

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

JOINT QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

1-5759
Commission File Number

51-0255124
(I.R.S. Employer Identification No.)

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

33-93576
Commission File Number

13-3593483
(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 Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes No

At May 14, 1999 Brooke Group Ltd. had 20,943,730 shares of common stock outstanding, and BGLS Inc. had 100 shares of common stock outstanding, all of which are held by Brooke Group Ltd.

BROOKE GROUP LTD.
BGLS INC.

FORM 10-Q

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Brooke Group Ltd./BGLS Inc. Consolidated Financial Statements:	
Brooke Group Ltd. Consolidated Balance Sheets as of March 31, 1999 and December 31, 1998.....	2
BGLS Inc. Consolidated Balance Sheets as of March 31, 1999 and December 31, 1998.....	3
Brooke Group Ltd. Consolidated Statements of Operations for the three months ended March 31, 1999 and March 31, 1998.....	4
BGLS Inc. Consolidated Statements of Operations for the three months ended March 31, 1999 and March 31, 1998.....	5
Brooke Group Ltd. Consolidated Statement of Stockholders' Equity (Deficit) for the three months ended March 31, 1999.....	6
BGLS Inc. Consolidated Statement of Stockholder's Equity (Deficit) for the three months ended March 31, 1999.....	7
Brooke Group Ltd. Consolidated Statements of Cash Flows for the three months ended March 31, 1999 and March 31, 1998.....	8
BGLS Inc. Consolidated Statements of Cash Flows for the three months ended March 31, 1999 and March 31, 1998.....	9
Notes to Consolidated Financial Statements.....	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	32
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	42
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings.....	43
Item 2. Changes in Securities and Use of Proceeds.....	43
Item 3. Defaults Upon Senior Securities.....	43
Item 6. Exhibits and Reports on Form 8-K.....	43
SIGNATURES.....	45

Item 1. Consolidated Financial Statements

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

	March 31, 1999	December 31, 1998

ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 5,519	\$ 7,396
Accounts receivable - trade	17,920	15,160
Other receivables	979	924
Inventories	42,740	36,316
Deferred income taxes	54,328	59,613
Other current assets	4,756	3,151
	-----	-----
Total current assets	126,242	122,560
Property, plant and equipment, at cost, less accumulated depreciation of \$35,427 and \$33,856	108,919	93,504
Intangible assets, at cost, less accumulated amortization of \$21,555 and \$21,551	167	171
Other assets	13,017	12,747
	-----	-----
Total assets	\$ 248,345	\$ 228,982
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 29,077	\$ 21,176
Accounts payable	13,552	13,880
Cash overdraft	43	77
Accrued promotional expenses	22,117	23,760
Accrued taxes payable	12,420	14,854
Accrued interest	7,737	17,189
Proceeds received for options	150,000	150,000
Other accrued liabilities	32,296	32,505
	-----	-----
Total current liabilities	267,242	273,441
Notes payable, long-term debt and other obligations, less current portion	280,410	262,665
Noncurrent employee benefits	20,383	21,701
Other liabilities	60,361	65,350
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred Stock, par value \$1.00 per share, authorized 10,000,000 shares		
Series G Preferred Stock, 2,184,834 shares, convertible, participating, cumulative, each share convertible to 1,000 shares of common stock and cash or stock distribution, liquidation preference of \$1.00 per share		
Common stock, par value \$0.10 per share, authorized 100,000,000 and 40,000,000 shares, issued 26,498,043 shares, outstanding 20,943,730 shares	2,094	2,094
Additional paid-in capital	123,041	124,120
Deficit	(503,379)	(512,182)
Accumulated other comprehensive income	30,694	24,774
Other	(5,028)	(5,508)
Less: 5,554,313 shares of common stock in treasury, at cost	(27,473)	(27,473)
	-----	-----
Total stockholders' equity (deficit)	(380,051)	(394,175)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 248,345	\$ 228,982
	=====	=====

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

Item 1. Consolidated Financial Statements - (Continued)

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

	March 31 1999	December 31, 1998
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 5,519	\$ 7,396
Accounts receivable - trade	17,920	15,160
Other receivables	824	755
Inventories	42,740	36,316
Deferred income taxes	54,328	59,613
Other current assets	4,681	2,946
	-----	-----
Total current assets	\$ 126,012	122,186
Property, plant and equipment, at cost, less accumulated depreciation of \$35,421 and \$33,852	108,899	93,481
Intangible assets, at cost, less accumulated amortization of \$21,555 and \$21,551	167	171
Other assets	11,878	11,558
	-----	-----
Total assets	\$ 246,956	\$ 227,396
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT):		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 29,037	\$ 20,955
Accounts payable	13,427	13,746
Cash overdraft	43	63
Due to parent	32,560	32,394
Accrued promotional expenses	22,117	23,760
Accrued taxes payable	12,420	14,854
Accrued interest	7,737	17,188
Proceeds received from options	150,000	150,000
Other accrued liabilities	31,211	31,556
	-----	-----
Total current liabilities	298,552	304,516
Notes payable, long-term debt and other obligations, less current portion	280,410	262,665
Noncurrent employee benefits	20,383	21,701
Other liabilities	62,768	69,216
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value \$0.01 per share; 100 shares authorized, issued and outstanding	69,789	69,297
Additional paid-in capital	(515,640)	(524,773)
Deficit	30,694	24,774
Accumulated other comprehensive income	-----	-----
Total stockholder's equity (deficit)	(415,157)	(430,702)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 246,956	\$ 227,396
	=====	=====

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Three Months Ended	
	March 31, 1999	March 31, 1998
Revenues*	\$ 108,409	\$ 84,803
Cost of goods sold*	41,427	41,656
Gross profit	66,982	43,147
Operating, selling, administrative and general expenses	44,837	35,604
Operating income	22,145	7,543
Other income (expenses):		
Interest income	60	65
Interest expense	(14,988)	(20,786)
Equity in loss of affiliate	(7,629)	(4,187)
Recognition of deferred gain on sale of assets	7,050	
Foreign currency gain	2,270	79
Other, net	375	852
Income (loss) from continuing operations before income taxes	9,283	(16,434)
Provision for income taxes	1,729	931
Income (loss) from continuing operations	7,554	(17,365)
Gain on discontinued operations in equity investee	1,249	
Net income (loss)	\$ 8,803	\$ (17,365)
Net income (loss) applicable to common shares	\$ 8,803	\$ (17,365)
Per basic common share:		
Income (loss) from continuing operations	\$ 0.36	\$ (0.89)
Income from discontinued operations	\$ 0.06	
Net income (loss) applicable to common shares	\$ 0.42	\$ (0.89)
Basic weighted average common shares outstanding	20,943,730	19,465,056
Per diluted common share:		
Income (loss) from continuing operations	\$ 0.29	\$ (0.89)
Income from discontinued operations	\$ 0.05	
Net income (loss) applicable to common shares	\$ 0.34	\$ (0.89)
Diluted weighted average common shares outstanding	26,020,356	19,465,056

* Revenues and Cost of goods sold include federal excise taxes of \$14,038 and \$17,918 for the three months ended March 31, 1999 and 1998, respectively.

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Three Months Ended	
	March 31, 1999	March 31, 1998
Revenues*	\$ 108,409	\$ 84,803
Cost of goods sold*	41,427	41,656
	-----	-----
Gross profit	66,982	43,147
Operating, selling, administrative and general expenses	44,435	35,371
	-----	-----
Operating income	22,547	7,776
Other income (expenses):		
Interest income	60	56
Interest expense	(16,244)	(21,824)
Equity in loss of affiliate	(7,629)	(4,187)
Recognition of deferred gain on sale of assets	8,264	
Foreign currency gain	2,270	79
Other, net	345	849
	-----	-----
Income (loss) from continuing operations before income taxes	9,613	(17,251)
Provision for income taxes	1,729	931
	-----	-----
Income (loss) from continuing operations	7,884	(18,182)
	-----	-----
Gain on discontinued operations of equity investee	1,249	
	-----	-----
Net income (loss)	\$ 9,133	\$ (18,182)
	=====	=====

*Revenues and Cost of goods sold include federal excise taxes of \$14,038 and \$17,918 for the three months ended March 31, 1999 and 1998, respectively.

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Common Stock		Additional Paid-In Capital	Deficit	Treasury Stock	Other	Accumulated Other Comprehensive Income	Total
	Shares	Amount						
Balance, December 31, 1998.....	20,943,730	\$2,094	\$124,120	\$(512,182)	\$(27,473)	\$(5,508)	\$24,774	\$(394,175)
Net income.....				8,803				8,803
Unrealized holding gain on investment in New Valley.....							8,159	8,159
Effect of New Valley capital transactions.....							(2,239)	(2,239)
Total other comprehensive income.....								5,920
Total comprehensive income.....								14,723
Distributions on common stock.....			(1,534)					(1,534)
Amortization of deferred compensation.....			455			480		935
Balance, March 31, 1999.....	20,943,730	\$2,094	\$123,041	\$(503,379)	\$(27,473)	\$(5,028)	\$30,694	\$ (380,051)

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Common Stock		Additional Paid-In Capital	Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance, December 31, 1998.....	100	\$	\$69,297	\$(524,773)	\$24,774	\$(430,702)
Net income.....				9,133		9,133
Unrealized holding gain on investment in New Valley.....					8,159	8,159
Effect of New Valley capital transactions.....					(2,239)	(2,239)
Total other comprehensive income.....						5,920
Total comprehensive income.....						15,053
Amortization of deferred compensation.....			492			492
Balance, March 31, 1999.....	100	\$	\$69,789	\$(515,640)	\$30,694	\$(415,157)

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Three Months Ended	
	March 31, 1999	March 31, 1998
Net cash provided by (used in) operating activities	\$ 2,571	\$(25,984)
Cash flows from investing activities:		
Proceeds from sale of business and assets	36	1,217
Capital expenditures	(19,617)	(395)
Net cash (used in) provided by investing activities	(19,581)	822
Cash flows from financing activities:		
Proceeds from debt	4,500	
Repayments of debt	(323)	(102)
Borrowings under revolver	83,986	63,961
Repayments on revolver	(71,319)	(58,799)
Decrease in cash overdraft	(34)	(45)
Distributions on common stock	(1,358)	(900)
Proceeds from participating loan		11,000
Issuance of common stock		9,796
Net cash provided by financing activities	15,452	24,911
Effect of exchange rate changes on cash and cash equivalents	(319)	79
Net decrease in cash and cash equivalents	(1,877)	(172)
Cash and cash equivalents, beginning of period	7,396	4,749
Cash and cash equivalents, end of period	\$ 5,519	\$ 4,577
	=====	=====

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Three Months Ended	
	March 31, 1999	March 31, 1998
Net cash provided by (used in) operating activities	\$ 1,019	\$(17,218)
Cash flows from investing activities:		
Proceeds from sale of business and assets	36	1,217
Capital expenditures	(19,617)	(395)
Net cash (used in) provided by investing activities	(19,581)	822
Cash flows from financing activities:		
Proceeds from debt	4,500	
Repayments of debt	(143)	(102)
Borrowings under revolver	83,986	63,961
Repayments on revolver	(71,319)	(58,799)
Decrease (increase) in cash overdraft	(20)	47
Proceeds from participating loan		11,000
Net cash provided by financing activities	17,004	16,107
Effect of exchange rate changes on cash and cash equivalents	(319)	79
Net decrease in cash and cash equivalents	(1,877)	(210)
Cash and cash equivalents, beginning of period	7,396	4,749
Cash and cash equivalents, end of period	\$ 5,519	\$ 4,539
	=====	=====

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

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

1. PRINCIPLES OF REPORTING

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

The interim consolidated financial statements of the Company and BGLS are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's and BGLS' 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 and BGLS' Annual Report on Form 10-K, as amended, for the year ended December 31, 1998, 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.

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

Certain amounts in the 1998 consolidated financial statements have been reclassified to conform to the 1999 presentation.

LIQUIDITY:

The Company's anticipated sources of liquidity for 1999 include, among other things, proceeds from the exercise of an option in an entity to which a subsidiary of Liggett will contribute certain trademarks (the "Marks") and the distribution of loan proceeds from the entity (refer to Note 2), additional debt and/or equity financing, management fees and tax sharing and other payments from Liggett and certain funds available from New Valley Corporation ("New Valley") subject to limitations imposed by BGLS' indenture agreements. Liggett's and New Valley's ability to make such payments is subject to risks and uncertainties attendant to their businesses. (Refer to Notes 3 and 8.) New Valley may also acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

Liggett has a \$40,000 revolving credit facility expiring March 8, 2000 (the "Facility"), under which \$6,793 was outstanding and \$12,990 was available at March 31, 1999.

Liggett-Ducat is in the process of constructing a new tobacco factory in Moscow, Russia, currently scheduled to be operational in June 1999. The remaining construction costs and equipment required

BROOKE GROUP LTD.
BGLS INC.

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

for the new factory will be financed primarily by equipment lease financing currently in place and loans from banks. (Refer to Note 4.)

EARNINGS PER SHARE:

For the three months ended March 31, 1999, basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options, vested restricted stock grants and warrants. For the three months ended March 31, 1998, stock options, warrants and contingent shares (both vested and non-vested) were excluded from the calculation of diluted per share results because their effect was accretive.

COMPREHENSIVE INCOME:

Comprehensive income is a component of stockholders' equity and includes the Company's net income and other comprehensive income such as the proportionate interest in New Valley's capital transactions, unrealized gains and losses on investment securities and minimum pension liability adjustments. For the three months ended March 31, 1999, total comprehensive income was \$14,723. For the three months ended March 31, 1998, the total comprehensive loss was \$13,179.

2. PHILIP MORRIS BRAND TRANSACTION

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

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

The Class A Option entitles PM to purchase the Class A Interest for \$10,100. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for no later than June 10, 1999 (currently scheduled to close May 24, 1999), subject to customary closing conditions.

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

BROOKE GROUP LTD.
BGLS INC.

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

The LLC will seek to borrow \$134,900 (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B Interest. In connection with the closing of the Class A Option, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure Eve's release from its guaranty. The Class B Interest will be entitled to a guaranteed payment of \$500 each year, with the Class A Interest allocated all remaining LLC income or loss.

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

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

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

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

3. INVESTMENT IN NEW VALLEY CORPORATION

At March 31, 1999 and December 31, 1998, the Company's investment in New Valley consisted of an approximate 42% voting interest. At March 31, 1999 and December 31, 1998, the Company owned 57.7% of the outstanding \$15.00 Class A Increasing Rate Cumulative Senior Preferred Shares (\$100 Liquidation Value), \$.01 par value (the "Class A Preferred Shares"), 9.0% of the outstanding \$3.00 Class B Cumulative Convertible Preferred Shares (\$25 Liquidation Value), \$.10 par value (the "Class B Preferred Shares"), and 41.7% of New Valley's common shares, \$.01 par value (the "Common Shares").

The Class A Preferred Shares and the Class B Preferred Shares are accounted for as debt and equity securities, respectively, pursuant to the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and are classified as available-for-sale. The

BROOKE GROUP LTD.
BGLS INC.

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

Common Shares are accounted for pursuant to APB No. 18, "The Equity Method of Accounting for Investments in Common Stock".

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

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

	Number of Shares	Fair Value	Carrying Amount
	-----	-----	-----
Class A Preferred Shares.....	618,326	\$51,939	\$ 51,939
Class B Preferred Shares.....	250,885	847	847
Common Shares.....	3,989,710	1,621	(52,786)
		-----	-----
		\$54,407	\$ 0
		=====	=====

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

The Class A Preferred Shares of New Valley are required to be redeemed on January 1, 2003 for \$100.00 per share plus dividends accrued to the redemption date. The shares are redeemable, at any time, at the option of New Valley, at \$100.00 per share plus accrued dividends. The holders of Class A Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board of Directors, payable at the rate of \$19.00 per annum. At March 31, 1999, the accrued and unpaid dividends arrearage was \$234,581 (\$218.94 per share).

Holders of the Class B Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board, at a rate of \$3.00 per annum. At March 31, 1999, the accrued and unpaid dividends arrearage was \$172,905 (\$61.96 per share).

BROOKE GROUP LTD.
BGLS INC.

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

Summarized financial information for New Valley as of March 31, 1999 and December 31, 1998 and for the three ended March 31, 1998 and 1998 follows:

	March 31, 1999	December 31, 1998
	-----	-----
Current assets, primarily cash and marketable securities	\$ 70,851	\$ 91,451
Non-current assets	183,787	181,271
Current liabilities	66,975	83,581
Non-current liabilities	83,001	78,251
Redeemable preferred shares	332,198	316,202
Shareholders' deficit	(227,536)	(205,312)

	Three Months Ended	
	March 31, 1999	March 31, 1998
	-----	-----
Revenues	\$ 22,770	\$ 33,840
Costs and expenses	28,917	34,260
(Loss) income from continuing operations	(5,682)	157
Gain from discontinued operations	4,100	
Net loss applicable to common shares(A)	(23,801)	(18,675)

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

In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BrookeMil Ltd. ("BML"), including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to \$58,750, including the investment in Western Realty Repin discussed below. Through March 31, 1999, Apollo had funded \$36,529 of its investment in Western Realty Ducat.

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

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

BROOKE GROUP LTD.
BGLS INC.

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

Ducat to the extent that cumulative earnings of Western Realty Ducat are not sufficient to satisfy Apollo's preferred return.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, acquired an interest in a new factory being constructed on the outskirts of Moscow by a subsidiary of BOL. (Refer to Note 4.)

In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a \$25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 95.29% of one site and 52% of the other site at March 31, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment (\$18,750) together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment (\$6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through March 31, 1999, Western Realty Repin has advanced \$25,000 (of which \$18,773 was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of New Valley's shares of BML.

As of March 31, 1999, BML had invested \$19,621 in the Kremlin sites and held \$3,525, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional \$6,000 (which has been funded) in 1999 and \$22,000 in 2000 in the development of the property.

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

Proposed Recapitalization Plan:

New Valley has submitted for approval of its shareholders at its 1999 annual meeting, which will be held on May 21, 1999, a proposed recapitalization of its capital stock (the "Recapitalization Plan").

BROOKE GROUP LTD.
BGLS INC.

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

Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of \$12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ. Completion of the Recapitalization Plan is subject to, among other things, approval by the required holders of the various classes of New Valley's shares.

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

4. INVESTMENT IN BROOKE (OVERSEAS) LTD.

At March 31, 1999, BOL owned approximately 99.9% of the stock of Liggett-Ducat through its subsidiary, Western Tobacco Investments LLC ("Western Tobacco"). (Refer to Note 7 for information concerning pledges of interests in Western Tobacco.)

Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow. Production at Liggett-Ducat's existing factory ceased in March 1999, with production scheduled to start in the new factory in mid-1999. The remaining liability under the factory construction contract, as amended, at March 31, 1999 is approximately \$2,500. Equipment purchase agreements in place at March 31, 1999 total \$35,846, of which \$29,438 is being financed by the manufacturers.

Western Realty Ducat has made a \$30,000 participating loan to Western Tobacco which holds BOL's interest in Liggett-Ducat and the new factory. The loan, which bears no fixed interest, is payable only out of 30% of distributions, if any, made by Western Tobacco to BOL. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to BOL will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of Western Tobacco. For the period ended March 31, 1999, a preference requirement equal to 30% of Western Tobacco's net income, \$1,002, has been charged to interest expense. The loan is classified in other long-term liabilities on the consolidated balance sheet at March 31, 1999. (Refer to Note 3.)

In connection with the sale by BOL of the common shares of BML to New Valley in 1997, a portion of the gain was deferred in recognition of the fact that the Company retains an interest in BML through its 42% equity ownership of New Valley and that a portion of the property sold (the site of the third

BROOKE GROUP LTD.
BGLS INC.

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

phase of the Ducat Place real estate project being developed by BML, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, \$7,050, in March 1999.

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

5. INVENTORIES

Inventories consist of:

	March 31, 1999	December 31, 1998
	-----	-----
Leaf tobacco	\$ 10,884	\$ 13,882
Other raw materials	5,445	4,629
Work-in-process	2,481	2,001
Finished goods	23,209	15,446
Replacement parts and supplies	4,195	4,130
	-----	-----
Inventories at current cost	46,214	40,088
LIFO adjustments	(3,474)	(3,772)
	-----	-----
	\$ 42,740	\$ 36,316
	=====	=====

At March 31, 1999, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately \$4,754 and \$11,560, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	March 31, 1999	December 31, 1998
	-----	-----
Land and improvements	\$ 412	\$ 412
Buildings	5,823	5,823
Machinery and equipment	60,732	54,144
Construction-in-progress	77,379	66,981
	-----	-----
	144,346	127,360
Less accumulated depreciation	(35,427)	(33,856)
	-----	-----
	\$ 108,919	\$ 93,504
	=====	=====

Equipment purchase commitments for \$3,011 were outstanding at BOL at March 31, 1999.

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

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

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

	March 31, 1999	December 31, 1998
	-----	-----
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of \$15,449 and \$17,374	\$ 217,415	\$215,490
Deferred interest on 15.75% Series B Senior Secured Notes due 2001	34,602	24,985
Liggett:		
Revolving credit facility	6,793	2,538
Note payable	4,475	
BOL:		
Foreign credit facilities	19,737	11,600
Notes payable	25,475	28,057
Other	990	1,171
	-----	-----
Total notes payable, long-term debt and other obligations ...	309,487	283,841
Less:		
Current maturities	29,077	21,176
	-----	-----
Amount due after one year	\$ 280,410	\$262,665
	=====	=====

15.75% Series B Senior Secured Notes Due 2001 - BGLS:

On March 2, 1998, the Company entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together the "Apollo Holders"), who held approximately 41.8% of the \$232,864 principal amount of the 15.75% Series B Senior Secured Notes (the "Notes") then outstanding. The Apollo Holders (and any transferees) agreed to defer the payment of interest on the Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the Notes on January 31, 2001 or upon an event of default under the Indenture for the Notes. In connection with the agreement, the Company pledged 50.1% of Western Tobacco to collateralize the Notes held by the Apollo Holders (and any transferees).

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

BROOKE GROUP LTD.
BGLS INC.

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

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

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

In April 1999, the Company agreed with a third party to purchase during the second quarter 1999, approximately \$3,697 of the BGLS Notes. The purchase price is 98% of the principal amount of the notes and the accrued interest thereon. BGLS will fund both purchases with tax sharing payments from Liggett.

The Notes are collateralized by substantially all of BGLS' assets, including a pledge of BGLS' equity interests in Liggett, BOL and NV Holdings as well as a pledge of all of the New Valley securities held by BGLS and NV Holdings. The Notes Indenture contains certain covenants, which among other things, limit the ability of BGLS to make distributions to the Company to \$6,000 per year (\$12,000 if less than 50% of the Notes remain outstanding), limit additional indebtedness of BGLS to \$10,000, limit guaranties of subsidiary indebtedness by BGLS to \$50,000, and restrict certain transactions with affiliates that exceed \$2,000 in any year subject to certain exceptions which include payments to the Company not to exceed \$6,500 per year for permitted operating expenses, payment of the Chairman's salary and bonus and certain other expenses, fees and payments. In addition, the Indenture contains certain restrictions on the ability of the Chairman and certain of his affiliates to enter into certain transactions with, and receive payments above specified levels from, New Valley. The Notes may be redeemed, in whole or in part, through December 31, 1999, at a price of 101% of the principal amount and thereafter at 100%. Interest is payable at the rate of 15.75% per annum on January 31 and July 31 of each year.

Revolving Credit Facility - Liggett:

Liggett entered into the Facility for \$40,000 with a syndicate of commercial lenders in 1994 which is collateralized by all inventories and receivables of Liggett. At March 31, 1999, \$12,990 was available under the Facility based on eligible collateral. Borrowings under the Facility, whose interest is calculated at a rate equal to 1.5% above the Philadelphia National Bank's prime rate, bore a rate of 9.25% at March 31, 1999. The Facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended, imposes requirements with respect to Liggett's permitted maximum adjusted net worth (not to fall

BROOKE GROUP LTD.
BGLS INC.

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

below a deficit of \$195,000 as computed in accordance with the agreement, this computation was \$146,239 at March 31, 1999) and net working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement, this computation was \$4,466 at March 31, 1999).

Equipment Loan - Liggett:

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

Foreign Loans:

At March 31, 1999, Liggett-Ducat had various credit facilities under which approximately \$19,700 was outstanding. One, for \$10,000, expired in May 1999 but was extended for one year at an interest rate of 25%. The second, for \$5,000, expires in December 1999. The interest rate is 20%. The remaining facilities, denominated in rubles (approximately \$7,200 at the March 31, 1999 exchange rate), have terms of six - twelve months with interest rates of 52% - 55%. The facilities are collateralized by factory equipment and tobacco inventory.

Notes Payable - B0L:

In 1997, Western Tobacco entered into two contracts for the purchase of cigarette manufacturing equipment. A portion (85%) of both contracts is being financed with promissory notes. One contract is financed by ten half-year promissory notes payable at the rate of 6.71% per annum interest, with the first note due in May 1999. The outstanding balance on the contract is \$13,677 at March 31, 1999. The second contract is financed by 60 monthly promissory notes payable at the rate of 7.5% interest. The first note was paid in December 1998. The outstanding balance at March 31, 1999 is \$8,250. The Company also has a promissory note for \$1,514 at March 31, 1999 covering deposits for equipment being purchased for the factory. The note is due March 31, 2000.

On July 29, 1998, the Company borrowed \$3,000, subsequently reduced to \$2,034, from an unaffiliated third party with interest at 14% per annum. The note, which is due on August 1, 1999, is collateralized by factory equipment. Payments of \$50 toward principal and interest are made monthly, with the remaining principal balance due at maturity.

8. CONTINGENCIES

TOBACCO-RELATED LITIGATION:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are reported hereinafter as though having been commenced against Liggett (without regard to whether such cases were actually commenced against the Company or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into four categories: (i) smoking and health cases alleging personal injury brought on behalf of individual

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

smokers ("Individual Actions"); (ii) smoking and health cases alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. For the three months ended March 31, 1999, Liggett incurred counsel fees and costs totaling approximately \$1,568, compared to \$1,342 for the comparable prior year period.

Individual Actions. As of March 31, 1999, there were approximately 265 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to ETS and seek compensatory and, in some cases, punitive damages. Of these, 89 were pending in Florida, 91 in New York, 29 in Massachusetts and 19 in Texas. The balance of the individual cases were pending in 21 states. There are four individual cases pending where Liggett is the only named defendant.

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

In February 1999, a state court jury in San Francisco awarded \$51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by PM. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages. The court subsequently reduced the punitive damages award to \$25,000.

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

Class Actions. As of March 31, 1999, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Two of these cases, Fletcher, et al. v. Brooke Group Ltd., et al. and Walker, et al. v. Liggett Group Inc., et al., have been settled by the Company, subject to court approval. These two settlements are more fully discussed below under the "Settlements" section.

In October 1991, an action entitled Broin, et al. v. Philip Morris Incorporated, et al., Circuit Court of the Eleventh Judicial District in and for Dade County, Florida, was filed against Liggett and others.

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

This case was brought by plaintiffs on behalf of all flight attendants that worked or are presently working for airlines based in the United States and who never regularly smoked cigarettes but allege that they have been damaged by involuntary exposure to ETS. In October 1997, the other major tobacco companies settled this matter, which settlement provides for a release of the Company and Liggett. In February 1998, the Circuit Court approved the settlement, which settlement was affirmed by the Third District Court of Appeals in March 1999.

In March 1994, an action entitled *Castano, et al. v. The American Tobacco Company Inc., et al.*, United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint sought relief for a nationwide class of smokers based on their alleged addiction to nicotine. In February 1995, the District Court granted plaintiffs' motion for class certification (the "Class Certification Order").

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

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

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

Governmental Actions. As of March 31, 1999, there were approximately 20 Governmental Actions pending against Liggett. In these proceedings, the governmental entities seek reimbursement for Medicaid and other health care expenditures allegedly caused by use of tobacco products. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law

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

claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

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

Third-Party Payor Actions. As of March 31, 1999, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross and Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District Courts in New York, Chicago, and Seattle and seek billions of dollars in damages. The lawsuits allege conspiracy, fraud, misrepresentation and violation of federal racketeering and antitrust laws as well as other claims. In January 1999, a federal judge in Seattle dismissed a Third-Party Payor Action brought by seven Blue Cross/Blue Shield Plans against the tobacco industry. The court ruled that the insurance providers did not have standing to bring the lawsuit. However, in February 1999, a federal judge in the Eastern District of New York denied pleas by the industry to dismiss the Third-Party Payor Action brought by 24 Blue Cross/Blue Shield Plans.

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.

Settlements. In March 1996, the Company and Liggett entered into an agreement, subject to court approval, to settle the Castano class action tobacco litigation. Under the Castano settlement agreement, upon final court approval of the settlement, the Castano class would be entitled to receive up to five percent of Liggett's pretax income (income before income taxes) each year (up to a maximum of \$50,000 per year) for the next 25 years, subject to certain reductions provided for in the agreement and a \$5,000 payment from Liggett if the Company or Liggett fail to consummate a merger or similar transaction with another non-settling tobacco company defendant within three years of the date of settlement. The Company and Liggett have the right to terminate the Castano settlement under certain circumstances. In March 1996, the Company, the Castano Plaintiffs Legal Committee and the Castano plaintiffs entered into a letter agreement. According to the terms of the letter agreement, for the period ending nine months from the date of Final Approval (as defined in the letter), if granted, of the Castano settlement or, if earlier, the completion by the Company or Liggett of a combination with any defendant in Castano, except PM, the Castano plaintiffs and their counsel agree not to enter into any more favorable settlement agreement with any Castano defendant which would reduce the terms of the Castano settlement agreement. If the Castano plaintiffs or their

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

counsel enter into any such settlement during this period, they shall pay the Company \$250,000 within 30 days of the more favorable agreement and offer the Company and Liggett the option to enter into a settlement on terms at least as favorable as those included in such other settlement. The letter agreement further provides that during the same time period, and if the Castano settlement agreement has not been earlier terminated by the Company in accordance with its terms, the Company and its affiliates will not enter into any business transaction with any third party which would cause the termination of the Castano settlement agreement. If the Company or its affiliates enter into any such transaction, then the Castano plaintiffs will be entitled to receive \$250,000 within 30 days from the transacting party. In May 1996, the Castano Plaintiffs Legal Committee filed a motion with the United States District Court for the Eastern District of Louisiana seeking preliminary approval of the Castano settlement. In September 1996, shortly after the class was decertified, the Castano plaintiffs withdrew the motion for approval of the Castano settlement.

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

On November 23, 1998, PM, B&W, R.J. Reynolds Tobacco Company ("RJR") and Lorillard Tobacco Company ("Lorillard") (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. As described below, the Company and Liggett had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 42 states and territories.

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

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

BROOKE GROUP LTD.
BGLS INC.

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

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). In the year following any year in which Liggett's market share does exceed the Base Share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMS pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMS (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nations" protection for both the Company 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 the Company and Liggett are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In March 1997, Liggett, the Company and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled Fletcher, et al. v. Brooke Group Ltd., et al., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class, and in May 1997, a similar mandatory class settlement agreement was filed in an action entitled Walker, et al. v. Liggett Group Inc., et al., United States District Court, Southern District of West Virginia. In July 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement in Fletcher which agreement was preliminarily approved by the court in December 1998. A hearing on final approval of the settlement is scheduled for June 3, 1999; however, hearing dates are subject to change. Effectiveness of the

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

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

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

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

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

BROOKE GROUP LTD.
BGLS INC.

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

The Company previously accrued approximately \$4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of the Company's treatment under the MSA, \$14,928 of net charges accrued for the prior settlements were reversed in 1998.

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

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

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

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

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

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

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

In March 1996, and in each of March, July, October and December 1997, the Company and/or Liggett received subpoenas from a Federal grand jury in connection with an investigation by the

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

United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of: the health consequences of smoking cigarettes; the targeting of children by the industry; and the addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas. The Company understands that the Eastern District Investigation and the DOJ Investigation essentially have been consolidated into one investigation conducted by the DOJ. The Company and Liggett are unable, at this time, to predict the outcome of this investigation.

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

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

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

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

Liggett has been involved in certain environmental proceedings, none of which, either individually or in the aggregate, rises to the level of materiality. Liggett's management believes that current operations are conducted in material compliance with all environmental laws and regulations. Management is unaware of any material environmental conditions affecting its existing facilities. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

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

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

LEGISLATION AND REGULATION:

In 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of ETS which concludes that ETS is a known human lung carcinogen in adults and in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest of the major domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate ETS, and that given the current body of scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's classification of ETS was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, the court ruled that the EPA made procedural and scientific mistakes when it declared in its 1993 report that secondhand smoke caused as many as 3,000 cancer deaths a year among nonsmokers.

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

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

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect; however, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

BROOKE GROUP LTD.
BGLS INC.

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

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

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

Subsequent Events: In April 1999, the Supreme Court granted certiorari to review the Fourth Circuit's decision that the FDA does not have the authority to regulate access to, and labeling of, tobacco products.

OTHER MATTERS:

In March 1997, a shareholder derivative suit was filed against New Valley, as a nominal defendant, its directors and the Company in the Delaware Chancery Court, by a shareholder of New Valley. The suit alleges that New Valley's purchase in January 1997 of the BML shares from BOL constituted a self-dealing transaction which involved the payment of excessive consideration by New Valley. The plaintiff seeks (i) a declaration that New Valley's directors breached their fiduciary duties, the Company aided and abetted such breaches and such parties are therefore liable to New Valley, and (ii) unspecified damages to be awarded to New Valley. The Company's time to respond to the complaint has not yet expired. The Company believes that the allegations are without merit. Although there can be no assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

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

9. SEGMENT INFORMATION

The Company's business segment is tobacco with reportable segments being geographic, i.e., the United States and Russia. Information for the three months ended March 31, 1999 and 1998 follows:

	United States Tobacco -----	Russia Tobacco -----	Corporate and Other -----	Total -----
1999				
Net sales	\$ 86,047	\$ 22,350	\$ 12	\$ 108,409
Operating income	20,069	1,302	774	22,145
Identifiable assets	77,000	121,812	49,533	248,345
Depreciation and amortization ...	855	798	3	1,656
Capital expenditures	6,369	13,248		19,617
1998				
Net sales	\$ 65,626	\$ 19,154	\$ 23	\$ 84,803
Operating income (loss)	6,251	1,397	(105)	7,543
Identifiable assets	69,241	50,048	15,144	134,433
Depreciation and amortization ...	1,585	235	82	1,902
Capital expenditures	353	42		395

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

(Dollars in Thousands, Except Per Share Amounts)

INTRODUCTION

The following discussion provides an assessment of the consolidated results of operations, capital resources and liquidity of Brooke Group Ltd. (the "Company") and its subsidiaries and should be read in conjunction with the Consolidated Financial Statements and notes thereto of the Company and BGLS Inc. ("BGLS") included elsewhere in this document. BGLS is a wholly owned subsidiary of the Company. The consolidated financial statements include the accounts of BGLS, Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("BOL"), New Valley Holdings, Inc. ("NV Holdings"), Liggett-Ducat Ltd. ("Liggett-Ducat") and other less significant subsidiaries. The Company holds an equity interest in New Valley Corporation ("New Valley") through NV Holdings. (See "Recent Developments - New Valley", below.)

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

For purposes of this discussion and other consolidated financial reporting, the Company's significant business segment is tobacco sold in the United States and Russia for the three months ended March 31, 1999 and March 31, 1998.

RECENT DEVELOPMENTS

THE COMPANY AND LIGGETT

Philip Morris Brand Transaction. On November 20, 1998, the Company and Liggett entered into a definitive agreement with PM which provided for PM to purchase options in an entity which will hold three cigarette brands, L&M, Chesterfield and Lark, held by Liggett's subsidiary, Eve. As contemplated by the agreement, Liggett and PM entered into the PM Agreements on January 12, 1999 to effectuate the transactions. (See Note 2 to the Company's Consolidated Financial Statements.)

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

BOL

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

NEW VALLEY

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

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

YEAR 2000 COSTS

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

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

Liggett. Liggett utilizes management information systems and software technology that may be affected by Year 2000 issues throughout its operations. Liggett has evaluated the costs to implement century date change compliant systems conversions and is in the process of executing a planned conversion of its systems prior to the Year 2000. To date, the focus of Year 2000 compliance and verification efforts has been directed at the implementation of new customer service, inventory control and financial reporting systems at each of the three regional Strategic Business Units formed as part of Liggett's reorganization which began in January 1997. Liggett estimates that approximately \$138 of the expenditures for this reengineering effort related to Year 2000 compliance, validation and testing. In January of 1998, Liggett initiated a major conversion of factory accounting, materials management and information systems at its Durham production facility with upgrades that have been successfully tested for Year 2000 compliance. This conversion was completed in November 1998. Program upgrades to Liggett's human resources and payroll systems are scheduled for completion in July 1999. Enhancements to Liggett's finished goods inventory system are expected to be completed in September 1999. It is anticipated that all factory, corporate, field sales and physical distribution systems will be completed in sufficient time to support Year 2000 compliance and verification.

Although such costs may be a factor in describing changes in operating profit in any given reporting period, Liggett currently does not believe that the anticipated costs of Year 2000

systems conversions will have a material impact on its future consolidated results of operations. Based on the progress Liggett has made in addressing Year 2000 issues and its strategy and timetable to complete its compliance program, Liggett does not foresee significant risks associated with its Year 2000 initiatives at this time.

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

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

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

RECENT DEVELOPMENTS IN THE CIGARETTE INDUSTRY

Pricing Activity. List price increases initiated by the industry during 1998 amounted to \$6.35 per carton. In 1998, Liggett announced list price increases of \$.25 per carton in January, \$.50 per carton in April, \$.50 per carton in May, \$.60 per carton in August and \$4.50 per carton in December.

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, 1999, there were approximately 270 individual suits, 50 purported class actions and 85 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. Recently, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency ("EPA") and the Food and Drug Administration ("FDA"), adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. The Company is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but it is possible that the Company's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any of such tobacco-related litigation. (See Part II, Item 1, "Legal Proceedings" and Note 8 to the Company's Consolidated Financial Statements for a description of legislation, regulation and litigation.)

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, special duty, voluntary undertaking, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting concert of action, unjust enrichment, common law public nuisance, indemnity, market share liability, and violations of deceptive trade practices laws, RICO and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statutes of limitations or repose, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

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

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

On November 23, 1998, PM, B&W, RJR and Lorillard (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. As described below, the Company and Liggett had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 42 states and territories.

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). In the year following any year in which Liggett's market share does exceed the Base Share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMs pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

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

In March 1997, Liggett, the Company and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled *Fletcher, et al. v. Brooke Group Ltd., et al.*, Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. On July 2, 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement which was preliminarily approved by the court on December 8, 1998. A hearing on final approval of the settlement is scheduled for June 3, 1999; however, hearing dates are subject to change. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of \$1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, the Company anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and the Company. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in *Fletcher* encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution tobacco-related claims against Liggett and the Company.

The Company accrued approximately \$4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of the Company's treatment under the MSA, \$14,928 of net charges accrued for the prior settlements were reversed

in 1998. (See the discussions of the tobacco litigation settlements appearing in Note 8 to the Company's Consolidated Financial Statements.)

RESULTS OF OPERATIONS

	Revenues		Operating Income	
	Three Months Ended March 31,		Three Months Ended March 31,	
	1999	1998	1999	1998
Liggett	\$ 86,047	\$ 65,626	\$ 20,069	\$ 6,251
Liggett-Ducat	22,350	19,154	1,302	1,710
Other	12	23	774	(418)
Total	\$ 108,409	\$ 84,803	\$ 22,145	\$ 7,543

Three months ended March 31, 1999 compared to three months ended March 31, 1998.

Revenues. Total revenues were \$108,409 for the three months ended March 31, 1999 compared to \$84,803 for the three months ended March 31, 1998. This 27.8% increase in revenues was primarily due to an increase in tobacco revenues at Liggett of \$20,421 and at Liggett-Ducat of \$3,196. Revenues at Liggett increased in both the premium and discount segments by 31.1% (\$20,421) due to price increases of \$30,497 (see "Recent Developments in the Cigarette Industry - Pricing Activity"), partially offset by an 14.2% decline in unit sales volume (approximately 178 million units), accounting for \$9,337 in volume variance and an unfavorable product mix of \$739. The decline in Liggett's sales volume was due to an overall decline in industry volume, certain competitors' continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers.

Premium sales at Liggett for the first quarter of 1999 amounted to \$25,366 and represented 29.5% of total revenues, compared to \$22,958 and 35.0% of total sales in the prior year period. In the premium segment, revenues grew by 10.5% (\$2,408) for the three months ended March 31, 1999, compared to the prior year period, due to price increases of \$8,202, which were partially offset by a 25.2% decline in unit sales volume (approximately 91 million units), accounting for \$5,794 in volume variance.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for the first three months of 1999 amounted to \$60,681 and represented 70.5% of total revenues, compared to \$42,668 and 65.0% of total sales for the year-ago first quarter. In the discount segment, revenues grew by 42.2% (\$18,013) for the three months ended March 31, 1999 compared to the prior year period, due to price increases of \$22,295, which were partially offset by a 9.8% decline in unit sales volume (approximately 87 million units), accounting for \$4,169 in volume variance and an unfavorable product mix among the discount brand categories of \$113.

For the three months ended March 31, 1999, fixed manufacturing costs on a basis comparable to 1998 was \$1,149 lower, although costs per thousand units increased by \$0.09 per thousand.

Net sales at Liggett-Ducat for the three months ended March 31, 1999 increased 14.9% (\$3,196) to \$22,350 over the same period in 1998 due primarily to an increase in unit sales

volume of 38.8% (1,400 million units) accounting for a \$7,425 volume variance and favorable product mix of \$745 offset by unfavorable price effect of \$4,974.

Gross Profit. Consolidated gross profit was \$66,982 for the three months ended March 31, 1999 compared to \$43,147 for the three months ended March 31, 1998, an increase of \$23,835 or 55.2% when compared to the same period last year, reflecting an increase in gross profit at Liggett of \$23,477 and an increase at Liggett-Ducat of \$348 for the three months ended March 31, 1999 compared to the same period in the prior year.

Gross profit at Liggett of \$62,882 for the three months ended March 31, 1999 increased \$23,477 from gross profit of \$39,405 for the first quarter of 1998, due primarily to the price increases discussed above. (See "Recent Developments in the Cigarette Industry - Pricing Activity".) In 1999, Liggett's premium and discount brands contributed 28.62% and 65.26%, respectively, to the Company's overall gross profit. Over the same period in 1998, Liggett's premium and discount brands contributed 36.1% and 63.9%, respectively, to total gross profit. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 85.6% for the three months ended March 31, 1999 compared to 77.5% for the same period in 1998, with gross profit for the premium segment at 86.6% and 79.2%, respectively, in the first quarter of 1999 and 1998, respectively, and gross profit for the discount segment at 85.1% and 76.6% in 1999 and 1998, respectively. This increase is the result of the 1998 list price increases, a total of 63.5 cents per pack, and improved production variances. These increases were partially offset by increased tobacco costs at Liggett due to a reduction in the average discount available to the Company from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments.

As a percent of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat decreased to 20.5% for the three months ended March 31, 1999 compared to 22.0% in the same period in 1998, primarily due to the devaluation of the ruble.

Expenses. Selling, general and administrative expenses were \$44,837 for the three months ended March 31, 1999 compared to \$35,604 for the same period last year due to an increase in expenses at Liggett of \$9,659 and an increase of \$507 at Liggett-Ducat offset by lower corporate expense primarily due to lower pension expense. Operating, selling, general and administrative expenses at Liggett increased to \$42,813 for the three months ended March 31, 1999 compared to \$33,154 for the same period for the prior year. This increase in operating expenses was due primarily to higher spending for promotional and marketing programs of approximately \$11,011, partially offset by a reduction in amortization of approximately \$867 and the absence of system development costs in the current year quarter of \$485. The increase at Liggett-Ducat of \$507 was primarily due to increased marketing and depreciation expense.

Other Income (Expense). Interest expense was \$14,988 for the three months ended March 31, 1999 compared to \$20,786 for the same period last year, a decrease of \$5,798 primarily due to the redemption by Liggett of the Liggett Senior Secured Notes on December 28, 1998 and lower interest expense of approximately \$800 at corporate. Net interest expense at Liggett decreased by \$6,376 for the three months ended March 31, 1999 compared to the three months ended March 31, 1998. This was offset by higher interest expense at BOL of \$1,390 primarily due to increased interest rates on credit facilities in Russia.

Equity in earnings of affiliate was a loss of \$7,629 for the three months ended March 31, 1999 compared to a loss of \$4,187 for the three months ended March 31, 1998 and relates in both periods to New Valley's net loss applicable to common shares of \$23,801 and \$18,675, respectively.

For the three months ended March 31, 1999, interest expense and loss in equity of affiliate were offset by foreign currency gain of \$2,270 and the recognition of deferred gain of

\$7,050 relating to the expiration of the put obligation on Ducat III (the site of the old cigarette factory in Russia) in connection with the sale of the BrookeMil Ltd. common shares in 1997. The factory ceased operations in March 1999.

Provision for Income Taxes. Income tax for the first quarter of 1999 was \$1,729 compared to \$931 for the first quarter of 1998. The effective tax rate does not bear a customary relationship with pre-tax accounting income principally as a consequence of the change in the valuation allowance relating to deferred tax assets and foreign taxes.

CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents decreased \$1,877 and \$172 for the three months ended March 31, 1999 and March 31, 1998, respectively. Net cash provided by operations for the three months ended March 31, 1999 was \$2,571 compared to net cash used in operations of \$25,984 for the comparable period of 1998. The increase of \$28,555 in net cash provided by operating activities in 1999 over the prior year was primarily due to an increase in operating income at Liggett and a reduction in debt service, resulting from Liggett's bond redemption on December 28, 1998. In the 1998 period, cash was used in operations at BGLS and Liggett to make interest payments of approximately \$29,600. In addition, there were also reductions in promotional expenses, taxes payable and other accrued liabilities, in total amount of \$6,366, and an increase in inventories of \$8,385. These items were partially offset by an increase in accounts payable of \$4,842.

Cash used in investing activities of \$19,581 compares to cash provided of \$822 for the periods ended March 31, 1999 and 1998, respectively. In 1999, capital expenditures for machinery and equipment at Liggett amounted to \$6,369 while equipment and construction costs for the new factory amounted to \$13,248 at Liggett-Ducat. In 1998, proceeds from sales of equipment and an investment of \$1,295 were partially offset by capital expenditures of \$395 at Liggett and BOL.

Cash provided by financing activities was \$15,452 and \$24,911 for the three months ended March 31, 1999 and 1998, respectively. Proceeds in the 1999 period included net borrowings under revolving credit facilities at both Liggett and Liggett-Ducat of \$12,667 and proceeds from equipment financing of \$4,500. These proceeds were offset primarily by distributions on common stock of \$1,358. Proceeds in the 1998 period included cash received from the sale of common stock and exercise of stock options, in total \$9,796, proceeds from the participating loan made by Western Realty Ducat, and net borrowings under Liggett's revolving credit facility (the "Facility") of \$5,162 partially offset by distributions on common stock of \$900.

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

The closing of the exercise by PM of the Class A Option is scheduled for no later than June 10, 1999 (currently scheduled for May 24, 1999). Upon closing, Liggett will receive approximately \$145,000 from the purchase of the Class A Interest and the distribution of the Loan proceeds by the LLC.

Liggett has a \$40,000 Facility expiring March 8, 2000, under which \$6,793 was outstanding at March 31, 1999. Availability under the Facility was approximately \$12,990 based on eligible collateral at March 31, 1999. The Facility is collateralized by all inventories and receivables of Liggett. Borrowings under the Facility, whose interest is calculated at a rate equal to 1.5% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bear a rate of 9.25% at March 31, 1999. The Facility required Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below a deficit of \$195,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as

computed in accordance with the agreement). At March 31, 1999, Liggett was in compliance with all covenants under the Facility; Liggett's adjusted net worth deficiency and net working capital, as computed in accordance with the agreement, were \$146,239 and \$4,466, respectively.

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase from a third party. The loan, which is collateralized by the equipment, is payable in 60 monthly installments of \$56 including annual interest of 7.6% with a final payment of \$2,550.

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

The Company believes, and has been so advised by counsel handling the respective cases, that the Company and Liggett have a number of valid defenses to the claim or claims asserted against them. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Recently, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither the Company nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. (See "Recent Developments in the Cigarette Industry - Legislation, Regulation and Litigation" above and Note 8 to the Company's Consolidated Financial Statements.)

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

BGLS. At March 31, 1999, BGLS had outstanding \$232,864 principal amount of the BGLS Notes which mature on January 31, 2001. On March 5, 1998, BGLS entered into the Standstill Agreement whereby the Apollo Holders (and any transferees) agreed to the deferral of interest payments, commencing with the interest payment due July 31, 1997 through the interest payment due July 31, 2000. BGLS has deferred a total of \$34,602 of interest as of March 31, 1999.

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

In April 1999, the Company agreed with a third party to purchase during the second quarter 1999, approximately \$3,697 of the BGLS Notes. The purchase price is 98% of the principal amount of the notes and the accrued interest thereon. BGLS will fund both purchases with tax sharing payments from Liggett.

BOL. Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow which is currently scheduled to be operational in June 1999. The new factory, which will utilize Western cigarette making technology and have a capacity of in excess of 30 billion units per

year, will produce American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat and the new factory. In addition, BOL has entered into promissory notes for equipment purchases which have a liability of approximately \$23,500 at March 31, 1999. The Company is a guarantor on purchases for which the remaining obligation is approximately \$8,500. The remaining costs for construction and equipment for the new factory are being financed by loans from Russian banks and approximately \$12,000 of loans from BOL made during the first half of 1999.

The Company. The Company has substantial near-term consolidated debt service requirements, with aggregate required principal payments of approximately \$297,000 due in the years 1999 through 2001. The Company believes that it will continue to meet its liquidity requirements through 1999, although the BGLS Notes Indenture limits the amount of restricted payments BGLS is permitted to make to the Company during the calendar year. At March 31, 1999, the remaining amount available through December 31, 1999 in the Restricted Payment Basket related to BGLS' payment of dividends to the Company (as defined by the BGLS Notes Indenture) is \$15,472. Company expenditures (exclusive of Liggett and Liggett-Ducat) in 1999 for current operations include cash interest expense of approximately \$21,350 (excluding accrued interest due on the BGLS Notes discussed above that BGLS has contingently agreed to repurchase), dividends on the Company's shares (currently at an annual rate of approximately \$6,300) and corporate expenses. The Company anticipates funding its 1999 expenditures for current operations with public and/or private debt and equity financing, management fees from subsidiaries and tax sharing and other payments from Liggett or New Valley. New Valley may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

MARKET RISK

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

Equity Price Risk. The Company holds investment securities available for sale with a fair market value of \$54,407 at March 31, 1999. These securities represent an investment in New Valley Class A Preferred Shares, Class B Preferred Shares and Common Shares which the Company carries on its balance sheet at zero.

Foreign Market Risk

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

Russia. Liggett-Ducat's and Western Tobacco's operations are conducted in Russia. During 1998 and continuing into 1999, the economy of the Russian Federation entered a period of economic instability. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The Company seeks to minimize such risks by reducing its cash exposure when appropriate. The return to economic stability is dependent to a large extent on the effectiveness of

the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The operations of Liggett-Ducat and Western Tobacco may be significantly affected by these factors for the foreseeable future.

Russian taxation is subject to varying interpretations and constant changes. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of Liggett-Ducat and Western Tobacco may not coincide with that of management. As a result, transactions may be challenged by tax authorities and Liggett-Ducat and Western Tobacco may be assessed additional taxes, penalties and interest, which can be significant. Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations and from time to time potential exposures are identified. At any point in time, a number of open matters may exist; however, management believes that adequate provision has been made for all material liabilities. Tax years remain open to review by the authorities for six years.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act"), including any statements that may be contained in the foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to shareholders, which reflect management's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Reform Act, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company. Liggett continues to be subject to risk factors endemic to the domestic tobacco industry including, without limitation, health concerns relating to the use of tobacco products and exposure to ETS, legislation, including tax increases, governmental regulation, privately imposed smoking restrictions, governmental and grand jury investigations and litigation. Each of the Company's operating subsidiaries, namely Liggett and Liggett-Ducat, are subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Furthermore, the performance of Liggett-Ducat's operations in Russia are affected by uncertainties in Russia which include, among others, political or diplomatic developments, regional tensions, currency repatriation restrictions, foreign exchange fluctuations, inflation, and an undeveloped system of commercial laws and legislative reform relating to foreign ownership in Russia. In addition, the Company has a high degree of leverage and substantial near-term debt service requirements, as well as a net worth deficiency. The Indenture for BGLS' Series B Notes provides for, among other things, the restriction of certain affiliated transactions between the Company and its affiliates, as well as for certain restrictions on the use of future distributions received from New Valley. The failure of the Company or its significant suppliers and customers to adequately address the "Year 2000" issue could result in misstatement of reported financial information or could adversely affect its business. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

ITEM 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.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 8, incorporated herein by reference, to the Consolidated Financial Statements of Brooke Group Ltd. and BGLS Inc. (collectively, the "Companies") included elsewhere in this report on Form 10-Q which contains a general description of certain legal proceedings to which the Company and/or BGLS or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending material legal proceedings to which the Company, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of the Company and its subsidiaries without charge upon written request to the Company at its principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn. Investor Relations.

Item 2. Changes in Securities and Use of Proceeds

No securities of the Company which were not registered under the Securities Act of 1933, as amended (the "Securities Act"), have been issued or sold by the Company during the three months ended March 31, 1999.

Item 3. Defaults Upon Senior Securities

As of March 31, 1999, New Valley Corporation, the Companies' affiliate, had the following respective accrued and unpaid dividend arrearages on its 1,071,462 outstanding shares of \$15.00 Class A Increasing Rate Cumulative Senior Preferred Shares (\$100 Liquidation Value), \$.01 par value per share (the "Class A Shares") and 2,790,776 outstanding shares of \$3.00 Class B Cumulative Convertible Preferred Shares (\$25 Liquidation Value), \$.10 par value per share (the "Class B Shares"): (1) \$234.6 million or \$218.94 per Class A Share; and (2) \$172.9 million or \$61.96 per Class B Share.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 27.1 Brooke Group Ltd.'s Financial Data Schedule (for SEC use only).
- 27.2 BGLS Inc.'s Financial Data Schedule (for SEC use only).
- 99.1 Material Legal Proceedings.
- 99.2 Liggett Group Inc.'s Interim Consolidated Financial Statements for the quarterly periods ended March 31, 1999 and 1998.
- 99.3 New Valley Corporation's Interim Consolidated Financial Statements for the quarterly periods ended March 31, 1999 and 1998.

- 99.4 Brooke (Overseas) Ltd.'s Interim Consolidated
Financial Statements for the quarterly periods ended
March 31, 1999 and 1998.
- 99.5 New Valley Holdings, Inc.'s Interim Consolidated
Financial Statements for the quarterly periods ended
March 31, 1999 and 1998.
- (b) Reports on Form 8-K
None.

SIGNATURES

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

BROOKE GROUP LTD.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: May 14, 1999

BGLS INC.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: May 14, 1999

3-MOS

	DEC-31-1999	JAN-01-1999	MAR-31-1999
			5,519
		0	
		17,920	
		0	
		42,740	
		126,242	
			108,919
		35,427	
		248,345	
267,242			
			280,410
0			
		0	
		2,094	
		382,145	
248,345			
			108,409
		108,409	
			41,427
		41,427	
		2,126	
		0	
		(14,988)	
		9,283	
		1,729	
7,554			
		1,249	
		0	
			0
		8,803	
		0.42	
		0.34	

5
0000927388
BGLS INC
1,000

3-MOS

	DEC-31-1999	
	JAN-01-1999	
	MAR-31-1999	
		5,519
		0
	17,920	
		0
	42,740	
126,012		108,899
	35,421	
	246,956	
298,552		280,410
	0	
		0
		0
246,956		(415,157)
		108,409
	108,409	
		41,427
	41,427	
	3,310	
		0
	(16,244)	
	9,613	
	1,729	
7,884		
	1,249	
		0
		0
	9,133	
		0
		0

I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

County of Los Angeles v. R.J. Reynolds, et al., Case No. 707651, Superior Court of California, County of San Diego (case filed 8/5/97). County seeks to obtain declaratory and equitable relief and restitution as well as to recover money damages resulting from payment by the County for tobacco-related medical treatment for its citizens and health insurance for its employees.

Ellis, on Behalf of the General Public v. R.J. Reynolds, et al., Case No. 00706458, Superior Court of California, County of San Diego (case filed 12/13/96). Plaintiffs, two individuals, seek equitable and injunctive relief for damages incurred by the State of California in paying for the expenses of indigent smokers.

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).

People of the State of California, et al. v. Philip Morris Incorporated, et al., Case No. 980-864, Superior Court of California, County of San Francisco (case filed 8/5/98). People seek injunctive relief and economic reimbursement with respect to damages allegedly caused by environmental tobacco smoke (ETS).

County of Cook v. Philip Morris, et al., Case No. 97L04550, Circuit Court, State of Illinois, Cook County (case filed 7/21/97). County of Cook seeks to obtain declaratory and equitable relief and restitution as well as to recover money damages resulting from payment by the County for tobacco-related medical treatment for its citizens and health insurance for its employees.

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

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

City of New York, et al. v. The Tobacco Institute, et al., Case No. 97-CIV-0904, Supreme Court of New York, New York County (case filed 10/17/96). City of New York seeks to obtain declaratory and equitable relief and restitution as well as to recover money damages resulting from payment by the City for tobacco-related medical treatment for its citizens and health insurance for its employees.

County of Erie v. The Tobacco Institute, Inc., et al., Case No. I 1997/359, Supreme Court of New York, Erie County (case filed 1/14/97). County seeks equitable relief and economic reimbursement for moneys expended on payments for healthcare for Medicaid recipients and non-Medicaid care for indigent smokers.

Allegheny General Hospital, et al. v. Philip Morris, et al., Case No. 98-18956, Court of Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/10/98). Hospitals seek to recover past and future costs expended to provide healthcare to Medicaid, medically indigent, and non-paying patients suffering from tobacco-related illnesses.

County of Allegheny v. The American Tobacco Company, et al; Case No. 99-365, U.S.D.C, Western District of Pennsylvania (case filed 3/12/99). County seeks equitable relief and economic reimbursement for moneys expended on payments for healthcare for smokers resident in the County.

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

The Sisseton-Wahpeton Sioux Tribe v. The American Tobacco Company, et al., Case No. 030399, Tribal Court of the Sisseton-Wahpeton Sioux Tribe, State of North Dakota (case filed 2/3/99). Indian tribe seeks equitable and injunctive relief for damages incurred by the tribe in paying for the expenses of indigent smokers.

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

Republic of Guatemala v. The Tobacco Institute, Inc., et al., Case No. 1:98CV01185, USDC, District of Columbia (case filed 5/18/98). The Republic of Guatemala seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

Republic of Nicaragua v. Liggett Group Inc., et al., Case No. 98-2380 RLA, USDC, District of Puerto Rico (case filed 12/10/98). The Republic of Nicaragua seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

Republic of Panama v. The American Tobacco Company, Inc., et al., Case No. 98-17752, Civil District Court, State of Louisiana, Orleans Parish (case filed 10/20/98). The Republic of Panama seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

The Kingdom of Thailand v. The Tobacco Institute, Inc., et al, Case No. H-99-0320, USDC, Southern District Texas (case filed 3/11/99). The Kingdom of Thailand seeks compensatory and injunctive relief for damages incurred by the Kingdom in paying for the medicaid expenses of indigent smokers.

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

II. THIRD-PARTY PAYOR ACTIONS

United Food and Commercial Workers Unions, et al. v. Philip Morris, et al., Case No. CV-97-1340, Circuit Court of Tuscaloosa, Alabama (case filed 11/13/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Laborers' and Operating Engineers Utility Agreement v. Philip Morris, et al., Case No. CIV97-1406 PHX, USDC, District of Arizona (case filed 7/29/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Arkansas Carpenters Health & Welfare Fund v. Philip Morris, et al., Case No. LR-C-97-0754, USDC, Eastern District of Arkansas (case filed 9/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Bay Area Automotive Group Welfare Fund, et al. v. Philip Morris, Inc. et al., Case No. 994380, Superior Court of California, County of San Francisco (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Fibreboard Corporation, et al. v. The American Tobacco Company, et al., Case No. 791919-8, Superior Court of California, County of Alameda (case filed 11/10/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

Newspaper Periodical Drivers Local 921 San Francisco Newspaper Agency Health & Welfare Trust Fund v. Philip Morris, et al., Case No. 404469, Superior Court of California, County of San Mateo, (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Northern California General Teamsters Security Fund, et al. v. Philip Morris, Inc., et al., Case No. 798492-9, Superior Court of California, County of Alameda (case filed 5/22/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Northern California Tile Industry Health & Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 996822, Superior Court of California, County of San Francisco (case filed 5/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Operating Engineers Local 12 Health and Welfare Trust v. The American Tobacco Company, et al., Case No. CV-97-7620 TJH, USDC, Central District of California (case filed 11/6/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Pipe Trades District Council No. 36 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 797130-1, Superior Court of California, County of Alameda (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its

participants and beneficiaries suffering from smoking-related illnesses.

San Francisco Newspaper Publishers and Northern California Newspaper Guild Health & Welfare Trust v. Philip Morris, Inc., et al., Case No .994409, Superior Court of California, County of San Francisco (case filed 4/17/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Screen Actors Guild - Producers Health Plan, et al. v. Philip Morris, et al., Case No. DC181603, Superior Court of California, County of Los Angeles (case filed 11/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

The Seibels Bruce Group, Inc. v. R.J. Reynolds, et al, Case No. 300235, Superior Court of California, County of San Francisco (case filed 12/30/98). Insurance company seeks to recover equitable contribution from the tobacco industry defendants for the amount that has been, and will be paid by plaintiff for past and future defense and indemnification costs.

Sign, Pictorial and Display Industry Welfare Fund v. Philip Morris, Inc., et al., Case No. 994403, Superior Court of California, County of San Francisco (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Stationary Engineers Local 39 Health & Welfare Trust Fund v. Philip Morris, et al., Case No. C-97-1519-DLJ, USDC, Northern District of California (case filed 4/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Teamsters Benefit Trust v. Philip Morris, et al., Case No. 796931-5, Superior Court of California, County of Alameda (case filed 4/20/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA Local No. 159 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 796938-8, Superior Court of California, County of Alameda (case filed 4/15/98). Health

and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA Local No. 343 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 796956-4, Superior Court of California, County of Alameda. Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA Local No. 393 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 798474-3, Superior Court of California, County of Alameda (case filed 5/21/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA Local No. 467 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 404308, Superior Court of California, County of San Mateo. Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Connecticut Pipe Trades Health Fund, et al. v. Philip Morris, et al., Case No. 397CV01305CT, USDC, District of Connecticut (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Holland, et al. v. Philip Morris, Inc., et al., Case No. 1:98CV01716, USDC, District of Columbia (case filed 7/9/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

S.E.I.U. Local 74 Welfare Fund, et al. v. Philip Morris, Inc., et al., Case No. 1:98CV01569, USDC, District of Columbia (case filed 6/22/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Service Employees International Union Health and Welfare Trust Fund, et al. v. Philip Morris, Inc. et al., Case No. 1:98CV00704, USDC, District of Columbia (case filed 3/19/98). Health and Welfare Trust Fund seeks injunctive relief and economic

reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Raymark Industries, Inc. v. Brown & Williamson, et al., Case No. 1:97-CV-2711-RCF, USDC, Northern District of Georgia (case filed 11/5/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

Arkansas Blue Cross and Blue Shield, et al. v. Philip Morris Incorporated, et al., Case No. 98 C 2612, USDC, Northern District of Illinois (case filed 5/22/98). Seven Blue Cross/Blue Shield plans seek injunctive relief and economic reimbursement to recover moneys expended by healthcare plans to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Central Illinois Laborers Health & Welfare Trust Fund, et al. v. Philip Morris, et al., Case No. 97-L516, USDC, Southern District of Illinois (case filed 5/22/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Central States Joint Board Health & Welfare Fund v. Philip Morris, et al., Case No. 97L12855, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

International Brotherhood of Teamsters, Local 734 Health & Welfare Trust Fund v. Philip Morris, et al., Case No. 97L12852, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Teamsters Union No. 142, et al. v. Philip Morris, et al., Case No. 71C019709CP01281, USDC, Northern District of Indiana (case filed 9/15/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Union Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Kentucky Laborers District Council Health & Welfare Trust Fund v. Philip Morris, et al., Case No. 3-97-394, USDC, Western District of Kentucky (case filed 6/20/97). Health and

Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Trust Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Ark-LA-Miss Laborers Welfare Fund, et al. v. Philip Morris, et al., Case No. 97-1944, USDC, Eastern District of Louisiana (case filed 6/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Massachusetts Laborers' Health & Welfare Fund, et al. v. Philip Morris, et al., Case No. C.A. 97-2892G, Superior Court of Massachusetts, Suffolk County (case filed 6/2/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Carpenters & Joiners Welfare Fund, et al. v. Philip Morris, et al., Case No. 60,633-001, USDC, District of Minnesota (case filed 12/31/97). Health and Welfare Trust Plan seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Conwed Corporation, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. C1-98-3620, District Court, Ramsey County, State of Minnesota (case filed 4/30/98). Plaintiffs operate several industrial plants in the state of Minnesota, and seek reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

Group Health Plan, Inc., et al. v. Philip Morris, et al., Case No. 98-1036 DSD/JMM, USDC, Second Judicial District, Ramsey County, State of Minnesota (case filed 3/13/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Thomas, Ezell, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 96-0065, Circuit Court of Mississippi, Jefferson County (case filed 10/9/98). Plaintiffs in this putative personal injury class action seek a judgment against both tobacco companies and asbestos companies, and represent all similarly situated adult smokers resident in the state of Mississippi. Owens Corning Fiberglass is also a plaintiff in this action and seeks reimbursement for damages paid to asbestos victims for medical and other relief, which

damages allegedly are attributable to the tobacco companies.

Construction Laborers of Greater St. Louis Welfare Fund, Case No. 4:97CV02030ERW, USDC, Eastern District of Missouri (case filed 12/1/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Contractors, Laborers, Teamsters & Engineers Health & Welfare Plan v. Philip Morris, Inc. et al., Case No. 8:98CV364, USDC, District of Nebraska (case filed 8/17/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

New Jersey Carpenters Health Fund, et al. v. Philip Morris, et al., Case No. 97-3421, USDC, District of New Jersey (case filed 10/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Blue Cross and Blue Shield of New Jersey, et al. v. Philip Morris, Incorporated, et al., Case No. CV-98-3287(JBW), USDC, Eastern District of New York (case filed 4/29/98). Twenty-five health plans seek to recover moneys expended on healthcare costs purportedly attributed to tobacco-related diseases caused by Defendants.

Day Care Council-Local 205 D.C. 1707 Welfare Fund v. Philip Morris, et al., Case No. 606240/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Eastern States Health and Welfare Fund, et al. v. Philip Morris, et al., Case No. 603869/97, Supreme Court of New York, New York County (case filed 7/28/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Falise v. The American Tobacco Co., et al., Case No. CV 97-7640(JBW), USDC, Eastern District of New York (case filed 11/31/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

H.K. Porter Company, Inc. v. B.A.T. Industries, P.L.C., et al., Case No. 97-7658(JBW), USDC, Eastern District of New York (case filed 6/19/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

IBEW Local 25 Health and Benefit Fund v. Philip Morris, et al., Case No. 122255/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

IBEW Local 363 Welfare Fund v. Philip Morris, et al., Case No. 122254/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Keene Creditors Trust v. Brown & Williamson Tobacco Corp., et al., Case no. 606479/97, Supreme Court of New York, New York County (case filed 12/19/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

Laborers' Local 17 Health Benefit Fund, et al. v. Philip Morris, et al., Case No. 98-7944, 2nd Circuit Court of Appeals, State of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and benefactors suffering from smoking-related illnesses.

Local 1199 Home Care Industry Benefit Fund v. Philip Morris, et al., Case No. 606249/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Local 1199 National Benefit Fund for Health & Human Services Employees v. Philip Morris, et al., Case No. 606241/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Local 138, 138A & 138B International Union of Operating Engineers Welfare Fund v. Philip Morris, et al., Case No. 122257/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Local 840 International Brotherhood of Teamsters Health & Insurance Fund v. Philip Morris, et al., Case No. 122256/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Long Island Regional Council of Carpenters Welfare Local 840 International Brotherhood of Teamsters Health & Insurance Fund v. Philip Morris, et al., Case No. 122258/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

National Asbestos Workers Medical Fund, et al. v. Philip Morris Incorporated, et al., Case No. 98-1492, USDC, Eastern District of New York (case filed 3/23/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Puerto Rican ILGWU Health & Welfare Fund v. Philip Morris, et al., Case No. 604785-97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Raymark Industries, Inc. v. Brown & Williamson, et al., Case No. 98-CV-675, USDC, Eastern District of New York (case filed 5/21/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

United Federation of Teachers Welfare Fund, et al. v. Philip Morris, et al., Case No. 97-CIV-4676, USDC, Southern District of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover

moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Steamfitters Local Union No. 420 Welfare Fund, et al. v. Philip Morris, Inc, et al., Case No. 97-CV-5344, USDC, Eastern District of Pennsylvania (case filed 10/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Rhode Island Laborers' Health & Welfare Fund v. The American Tobacco Company, et al., Case No. 97-500L, USDC, District of Rhode Island (case filed 10/24/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Steamfitters Local Union No. 614 Health and Welfare Fund v. Philip Morris, et al., Case No. 92260-2, Circuit Court for the 30th Judicial District at Memphis, State of Tennessee (case filed 1/7/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Texas Carpenters Health Benefit Fund, et al. v. Philip Morris, et al., Case No. 1:97C0625, USDC, Eastern District of Texas (case filed 11/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Utah Laborers' Health and Welfare Trust Fund, et al. v. Philip Morris Incorporated, et al., Case No. 2:98CV403C, USDC, District of Utah, Central Division (case filed 6/11/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Association of Washington Public Hospital Districts, et al v. Philip Morris Incorporated, et al, Case No. C98-1675, USDC, Western District of Washington (case filed 3/17/99). Public Hospital Districts seek injunctive relief and economic reimbursement to recover moneys expended in providing medical treatment to its patients suffering from smoking-related illnesses.

Northwest Laborers-Employers Health & Security Trust Fund, et al. v. Philip Morris, et al., Case No. C97-849-WD, USDC, Western District of Washington (case filed 6/26/97).

Health and Welfare Trust Fund seeks economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Regence Blueshield, et al. v. Philip Morris Incorporated, et al., Case No. C98-559R, USDC, Western District of Washington (case filed 4/29/98). Blue Cross/Blue Shield plans seek injunctive relief and economic reimbursement to recover moneys expended by healthcare plans to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

West Virginia Laborers' Pension Trust Fund v. Philip Morris, et al., Case No. 397-0708, USDC, Southern District of West Virginia (case filed 8/27/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

West Virginia - Ohio Valley Area I.B.E.W., et al. v. Liggett Group Inc., et al., Case No. 97-C-2135, USDC, Southern District of West Virginia (case filed 9/19/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Milwaukee Carpenters= District Council Health Fund, et al. v. Philip Morris, et al., Case No. 98CV002394, Circuit Court of Wisconsin, Milwaukee County (case filed 3/30/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

III. CLASS ACTION CASES

Crozier, et al. v. American Tobacco Company, et al., Case No. CV 96-1508 PR, Circuit Court of Montgomery County, Alabama (case filed 8/2/96). This taxpayer putative class action seeks reimbursement of Medicaid expenses made by the government of the State of Alabama for smokers resident in Alabama allegedly injured by tobacco products.

Hansen, et al. v. The American Tobacco Company, et al., Case No. LR-C-96-881, USDC, Eastern District of Arkansas (case filed 4/4/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Arkansas.

Brown, et al. v. The American Tobacco Company, et al., Case No. 711400, Superior

Court of California, County of San Diego (case filed 10/1/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

Daniels, et al. v. Philip Morris Companies, Inc., et al., Case No. 719446, Superior Court of California, County of San Diego (case filed 8/13/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

Pechanga Band of Luiseno Mission Indians, et al. v. Philip Morris, Inc., et al., Case No. 725419, Superior Court of California, County of San Diego (case filed 10/30/98). This personal injury class action is brought on behalf of plaintiff tribe and all similarly situated American Indian smokers resident in California.

Smokers for Fairness, LLC, et al. v. The State of California, et al., Case No. 7076751, Superior Court of California, County of San Diego (case filed 9/25/98). Plaintiffs bring this putative class action on behalf of all similarly situated adult smokers resident in the State of California.

Reed, et al. v. Philip Morris, et al., Case No. 96-05070, Superior Court of the District of Columbia (case filed 6/21/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in the District of Columbia.

Broin, et al. v. Philip Morris, et al., Case No. 91-49738 CA 22, Circuit Court, State of Florida, Dade County (case filed 10/31/91). This action brought on behalf of all flight attendants that have allegedly been injured by exposure to environmental tobacco smoke was certified as a class action on December 12, 1994. This case was settled with respect to all defendants on October 10, 1997, which settlement was finally approved by the court on February 2, 1998. An appeal is currently pending.

Engle, et al. v. R.J. Reynolds, et al., Case No. 94-08273 CA 20, Circuit Court, State of Florida, Dade County (case filed 5/5/94). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Florida. The case was certified as a class action on October 31, 1994 and is currently on trial.

Peterson, et al. v. The American Tobacco Company, et al., Case No. 97-0490-02, First Circuit Court of the First Circuit, State of Hawaii (case filed 2/6/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated

allegedly addicted smokers resident in Hawaii.

Clay, et al. v. The American Tobacco Company, et al., Case No. 97-4167-JPG, USDC, Southern District of Illinois (case filed 5/22/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in 34 states.

Cleary, et al. v. Philip Morris, Inc., et al., Case No. 98 L06427, Circuit Court of the State of Illinois, Cook County (case filed 6/11/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated smokers resident in Illinois.

Norton, et al. v. R.J. Reynolds, et al., Case No. 48-D01-9605-CP-0271, Superior Court of Indiana, Madison County (case filed 5/3/96). This personal injury class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in Indiana.

Brammer, et al. v. R.J. Reynolds, et al., Case No. 4-97-CV-10461, USDC, Southern District of Iowa (case filed 6/30/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiffs and all similarly situated allegedly addicted smokers resident in Iowa.

Castano, et al. v. The American Tobacco Company, et al., Case No. 95-30725, USDC, Eastern District of Louisiana (case filed 3/29/94). This case was settled by Liggett and Brooke on March 12, 1996. Nationwide "addiction-as-injury" class action was decertified by the Fifth Circuit in May 1996.

Granier, et al. v. The American Tobacco Company, et al., USDC, Eastern District of Louisiana (case filed 9/29/94). This case currently is stayed pursuant to a decision in Castano.

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.

Baker, et al. v. The American Tobacco Company, et al., Case No.97-703444-NP, Circuit

Court of Michigan, Wayne County (case filed 2/4/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured adult smokers resident in Michigan.

Taylor, Terry, et al. v. The American Tobacco Company, et al., Case No. 97-715975, Circuit Court of Michigan, Wayne County (case filed 7/28/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Michigan.

Collier, et al. v. Philip Morris, et al., Case No. 1:98 ov 246RG, USDC, Southern District of Mississippi (case filed 6/5/98). This putative class action is brought on behalf of all non-smoking policemen and seamen employed in the United States who allegedly have been injured by exposure to second hand smoke.

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

Badillo, et al. v. The American Tobacco Company, et al., Case No. CV-N-97-573-HDM (RAM), USDC, District of Nevada (case filed 11/4/97). This action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to environmental tobacco smoke.

DiEnno, Vito and Martin N. Hallnan, et al. v. Liggett Group Inc., et al., Case No. CV-S-98-489-DWH (RLH), District Court, Clark County, Nevada (case filed 12/22/97). This action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to environmental tobacco smoke.

Selcer, et al. v. R.J. Reynolds, et al., Case No. CV-S-97-00334-PMP (RLH), USDC, District of Nevada (case filed 9/3/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Nevada.

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.

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

Piscitello, et al. v. Philip Morris Inc., et al., Case No. 98-CIV-4613, Superior Court of New Jersey, Middlesex County (case filed 3/6/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

Tepper and Watkins, et al. v. Philip Morris Inc., et al., Case No. BER-L-4983-97-E, Superior Court of New Jersey, Middlesex County (case filed 5/28/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in New Jersey.

Geiger, et al. v. The American Tobacco Company, et al., Index No. 10657/97, Supreme Court of New York, Queens County (case filed 1/12/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in New York.

Nwanze, et al. v. Philip Morris, et al., Case No. 97-CIV-7344, USDC, Southern District of New York (case filed 10/17/97). This action is brought on behalf of all prisoners nationwide that have allegedly been injured by exposure to environmental tobacco smoke.

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

Chamberlain, et al. v. The American Tobacco Company, et al., Case No. 1:96CV2005, USDC, Northern District of Ohio (case filed 8/20/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Ohio.

Barnes, et al. v. The American Tobacco Company, et al., Case No. 96-5903, USDC, Eastern District of Pennsylvania (case filed 8/8/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Pennsylvania.

Brown, Rev. Jesse, et al. v. Philip Morris, Inc., et al., Case No. 98-CV-5518, USDC, Eastern District of Pennsylvania (case filed 10/22/98). This civil rights putative class action is brought by several national African-American organizations, on behalf of all African-Americans resident in the United States who have smoked menthol cigarettes.

Sweeney, et al. v. American Tobacco Company, et al., Case No. GD98-16226, Court of

Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/15/98). This putative class action is brought on behalf of all current smokers who began smoking prior to the age of eighteen resident in the State of Pennsylvania.

Aksamit, et al. v. Brown & Williamson, et al., Case No. 6:97-3636-21, USDC, District of South Carolina, Greenville Division (case filed 11/24/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in South Carolina.

Newborn, et al. v. Brown & Williamson, et al., Case No. 97-2938 GV, USDC, Western District of Tennessee (case filed 10/1/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Tennessee.

Mason, et al. v. The American Tobacco Company, et al., Case No. 7-97CV-293-X, USDC, Northern District of Texas (case filed 12/23/97). This nationwide taxpayer putative class action seeks reimbursement of Medicare expenses made by the United States government.

Herrera, et al. v. The American Tobacco Company, et al., Case No. 2:98-CV-00126, USDC, District of Utah (case filed 1/28/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers under the age of nineteen [at time of original filing] resident in Utah.

Jackson, et al. v. Philip Morris, Inc., et al., Case No. 980901634PI, 3rd Judicial Court of Utah, Salt Lake County (case filed 3/10/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Utah.

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

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

Parsons, et al. v. Liggett Group Inc., et al., Case No. 98-C-388, Circuit Court, State of

West Virginia, Kanawha County (case filed 4/9/98). This personal injury class action is brought on behalf of plaintiff's decedent and all West Virginia residents having claims for personal injury arising from exposure to both cigarette smoke and asbestos fibers.

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

Insolia, et al. v. Philip Morris, et al., Case No. 97-CV-230-J, Circuit Court of Wisconsin, Rock County (case filed 4/4/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Wisconsin.

Bowden, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 98-0068-L, USDC, Western District of Virginia (case filed 1/6/99). This personal injury class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in Virginia.

Fletcher, et al. v. Brooke Group Ltd., Civil Action No. 97-913, Circuit Court of Mobile County, Alabama (Case filed 3/19/97). Nationwide class of individuals alleging smoking-related claims. The limited fund settlement was preliminarily approved by the court in December 1998. A hearing on final approval is scheduled for June 3, 1999.

IV. INDIVIDUAL SMOKER CASES

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

Colfield, et al. v. The American Tobacco Company, et al., Case No. CIV S-98-1695, USDC, Eastern District of California (case filed 9/3/98). Eleven individuals suing.

Cook, et al. v. The American Tobacco Company, et al., Case No. CIV. S-98-1698, USDC, Eastern District of California (case filed 9/2/98). Eight individuals suing.

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

Ellis v. The American Tobacco Co., et al., Case No. 804002, Superior Court of California, County of Orange (case filed 1/13/99). One individual suing.

Guzman, et al. v. Philip Morris Tobacco Company, et al., Case No. 300200, Superior Court of California, County of San Francisco (case filed 12/29/98). Four individuals suing.

Helt, et al. v. The American Tobacco Company, et al., Case No. CIV S-98-1697, USDC, Eastern District of California (case filed 9/3/98). Eight individuals suing.

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

Rovai v. Raybestos-Manhattan, et al., Case No. 996380, Superior Court of California, County of San Francisco (case filed 7/23/98). One individual suing.

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

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

Adams v. R.J. Reynolds, et al., Case No. 97 05442, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

Allman v. Liggett Group Inc., et al., Case No. 97-91348 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). Two individuals suing.

Altieri v. Philip Morris, et al., Case No. CI 97-4289, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 8/12/97). One individual suing.

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

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

Atkins v. R.J. Reynolds, et al., Case No. CI97-6597, Circuit Court of the 9th Judicial

Circuit, State of Florida, Orange County (case filed 9/16/97). One individual suing.

Bailey, et al. v. Liggett Group Inc., et al., Case No. 97-18056 CA15, Circuit Court of the 11th Judicial Circuit, State of Florida, Duval County (case filed 8/18/97). Two individuals suing.

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

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

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

Bouchard v. Philip Morris, et al., Case No. 97-31347, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). Two individuals suing.

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

Brown v. Brown & Williamson, et al., Case No. CI-97-5050, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

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

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

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

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

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

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

Dell v. Philip Morris, et al., Case No. 97 1023-CA-10-A, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). One individual suing.

Dick v. Liggett Group Inc., et al., Case No. CI 97-4544, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 8/21/97). Two individuals suing.

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

Doyle, et al. v. Philip Morris, et al., Case No. 97-627-CA, Circuit Court of the 7th Judicial Circuit, State of Florida, Flagler County (case filed 9/16/97). Two individuals suing.

Driscoll v. R.J. Reynolds, et al., Case No. 97 1049-CA-10, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). Two individuals suing.

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

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

Fischetti v. R.J. Reynolds, et al., Case No. CI 97-9792, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 11/17/97). One individual suing.

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

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

suing.

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

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

Habib v. R.J. Reynolds, et al., Case No. 97-30960 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/10/97). One individual suing.

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

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

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

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

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

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

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

Humpal, et al. v. R.J. Reynolds, et al., Case No. 97-10456 CIDL, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/30/97). Two individuals suing.

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

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

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

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

Laschke, et al. v. R.J. Reynolds, et al., Case No. 96-8131-CI-008, Circuit Court of the 6th Judicial Circuit, State of Florida, Pinellas County (case filed 12/20/96). Two individuals suing.

Lass v. R.J. Reynolds, et al., Case No. 96-04469, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 12/23/96). Two individuals suing.

Leombruno, et al. v. Philip Morris, et al., Case No. CI 97-4540, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

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

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

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

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

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

McMahon v. R.J. Reynolds, et al., Case No. G-97-1391, Circuit Court of the 10th Judicial Circuit, State of Florida, Polk County (case filed 4/29/97). Two individuals suing.

Meagher v. Philip Morris, et al., Case No. CI 97-4543, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 5/22/97). Two individuals suing.

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

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

Mullins v. Philip Morris, et al., Case No. 97-4749-37, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

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

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

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

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

Poythress v. R.J. Reynolds, et al., Case No. 97-30844, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 5/5/97). One individual suing.

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

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

Reilly, et al. v. Brown & Williamson, et al., Case No. 97-2468-CA, Circuit Court of the 5th Judicial Circuit, State of Florida, Lake County (case filed 10/22/97). Two individuals suing.

Rix v. R.J. Reynolds, et al., Case No. 96-1778 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 4/29/96). One individual suing.

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

Shira v. Philip Morris, et al., Case No. CI 97-4576, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 5/30/97). Two individuals suing.

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

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

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

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

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

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

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

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

Uffner v. Philip Morris, et al., Case No. 18142, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 12/31/96). Two individuals suing.

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

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

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

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

Young v. Brown & Williamson, et al., Case No. 96-03566, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 11/30/95). One individual suing.

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

Daley, et al. v. American Brands, Inc., et al., Case No. 97L07963, USDC, Northern District of Illinois (case filed 8/13/97). 17 individuals suing.

Rogers v. R.J. Reynolds, et al., Case No. 49 D 02-9301-CT-0008, Superior Court of Indiana, Marion County (case filed 3/7/97). Two individuals suing.

Sumpter v. The American Tobacco Co., et al., Case No. IP98-0401-C-M/G, USDC, District of Indiana, Marion County (case filed 2/26/98). 15 individuals suing.

Gronberg, et al. v. Liggett & Myers, et al., Case No. LA-CV-080487, District Court, State

of Iowa, Black Hawk County (case filed 3/30/98). Two individuals suing.

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

Badon, et ux. v. RJR Nabisco Inc., et al., Case No. 10-13653, USDC, Western District of Louisiana (case filed 5/24/94). Six individuals suing.

Bird, et al. v. The American Tobacco Co., et al., Case No. 507-532, 24th Judicial District Court, State of Louisiana, Jefferson Parish (case filed 4/10/97). Four individuals suing.

Brakel, et al. v. The American Tobacco Co., et al., Case No. 96-13672-D, USDC, Eastern District of Louisiana (case filed 8/30/96). Seven individuals suing.

Hebert, et al. v. United States Tobacco, et al., Case No. 96-2281, 14th Judicial District Court, State of Louisiana, Calcasieu Parish (case filed 5/8/96). Two individuals suing.

Higgins, et al. v. Liggett Group Inc., et al., Case No. 96-2205, USDC, Eastern District of Louisiana (case filed 6/1/96). One individual suing.

Jackson v. Brown & Williamson Tobacco Corp., et al., Case No. 97-441-C-MI, USDC, Middle District of Louisiana (case filed 7/3/97). One individual suing.

Kenon v. Brown & Williamson, et al., Case No. 98-586, USDC, Middle District of Louisiana (case filed 12/5/97). One individual suing.

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

Pitre, et al. v. R.J. Reynolds, et al., Case No. 97 CA 0059, 19th Judicial District Court, State of Louisiana, East Baton Rouge Parish (case filed 8/7/92). Five individuals suing.

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

Bakoian, Estate of Myda v. R.J. Reynolds, et al., Case No. 98-3737, Superior Court of Massachusetts, Middlesex County (case filed 6/22/98). One individual suing.

Bohl v. R.J. Reynolds Tobacco Co., et al., Case No. 98-6195, Superior Court of Massachusetts, Middlesex County (case filed 12/18/98). One individual suing.

Brandano v. The Tobacco Institute, Inc., et al., Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.

Cameron v. The Tobacco Institute, Inc., et al., Case No. 98-4960, Superior Court of Massachusetts, Middlesex County (case filed 8/3/98). One individual suing.

Carmichael-Foley v. Lowney, et al., Case No. 98-3694, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.

Curtis v. R.J. Reynolds Tobacco Co., et al., Case No. 98-4488, Superior Court of Massachusetts, Middlesex County (case filed 8/27/98). One individual suing.

Feeney v. R.J. Reynolds Tobacco Co., et al., Case No. 98-4241, Superior Court of Massachusetts, Middlesex County (case filed 7/15/98). One individual suing.

Francis, Estate of Ralph v. The Tobacco Institute, Inc., et al., Case No. 98-4963, Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.

Gordon v. R.J. Reynolds Tobacco Co., et al., Case No. 98-5417, Superior Court of Massachusetts, Middlesex County (case filed 8/10/98). One individual suing.

Harb v. The Tobacco Institute, Inc., et al., Case No. 98-597, Superior Court of Massachusetts, Middlesex County (case filed 9/10/98). One individual suing.

Hiscock v. R.J. Reynolds Tobacco Co., et al., Case No. 98-446, Superior Court of Massachusetts, Middlesex County (case filed 7/15/98). One individual suing.

Jones v. The Tobacco Institute, Inc., et al., Case No. 98-4940, Superior Court of Massachusetts, Middlesex County (case filed 8/1/98). One individual suing.

Maienza v. the Tobacco Institute, Inc., et al., Case No. 98-4888, Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). Two individuals suing.

McKenney, et al. v. R.J. Reynolds Tobacco Co., et al., Case No. 98-3910, Superior Court of Massachusetts, Middlesex County (case filed 7/27/98). One individual suing.

Mulcahy v. The Tobacco Institute, Inc., et al., Case No. 98-5208, Superior Court of Massachusetts, Middlesex County (case filed 9/5/98). One individual suing.

Reedy, Estate of Marie, et al. v. R.J. Reynolds Tobacco Co., et al., Case No. 98-5056, Superior Court of Massachusetts, Middlesex County (case filed 8/13/98). One individual suing.

Semprucci v. R.J. Reynolds Tobacco Co., et al., Case No. 98-6268, Superior Court of Massachusetts, Middlesex County (case filed 12/21/98). One individual suing.

Tenerillo v. R.J. Reynolds Tobacco Co., et al., Case No. 98-4214, Superior Court of Massachusetts, Middlesex County (case filed 7/14/98). One individual suing.

Varghesse v. R.J. Reynolds Tobacco Co., et al., Case No. 98-6124, Superior Court of Massachusetts, Middlesex County (case filed 12/17/98). One individual suing.

Varney v. R.J. Reynolds Tobacco Co., et al., Case No. 98-5835, Superior Court of Massachusetts, Middlesex County (case filed 10/27/98). One individual suing.

Wajda v. R.J. Reynolds Tobacco Co., et al., Case No. 98-4959, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.

Watt v. Liggett Group Inc., et al., Case No. 98-5499, USDC, District of Massachusetts (case filed 8/18/98). One individual suing.

Whiting v. Liggett Group, Inc., et al., Case No. 98-5026, Superior Court of Massachusetts, Middlesex County (case filed 9/4/98). One individual suing.

Woods, Estate of Helen v. The Tobacco Institute, Inc., et al., Case No. 98-5721, Superior Court of Massachusetts, Middlesex County (case filed 11/18/98). One individual suing.

Woods, Joseph v. The Tobacco Institute, Inc., et al., Case No. 98-5723, Superior Court of Massachusetts, Middlesex County (case filed 11/18/98). One individual suing.

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

Butler, Estate of Burl v. Philip Morris, et al., Case No. 94-5-53, Circuit Court of the 2nd Judicial District, State of Mississippi, Jones County (case filed 5/12/94). One individual suing.

Evans v. Philip Morris, et al., Case No. 97-0027, Circuit Court of the 1st Judicial District, State of Mississippi, Jasper County (case filed 6/10/97). One individual suing.

Rose v. R.J. Reynolds, et al., Case No. 2:98 CV 132, USDC, Northern District of Mississippi (case filed 7/30/98). One individual suing.

Gatlin v. The American Tobacco Co., et al., Case No. 982-10021, Circuit Court, State of

Missouri, City of St. Louis (case filed 1/19/99). One individual suing.

Murphy v. The American Tobacco Co., et al., Case No. CV-S-98-00021-HDM (RJJ), USDC, Southern District of Nevada (case filed 1/6/98). Liggett has not yet been served. One individual suing.

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

Altman, et al. v. Fortune Brands, Inc., et al., Case No. 97-123521, Supreme Court of New York, New York County (case filed 12/16/97). Seven individuals suing.

Anderson, et al. v. Fortune Brands, Inc., et al., Case No. 42821-97, Supreme Court of New York, Kings County (case filed 11/13/97). Six individuals suing.

Arnett, et al. v. The American Tobacco Co., et al., Case No. 109416/98, Supreme Court of New York, New York County (case filed 5/29/98). Nine individuals suing.

Bellows, et al. v. The American Tobacco Co., et al., Case No. 122518/97, Supreme Court of New York, New York County (case filed 11/26/97). Five individuals suing.

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

Caiazzo, et al. v. The American Tobacco Co., et al., Case No. 13213/97, Supreme Court of New York, Richmond County (case filed 10/27/97). Six individuals suing.

Cameron v. The American Tobacco Co., et al., Case No. 019125/97, Supreme Court of New York, Nassau County (case filed 7/18/97). Five individuals suing.

Canaan v. Philip Morris Inc., et al., Case No. 105250/98, Supreme Court of New York, New York County (case filed 3/24/98). One individual suing.

Carll, et al. v. The American Tobacco Co., et al., Case No. 112444/97, Supreme Court of New York, New York County (case filed 8/12/97). Five individuals suing.

Cavanagh, et al. v. The American Tobacco Co., et al., Case No. 11533/97, Supreme Court of New York, Richmond County (case filed 4/23/97). Two individuals suing.

Collins, et al. v. The American Tobacco Co., et al., Case No. 08322/97, Supreme Court of New York, Westchester County (case filed 7/2/97). Nine individuals suing.

Condon, et al. v. The American Tobacco Co., et al., Case No. 108902/97, Supreme Court of New York, New York County (case filed 2/4/97). Seven individuals suing.

Crane, et al. v. The American Tobacco Co., et al., Case No. 106202-97, USDC, Southern District of New York (case filed 4/4/97). Four individuals suing.

Creech, et al. v. The American Tobacco Co., et al., Case No. 106202-97, Supreme Court of New York, Richmond County (case filed 1/14/97). Four individuals suing.

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

Da Silva, et al. v. The American Tobacco Co., et al., Case No. 106095/97, Supreme Court of New York, New York County (case filed 1/14/97). Six individuals suing.

Domeracki v. Philip Morris, et al., Case No. 98/6859, Supreme Court of New York, Erie County (case filed 8/3/98). One individual suing.

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

Dzak, et al. v. The American Tobacco Co., et al., Case No. 26283/96, Supreme Court of New York, Queens County (case filed 12/2/96). Five individuals suing.

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

Fink, et al. v. The American Tobacco Co., et al., Case No. 110336/97, Supreme Court of New York, New York County (case filed 4/25/97). Six individuals suing.

Golden, et al. v. The American Tobacco Co., et al., Case No. 112445/97, Supreme Court of New York, New York County (case filed 8/11/97). Six individuals suing.

Greco, et al. v. The American Tobacco Co., et al., Case No. 15514-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

Gruder, et al. v. Fortune Brands, Inc., et al., Case No. 48487/97, Supreme Court of New York, New York County (case filed 12/8/97). Four individuals.

Guilloteau, et al. v. The American Tobacco Co., et al., Case No. 46398/97, Supreme Court of New York, Kings County (case filed 11/26/97). Four individuals suing.

Hansen, et al. v. the American Tobacco Co., et al., Case No. 97-26291, Supreme Court of New York, Suffolk County (case filed 4/12/97). Six individuals suing.

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

Inzerilla, et al. v. The American Tobacco Co., et al., Case No. 11754/96, Supreme Court of New York, Queens County (case filed 7/16/96). Two individuals suing.

Jaust, et al. v. The American Tobacco Co., et al., Case No. 116249/97, Supreme Court of New York, New York County (case filed 10/14/97). Ten individuals suing.

Juliano, et al. v. The American Tobacco Co., et al., Case No. 12470/97, Supreme Court of New York, Richmond County (case filed 8/12/96). Four individuals suing.

Keenan, et al. v. The American Tobacco Co., et al., Case No. 116545-97, Supreme Court of New York, New York County (case filed 10/6/97). Eight individuals suing.

Kestenbaum, et al. v. The American Tobacco Co., et al., Case No. 109350/97, Supreme Court of New York, New York County (case filed 6/4/97). Eight individuals suing.

Knutsen, et al. v. The American Tobacco Co., et al., Case No. 36860/96, Supreme Court of New York, Kings County (case filed 4/25/97). Two individuals suing.

Kotlyar, et al. v. the American Tobacco Co., et al., Case No. 28103/97, Supreme Court of New York, Queens County (case filed 11/26/97). Five individuals suing.

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

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

Labroila, et al. v. the American Tobacco Co., et al., Case No. 97-12855, Supreme Court of New York, Suffolk County (case filed 7/20/97). Four individuals suing.

Lehman, et al. v. The American Tobacco Co., et al., Case No. 112446/97, Supreme Court of New York, New York County (case filed 8/11/97). One individual suing.

Leibstein, et al. v. The American Tobacco Co., et al., Case No. 97-019145, Supreme

Court of New York, Nassau County (case filed 7/25/97). Six individuals suing.

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

Lennon, et al. v. The American Tobacco Co., et al., Case No. 120503/97, Supreme Court of New York, New York County (case filed 11/19/97). Seven individuals suing.

Le Paw v. B.A.T. Industries, et al., Case No. 17695-96, USDC, Southern District of New York (case filed 8/14/96). Four individuals suing.

Levinson, et al. v. The American Tobacco Co., et al., Case No. 13162/97, Supreme Court of New York, Kings County (case filed 4/17/97). Seven individuals suing.

Lien, et al. v. The American Tobacco Co., et al., Case No. 97-9309, Supreme Court of New York, Suffolk County (case filed 4/28/97). Two individuals suing.

Litke, et al. v. The American Tobacco Co., et al., Case No. 15739/97, Supreme Court of New York, Kings County (case filed 5/1/97). Five individuals suing.

Lohn v. Liggett Group Inc., et al., Case No. 105249/98, Supreme Court of New York, New York County (case filed 3/26/98). One individual suing.

Lombardo, et al. v. The American Tobacco Co., et al., Case No. 16765/97, Supreme Court of New York, Nassau County (case filed 6/6/97). Five individuals suing.

Long, et al. v. The American Tobacco Co., et al., Case No. 22574-97, Supreme Court of New York, Bronx County (case filed 10/22/97). Four individuals suing.

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

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

Lynch, et al. V. The American Tobacco Co., et al., Case No. 117244/97, Supreme Court of New York, New York County (case filed 10/22/97). Five individuals suing.

Magnus v. Fortune Brands, Inc., et al., Case No. CV-98-3441, USDC, Eastern District of New York (case filed 5/6/98). Three individuals suing.

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

Margolin, et al. v. The American Tobacco Co., et al., Case No. 120762/96, Supreme Court of New York, New York County (case filed 11/22/96). One individual suing.

Martin, et al. v. The American Tobacco Co., et al., Case No. 15982-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

McGuinness, et al. v. The American Tobacco Co., et al., Case No. 112447/97, Supreme Court of New York, New York County (case filed 7/28/97). Six individuals suing.

McLane, et al. v. The American Tobacco Co., et al., Case No. 11620/97, Supreme Court of New York, Richmond County (case filed 5/13/97). Four individuals suing.

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

Mishk, et al. v. The American Tobacco Co., et al., Case No. 108036/97, Supreme Court of New York, New York County (case filed May 1, 1997). Five individuals suing.

Morey v. Philip Morris, et al., Case No. I1998/9921, Supreme Court of New York, Erie County (case filed 10/30/98). Two individuals suing.

Newell, et al. v. The American Tobacco Co., et al., Case No. 97-25155, Supreme Court of New York, New York County (case filed 10/3/97). Six individuals suing.

Nociforo, et al. v. The American Tobacco Co., et al., Case No. 96-16324, Supreme Court of New York, Suffolk County (case filed 7/12/96). One individual suing.

O'Hara, et al. v. The American Tobacco Co., et al., Case No. 103095/98, Supreme Court of New York, New York County (case filed 2/23/98). Two individuals suing.

Ornstein v. Philip Morris, et al., Case No. 117548/97, Supreme Court of New York, New York County (case filed 9/29/97). One individual suing.

Perez, et al. v. The American Tobacco Co., et al., Case No. 26347/97, Supreme Court of New York, Kings County (case filed 8/26/97). Seven individuals suing.

Perri, et al. v. the American Tobacco Co., et al., Case No. 029554/97, Supreme Court of New York, Nassau County (case filed 11/24/97). Six individuals suing.

Piccione, et al. v. The American Tobacco Co., et al., Case No. 34371/97, Supreme Court of New York, Kings County (case filed 10/27/97). Five individuals suing.

Portnoy, et al. v. The American Tobacco Co., et al., Case No. 16323/96, Supreme Court of New York, Suffolk County (case filed 7/16/96). Two individuals suing.

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

Rico, et al. v. The American Tobacco Company of New York, et al., Case No. 120693/98, Supreme Court of New York, New York County (case filed 11/16/98). Nine individuals suing.

Rinaldi, et al. v. The American Tobacco Co., et al., Case No. 48021/96, Supreme Court of New York, Kings County (case filed 12/11/96). Five individuals suing.

Rose, et al. v. The American Tobacco Co., et al., Case No. 122131/96, Supreme Court of New York, New York County (case filed 12/18/96). Eight individuals suing.

Roseff v. The American Tobacco Co., et al., Case No. 123143/97, Supreme Court of New York, New York County (case filed 12/10/97). One individual suing.

Rubinobitz, et al. v. The American Tobacco Co., et al., Case No. 15717/97, Supreme Court of New York, Nassau County (case filed 5/28/97). Five individuals suing.

Schulhoff, et al. v. The American Tobacco Co., et al., Case No. 23737-97, Supreme Court of New York, Queens County (case filed 11/21/97). Six individuals suing.

Schwartz, Irwin v. The American Tobacco Co., et al., Case No. 14841/97, Supreme Court of New York, Nassau County (case filed 5/19/97). One individual suing.

Schwartz, Pearl v. The American Tobacco Co., et al., Case No. 47239/96, Supreme Court of New York, Kings County (case filed 12/2/96). One individual suing.

Senzer, et al. v. The American Tobacco Co., et al., Case No. 11609/97, Supreme Court of New York, Queens County (case filed 5/13/97). Eight individuals suing.

Shapiro, et al. v. The American Tobacco Co., et al., Case No. 111179/97, Supreme Court of New York, New York County (case filed 7/21/96). Four individuals suing.

Siegel, et al. v. The American Tobacco Co., et al., Case No. 36857/96, Supreme Court of

New York, Kings County (case filed 10/8/96). Two individuals suing.

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

Sola, et al. v. The American Tobacco Co., et al., Case No. 18205/96, Supreme Court of New York, Bronx County (case filed 7/16/96). Two individuals suing.

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

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

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

Walgreen, et al. v. The American Tobacco, et al., Case No. 109351/97, Supreme Court of New York, New York County (case filed 5/23/97). Eight individuals suing.

Werner, et al. v. Fortune Brands, Inc., et al., Case No. 029071-97, Supreme Court of New York, Queens County (case filed 12/12/97). Four individuals suing.

Zarudsky, et al. v. The American Tobacco Co., et al., Case No. 15773-97, Supreme Court of New York, New York County (case filed 5/28/97). Six individuals suing.

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

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

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.

Hise, et al. v. Philip Morris, et al., Case No. 98 cv 947 C (E), USDC, Northern District of Oklahoma (case filed 12/15/98). Two individuals suing. Price-fixing action concerning price increases resulting from the M.S.A.

Hall v. R.J. Reynolds Tobacco Co., et al., Case No. 4:97-cv-01723, USDC, Middle District of Pennsylvania (case filed 2/18/98). One individual suing.

Tantum v. American Tobacco Co., et al., Case No. 3762, Court of Common Pleas, State of Pennsylvania, Philadelphia County (case filed 1/26/99). Two individuals suing.

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

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

Labelle v. Brown & Williamson Tobacco Corp., et al., Case No. 2-98-1879-23, USDC, District of South Carolina (case filed 11/4/98). One individual suing.

Little v. Brown & Williamson, et al., Case No. 98-CD-10-2156, USDC, District of South Carolina (case filed 6/26/98). Two individuals suing.

Perry, et al. v. Brown & Williamson, et al., Case No. 2-473-95, Circuit Court, State of Tennessee, Knox County (case filed 7/20/95). One individual suing.

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

Bush, et al. v. Philip Morris, et al., Case No. 597CV180, USDC, Eastern District of Texas (case filed 9/22/97). Two individuals suing. This case currently is stayed until 5/10/99.

Cole, et al. v. The Tobacco Institute, et al., Case No. 1:97CV0256, USDC, Eastern District of Texas (case filed 5/12/97). Two individuals suing.

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

Dieste v. Philip Morris, et al., Case No. 597CV117, USDC, Eastern District of Texas (case filed 11/3/97). Two individuals suing.

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

Hamilton, et al. v. BGLS, Inc., et al., Case No. C 70609 6 D, USDC, Southern District of

Texas (case filed 2/26/97). Five individuals suing.

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

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

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

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

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

Sanchez v. American Brands, et al., Case No. 97-04-35562, USDC, Southern District of Texas (case filed 7/22/97). Two individuals suing.

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

Weingarten v. The Liggett Group Inc., Case No. 98-1541, USDC, Western District of Vermont (case filed 7/19/97). One individual suing. Liggett only defendant.

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

Allen, et al. v. Philip Morris Inc., et al., Case No. 98-C-2337 through 2401, Circuit Court, State of West Virginia, Kanawha County (case filed 10/1/98). 118 individuals suing.

Anderson, et al. v. Philip Morris, et al., Case No. 98-C-1773 through 1799, Circuit Court, State of West Virginia, Kanawha County (case filed 7/31/98). 50 individuals suing.

Ball v. Liggett & Myers Inc., et al., Case No. 2:97-0867, USDC, Southern District of West Virginia (case filed 5/1/98). One individual suing.

Bishop, et al. v. Liggett Group Inc., et al., Case No. 97-C-2696 through 2713, Circuit

Court, State of West Virginia, Kanawha County (case filed 10/28/98). One individual suing.

Hissom, et al. v. the American Tobacco Co., et al., Case No. 97-C-1479, Circuit Court, State of West Virginia, Kanawha County (case filed 9/13/97). Two individuals suing.

Huffman v. The American Tobacco Co., et al., Case No. 98-C-276, Circuit Court, State of West Virginia, Kanawha County (case filed 2/13/98). Two individuals suing.

Jividen v. The American Tobacco Co., et al., Case No. 98-C-278, Circuit Court, State of West Virginia, Mason County (case filed 1/19/99). Two individuals suing.

Newkirk, et al. v. Liggett Group Inc., et al., Case No. 98-C-1699, Circuit Court, State of West Virginia, Kanawha County (case filed 7/22/98). One individual suing.

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

LIGGETT GROUP INC.
CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999

LIGGETT GROUP INC.

Index to
Financial Statements

	Page

Consolidated Balance Sheets as of March 31, 1999 and December 31, 1998.....	2
Consolidated Statements of Operations for the three months ended March 31, 1999 and 1998.....	4
Consolidated Statement of Stockholder's Equity (Deficit) for the three months ended March 31, 1999.....	5
Consolidated Statements of Cash Flows for the three months ended March 31, 1999 and 1998.....	6
Notes to Consolidated Financial Statements.....	7

LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	March 31, 1999	December 31, 1998
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ASSETS		
Current assets:		
Accounts receivable:		
Trade, less allowances of \$1,685 and \$1,686, respectively	\$ 14,940	\$ 14,510
Other	824	821
Inventories	27,963	25,974
Other current assets	4,514	10,561
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Total current assets	48,241	51,866
Property, plant and equipment, at cost, less accumulated depreciation of \$31,663 and \$30,893, respectively	21,707	16,195
Intangible assets, at cost, less accumulated amortization of \$20,554 and \$20,550, respectively	167	171
Other assets	6,885	6,491
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Total assets	\$ 77,000	\$ 74,723
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The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands, except per share amounts)

	March 31, 1999	December 31, 1998
	-----	-----
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Current maturity of note payable	\$ 329	\$ --
Cash overdraft	43	63
Accounts payable, principally trade	2,870	3,206
Accrued expenses:		
Promotional	22,117	23,760
Income taxes	1,062	115
Other taxes, principally excise taxes	3,352	3,397
Estimated allowance for sales returns	7,100	7,100
Interest	11	12
Settlement accruals	1,235	1,120
Proceeds received for options	150,000	150,000
Other	9,459	10,697
	-----	-----
Total current liabilities	197,578	199,470
Credit facility and note payable, less current maturities	10,939	2,538
Non-current employee benefits	10,755	10,902
Other long-term liabilities	7,441	6,999
Commitments and contingencies (Note 7)		
Stockholder's equity (deficit):		
Redeemable preferred stock (par value \$1.00 per share; authorized 1,000 shares; no shares issued and outstanding)		
Common stock (par value \$0.10 per share; authorized 2,000 shares; issued and outstanding 1,000 shares)		
and contributed capital	57,870	57,380
Accumulated deficit	(207,583)	(202,566)
	-----	-----
Total stockholder's equity (deficit)	(149,713)	(145,186)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 77,000	\$ 74,723
	=====	=====

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)

	Three Months Ended March 31,	
	1999 ----	1998 ----
Net sales*	\$ 86,047	\$ 65,626
Cost of sales*	23,165 -----	26,221 -----
Gross profit	62,882	39,405
Selling, general and administrative expenses	42,813 -----	33,154 -----
Operating income	20,069	6,251
Other income (expense):		
Interest expense	(707)	(7,083)
Other, net	(47) -----	368 -----
Income (loss) before income taxes	19,315	(464)
Income tax provision	7,632 -----	-- -----
Net income (loss)	\$ 11,683 =====	\$ (464) =====

*Net sales and cost of sales include federal excise taxes of \$12,553 and \$14,809, respectively.

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT)

(Dollars in thousands)

	Common Stock and Contributed Capital -----	Deficit -----	Total Stockholder's Equity (Deficit) -----
Balance at December 31, 1998	\$57,380	\$(202,566)	\$(145,186)
Net income	--	11,683	11,683
Accretion of capital contribution	490	--	490
Distributions and other payments	--	(16,700)	(16,700)
	-----	-----	-----
Balance at March 31, 1999	\$57,870 =====	\$(207,583) =====	\$(149,713) =====

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Three Months Ended March 31,	
	1999	1998
Cash flows from operating activities	\$ 14,346	\$ (5,579)
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	13	702
Capital expenditures	(6,369)	(353)
Net cash (used in) provided by investing activities	(6,356)	349
Cash flows from financing activities:		
Repayments of note	(25)	21
Issuance of note	4,500	--
Borrowings under revolving credit facility	75,574	62,692
Repayments under revolving credit facility	(71,319)	(57,492)
Deferred finance charges	--	(38)
Distributions and other payments to affiliates	(16,700)	--
(Decrease) increase in cash overdraft	(20)	47
Net cash (used in) provided by financing activities	(7,990)	5,230
Net increase in cash and cash equivalents	--	--
Cash and cash equivalents:		
Beginning of period	--	--
End of period	\$ -0-	\$ -0-

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

1. THE COMPANY

Liggett Group Inc. ("Liggett" or the "Company") is a wholly-owned subsidiary of BGLS Inc. ("BGLS"), a wholly-owned subsidiary of Brooke Group Ltd. ("BGL"). Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Certain management and administrative functions are performed by affiliates. (See Note 8.)

The interim consolidated financial statements included herein 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. The December 31, 1998 balance sheet has been derived from audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included as Exhibit 99.2 in Brooke's and BGLS' Annual Report on Form 10-K, as amended, for the year ended December 31, 1998, 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.

All of the Company's common shares (1,000 shares, issued and outstanding for all periods presented herein) are owned by BGLS. Accordingly, earnings and dividends per share data are not presented in these consolidated financial statements.

2. ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 allowance for doubtful accounts, sales returns and allowances, actuarial assumptions of pension plans and litigation and defense costs. Actual results could differ from those estimates.

3. PHILIP MORRIS BRAND TRANSACTIONS

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

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

11.5% Senior Secured Notes due February 1, 1999 and the Variable Rate Series C Senior Secured Notes due February 1, 1999 (together, the "Liggett Notes") together with accrued interest on December 28, 1998.

The Class A Option entitles PM to purchase the Class A Interest for \$10,100. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for no later than June 10, 1999 (currently scheduled to close May 24, 1999), subject to customary closing conditions.

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

The LLC will seek to borrow \$134,900 (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B Interest. In connection with the closing of the Class A Option, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure Eve's release from its guaranty. The Class B Interest will be entitled to a guaranteed payment of \$500 each year, with the Class A Interest allocated all remaining LLC income or loss.

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

If PM fails to exercise the Class B Option, Eve will have an option to put its Class B Interest to PM, or PM's designees (the "Eve Put Option"), at a put price that is \$5,000 less than the exercise price of the Class B Option (and includes PM's procuring Eve's release from its Loan guaranty). The Eve Put Option is exercisable at any time during the 90-day period beginning March 2, 2010.

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

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

4. INVENTORIES

Inventories consist of the following:

	March 31, 1999 -----	December 31, 1998 -----
Leaf tobacco	\$ 9,891	\$ 10,796
Other raw materials	1,763	1,741
Work-in-process	2,392	1,828
Finished goods	14,235	12,231
Replacement parts and supplies	3,156	3,150
	-----	-----
Inventories at current cost	31,437	29,746
LIFO adjustment	(3,474)	(3,772)
	-----	-----
Inventories at LIFO cost	\$ 27,963	\$ 25,974
	=====	=====

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. Liggett had leaf tobacco purchase commitments of approximately \$4,754 at March 31, 1999.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	March 31, 1999 ----	December 31, 1998 ----
Land and improvements	\$ 412	\$ 412
Buildings	5,823	5,823
Machinery and equipment	47,135	40,853
	-----	-----
Property, plant and equipment	53,370	47,088
Less accumulated depreciation	(31,663)	(30,893)
	-----	-----
Property, plant and equipment, net	\$ 21,707	\$ 16,195
	=====	=====

6. CREDIT FACILITY AND NOTE PAYABLE

	March 31, 1999 ----	December 31, 1998 ----
Borrowings outstanding under revolving credit facility	\$ 6,793	\$2,538
Note payable	4,475	--
	-----	-----
	11,268	2,538
Current portion	(329)	--
	-----	-----
Amount due after one year	\$ 10,939 =====	\$2,538 =====

Revolving Credit Facility:

On March 8, 1994, Liggett entered into the Facility under which it can borrow up to \$40,000 (depending on the amount of eligible inventory and receivables as determined by the lenders) from a syndicate of commercial lenders. The Facility, which expires March 8, 2000, is collateralized by all inventories and receivables of the Company. Availability under the Facility was approximately \$12,990 based upon eligible collateral at March 31, 1999. Borrowings under the Facility whose interest is calculated at a rate equal to 1.5% above Philadelphia National Bank's prime rate bore a rate of 9.25% at March 31, 1999. The Facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended April 8, 1998, imposes requirements with respect to Liggett's permitted maximum adjusted net worth (not to fall below a deficit of \$195,000 as computed in accordance with the agreement, this computation was \$146,239 at March 31, 1999) and net working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement, this computation was \$4,466 at March 31, 1999).

Note Payable:

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

7. COMMITMENTS AND CONTINGENCIES

TOBACCO-RELATED LITIGATION:

OVERVIEW. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are reported hereinafter as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Liggett or BGL). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into four categories: (i) smoking and health cases alleging personal injury brought on behalf of individual smokers ("Individual Actions"); (ii) smoking and health cases alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors

including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. For the three months ended March 31, 1999, Liggett incurred counsel fees and costs totaling approximately \$1,568, compared to \$1,342 for the comparable prior year period.

INDIVIDUAL ACTIONS. As of March 31, 1999, there were approximately 265 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to ETS and seek compensatory and, in some cases, punitive damages. Of these, 89 were pending in Florida, 91 in New York, 29 in Massachusetts and 19 in Texas. The balance of the individual cases were pending in 21 states. There are four individual cases pending where Liggett is the only named defendant.

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

In February 1999, a state court jury in San Francisco awarded \$51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by PM. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages. The court subsequently reduced the punitive damages award to \$25,000.

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

CLASS ACTIONS. As of March 31, 1999, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Two of these cases, Fletcher, et al. v. Brooke Group Ltd., et al. and Walker, et al. v. Liggett Group Inc., et al., have been settled by the Company, subject to court approval. These two settlements are more fully discussed below under the "Settlements" section.

In October 1991, an action entitled Broin, et al. v. Philip Morris Incorporated, et al., Circuit Court of the Eleventh Judicial District in and for Dade County, Florida, was filed against Liggett and others. This case was brought by plaintiffs on behalf of all flight attendants that worked or are presently working for airlines based in the United States and who never regularly smoked cigarettes but allege that they have been damaged by involuntary exposure to ETS. In October 1997, the other major tobacco companies settled this matter, which settlement provides for a release of Liggett and BGL. In February 1998, the Circuit Court approved the settlement, which settlement was affirmed by the Third District Court of Appeals in March 1999.

In March 1994, an action entitled Castano, et al. v. The American Tobacco Company Inc., et al., United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint sought relief for a nationwide class of smokers based on their alleged addiction to nicotine. In February 1995, the District Court granted plaintiffs' motion for class certification (the "Class Certification Order").

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

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

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

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

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

THIRD-PARTY PAYOR ACTIONS. As of March 31, 1999, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross and Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District Courts in New York, Chicago, and Seattle and seek billions of dollars in damages. The lawsuits allege conspiracy, fraud, misrepresentation and violation of federal racketeering and antitrust laws as well as other claims. In January 1999, a federal judge in Seattle

dismissed a Third-Party Payor Action brought by seven Blue Cross/Blue Shield Plans against the tobacco industry. The court ruled that the insurance providers did not have standing to bring the lawsuit. However, in February 1999, a federal judge in the Eastern District of New York denied pleas by the industry to dismiss the Third-Party Payor Action brought by 24 Blue Cross/Blue Shield Plans.

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.

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

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

On November 23, 1998, PM, B&W, R.J. Reynolds Tobacco Company ("RJR") and Lorillard Tobacco Company ("Lorillard") (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. As described below, Liggett and BGL had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 42 states and territories.

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

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

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). In the year following any year in which Liggett's market share does exceed the Base Share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMS pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMS (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nations" protection for both Liggett and BGL, the payments due these states by Liggett (with certain possible exceptions) have been eliminated. With respect to all non-economic

obligations under the previous settlements, both Liggett and BGL are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In March 1997, Liggett, BGL and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled Fletcher, et al. v. Brooke Group Ltd., et al., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class, and in May 1997, a similar mandatory class settlement agreement was filed in an action entitled Walker, et al. v. Liggett Group Inc., et al., United States District Court, Southern District of West Virginia. In July, 1998, Liggett, BGL and plaintiffs filed an amended class action settlement agreement in Fletcher which agreement was preliminarily approved by the court in December, 1998. A hearing on final approval of the settlement is scheduled for June 3, 1999; however, hearing dates are subject to change. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of \$1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, Liggett anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and BGL. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in Fletcher encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution of tobacco-related claims against Liggett and BGL.

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

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

The Amchem decision's ultimate affect on the viability of both the Walker and Fletcher settlements remains uncertain given the Fifth Circuit's recent ruling reaffirming a limited fund class action settlement in In re Asbestos Litigation ("Ahearn"). In June 1997, the Supreme Court remanded Ahearn to the Fifth Circuit for consideration in light of Amchem. On remand, the Fifth Circuit made two decisive distinctions

between Amchem and Ahearn. First, the Ahearn class action proceeded under Rule 23(b)(1) while Amchem was a Rule 23(b)(3) case, and second, in Ahearn, there was no allocation or difference in award, according to nature or severity of injury, as there was in Amchem. The Fifth Circuit concluded that all members of the class and all class representatives share common interests and none of the uncommon questions abounding in Amchem exist. In June, 1998, the Supreme Court granted certiorari to review the Fifth Circuit decision.

Liggett previously accrued approximately \$4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of Liggett's treatment under the MSA, \$14,928 of net charges accrued for the prior settlements were reversed in 1998.

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

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

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

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

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

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

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

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

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

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

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

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

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

Liggett has been involved in certain environmental proceedings, none of which, either individually or in the aggregate, rises to the level of materiality. Liggett's management believes that current operations are conducted in material compliance with all environmental laws and regulations. Management is unaware of any material environmental conditions affecting its existing facilities. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

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

LEGISLATION AND REGULATION:

In 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of ETS which concludes that ETS is a known human lung carcinogen in adults and in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest of the major domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate ETS, and that given the current body of scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's classification of ETS was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, the court ruled

that the EPA made procedural and scientific mistakes when it declared in its 1993 report that secondhand smoke caused as many as 3,000 cancer deaths a year among nonsmokers.

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

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

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect; however, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

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

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

SUBSEQUENT EVENTS: In April 1999, the Supreme Court granted certiorari to review the Fourth Circuit's decision that the FDA does not have the authority to regulate access to, and labeling of, tobacco products.

YEAR 2000 COSTS:

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

reengineering effort related to Year 2000 compliance, validation and testing. In January of 1998, Liggett initiated a major conversion of factory accounting, materials management and information systems at its Durham production facility with upgrades that have been successfully tested for Year 2000 compliance. This conversion was completed in November 1998. Program upgrades to Liggett's human resources and payroll systems, budgeted at \$160, are scheduled for completion in July of 1999. Enhancements to the Company's finished goods inventory system are expected to be completed in September 1999. It is anticipated that all factory, corporate, field sales and physical distribution systems will be completed in sufficient time to support Year 2000 compliance and verification.

Although such costs may be a factor in describing changes in operating profit in any given reporting period, the Company currently does not believe that the anticipated costs of Year 2000 systems conversions will have a material impact on its future consolidated results of operations. Based on the progress Liggett has made in addressing Year 2000 issues and its strategy and timetable to complete its compliance program, the Company does not foresee significant risks associated with its Year 2000 initiatives at this time. Although the Company is in the process of confirming that service providers are adequately addressing Year 2000 issues, there can be no complete assurance of success, or that interaction with other service providers will not impair the Company's service.

8. RELATED PARTY TRANSACTIONS

Liggett is party to a Tax-Sharing Agreement dated June 29, 1990 with BGL and certain other entities pursuant to which Liggett has paid taxes to BGL as if it were filing a separate company tax return, except that the agreement effectively limits the ability of Liggett to carry back losses for refunds. Liggett is entitled to recoup overpayments in a given year out of future payments due under the agreement.

Liggett is a party to an agreement dated February 26, 1991, as amended October 1, 1995, with BGL to provide various management and administrative services to the Company in consideration for an annual management fee of \$900 paid in monthly installments and annual overhead reimbursements of \$864 paid in quarterly installments.

In addition, Liggett has entered into an annually renewable Corporate Services Agreement with BGLS wherein BGLS agreed to provide corporate services to the Company at an annual fee paid in monthly installments. Corporate services provided by BGLS under this agreement include the provision of administrative services related to Liggett's participation in its parent company's multi-employer benefit plan, external publication of financial results, preparation of consolidated financial statements and tax returns and such other administrative and managerial services as may be reasonably requested by Liggett. The charges for services rendered under the agreement amounted to \$915 in the first quarter of 1999 and \$1,020 in the first quarter of 1998.

The Company leases equipment from a subsidiary of BGLS for \$50 per month.

NEW VALLEY CORPORATION
FINANCIAL STATEMENTS

MARCH 31, 1999

NEW VALLEY CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 1999

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	Page

Item 1. Consolidated Financial Statements (Unaudited):	
Condensed Consolidated Balance Sheets as of March 31, 1999 and December 31, 1998.....	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 1999 and 1998.....	4
Condensed Consolidated Statement of Changes in Stockholders' Deficiency for the three months ended March 31, 1999.....	5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 1999 and 1998.....	6
Notes to the Condensed Consolidated Financial Statements	7

NEW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	March 31, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 10,312	\$ 16,444
Investment securities available for sale.....	36,563	37,567
Trading securities owned.....	6,562	8,984
Restricted assets.....	1,192	1,220
Receivable from clearing brokers.....	12,575	22,561
Other current assets.....	3,647	4,675
	70,851	91,451
Investment in real estate, net.....	83,049	82,875
Furniture and equipment, net.....	10,393	10,444
Restricted assets.....	8,909	6,082
Long-term investments, net.....	11,726	9,226
Investment in joint venture.....	63,690	65,193
Other assets.....	6,020	7,451
	\$ 254,638	\$ 272,722
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Margin loan payable.....	\$ 4,044	\$ 13,088
Current portion of notes payable and long-term obligations.....	2,708	2,745
Accounts payable and accrued liabilities.....	26,863	32,047
Prepetition claims and restructuring accruals.....	12,340	12,364
Income taxes.....	18,361	18,702
Securities sold, not yet purchased.....	2,659	4,635
	66,975	83,581
Notes payable.....	54,801	54,801
Other long-term liabilities.....	28,200	23,450
Commitments and contingencies.....	--	--
Redeemable preferred shares.....	332,198	316,202
Stockholders' deficiency:		
Cumulative preferred shares; liquidation preference of \$69,769, dividends in arrears: \$172,905 and \$165,856.....	279	279
Common Shares, \$.01 par value; 850,000,000 shares authorized; 9,577,624 shares outstanding.....	96	96
Additional paid-in capital.....	534,568	550,119
Accumulated deficit.....	(759,598)	(758,016)
Unearned compensation on stock options.....	(148)	(475)
Accumulated other comprehensive income.....	(2,733)	2,685
	(227,536)	(205,312)
	\$ 254,638	\$ 272,722
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

NEW VALLEY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended March 31,	
	1999	1998
Revenues:		
Principal transactions, net.....	\$ 4,776	\$ 5,893
Commissions.....	11,126	6,676
Corporate finance fees.....	1,438	3,238
Gain on sale of investments, net.....	499	5,596
Loss from joint venture.....	(1,503)	(329)
Real estate leasing.....	2,230	7,776
Computer sales and service.....	251	413
Interest and dividends.....	1,261	2,849
Other income.....	2,692	1,728
	-----	-----
Total revenues.....	22,770	33,840
	-----	-----
Cost and expenses:		
Selling, general and administrative.....	26,592	30,100
Interest.....	2,325	4,160
	-----	-----
Total costs and expenses.....	28,917	34,260
	-----	-----
Loss from continuing operations before income taxes and minority interests.....	(6,147)	(420)
Income tax provision.....	15	6
Minority interest in loss of consolidated subsidiaries.....	480	583
	-----	-----
(Loss) income from continuing operations.....	(5,682)	157
Discontinued operations:		
Gain on disposal of discontinued operations.....	4,100	--
	-----	-----
Income from discontinued operations.....	4,100	--
	-----	-----
Net (loss) income.....	(1,582)	157
Dividend requirements on preferred shares.....	(22,219)	(18,832)
	-----	-----
Net loss applicable to Common Shares.....	\$ (23,801)	\$ (18,675)
	=====	=====
Loss per Common Share (basic and diluted):		
Continuing operations.....	\$ (2.92)	\$ (1.95)
Discontinued operations.....	.43	--
	-----	-----
Net loss per Common Share.....	\$ (2.49)	\$ (1.95)
	=====	=====
Number of shares used in computation.....	9,577,624	9,577,624
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

NEW VALLEY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
 STOCKHOLDERS' DEFICIENCY
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	Class B Preferred Shares -----	Common Shares -----	Paid-In Capital -----	Accumulated Deficit -----	Unearned Compensation on Stock Options -----	Accumulated Other Comprehensive Income -----
Balance, December 31, 1998.....	\$279	\$96	\$550,119	\$(758,016)	\$ (475)	\$ 2,685
Net income.....				(1,582)		
Undeclared dividends and accretion on redeemable preferred shares...			(15,171)			
Unrealized loss on investment securities.....						(5,418)
Adjustment to unearned compensation on stock options.....			(327)		327	
Compensation expense on stock option grants.....			(53)			
Balance, March 31, 1999.....	\$279 ===	\$96 ==	\$534,568 =====	\$(759,598) =====	\$ (148) =====	\$ (2,733) =====

See accompanying Notes to Condensed Consolidated Financial Statements.

NEW VALLEY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	Three Months Ended March 31,	
	1999	1998
Cash flows from operating activities:		
Net (loss) income.....	\$ (1,582)	\$ 157
Adjustments to reconcile net (loss) income to net cash provided from (used for) operating activities:		
Income from discontinued operations.....	(4,100)	--
Loss from joint venture.....	1,503	329
Depreciation and amortization.....	898	2,344
Stock based compensation expense.....	774	828
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease (increase) in receivables and other assets.....	14,375	(9,586)
(Decrease) increase in income taxes.....	(340)	440
(Decrease) increase in accounts payable and accrued liabilities....	(6,884)	2,766
Net cash provided from (used for) continuing operations.....	4,644	(2,722)
Net cash provided from discontinued operations.....	4,100	--
Net cash provided from (used for) operating activities.....	8,744	(2,722)
Cash flows from investing activities:		
Sale or maturity of investment securities.....	2,947	8,129
Purchase of investment securities.....	(6,858)	(913)
Sale or liquidation of long-term investments.....	--	1,901
Purchase of long-term investments.....	(2,500)	(1,951)
Sale of real estate.....	920	--
Purchase of real estate.....	(1,615)	(1,419)
Purchase of furniture and fixtures.....	(312)	(197)
Payment of prepetition claims.....	(24)	(847)
Increase in restricted assets.....	(2,827)	(68)
Net cash transferred to joint venture.....	--	(487)
Net cash (used for) provided from investing activities.....	(10,269)	4,148
Cash flows from financing activities:		
Decrease in margin loan payable.....	(9,044)	(2,842)
Proceeds from participating loan.....	4,473	--
Prepayment of notes payable.....	(36)	(291)
Net cash used for financing activities.....	(4,607)	(3,133)
Net decrease in cash and cash equivalents.....	(6,132)	(1,707)
Cash and cash equivalents, beginning of period.....	16,444	11,606
Cash and cash equivalents, end of period.....	\$ 10,312	\$ 9,899
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

NEW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

1. PRINCIPLES OF REPORTING

The consolidated financial statements include the accounts of New Valley Corporation and its majority-owned subsidiaries (the "Company"). The consolidated financial statements as of March 31, 1999 presented herein have been prepared by the Company and are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of March 31, 1999 and the results of operations and cash flows for all periods presented have been made. Results for the interim periods are not necessarily indicative of the results for an entire year.

These financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 as filed with the Securities and Exchange Commission (Commission File Number 1-2493).

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain reclassifications have been made to prior interim period financial information to conform with current year presentation.

PROPOSED RECAPITALIZATION PLAN

The Company has submitted for approval of its stockholders at its 1999 annual meeting, which will be held on May 21, 1999, a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of the Company's outstanding Class A Senior Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The authorized number of Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of \$12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of the Company's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by the Company for a three-year period. Upon completion of the Recapitalization Plan, the Company will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of the Company's shares. Brooke Group Ltd. ("Brooke"), the Company's principal stockholder, has agreed to vote all of its shares in the Company in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder

NEW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

exercises its Warrants, Brooke will increase its ownership of the outstanding Common Shares of the Company from 42.3% to 55.1% and its total voting power from 42% to 55.1%.

The Company believes the proposed Recapitalization Plan will simplify the current capital structure of the Company by replacing it with a single class of equity securities. The exchange of the Preferred Shares for Common Shares will eliminate dividend arrearages, thus increasing the net worth of the Company by approximately \$332,198 on a pro forma basis as of March 31, 1999. It will also remove the need to redeem the Class A Senior Preferred Shares in 2003. The resulting improvement in the net worth of the Company, along with a hoped for increase in the price of the Common Shares, should increase the likelihood of having the Common Shares quoted on NASDAQ. This, along with a more transparent capital structure, should increase the liquidity of the Company's securities, improve the valuation of the Common Shares and provide a currency for acquisitions and financings. Finally, the recapitalization will allow the voting rights of stockholders to properly reflect the economic interest of such stockholders.

NEW ACCOUNTING PRONOUNCEMENTS.

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

2. INVESTMENT IN WESTERN REALTY

WESTERN REALTY DEVELOPMENT LLC

In February 1998, the Company and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, the Company agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to \$58,750, including the investment in Western Realty Repin discussed below. Through March 31, 1999, Apollo had funded \$36,529 of its investment in Western Realty Ducat.

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

NEW VALLEY CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Dollars in thousands, except per share amounts)
 (Unaudited)

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

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in Western Tobacco Investments LLC ("WTI"), a company organized by Brooke (Overseas) Ltd., a subsidiary of Brooke, which, among other things, holds the interests of Brooke (Overseas) Ltd. in Liggett-Ducat Ltd. and the new factory being constructed by Liggett-Ducat Ltd. on the outskirts of Moscow. Western Realty Ducat has recognized as other income \$1,002, which represents 30% of WTI's net income for the three months ended March 31, 1999.

Summarized financial information as of March 31, 1999 and December 31, 1998 and for the three month period ended March 31, 1999 and for the period from February 20, 1998 (date of inception) to March 31, 1998 for Western Realty Ducat follows:

	MARCH 31, 1999	DECEMBER 31, 1998
	-----	-----
Current assets.....	\$ 2,939	\$ 857
Participating loan receivable.....	32,993	31,991
Real estate, net.....	86,307	85,761
Furniture and fixtures, net.....	230	179
Noncurrent assets.....	538	631
Goodwill, net.....	7,016	7,636
Notes payable - current.....	5,703	4,999
Current liabilities.....	5,445	5,802
Notes payable.....	13,143	14,656
Long-term liabilities.....	756	756
Members' equity.....	104,976	100,842
	Three months ended	February 20, 1998
	March 31, 1999	(date of inception)
	-----	-----
Revenues.....	\$ 3,448	\$ 927
Costs and expenses.....	4,425	1,256
Other income.....	1,002	--
Income tax provision.....	16	--
Net loss.....	9	(329)

WESTERN REALTY REPIN LLC

In June 1998, the Company and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a \$25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites

NEW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 95.2% of one site and 52% of the other site at March 31, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment (\$18,750), together with a 20% annual rate of return, and the Company will then be entitled to a return of its investment (\$6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to the Company and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and the Company. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through March 31, 1999, Western Realty Repin has advanced \$25,000 under the Repin Loan to BML, of which \$18,773 was funded by Apollo and is classified in other long-term obligations on the consolidated balance sheet at March 31, 1999. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds of the Repin Loan to repay the Company for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of the Company's shares of BML.

As of March 31, 1999, BML had invested \$19,621 in the Kremlin Sites and held \$3,525, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional \$6,000 (which has been funded) in 1999 and \$22,000 in 2000 in the development of the property.

The Company has accounted for the formation of Western Realty Repin as a financing by Apollo and a contribution of assets into a consolidated subsidiary by New Valley which is eliminated in consolidation. Based on the distribution terms contained in the Western Realty Repin LLC agreement, the 20% annual rate of return preference to be received by Apollo on funds advanced to Western Realty Repin is treated as interest cost in the consolidated statement of operations.

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

NEW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains included as a component of accumulated other comprehensive income. The Company had realized gains on sales of investment securities available for sale of \$499 for the three months ended March 31, 1999.

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

	COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	FAIR VALUE
	----	----	----	----
Marketable equity securities.....	\$39,297	\$ 254	\$ 6,444	\$33,107
Marketable warrants.....	--	3,456	--	3,456
	-----	-----	-----	-----
Investment securities.....	\$39,297	\$ 3,710	\$ 6,444	\$36,563
	=====	=====	=====	=====

4. LONG-TERM INVESTMENTS

At March 31, 1999, long-term investments consisted primarily of investments in limited partnerships of \$11,726. The Company believes the fair value of the limited partnerships exceeds their carrying amount by approximately \$2,600 based on the indicated market values of the underlying investment portfolio provided by the partnerships. The Company's investments in limited partnerships are illiquid and the ultimate realization of these investments are subject to the performance of the underlying partnership and its management by the general partners.

5. REDEEMABLE PREFERRED SHARES

At March 31, 1999, the Company had authorized and outstanding 2,000,000 and 1,071,462, respectively, of its Class A Senior Preferred Shares. At March 31, 1999 and December 31, 1998, respectively, the carrying value of such shares amounted to \$332,198 and \$316,202, including undeclared dividends of \$234,581 and \$219,068 or \$218.94 and \$204.46 per share. As of March 31, 1999, the unamortized discount on the Class A Senior Preferred Shares was \$6,586.

For the three months ended March 31, 1999 and 1998, the Company recorded \$774 and \$828 in compensation expense related to certain Class A Senior Preferred Shares awarded to an officer of the Company in 1996. At March 31, 1999 and December 31, 1998, the balance of the deferred compensation and the unamortized discount related to these award shares was \$5,416 and \$5,721, respectively.

6. PREFERRED SHARES NOT SUBJECT TO REDEMPTION REQUIREMENTS

The undeclared dividends, as adjusted for conversions of Class B Preferred Shares into Common Shares, cumulatively amounted to \$172,905 and \$165,856 at March 31, 1999 and December 31, 1998, respectively. These undeclared dividends represent \$61.96 and \$59.43 per share as of the end of each period. No accrual was recorded for such undeclared dividends as the Class B Preferred Shares are not mandatorily redeemable.

NEW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

7. CONTINGENCIES

LAWSUITS

On or about March 13, 1997, a shareholder derivative suit was filed against the Company, as a nominal defendant, its directors and Brooke in the Delaware Chancery Court, by a stockholder of the Company. The suit alleges that the Company's purchase in January 1997 of the shares of BML from Brooke (Overseas) Ltd. constituted a self-dealing transaction which involved the payment of excessive consideration by the Company. The plaintiff seeks (i) a declaration that the Company's directors breached their fiduciary duties, Brooke aided and abetted such breaches and such parties are therefore liable to the Company, and (ii) unspecified damages to be awarded to the Company. The Company's time to respond to the complaint has not yet expired. The Company believes that the allegations were without merit. Although there can be no assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

RUSSIAN OPERATIONS

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

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

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

NEW VALLEY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

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

8. BUSINESS SEGMENT INFORMATION

The following table presents certain financial information of the Company's continuing operations before taxes and minority interests as of and for the three months ended March 31, 1999 and 1998:

	BROKER- DEALER -----	REAL ESTATE -----	COMPUTER SOFTWARE -----	CORPORATE AND OTHER -----	TOTAL -----
1999					
Revenues.....	\$19,030	\$ 2,323	\$ 251	\$ 1,166	\$ 22,770
Operating (loss) income.....	25	(1,225)	(1,601)	(3,346)	(6,147)
Identifiable assets.....	38,957	91,091	985	123,605	254,638
Depreciation and amortization.....	198	532	120	48	898
Capital expenditures.....	--	1,615	26	286	1,927
1998					
Revenues.....	\$19,425	\$ 7,776	\$ 413	\$ 6,226	\$ 33,840
Operating (loss) income.....	(1,224)	(20)	(1,249)	2,073	(420)
Depreciation and amortization.....	304	1,746	236	58	2,344
Capital expenditures.....	112	1,419	27	58	1,616

9. INCOME FROM DISCONTINUED OPERATIONS

The Company recorded a gain on disposal of discontinued operations of \$4,100 for the three months ended March 31, 1999 related to the settlement of a lawsuit originally initiated by the Company's former Western Union telegraph business.

10. COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for the reporting and disclosure of comprehensive income and its components. Comprehensive income is a measure that reflects all changes in stockholders' equity, except those resulting from transactions with stockholders. For the Company, comprehensive income includes net income and changes in the value of equity securities that have not been included in net income. For the three months ended March 31, 1999 and 1998, comprehensive loss applicable to Common Shares was \$29,219 and \$21,493, respectively.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page

Consolidated Balance Sheets as of March 31, 1999 and December 31, 1998.....	2
Consolidated Statements of Operations for the three months ended March 31, 1999 and March 31, 1998.....	3
Consolidated Statement of Stockholder's Equity (Deficit) for the three months ended March 31, 1999.....	4
Consolidated Statements of Cash Flows for the three months ended March 31, 1999 and March 31, 1998.....	5
Notes to Consolidated Financial Statements.....	6

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

	March 31, 1999	December 31, 1998
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,134	\$ 2,722
Accounts receivable - trade	2,980	650
Inventories	14,777	10,342
Other current assets	2,730	2,928
	-----	-----
Total current assets	24,621	16,642
Property, plant and equipment, at cost, less accumulated depreciation of \$3,758 and \$2,959	87,192	77,286
Other	4,739	5,782
	-----	-----
Total assets	\$ 116,552	\$ 99,710
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Credit facilities and current portion of notes payable.....	\$ 27,758	\$ 20,005
Accounts payable - trade	10,432	10,415
Due to affiliates	62,368	51,533
Accrued taxes	4,713	7,658
Accrued interest	665	228
Other accrued liabilities	4,320	3,628
	-----	-----
Total current liabilities	110,256	93,467
Long-term portion of notes payable	17,454	19,652
Deferred gain	14,574	20,392
Participating loan	32,984	30,000
Other liabilities	1,450	6,243
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value \$1 per share, 701,000 shares authorized, authorized, issued and outstanding	701	701
Additional paid-in-capital	17,104	17,104
Deficit	(77,971)	(87,849)
	-----	-----
Total stockholder's equity (deficit)	(60,166)	(70,044)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 116,552	\$ 99,710
	=====	=====

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

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

	Three Months Ended	
	March 31, 1999	March 31, 1998
Net sales*	\$ 22,362	\$ 19,177
Cost of sales*	18,412	15,584
	3,950	3,593
Gross profit		
Operating, selling, administrative and general expenses	2,648	2,141
	1,302	1,452
Operating income		
Other income (expense):		
Interest income	33	
Interest expense	(3,973)	(3,510)
Recognition of deferred gain on sale of assets	8,478	
Gain on foreign currency exchange	2,270	79
Other, net	51	(1)
	8,161	(1,980)
Income (loss) before income taxes		
Benefit for income taxes	(1,717)	(234)
	\$ 9,878	\$ (1,746)
Net income (loss)	\$ 9,878	\$ (1,746)

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* Revenues and Cost of goods sold include federal excise taxes of \$1,485 and \$3,109 for the three months ended March 31, 1999 and 1998, respectively.

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

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

=====

	Common Stock		Additional Paid-In Capital	Deficit	Total
	Shares	Amount			
	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	701,000	\$ 701	\$17,104	\$(87,849)	\$(70,044)
Net income.....	-----	-----	-----	9,878	9,878
Balance, March 31, 1999.....	701,000	\$ 701	\$17,104	\$(77,971)	\$(60,166)
	=====	=====	=====	=====	=====

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

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

=====

	Three Months Ended	
	March 31, 1999	March 31, 1998
Net cash provided by (used in) operating activities	\$ 6,646	\$ (8,273)
Cash flows from investing activities:		
Capital expenditures	(13,248)	(42)
Net cash used in investing activities	(13,248)	(42)
Cash flows from financing activities:		
Proceeds from participating loan		11,000
Repayments of debt	(79)	
Borrowings under credit facility	8,412	
Repayment of intercompany debt		(11,000)
Distributions paid to parent		(1,275)
Capital contributions		9,000
Net cash provided by financing activities	8,333	7,725
Effect of exchange rate changes on cash and cash equivalents	(319)	79
Net increase (decrease) in cash and cash equivalents	1,412	(511)
Cash and cash equivalents, beginning of period	2,722	968
Cash and cash equivalents, end of period	\$ 4,134	\$ 457

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

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

1. ORGANIZATION

Brooke (Overseas) Ltd. ("the Company"), a Delaware corporation, is a wholly-owned subsidiary of BGLS Inc. ("BGLS") and an indirect subsidiary of Brooke Group Ltd. ("Brooke"). The consolidated financial statements of the Company include Western Tobacco Investments LLC ("Western Tobacco"), a Delaware limited liability company. Western Tobacco holds the Company's interest in Liggett-Ducat Ltd. ("Liggett-Ducat"), a Russian closed joint stock company engaged in the manufacture and sale of cigarettes in Russia, and Liggett-Ducat Tobacco ("LDT"), a wholly-owned subsidiary of Liggett-Ducat engaged in the construction of a new cigarette factory.

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 as Exhibit 99.4 in Brooke's and BGLS' Annual Report on Form 10-K, as amended, for the year ended December 31, 1998, 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.

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

Certain amounts in the 1998 consolidated financial statements have been reclassified to conform to the 1999 presentation.

2. LIQUIDITY

At March 31, 1999, the Company had net capital and working capital deficiencies of \$60,166 and \$85,635, respectively. Factory management is currently using credit facilities totaling \$19,700. Availability under these facilities is \$2,500. In addition, BOL has obtained funding from BGLS of approximately \$12,000 to complete the factory. In connection with the move to the new factory in the second quarter of 1999, the Company plans to begin the manufacture and marketing of western style cigarettes. Management believes that such activities will result in improved operations and cash flow, but there can be no assurances in this regard.

In 1998, the Russian Federation entered a period of economic instability. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The return to economic stability is dependent to a large extent on

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Thousands, Except Per Share Amounts) - (Continued)
 (Unaudited)

the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The operations of Liggett-Ducat may be significantly affected by these factors for the foreseeable future.

3. SALE OF BROOKEMIL

In connection with the sale by the Company of the common shares of BML to New Valley Corporation ("New Valley") in 1997, a portion of the gain was deferred in recognition of the fact that the Company's parent, BGLS, retains an interest in BML through its 42% equity ownership of New Valley and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BML, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, \$8,478, in March 1999.

4. INVENTORIES

Inventories consist of:

	March 31, 1999	December 31, 1998
	-----	-----
Leaf tobacco	\$ 993	\$ 3,086
Other raw materials	3,682	2,888
Work-in-process	89	173
Finished goods	8,974	3,215
Replacement parts and supplies	1,039	980
	-----	-----
	\$14,777	\$10,342
	=====	=====

Replacement parts and supplies are shown net of a provision for obsolescence of \$645 and \$545 at March 31, 1999 and December 31, 1998, respectively.

During the three months ended March 31, 1999, Liggett-Ducat exchanged \$0 of cigarettes for the equivalent value in tobacco, other materials and services as compared to \$1,086 for the same period in 1998. Sales and purchases were priced at what management believes are normal sales prices for cigarettes and the normal market price for tobacco, other materials and services.

At March 31, 1999, the Company had leaf tobacco purchase commitments of approximately \$11,560.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Thousands, Except Per Share Amounts) - (Continued)
 (Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of:

	March 31, 1999	December 31, 1998
	-----	-----
Factory machinery and equipment ...	\$ 10,573	\$ 10,589
Computers and software	649	466
Office furniture and equipment	516	470
Vehicles	1,833	1,767
Construction-in-progress	77,379	66,953
	-----	-----
	90,950	80,245
Less accumulated depreciation	(3,758)	(2,959)
	-----	-----
	\$ 87,192	\$ 77,286
	=====	=====

Liggett-Ducat is in the process of constructing a new cigarette factory on the outskirts of Moscow which is currently scheduled to be operational in the June 1999. Liggett-Ducat's remaining liability under the construction contract, as amended, at March 31, 1999 is approximately \$2,500.

In addition to the liability under promissory notes for equipment purchase agreements discussed in Note 6, in place at March 31, 1999 there were equipment purchase commitments of \$3,011.

6. NOTES PAYABLE, CREDIT FACILITIES AND PARTICIPATING LOAN

Notes payable and credit facilities consist of the following:

	March 31, 1999	December 31, 1998
	-----	-----
Notes payable	\$25,475	\$28,057
Credit facilities	19,737	11,600
	-----	-----
Total notes payable and credit facilities	45,212	39,657
Less:		
Current maturities	27,758	20,005
	-----	-----
Amount due after one year	\$17,454	\$19,652
	=====	=====

At March 31, 1999, Liggett-Ducat had various credit facilities under which \$19,737 was outstanding. One, for \$10,000, expired in May 1999 but was extended for one year at an interest rate of 25%. The second, for \$5,000, expires in December 1999. The interest rate is 20%. The remaining facilities, denominated in rubles (approximately \$7,200 at the March 31, 1999 exchange rate), have terms of six - twelve months with interest rates of 52% - 55%. The facilities are collateralized by factory equipment and tobacco inventory.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Thousands, Except Per Share Amounts)-(Continued)
 (Unaudited)

In 1997, Western Tobacco entered into two contracts for the purchase of cigarette manufacturing equipment. A portion (85%) of both contracts is being financed with promissory notes. One contract is financed by ten half-year promissory notes payable at the rate of 6.71% per annum interest, with the first note due in May 1999. The outstanding balance on the contract is \$13,677 at March 31, 1999. The second contract is financed by 60 monthly promissory notes payable at the rate of 7.5% interest. The first note was paid in December 1998. The outstanding balance at March 31, 1999 is \$8,250. The Company also has a promissory note for \$1,514 at March 31, 1999 covering deposits for equipment being purchased for the factory. The note is due March 31, 2000.

On July 29, 1998, the Company borrowed \$3,000, subsequently reduced to \$2,034, from an unaffiliated third party with interest at 14% per annum. The note, which is due on August 1, 1999, is collateralized by factory equipment. Payments of \$50 toward principal and interest are made monthly, with the remaining principal balance due at maturity.

In February 1998, New Valley and Apollo organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. Through March 31, 1999, Western Realty Ducat had made a \$30,000 participating loan to Western Tobacco with the proceeds used by the Company to reduce intercompany debt to BGLS and for payments on the new factory construction contracts. The loan, which bears no fixed interest, is payable out of 30% of distributions, if any, made by Western Tobacco to the Company. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to the Company will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of the Company. For the three months ended March 31, 1999, a preference requirement equal to 30% of Western Tobacco's net income, \$1,002, has been charged to interest expense.

7. INCOME TAXES

For the three months ended March 31, 1999 and 1998, the tax benefit of \$1,717 and \$931, respectively, consists of income tax (benefit) expense pursuant to Russian statutory requirements of \$485 and \$931, respectively, and U.S. income tax benefit of \$1,232 and \$1,165 in accordance with the Company's tax sharing agreement with Brooke.

8. CONTINGENCIES

BGLS has pledged its ownership interest in the Company's common stock as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes due 2001 ("BGLS Notes").

On March 2, 1998, BGLS entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together, the "Apollo Holders"), who held approximately 41.8% of the BGLS Notes then outstanding. The Apollo Holders (and any transferees) agreed to defer the payment of interest on the BGLS Notes held by

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)-(Continued)
(Unaudited)

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

NEW VALLEY HOLDINGS, INC.

FINANCIAL STATEMENTS

MARCH 31, 1999

NEW VALLEY HOLDINGS, INC.

FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page

Balance Sheets as of March 31, 1999 and December 31, 1998.....	2
Statements of Operations for the three months ended March 31, 1999 and March 31, 1998.....	3
Statements of Stockholder's Equity (Deficit) for the three months ended March 31, 1999.....	4
Statements of Cash Flows for the three months ended March 31, 1999 and March 31, 1998.....	5
Notes to Financial Statements.....	6

NEW VALLEY HOLDINGS, INC.
BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	March 31, 1999	December 31, 1998
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 20	\$ 21
Investment in New Valley:		
Redeemable preferred stock	51,939	61,833
Common stock	(51,939)	(61,833)
	-----	-----
Total investment in New Valley	--	--
	-----	-----
Total assets	\$ 20	\$ 21
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current income taxes payable to parent	\$ 6,324	\$ 6,324
	-----	-----
Total liabilities	6,324	6,324
	-----	-----
Commitments and contingencies		
Common stock, \$0.01 par value, 100 shares authorized, issued and outstanding		
Additional paid-in capital	7,633	7,633
Deficit	(57,048)	(51,155)
Other comprehensive income	43,111	37,219
	-----	-----
Total stockholder's equity (deficit)	\$ (6,304)	\$ (6,303)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 20	\$ 21
	=====	=====

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

NEW VALLEY HOLDINGS, INC.
 STATEMENTS OF OPERATIONS
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	Three Months Ended	
	March 31, 1999	March 31, 1998
Equity in loss of New Valley	\$(7,599)	\$(4,166)
Interest income		9
General and administrative expenses	(2)	(7)
Loss from continuing operations before income taxes	(7,601)	(4,164)
Benefit for income taxes:		
Deferred	(598)	--
Income tax benefit	(598)	--
Loss from continuing operations	(7,003)	(4,164)
Income from discontinued operations of New Valley, net of taxes of \$598 in 1998	1,110	--
Net loss	\$(5,893)	\$(4,164)

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

NEW VALLEY HOLDINGS, INC.
 STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

=====

	Common Shares	Stock Amount	Additional Paid-In Capital	Deficit	Other Comprehensive Income	Total
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	100		\$7,633	\$(51,155)	\$37,219	\$ (6,303)
Net loss.....				(5,893)		(5,893)
Unrealized holding gain on investment in New Valley...					5,892	5,892
Total other comprehensive income.....						5,892
Total comprehensive loss.....						(1)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	100		\$7,633	\$(57,048)	\$43,111	\$ (6,304)
	=====	=====	=====	=====	=====	=====

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

NEW VALLEY HOLDINGS, INC.
 STATEMENTS OF CASH FLOWS
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	Three Months Ended	
	March 31, 1999	March 31, 1998
Net cash (used in) provided by operating activities.....	\$ (1) -----	\$1,025 -----
Net (decrease) increase in cash and cash equivalents.....	(1)	1,025
Cash and cash equivalents at beginning of period.....	21 -----	6 -----
Cash and cash equivalents at end of period.....	\$ 20 =====	\$1,031 =====

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

NEW VALLEY HOLDINGS, INC.
NOTES TO FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Organization. New Valley Holdings, Inc. (the "Company") was formed on September 9, 1994, pursuant to the laws of Delaware, by BGLS Inc. ("BGLS") to act as a holding company for certain stock investments in New Valley Corporation ("New Valley"). BGLS, which owns 100% of the authorized, issued and outstanding common stock of the Company, is a wholly-owned subsidiary of Brooke Group Ltd. ("Brooke"), a Delaware corporation whose stock is traded on the New York Stock Exchange.

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

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

Comprehensive Income. Comprehensive income is a component of stockholders' equity and includes the Company's net income and other comprehensive income such as the proportionate interest in New Valley's capital transactions, unrealized gains and losses on investment securities and minimum pension liability adjustments. For the three months ended March 31, 1999, total comprehensive loss was \$1; for the three months ended March 31, 1998, total comprehensive income was \$6.

2. INVESTMENT IN NEW VALLEY CORPORATION

At March 31, 1999, the Company's investment in New Valley consisted of a 41.5% voting interest. At March 31, 1999 and 1998, the Company owned 57.7% of the outstanding \$15.00 Class A Increasing Rate Cumulative Senior Preferred Shares (\$100 Liquidation Value), \$.01 par value ("Class A Preferred Shares"), and 41.5% of New Valley's common shares, \$.01 par value (the "Common Shares").

The Class A Preferred Shares are accounted for as debt and equity securities pursuant to the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and are classified as available-for-sale. The Common Shares are accounted for pursuant to Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock".

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

NEW VALLEY HOLDINGS, INC.
 NOTES TO FINANCIAL STATEMENTS
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

The Company's investment in New Valley at March 31, 1999 is summarized below:

1998	Number of Shares	Fair Value	Carrying Amount
-----	-----	-----	-----
Class A Preferred Shares.....	618,326	\$51,939	\$ 51,939
Common Shares.....	3,969,962	1,613	(51,939)
		-----	-----
		\$53,552	\$ 0
		=====	=====

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

The Class A Preferred Shares of New Valley are required to be redeemed on January 1, 2003 for \$100.00 per share plus dividends accrued to the redemption date. The shares are redeemable, at any time, at the option of New Valley, at \$100.00 per share plus accrued dividends. The holders of Class A Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board of Directors, payable at the rate of \$19.00 per annum. At March 31, 1999, the accrued and unpaid dividends arrearage was \$234,581(\$218.94 per share).

3. NEW VALLEY CORPORATION

Summarized financial information for New Valley as of March 31, 1999 and December 31, 1998 and for the three months ended March 31, 1999 and 1998 follows:

	March 31, 1999	December 31, 1998
	-----	-----
Current assets, primarily cash and marketable securities.....	\$ 70,851	\$ 91,451
Non-current assets.....	183,787	181,271
Current liabilities.....	66,975	83,581
Non-current liabilities.....	83,001	78,251
Redeemable preferred stock.....	332,198	316,202
Shareholders' deficit.....	(227,536)	(205,312)

	Three Months Ended	
	March 31, 1999	March 31, 1998
	-----	-----
Revenues	\$ 22,770	\$ 33,840
Costs and expenses.....	28,917	34,260
(Loss) income from continuing operations.....	(5,682)	157
Gain from discontinued operations.....	4,100	
Net loss applicable to common shares(A).....	(23,801)	(18,675)

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

NEW VALLEY HOLDINGS, INC.
NOTES TO FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to \$58,750 including the investment in Western Realty Repin discussed below. Through March 31, 1999, Apollo had funded \$36,529 of its investment in Western Realty Ducat.

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

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

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat Ltd. and the new factory being constructed by Liggett-Ducat on the outskirts of Moscow.

In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a \$25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 95.29% of one site and 52% of the other site at March 31, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment (\$18,750) together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment (\$6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through March 31, 1999, Western Realty Repin has advanced \$25,000 (of which \$18,773 was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are

NEW VALLEY HOLDINGS, INC.
NOTES TO FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of New Valley's shares of BML.

As of March 31, 1999, BML had invested \$19,621 in the Kremlin sites and held \$3,525, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML agreed with the City of Moscow to invest an additional \$6,000 in 1999 (which has been funded) and \$22,000 in 2000 in the development of the property.

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

Subsequent Event - Recapitalization Plan:

New Valley has submitted for approval of its shareholders at its 1999 annual meeting, which will be held on May 21, 1999, a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of \$12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ. Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of New Valley's shares.

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

4. FEDERAL INCOME TAX

At March 31, 1999, the Company had \$8,400 of unrecognized net deferred tax assets, comprised primarily of future deductible temporary differences. A valuation allowance has been provided against this deferred tax asset as it is presently deemed more likely than not that the benefit of the tax asset will not be utilized. The Company continues to evaluate the realizability of its deferred tax assets and its estimate is subject to change.

NEW VALLEY HOLDINGS, INC.
NOTES TO FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

5. CONTINGENCIES

BGLS has pledged its ownership interest in the Company's common stock and the Company's investments in the New Valley securities as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes ("BGLS Notes") due 2001.