. v. American Tobacco Company, et al., Case No. 2:00-CV-26-CEJ, USDC, Missouri, Eastern District (case filed 9/25/00). Two individuals suing.

Armendariz v. Philip Morris, et al., Case No. 999/862, District Court, Nebraska, Douglas County (case filed 11/17/00). One individual suing.

Mumin v. Philip Morris, et al., Doc. 1000 No. 46, District Court, Nebraska, Douglas County (case filed 11/27/00). One individual suing.

Howard, et al. v. Philip Morris, Inc., et al., Superior Court, New Hampshire, Merrimack County. Two individuals suing.

French, et al. v. Philip Morris, et al., Superior Court, New Hampshire, Merrimack County. Two individuals suing.

Longden v. Philip Morris Inc., et al., Case No. 99-C-856, Hillsborough County Superior Court, New Hampshire. One individual suing.

Haines, Susan v. Liggett Group Inc., et al., Case No. C 6568-96B, USDC, District of New Jersey (case filed 2/2/94). One individual suing.



Klein, et al. v. The American Tobacco Company, et al., Case No. L-7798-00, Superior Court, Middlesex, New Jersey (case filed 9/21/00). Two individuals suing.

Mueller v. Philip Morris Incorporated, et al., Case No. L-8417-01, Superior Court, Middlesex, New Jersey (case Filed 9/5/01). One individual suing.

Alvarez v. The American Tobacco Company, et al., Case No. 102872/02, Supreme Court of New York, New York County. Individual suing.

Brantley v. The American Tobacco Company, et al., Case No. 114317/01, Supreme Court of New York, New York County. Individual suing.

Brand, et al. v. Philip Morris Inc., et al., Case No. 29017/98, Supreme Court of New York, Kings County (case filed 12/21/98). Two individuals suing.

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.

Caplan v. The American Tobacco Company, et al., Case No. 103035/02, Supreme Court of New York, New York County. Individual suing.

Crescenzo v. The American Tobacco Company, et al., Case No. 102817/02, Supreme Court of New York, New York County. Individual suing.

Cresser, et al. v. The American Tobacco Co., et al., Case No. 36009/96, Supreme Court of New York, Kings County (case filed 10/4/96). Two individuals suing.

Davey v. The American Tobacco Company, et al., Case No. 102816/02, Supreme Court of New York, New York County. Individual suing.

Debobes v. The American Tobacco Company, et al., Case No. 29544/92, Supreme Court of New York, Nassau County. One Individual suing.

Dougherty, et al. v. The American Tobacco Co., et al., Case No. 97-09768, Supreme Court of New York, Suffolk County (case filed 4/18/97). Two individuals suing.

Evans, et al. v. The American Tobacco Co., et al., Case No. 28926/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

Frankson, et al. v. The American Tobacco Company, et al., Case No. 24915/00, Supreme Court, New York, Kings County. Four individuals suing.

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.

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.

Hausrath, et al. v. Philip Morris Inc., et al, Case No. I2001-09526, Superior Court, New York, Erie County (case filed 01/24/02). Two individuals suing.

Hellen, et al. v. The American Tobacco Co., et al., Case No. 28927/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

Hobart v. The American Tobacco Company, et al., Case No. 102869/02, Supreme Court of New York, New York County. Individual suing.

Hochman v. The American Tobacco Company, et al., Case No. 102860/02, Supreme Court of New York, New York County. Individual suing.

James v. The American Tobacco Company, et al., Case No. 103034/02, Supreme Court of New York, New York County. Individual suing.

Kenny, et al. v. Philip Morris USA, et al., Case No. 111486/01, Supreme Court, New York, New York County. Two individuals suing.

Kristich, et al. v. The American Tobacco Co., et al., Case No. 96-29078, Supreme Court of New York, Suffolk County (case filed 10/12/97). Two individuals suing.

Krochtengel v. The American Tobacco Co., et al., Case No. 24663/98, Supreme Court of New York, Kings County (case filed 7/15/98). One individual suing.

Labriola, 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.

Leibstein, et al. v. The American Tobacco Co., et al., Case No. 97-019145, Supreme Court of New York, Nassau County (case filed 7/25/97). Six individuals suing.

Leiderman, et al. v. The American Tobacco Co., et al., Case No. 22691/97, Supreme Court of New York, Kings County (case filed 7/23/97). Three individuals suing.

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.

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.

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.

Lopardo, et al. v. The American Tobacco Co., et al., Case No. 027182/97, Supreme Court of New York, Nassau County (case filed 10/27/97). Six individuals suing.

Lucca, et al. v. The American Tobacco Co., et al., Case No. 3583/97, Supreme Court of New York, Kings County (case filed 1/27/97). Two individuals suing.

Maio v. The American Tobacco Company, et al., Case No. 102867/02, Supreme Court of New York, New York County. Individual suing.

Mariani v. The American Tobacco Company, et al., Case No. 102789/02, Supreme Court of New York, New York County. Individual suing.

Maisonet, et al. v. The American Tobacco Co., et al., Case No. 17289/97, Supreme Court of New York, Kings County (case filed 5/20/97). Three individuals suing.

McCormack v. The American Tobacco Company, et al., Case No. 102864/02, Supreme Court of New York, New York County. Individual suing.

Mednick, et al. v. The American Tobacco Co., et al., Case No. 29140/1997, Supreme Court of New York, Kings County (case filed 9/19/97). Eight individuals suing.

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.

Oberst v. The American Tobacco Company, et al., Case No. 108428/98, Supreme Court of New York, New York County. Individual suing.

Pintabona v. The American Tobacco Company, et al., Case No. 102877/02, Supreme Court of New York, New York County. Individual suing.

Priest v. The American Tobacco Company, et al., Case No. 102812/02, Supreme Court of New York, New York County. Individual suing.

Reitano, et al. v. The American Tobacco Co., et al., Case No. 28930/96, Supreme Court of New York, Kings County (case filed 8/22/96). One individual suing.

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.

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.

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.

Shea, et al. v. The American Tobacco Company, et al., Case No. 102863/02, Supreme Court of New York, New York County. Two individuals suing.

Silverman, et al. v. Lorillard Tobacco Company. et al., Case No. 11328/99, Supreme Court of New York, Kings County (case filed 7/9/99) Five individuals suing.

Smith, et al. v. The American Tobacco Co., et al., Case No. 020525/97, Supreme Court of New York, Queens County (case filed 9/19/97). Eight individuals suing.

Sprung, et al. v. The American Tobacco Co., et al., Case No. 16654/97, Supreme Court of New York, Kings County (case filed 5/14/97). Ten individuals suing.

Standish, et al. v. The American Tobacco Co., et al., Case No. 18418-97, Supreme Court of New York, Bronx County (case filed 7/28/97). Individuals suing.

Valentin, et al. v. Fortune Brands, Inc., et al., Case No. 019539/97, Supreme Court of New York, Queens County (case filed 9/16/97). Seven individuals suing.

Walgren v. The American Tobacco Company, et al., Case No. 102814/02, Supreme Court of New York, New York County. Individual suing.

Yuen v. The American Tobacco Company, et al., Case No. 102861/02, Supreme Court of New York, New York County. Individual suing.

Zimmerman, et al. v. The American Tobacco Co., et al., Supreme Court of New York, Queens County (case filed 1997).

Zuzalski, et al. v. Brown & Williamson, et al., Case No. 001378/97, Supreme Court of New York, Queens County (case filed 4/3/97). Seven individuals suing.

Wilson, et al. v. Liggett & Myers, et al., USDC, Middle District Court, North Carolina. One individual suing.

Cotner v. Philip Morris, Inc., et al., Case No. CS-2000-157, District Court, Adair County, Oklahoma. One individual suing.

Tompkin, et al. v. American Brands, et al., Case No. 5:94 CV 1302, USDC, Northern District of Ohio (case filed 7/25/94). One individual suing. Notice of Appeal.

Buscemi v. Brown & Williamson, et al., Case No. 002007, Court of Common Pleas, Pennsylvania, Philadelphia County (case filed 9/21/99). Two individuals suing.

Ayala, The Estate of, et al. v. Philip Morris Inc., et al., Case No. 02-2175(VJ/PG), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Five individuals suing.

Cruz, et al. v. Philip Morris Inc., et al., Case No. 02-2507(RLA), USDC, District of Puerto Rico, Puerto Rico (case filed 10/7/02). Twenty-three individuals suing.

Lopez, The Estate of, et al. v. Philip Morris Inc., et al., Case No. 02-2173(RLA), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Nine individuals suing.

Martinez, The Estate of, et al. v. Philip Morris Inc., et al., Case No. 02-2171 (HL), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Six individuals suing.

Reyes, The Estate of, et al. v. Philip Morris Inc., et al., Case No. 02-2174(SEC), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Ten individuals suing.

Velez, The Estate of, et al. v. Philip Morris Inc., et al., Case No. 02-2172(JAG), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Twelve individuals suing.

Brown v. Brown & Williamson Tobacco Corp., et al., Case No. 98-5447, Superior Court, Rhode Island (case filed 10/30/98). One individual suing.

Nicolo v. Philip Morris, et al., Case No. 96-528 B, USDC, Rhode Island (case filed 9/24/96). One individual suing.

Temple v. Philip Morris Tobacco Corp., et al. Case No. 3:00-0126, USDC, Middle District, Tennessee. One individual suing.

Adams v. Brown & Williamson, et al., Case No. 96-17502, District Court of the 164th Judicial District, Texas, Harris County (case filed 4/30/96). One individual suing.

Colunga v. American Brands, Inc., et al., Case No. C-97-265, USDC, Texas, Southern District (case filed 4/17/97). One individual suing.

Hale, et al. v. American Brands, Inc., et al., Case No. C-6568-96B, District Court of the 93rd Judicial District, Texas, Hidalgo County (case filed 1/30/97). One individual suing.

Hamilton, et al. v. BGLS, Inc., et al., Case No. C 70609 6 D, USDC, Texas, Southern District (case filed 2/26/97). Five individuals suing.

Hodges, et vir v. Liggett Group, Inc., et al., Case No. 8000\*JG99, District Court of the 239th Judicial District, Texas, Brazoria County (case filed 5/5/99). Two individuals suing.

Jackson, Hazel, et al. v. Philip Morris, Inc., et al., Case No. G-01-071, USDC, Texas, Southern District (case filed 2/7/2001). Five individuals suing.

Luna v. American Brands, et al., Case No. 96-5654-H, USDC, Texas, Southern District (case filed 2/18/97). One individual suing.

McLean, et al. v. Philip Morris, et al., Case No. 2-96-CV-167, USDC, Texas, Eastern District (case filed 8/30/96). Three individuals suing.

Mireles v. American Brands, Inc., et al., Case No. 966143A, District Court of the 28th Judicial District, Texas, Nueces County (case filed 2/14/97). One individual suing.

Misell, et al. v. American Brands, et al., Case No. 96-6287-H, District Court of the 347th Judicial District, Texas, Nueces County (case filed 1/3/97). Four individuals suing.

Ramirez v. American Brands, Inc., et al., Case No. M-97-050, USDC, Texas, Southern District (case filed 12/23/96). One individual suing.

Thompson, et al. v. Brown & Williamson, et al., Case No. 97-2981-D, District Court of the 105th Judicial District, Texas, Nueces County (case filed 12/15/97). Two individuals suing.

Bowden, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 98-0068-L, USDC, Virginia, Western District (case filed 1/6/99).

Vaughan v. Mark L. Earley, et al., Case No. 760 CH 99 K 00011-00, Circuit Court, Virginia, Richmond (case filed 1/8/99). One individual suing.

Brewer, et al. v. The American Tobacco Company, et al., Case No. 01-C-82, Circuit Court, West Virginia, Ohio County. Two individuals suing.

In Re Tobacco PI (5000), Case NO. 00-C-5000, Circuit Court, West Virginia, Ohio County. Consolidating approximately 1260 individual smoker actions which were pending prior to 2001. See Note 8, Contingencies, for a more detailed discussion of this case.

Little, W. v. The American Tobacco Company, et al., Case No. 01-C-235, Circuit Court, West Virginia, Ohio County (case filed 6/4/01). One individual suing.

Floyd v. State of Wisconsin, et al., Case No. 99 CV 001125, Circuit Court, Wisconsin, Milwaukee County (case filed 2/10/99). One individual suing.

## VI. PRICE FIXING CASES

Gray, et al. v. Philip Morris Companies, Inc., et al., Case No. C2000 0781, Superior Court, Pima County, Arizona (case filed 2/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Arizona.

Greer, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 309826, Superior Court, San Francisco, California (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Morse v. R. J. Reynolds Tobacco Company, et al., Case No. 822825-9, Superior Court, Alameda County, California (case filed 2/14/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Munoz, et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 309834, Superior Court, San Francisco City and County, California (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Peirona, et al. v. Philip Morris Companies, Inc., et al., Case No. 310283, Superior Court, San Francisco City and County, California (case filed 2/28/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Teitler v. R. J. Reynolds Tobacco Company, et al., Case No. 823161-9, Superior Court, County of Alameda, California (case filed 2/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Sullivan v. R. J. Reynolds Tobacco Company, et al., Case No. 823162-8, Superior Court, County of Alameda, California (case filed 2/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Ulan v. R. J. Reynolds Tobacco Company, et al., Case No. 823160-0, Superior Court, County of Alameda, California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Sand v. Philip Morris Companies, Inc., et al., Case No. BC225580, Superior Court, County of Los Angeles, California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Belmonte v. R. J. Reynolds Tobacco Company, et al., Case No. 825112-1, Superior Court, County of Alameda, California (case filed 4/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Belch v. R. J. Reynolds Tobacco Company, et al., Case No. 825115-8, Superior Court, County of Alameda, California (case filed 4/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Aguayo v. R. J. Reynolds Tobacco Company, et al., Case No. 826420-8, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Phillips v. R. J. Reynolds Tobacco Company, et al., Case No. 826421-7, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Campe v. R. J. Reynolds Tobacco Company, et al., Case No. 826425-3, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Barnes, et al. v. Philip Morris Companies, Inc., et al., Case No. 00-0003678, Superior Court, District of Columbia (case filed 5/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the District of Columbia.

Brownstein v. Philip Morris Companies, Inc., et al., Case No. 00002212, Circuit Court, Broward County, Florida (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the Florida.



Smith, et al. v. Philip Morris Companies, Inc., et al., Case No. 00-CV-26, District Court, Kansas, Seward County (case filed 2/7/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Kansas. In November 2001, the court granted plaintiff's motion for class certification, and trial is scheduled to begin in October 2003. See Note 8, Contingencies, for a more detailed discussion of this case.

Taylor, et al. v. Philip Morris Companies, Inc., et al., Case No. CV-00-203, Superior Court, Maine (case filed 3/27/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Maine.

Del Serrone, et al. v. Philip Morris Companies, Inc., Case No. 00-004035 CZ, Circuit Court, Wayne County, Michigan (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Michigan.

Ludke, et al. v. Philip Morris Companies, Inc., et al., Case No. MC 00-001954, District Court, Hennepin County, Minnesota (case filed 2/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Minnesota.

Unruh, et al. v. R. J. Reynolds Tobacco Co., Case No. CV00-2674, District Court, Washoe County, Nevada (case filed 6/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Nevada.

Romero, et al. v. Philip Morris Companies, Inc. et al., Case No. D0117 CV-0000972, District Court, Rio Arriba County, New Mexico (case filed 4/10/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New Mexico.

Neirman, et al. v. Philip Morris Companies, Inc., et al., Index No. 00/102396, Supreme Court of New York, New York County, New York (case filed 3/6/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

Shafer, et al. v. Philip Morris Companies, Inc., et al., Case No. 00-C-1231, District Court, Morton County, North Dakota (case filed 4/18/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of North Dakota.

Saylor, et al. v. Philip Morris Companies, et al., Case No. 7607, Chancery Court, Tennessee, Washington County (case filed 8/15/2001). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Tennessee.

Cusatis v, Philip Morris Companies, Inc., et al., Case No. 00CV003676, Circuit Court, Milwaukee County, Wisconsin (case filed 5/5/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Wisconsin.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bennett S. LeBow, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2003

/s/ BENNETT S. LEBOW

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Bennett S. LeBow  
Chairman and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joselynn D. Van Siclen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2003

/s/ JOSELYNN D. VAN SICLEN

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Joselynn D. Van Siclen  
Vice President and Chief Financial Officer