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Securities And Exchange Commission  
Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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

|   |                        |   |
|---|------------------------|---|
| DELAWARE  | 1-5759                 | 65-0949535                              |
| (State or other jurisdiction of<br>incorporation or organization) | Commission File Number | (I.R.S. Employer<br>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)

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

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

At August 6, 2004, Vector Group Ltd. had 39,659,510 shares of common  
stock outstanding.

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VECTOR GROUP LTD.  
FORM 10-Q  
TABLE OF CONTENTS

|   | Page |
|---|------|
| <b>PART I. FINANCIAL INFORMATION</b>  |      |
| Item 1. Vector Group Ltd. Consolidated Financial Statements (Unaudited):  |      |
| Vector Group Ltd. Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003.....                                    | 2    |
| Vector Group Ltd. Consolidated Statements of Operations for the three and six months ended June 30, 2004 and June 30, 2003..... | 3    |
| Vector Group Ltd. Consolidated Statement of Stockholders' Equity (Deficit) for the six months ended June 30, 2004.....          | 4    |
| Vector Group Ltd. Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and June 30, 2003.....           | 5    |
| Notes to Consolidated Financial Statements.....   | 6    |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....                              | 34   |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk.....   | 54   |
| Item 4. Controls and Procedures.....  | 54   |
| <b>PART II. OTHER INFORMATION</b>   |      |
| Item 1. Legal Proceedings.....  | 55   |
| Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.....                                   | 55   |
| Item 4. Submission of Matters to a Vote of Security Holders.....  | 55   |
| Item 6. Exhibits and Reports on Form 8-K.....   | 56   |
| SIGNATURE .....   | 58   |

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

|   | June 30,<br>2004 | December 31,<br>2003 |
|---|------------------|----------------------|
|   | -----            | -----                |
| <b>ASSETS:</b>  |                  |                      |
| <b>Current assets:</b>  |                  |                      |
| Cash and cash equivalents .....   | \$ 80,397        | \$ 74,808            |
| Investment securities available for sale .....  | 19,031           | 67,521               |
| Accounts receivable - trade .....   | 10,339           | 10,425               |
| Other receivables .....   | 2,046            | 2,605                |
| Inventories .....   | 81,872           | 127,351              |
| Restricted assets .....   | 633              | 771                  |
| Deferred income taxes .....   | 28,789           | 19,328               |
| Other current assets .....  | 13,667           | 12,568               |
|   | -----            | -----                |
| Total current assets .....  | 236,774          | 315,377              |
| Property, plant and equipment, net .....  | 122,385          | 143,596              |
| Assets held for sale .....  | 25,800           | 9,438                |
| Long-term investments, net .....  | 2,266            | 2,431                |
| Investments in non-consolidated real estate businesses .....  | 25,268           | 18,718               |
| Restricted assets .....   | 5,489            | 5,571                |
| Deferred income taxes .....   | 14,326           | 13,200               |
| Intangible asset .....  | 107,511          | 107,511              |
| Other assets .....  | 11,685           | 12,370               |
|   | -----            | -----                |
| Total assets .....  | \$ 551,504       | \$ 628,212           |
|   | =====            | =====                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):</b>  |                  |                      |
| <b>Current liabilities:</b>   |                  |                      |
| Current portion of notes payable and long-term debt .....   | \$ 21,421        | \$ 10,762            |
| Accounts payable .....  | 9,567            | 8,635                |
| Accrued promotional expenses .....  | 19,803           | 22,203               |
| Accrued taxes payable, net .....  | 41,580           | 48,577               |
| Settlement accruals .....   | 10,428           | 52,650               |
| Deferred income taxes .....   | 4,002            | 4,000                |
| Accrued interest .....  | 7,004            | 7,004                |
| Other accrued liabilities .....   | 17,735           | 19,255               |
|   | -----            | -----                |
| Total current liabilities .....   | 131,540          | 173,086              |
| Notes payable, long-term debt and other obligations, less current portion .....   | 297,573          | 299,977              |
| Noncurrent employee benefits .....  | 15,206           | 13,438               |
| Deferred income taxes .....   | 143,201          | 139,927              |
| Other liabilities .....   | 5,219            | 4,781                |
| Minority interests .....  | 45,387           | 43,478               |
| Commitments and contingencies .....   | --               | --                   |
| Stockholders' equity (deficit):   |                  |                      |
| Preferred stock, par value \$1.00 per share, authorized 10,000,000 shares .....   | --               | --                   |
| Common stock, par value \$0.10 per share, authorized 100,000,000<br>shares, issued 42,900,379 and 42,103,276 shares and outstanding<br>39,651,210 and 39,021,189 shares ..... | 3,965            | 3,902                |
| Additional paid-in capital .....  | 228,894          | 251,239              |
| Deficit .....   | (292,873)        | (280,598)            |
| Accumulated other comprehensive loss .....  | (10,351)         | (9,335)              |
| Less: 3,249,169 and 3,082,087 shares of common stock in treasury, at cost ..  | (16,257)         | (11,683)             |
|   | -----            | -----                |
| Total stockholders' equity (deficit) .....  | (86,622)         | (46,475)             |
|   | -----            | -----                |
| Total liabilities and stockholders' equity (deficit) .....  | \$ 551,504       | \$ 628,212           |
|   | =====            | =====                |

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

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

|  | Three Months Ended |                   | Six Months Ended   |                   |
|--|--------------------|-------------------|--------------------|-------------------|
|  | June 30,<br>2004   | June 30,<br>2003  | June 30,<br>2004   | June 30,<br>2003  |
| <b>Revenues:</b>   |                    |                   |                    |                   |
| Tobacco*   | \$ 120,045         | \$ 129,400        | \$ 246,618         | \$ 260,743        |
| Real estate leasing  | 1,811              | 1,777             | 3,592              | 3,576             |
| <b>Total revenues</b>  | <b>121,856</b>     | <b>131,177</b>    | <b>250,210</b>     | <b>264,319</b>    |
| <b>Expenses:</b>   |                    |                   |                    |                   |
| Cost of goods sold, excluding inventory impairment*                                | 69,828             | 86,010            | 143,928            | 169,801           |
| Inventory impairment   | 37,000             | --                | 37,000             | --                |
| Operating, selling, administrative and general expenses                            | 37,631             | 44,344            | 77,468             | 93,895            |
| Restructuring and impairment charges   | 2,359              | --                | 3,012              | --                |
| <b>Operating income (loss)</b>   | <b>(24,962)</b>    | <b>823</b>        | <b>(11,198)</b>    | <b>623</b>        |
| <b>Other income (expenses):</b>  |                    |                   |                    |                   |
| Interest and dividend income   | 531                | 1,127             | 1,226              | 2,572             |
| Interest expense   | (6,491)            | (8,516)           | (12,913)           | (15,665)          |
| Gain on sale of investments, net   | 5,335              | 332               | 5,586              | 270               |
| Equity income (loss) from non-consolidated New Valley real estate businesses       | 4,642              | (174)             | 5,288              | (891)             |
| Other, net   | (4)                | 24                | (9)                | 17                |
| <b>Loss from operations before benefit for income taxes and minority interests</b> | <b>(20,949)</b>    | <b>(6,384)</b>    | <b>(12,020)</b>    | <b>(13,074)</b>   |
| Benefit for income taxes   | (7,181)            | (649)             | (2,493)            | (1,242)           |
| Minority interests   | (3,134)            | 805               | (2,748)            | 2,053             |
| <b>Net loss</b>  | <b>\$ (16,902)</b> | <b>\$ (4,930)</b> | <b>\$ (12,275)</b> | <b>\$ (9,779)</b> |
| <b>Per basic common share:</b>   |                    |                   |                    |                   |
| Net loss applicable to common shares   | \$ (0.43)          | \$ (0.13)         | \$ (0.31)          | \$ (0.25)         |
| Basic weighted average common shares outstanding                                   | 39,213,205         | 38,811,880        | 39,138,102         | 38,623,285        |
| <b>Per diluted common share:</b>   |                    |                   |                    |                   |
| Net loss applicable to common shares   | \$ (0.43)          | \$ (0.13)         | \$ (0.31)          | \$ (0.25)         |
| Diluted weighted average common shares outstanding                                 | 39,213,205         | 38,811,880        | 39,138,102         | 38,623,285        |

\* Revenues and Cost of goods sold include excise taxes of \$43,933, \$48,519, \$90,103 and \$98,336, respectively.

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

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

|   | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-In<br>Capital | Deficit      | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total       |
|---|------------------|-----------------|----------------------------------|--------------|-------------------|---|-------------|
| Balance, December 31, 2003 .....                    | 39,021,189       | \$ 3,902        | \$ 251,239                       | \$ (280,598) | \$ (11,683)       | \$ (9,335)                                    | \$ (46,475) |
| Net loss .....                                      | --               | --              | --                               | (12,275)     | --                | --  | (12,275)    |
| Unrealized loss on investment<br>securities .....   | --               | --              | --                               | --           | --                | (1,016)                                       | (1,016)     |
| Total other comprehensive loss ..                   | --               | --              | --                               | --           | --                | --  | (1,016)     |
| Total comprehensive loss .....                      | --               | --              | --                               | --           | --                | --  | (13,291)    |
| Distributions on common stock .....                 | --               | --              | (31,495)                         | --           | --                | --  | (31,495)    |
| Exercise of options .....                           | 590,021          | 59              | 6,153                            | --           | (4,574)           | --  | 1,638       |
| Restricted stock grants .....                       | 40,000           | 4               | (4)                              | --           | --                | --  | --          |
| Tax benefit of options exercised .....              | --               | --              | 2,839                            | --           | --                | --  | 2,839       |
| Amortization of deferred<br>compensation, net ..... | --               | --              | 162                              | --           | --                | --  | 162         |
| Balance, June 30, 2004 .....                        | 39,651,210       | \$ 3,965        | \$ 228,894                       | \$ (292,873) | \$ (16,257)       | \$ (10,351)                                   | \$ (86,622) |

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

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

|  | Six Months Ended |                  |
|--|------------------|------------------|
|  | June 30,<br>2004 | June 30,<br>2003 |
| Net cash used in operating activities: .....               | \$ (19,212)      | \$ (23,181)      |
| Cash flows from investing activities:                      |                  |                  |
| Proceeds from sale of assets, net .....                    | 2,657            | 910              |
| Sale or maturity of investment securities .....            | 63,108           | 79,391           |
| Purchase of investment securities .....                    | (12,253)         | (37,061)         |
| Sale of long-term investments .....                        | 278              | 830              |
| Investments in non-consolidated real estate businesses ... | (2,500)          | (9,500)          |
| Decrease (increase) in restricted assets .....             | 114              | (11,010)         |
| Payment of prepetition claims .....                        | --               | (18)             |
| New Valley repurchase of common shares .....               | --               | (1,346)          |
| Capital expenditures .....                                 | (1,132)          | (6,503)          |
| Net cash provided by investing activities .....            | 47,615           | 14,783           |
| Cash flows from financing activities:                      |                  |                  |
| Repayments of debt .....                                   | (7,063)          | (17,836)         |
| Borrowings under revolver .....                            | 276,606          | 332,181          |
| Repayments on revolver .....                               | (262,586)        | (299,559)        |
| Distributions on common stock .....                        | (31,495)         | (29,565)         |
| Proceeds from exercise of options and warrants .....       | 1,724            | 623              |
| Net cash used in financing activities .....                | (22,814)         | (14,156)         |
| Net increase in cash and cash equivalents .....            | 5,589            | (22,554)         |
| Cash and cash equivalents, beginning of period .....       | 74,808           | 100,027          |
| Cash and cash equivalents, end of period .....             | \$ 80,397        | \$ 77,473        |

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The consolidated financial statements of Vector Group Ltd. (the "Company" or "Vector") include the accounts of VGR Holding Inc. ("VGR Holding"), Liggett Group Inc. ("Liggett"), Vector Tobacco Inc. ("Vector Tobacco"), Liggett Vector Brands Inc. ("Liggett Vector Brands"), New Valley Corporation ("New Valley") and other less significant subsidiaries. The Company owned 58.1% of the common shares of New Valley at June 30, 2004. All significant intercompany balances and transactions have been eliminated.

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

The interim consolidated financial statements of the Company are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

(b) Estimates and Assumptions:

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

(c) Reclassifications:

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

(d) Earnings Per Share:

Information concerning the Company's common stock has been adjusted to give effect to the 5% stock dividend paid to Company stockholders on September 29, 2003. In connection with the 5% dividend, the Company increased the number of outstanding stock options by 5% and

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

reduced the exercise prices accordingly. All share amounts have been presented as if the stock dividends had occurred on January 1, 2003.

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.

The Company had a net loss for the three and six months ended June 30, 2004 and for the three and six months ended June 30, 2003. Therefore, the effect of the common stock equivalents and convertible securities is excluded from the computation of diluted net loss per share since the effect is antidilutive. Potentially dilutive shares that were not included in the diluted loss per share calculations were 1,826,880 and 1,864,901 for the three and six months ended June 30, 2004 and 1,108,930 and 1,223,783 for the three and six months ended June 30, 2003, which shares were issuable upon the exercise of stock options, vested restricted stock grants and warrants, assuming the treasury stock method.

(e) Comprehensive Loss:

Other comprehensive loss is a component of stockholders' equity (deficit) and includes such items as the unrealized gains and losses on investment securities available for sale and minimum pension liability adjustments. Total comprehensive loss was \$13,291 for the six months ended June 30, 2004 and \$7,435 for the six months ended June 30, 2003.

(f) New Accounting Pronouncements:

In March 2004, the Financial Accounting Standards Board (the "FASB") reached a consensus on Emerging Issues Task Force Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). EITF 03-1 provides guidance for determining when an investment is impaired and whether the impairment is other than temporary. EITF 03-1 also incorporates into its consensus the required disclosures about unrealized losses on investments announced by the EITF in late 2003 and adds new disclosure requirements relating to cost-method investments. The impairment accounting guidance is effective for reporting periods beginning after June 15, 2004 and the new disclosure requirements for annual reporting periods ending after June 15, 2004. The Company does not expect the adoption of the impairment guidance contained in EITF 03-1 to have a material impact on its financial position or results of operations.

In December 2003, the FASB issued Statement on Financial Accounting Standards ("SFAS") No. 132(R), which replaces SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132(R) does not change the measurement and recognition provisions of SFAS No. 87, SFAS No. 88, "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," however, it includes additional disclosure provisions for annual reporting, including detailed plan asset information by category, expanded benefit obligation disclosure and key assumptions. In addition, interim disclosures related to the individual elements of plan costs and employer's current year contributions are required. (See Note 6.)



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

2. RESTRUCTURING

On October 8, 2003, the Company announced that it would close Vector Tobacco's Timberlake, North Carolina cigarette manufacturing facility in order to reduce excess tobacco production capacity and improve operating efficiencies company-wide. Production of the QUEST line of low nicotine and nicotine-free cigarettes, as well as production of Vector Tobacco's other cigarette brands, has been moved to Liggett's state-of-the-art manufacturing facility in Mebane, North Carolina.

The Mebane facility currently produces in excess of 9 billion units per year, but maintains the capacity to produce 16 billion units per year. Vector Tobacco has contracted with Liggett Group to produce its cigarettes and has transitioned production from Timberlake to Mebane. All production ceased at Timberlake by December 31, 2003. As part of the transition, Vector eliminated approximately 150 positions.

As a result of these actions, the Company recognized pre-tax restructuring and impairment charges of \$21,521, of which \$21,300 was taken in 2003 and the remaining \$221 was taken in the first quarter of 2004. Machinery and equipment to be disposed of was reduced to estimated fair value less costs to sell during 2003 and is being carried on the accompanying consolidated balance sheets as assets held for sale. The asset impairment charges are based on management's current estimates of the values the Company will be able to realize on sales of the excess machinery and equipment, and may be adjusted in future periods based on the actual amounts realized.

On June 4, 2004, a wholly-owned subsidiary of Vector Tobacco entered into an agreement to sell the Timberlake facility, along with all equipment, which sale closed on July 13, 2004. (Refer to Note 4.) The Company decreased the asset impairment accrual as of June 30, 2004 to reflect the actual amounts to be realized from the Timberlake sale and to reduce the values of other excess Vector Tobacco machinery and equipment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company further adjusted the previously recorded restructuring accrual as of June 30, 2004 to reflect additional employee severance and benefits, contract termination, and associated costs resulting from the Timberlake sale. No charge to operations resulted from these adjustments as there was no change to the total impairment and restructuring accruals previously recognized.

In addition to the \$221 recorded in the first quarter, Liggett Vector Brands, as part of the continuing effort to adjust the cost structure of the Company's tobacco business and improve operating efficiency, eliminated 83 positions during April 2004, sublet its New York office space in July 2004 and relocated several employees. As a result of these actions, the Company recognized additional pre-tax restructuring charges of \$2,791 in the first half of 2004, including \$824 relating to employee severance and benefit costs and \$1,967 for contract termination and other associated costs. Approximately \$518 of these charges represent non-cash items. The Company recognized \$432 of these pre-tax restructuring charges in the first quarter of 2004, and \$2,359 in the second quarter of 2004.

Annual cost savings related to the restructuring and impairment charges are currently expected to be at least \$23,000 beginning in 2004. Management is currently reviewing opportunities for additional cost savings as a result of these restructuring activities at Vector Tobacco and Liggett Vector Brands.

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

The components of the pre-tax restructuring and impairment charges for 2003 and the six months ended June 30, 2004 are as follows:

|  | Employee<br>Severance<br>and Benefits | Non-Cash<br>Asset<br>Impairment | Contract<br>Termination/<br>Exit Costs | Total    |
|--|---------------------------------------|---------------------------------|--|----------|
|  | -----                                 | -----                           | -----                                  | -----    |
| Balance, December 31, 2002 .....         | \$ --                                 | \$ --                           | \$ --                                  | \$ --    |
| Original charges .....                   | 2,045                                 | 18,752                          | 503                                    | 21,300   |
| Utilized in 2003 .....                   | (182)                                 | (18,752)                        | (54)                                   | (18,988) |
|  | -----                                 | -----                           | -----                                  | -----    |
| Balance, December 31, 2003 .....         | 1,863                                 | --                              | 449                                    | 2,312    |
| Restructuring and impairment charges ... | 824                                   | 518                             | 1,670                                  | 3,012    |
| Adjustments/reclassifications in 2004 .. | 507                                   | (871)                           | 364                                    | --       |
| Utilized/recoveries in 2004, net.....    | (2,432)                               | 388                             | (1,532)                                | (3,576)  |
|  | -----                                 | -----                           | -----                                  | -----    |
| Balance, June 30, 2004 .....             | \$ 762                                | \$ 35                           | \$ 951                                 | \$ 1,748 |
|  | =====                                 | =====                           | =====                                  | =====    |

The Company has recorded the sublease of the New York office space in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," reducing future minimum lease payments by estimated sublease rentals. The charge of \$967 has been included in the \$3,012 charge for the six months ended June 30, 2004; \$752 has been recorded in other long-term liabilities and the remainder in other accrued liabilities. These amounts are not included in the \$1,748 balance at June 30, 2004.

3. INVENTORIES

Inventories consist of:

|                                      | June 30,<br>2004 | December 31,<br>2003 |
|--------------------------------------|------------------|----------------------|
|                                      | -----            | -----                |
| Leaf tobacco .....                   | \$ 39,857        | \$ 80,239            |
| Other raw materials .....            | 2,690            | 3,060                |
| Work-in-process .....                | 1,291            | 1,609                |
| Finished goods .....                 | 41,049           | 42,825               |
| Replacement parts and supplies ..... | --               | 636                  |
|                                      | -----            | -----                |
| Inventories at current cost .....    | 84,887           | 128,369              |
| LIFO adjustments .....               | (3,015)          | (1,018)              |
|                                      | -----            | -----                |
|                                      | \$ 81,872        | \$ 127,351           |
|                                      | =====            | =====                |

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At June 30, 2004, Liggett had leaf tobacco purchase commitments of approximately \$4,106 and Vector Tobacco had leaf tobacco purchase commitments of approximately \$1,624.

Included in the above table is approximately \$3,226 at June 30, 2004 and \$44,220 at December 31, 2003 of inventory associated with Vector Tobacco's QUEST product. During the second quarter of 2004, based on an analysis of the market data obtained since the introduction of the QUEST product, the Company determined to postpone indefinitely the national launch of QUEST and, accordingly, the Company recognized a non-cash charge of \$37,000 to adjust the carrying value of excess leaf

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

tobacco inventory for the QUEST product, based on estimated future demand and market conditions. If actual demand for the product or market conditions are less favorable than those estimated, additional inventory write-downs may be required.

LIFO inventories represent approximately 91.9% and 53.8% of total inventories at June 30, 2004 and December 31, 2003, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

|                                  | June 30<br>2004 | December 31,<br>2003 |
|----------------------------------|-----------------|----------------------|
|                                  | -----           | -----                |
| Land and improvements .....      | \$ 9,339        | \$ 10,019            |
| Buildings .....                  | 64,828          | 74,326               |
| Machinery and equipment .....    | 99,620          | 105,032              |
| Leasehold improvements .....     | 1,029           | 1,023                |
| Construction-in-progress .....   | 1,583           | 1,554                |
|                                  | -----           | -----                |
|                                  | 176,399         | 191,954              |
| Less accumulated depreciation .. | (54,014)        | (48,358)             |
|                                  | -----           | -----                |
|                                  | \$ 122,385      | \$ 143,596           |
|                                  | =====           | =====                |

The table above includes real estate assets and accumulated depreciation owned and operated by New Valley in the amounts of \$54,258 and \$1,843 as of June 30, 2004 and \$54,258 and \$1,246 as of December 31, 2003. (Refer to Note 9.)

Depreciation and amortization expense for the three and six months ended June 30, 2004 was \$3,531 and \$7,056. Future machinery and equipment purchase commitments at Liggett are \$4,266 as of June 30, 2004.

In July 2003, Liggett granted an unaffiliated third party an option to purchase Liggett's former manufacturing facility and other excess real estate in Durham, North Carolina with a net book value at June 30, 2004 of approximately \$2,313. The option agreement permits the purchaser to acquire the property during a period of up to two years, at a purchase price of \$14,000 if the closing occurs by August 23, 2004 and \$15,000 if the closing occurs thereafter during the term of the option. Liggett has received option fees of \$1,000, of which \$250 is refundable if the purchaser terminates the agreement prior to August 23, 2004. Liggett will be entitled to receive additional option fees of up to \$500 during the remaining option period. The option fees will generally be creditable against the purchase price. The purchaser is currently seeking financing for the transaction, and there can be no assurance the sale of the property will occur.

The Company recorded an \$18,752 non-cash asset impairment charge during the third quarter of 2003 in conjunction with the closing of Vector Tobacco's Timberlake, North Carolina facility of which \$17,968 relates to machinery and equipment. (See Note 2.)

On June 4, 2004, a wholly-owned subsidiary of Vector Tobacco entered into an asset purchase agreement to sell its Timberlake, North Carolina manufacturing facility along with all equipment to an affiliate of the Flue-Cured Tobacco Cooperative Stabilization Corporation for \$25,800. The Timberlake sale closed on July 13, 2004. In connection with the closing, the subsidiary of Vector Tobacco entered into a consulting agreement to provide certain services to the buyer for \$400. (See Notes 2 and 5.)

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

During 2003, Liggett entered into sale-leaseback transactions in which equipment with a book value of \$4,483 was sold and leased back from a third party as operating leases. Liggett received cash of \$2,386, and no gain or loss was recognized on these transactions.

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

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

|  | June 30<br>2004 | December 31,<br>2003 |
|--|-----------------|----------------------|
|  | -----           | -----                |
| Vector:  |                 |                      |
| 6.25% Convertible Subordinated Notes due 2008 .....  | \$ 132,500      | \$ 132,500           |
| VGR Holding:   |                 |                      |
| 10% Senior Secured Notes due 2006, net of<br>unamortized discount of \$5,381 and \$6,675 ..... | 64,619          | 63,325               |
| Liggett:   |                 |                      |
| Revolving credit facility .....  | 14,020          | --                   |
| Term loan under credit facility .....  | 4,881           | 5,190                |
| Equipment loans .....  | 8,001           | 9,758                |
| Vector Tobacco:  |                 |                      |
| Note payables .....  | 5,194           | 5,999                |
| Note payables - Medallion acquisition .....  | 35,000          | 38,125               |
| V.T. Aviation:   |                 |                      |
| Note payable .....   | 10,015          | 10,496               |
| VGR Aviation:  |                 |                      |
| Note payable .....   | 5,229           | 5,346                |
| New Valley:  |                 |                      |
| Note payable - operating real estate .....   | 39,535          | 39,910               |
| Other .....  | --              | 90                   |
|  | -----           | -----                |
| Total notes payable, long-term debt and other obligations .....                                | 318,994         | 310,739              |
| Less:  |                 |                      |
| Current maturities .....   | (21,421)        | (10,762)             |
|  | -----           | -----                |
| Amount due after one year .....  | \$ 297,573      | \$ 299,977           |
|  | =====           | =====                |

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

In July 2001, Vector completed the sale of \$172,500 (net proceeds of approximately \$166,400) of its 6.25% convertible subordinated notes due July 15, 2008 through a private offering to qualified institutional investors in accordance with Rule 144A under the Securities Act of 1933. The notes pay interest at 6.25% per annum and are convertible into Vector's common stock, at the option of the holder. The conversion price, which was \$26.71 per share at June 30, 2004, is subject to adjustment for various events, and any cash distribution on Vector's common stock will result in a corresponding decrease in the conversion price. In December 2001, \$40,000 of the notes were converted into Vector's common stock, and \$132,500 of the notes were outstanding at June 30, 2004.

Vector may redeem the notes, in whole or in part, at a price of 103.125% in the year beginning July 15, 2004, 102.083% in the year beginning July 15, 2005, 101.042% in the year beginning July 15, 2006 and 100% in the year beginning July 15, 2007, together with accrued interest. If a change of control occurs, Vector will be required to offer to repurchase the notes at 101% of their principal amount, plus accrued interest and, under certain circumstances, a "make whole" payment.

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

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

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

The notes are collateralized by substantially all of VGR Holding's assets, including a pledge of VGR Holding's equity interests in its direct subsidiaries, including Brooke Group Holding, Liggett Vector Brands, Vector Tobacco and New Valley Holdings, Inc. ("NV Holdings"), as well as a pledge of the shares of Liggett and all of the New Valley securities held by VGR Holding and NV Holdings. The purchase agreement for the notes contains covenants, which the Company is in compliance with at June 30, 2004. Among other things, the covenants limit the ability of VGR Holding to make distributions to the Company to 50% of VGR Holding's net income, unless VGR Holding holds an amount in cash equal to the then principal amount of the notes outstanding (\$70,000 at June 30, 2004) after giving effect to the payment of the distribution, and limit additional indebtedness of VGR Holding, Liggett, Vector Tobacco and Liggett Vector Brands to 250% of EBITDA (as defined in the purchase agreements) for the trailing 12 months. The covenants also restrict transactions with affiliates subject to exceptions which include payments to Vector not to exceed \$9,500 per year for permitted operating expenses, and limit the ability of VGR Holding to merge, consolidate or sell certain assets. In August 2004, in connection with an amendment to the note purchase agreement, VGR Holding repurchased \$7,000 of the notes at a price of 100% of the principal amount plus accrued interest. The Company will recognize a loss of approximately \$639 in the third quarter of 2004 on the early extinguishment of debt.

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

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

Revolving Credit Facility - Liggett:

On April 14, 2004, Liggett entered into an Amended and Restated Loan and Security Agreement with Congress Financial Corporation, as lender. The \$50,000 credit facility replaces Liggett's previous \$40,000 facility with Congress, under which \$14,020 was outstanding at June 30, 2004. Availability as determined under the facility was approximately \$20,900 based on eligible collateral at June 30, 2004. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility bear interest at a rate equal to 1.0% above the prime rate of Wachovia Bank, N.A. (the indirect parent of Congress). The facility requires Liggett's compliance with certain financial and other covenants including a restriction on Liggett's ability to pay cash dividends unless Liggett's borrowing

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

availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At June 30, 2004, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$63,755 and net working capital was \$52,995, as computed in accordance with the agreement.

100 Maple LLC, a company formed by Liggett in 1999 to purchase its Mebane, North Carolina manufacturing plant, has a term loan of \$4,881 outstanding under Liggett's credit facility at June 30, 2004. The remaining balance of the term loan is payable in monthly installments of \$77 with a final payment on June 1, 2006 of \$3,033. Interest is charged at the same rate as applicable to Liggett's credit facility, and the outstanding balance of the term loan reduces the maximum availability under the credit facility. Liggett has guaranteed the term loan, and a first mortgage on the Mebane property and manufacturing equipment collateralizes the term loan and Liggett's credit facility.

Equipment Loans - Liggett:

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

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

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

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

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

Notes Payable - Vector Tobacco:

In June 2001, Vector Tobacco purchased for \$8,400 an industrial facility in Timberlake, North Carolina. Vector Tobacco financed the purchase with an \$8,200 loan, payable in 60 monthly installments of \$85, plus annual interest at 4.85% above LIBOR with a final payment of approximately \$3,160. The loan, which was collateralized by a mortgage and a letter of credit of \$1,750, was guaranteed by VGR Holding and Vector. During December 2001, Vector Tobacco borrowed an additional \$1,159 from the same lender to finance building improvements. This loan was payable in 30 monthly installments of \$39 plus accrued interest, with an annual interest rate of LIBOR plus 5.12%. These loans were repaid on July 13, 2004 with a portion of proceeds from the sale of the Timberlake property. (See Note 4.)

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

Notes for Medallion Acquisition - Vector Tobacco:

The purchase price for the acquisition of Medallion included \$60,000 in notes of Vector Tobacco, guaranteed by the Company and Liggett. Of the notes, \$25,000 have been repaid with the final quarterly principal payment of \$3,125 made on March 31, 2004. The remaining \$35,000 of notes bear interest at 6.5% per year, payable semiannually, and mature on April 1, 2007.

Note Payable - V.T. Aviation:

In February 2001, V.T. Aviation LLC, a subsidiary of Vector Research Ltd., purchased an airplane for \$15,500 and borrowed \$13,175 to fund the purchase. The loan, which is collateralized by the airplane and a letter of credit from the Company for \$775, is guaranteed by Vector Research, VGR Holding and the Company. The loan is payable in 119 monthly installments of \$125, including annual interest of 2.31% above the 30-day commercial paper rate, with a final payment of \$1,420, based on current interest rates.

Note Payable - VGR Aviation:

In February 2002, V.T. Aviation purchased an airplane for \$6,575 and borrowed \$5,800 to fund the purchase. The loan is guaranteed by the Company. The loan is payable in 119 monthly installments of \$40, including annual interest of 2.75% above the 30-day average commercial paper rate, with a final payment of \$2,793, based on current interest rates. During the fourth quarter of 2003, this airplane was transferred to the Company's direct subsidiary, VGR Aviation LLC, which has assumed the debt.

Note Payable - New Valley:

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

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

6. EMPLOYEE BENEFITS

Net periodic benefit cost for the Company's pension and other postretirement benefit plans for the three and six months ended June 30, 2004 and 2003 consists of the following:

|  | Pension Benefits   |                  | Pension Benefits |                  |
|--|--------------------|------------------|------------------|------------------|
|  | Three Months Ended |                  | Six Months Ended |                  |
|  | June 30,<br>2004   | June 30,<br>2003 | June 30,<br>2004 | June 30,<br>2003 |
| Service cost - benefits earned during the period ..... | \$ 1,248           | \$ 981           | \$ 2,496         | \$ 1,962         |
| Interest cost on projected benefit obligation .....    | 2,240              | 2,390            | 4,480            | 4,780            |
| Expected return on plan assets .....                   | (3,027)            | (2,950)          | (6,054)          | (5,900)          |
| Amortization of net loss .....                         | 506                | 414              | 1,012            | 828              |
|  | \$ 967             | \$ 835           | \$ 1,934         | \$ 1,670         |
|  | \$ 967             | \$ 835           | \$ 1,934         | \$ 1,670         |

|  | Other Postretirement Benefits |                  | Other Postretirement Benefits |                  |
|--|-------------------------------|------------------|-------------------------------|------------------|
|  | Three Months Ended            |                  | Six Months Ended              |                  |
|  | June 30,<br>2004              | June 30,<br>2003 | June 30,<br>2004              | June 30,<br>2003 |
| Service cost - benefits earned during the period ..... | \$ 8                          | \$ 20            | \$ 16                         | \$ 40            |
| Interest cost on projected benefit obligation .....    | 157                           | 169              | 314                           | 338              |
| Expected return on plan assets .....                   | --                            | --               | --                            | --               |
| Amortization of net (gain) loss .....                  | 5                             | (32)             | 10                            | (64)             |
|  | \$ 170                        | \$ 157           | \$ 340                        | \$ 314           |
|  | \$ 170                        | \$ 157           | \$ 340                        | \$ 314           |

The Company did not make contributions to its pension benefits plans for the six months ended June 30, 2004 and does not anticipate making any contributions to such plans in 2004. The Company anticipates paying approximately \$550 in other postretirement benefits in 2004.

7. CONTINGENCIES

SMOKING-RELATED LITIGATION:

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



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

commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various foreign and domestic governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below are not quantifiable at this time. For the six months ended June 30, 2004, Liggett incurred legal fees and other litigation costs totaling approximately \$2,553 compared to \$2,232 for the six months ended June 30, 2003.

Individual Actions. As of June 30, 2004, there were approximately 382 cases pending against Liggett, and in most cases the other tobacco companies, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 108 were pending in Maryland, 94 in Florida, 51 in New York, 34 in Mississippi and 21 in California. The balance of the individual cases were pending in 23 states. In addition to these cases, an action against cigarette manufacturers involving approximately 1,000 named individual plaintiffs has been consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. In January 2002, the court severed Liggett from the trial of the consolidated action, which is currently scheduled for March 2005.

There are eight individual cases pending where Liggett is the only named defendant. In April 2004, in one of these cases, Beverly Davis v. Liggett Group Inc., a jury in a Florida state court action awarded compensatory damages of \$540 against Liggett. Liggett believes there are a number of grounds to challenge the verdict and intends to pursue all post-trial and appellate relief.

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

Jury awards in various states have been entered against other cigarette manufacturers. The awards in these individual actions are for both compensatory and punitive damages and represent a material amount of damages. Liggett is not a party to these actions. The following is a brief description of various of these matters:

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

- o In February, 1999, in Henley v. Philip Morris, a California state court jury awarded \$1,500 in compensatory damages and \$50,000 in punitive damages. The trial court reduced the punitive damages award to \$25,000. In September 2003, the California Court of Appeals reduced the punitive damages award to \$9,000 based on the United States Supreme Court's 2003 opinion in State Farm, limiting punitive damages. The defendant has appealed to the California Supreme Court.
- o In March 1999, an Oregon state court jury found in favor of the plaintiff in Williams v. Philip Morris. The jury awarded \$800 in compensatory damages and \$79,500 in punitive damages. The trial court reduced the punitive damages award to \$32,000. In June 2002, the Oregon Court of Appeals reinstated the \$79,500 punitive damages award. In October 2003, the United States Supreme Court set aside the Oregon appellate court's ruling and directed the Oregon court to reconsider the case in light of the State Farm decision. In June 2004, the Oregon appellate court reinstated the original jury verdict. The defendant has appealed.
- o In March 2000, a California state court jury found in favor of the plaintiff in Whiteley v. Raybestos-Manhattan, Inc., et al. The jury awarded the plaintiff \$1,720 in compensatory damages and \$20,000 in punitive damages. In April 2004, the California Court of Appeals reversed the judgment and remanded the case for a new trial.
- o During 2001, as a result of a Florida Supreme Court decision upholding the award, in Carter v. Brown and Williamson Tobacco Corp., the defendant paid \$1,100 in compensatory damages and interest to a former smoker and his spouse for injuries they allegedly incurred as a result of smoking.
- o In June 2001, a California state court jury found in favor of the plaintiff in Boeken v. Philip Morris and awarded \$5,500 in compensatory damages and \$3,000,000 in punitive damages. In August 2001, the trial court reduced the punitive damages award to \$100,000. The parties have appealed.
- o In December 2001, in Kenyon v. R.J. Reynolds Tobacco Co., a jury awarded the plaintiff \$165 in compensatory damages, but no punitive damages. In May 2003, the Florida Court of Appeals affirmed per curiam (that is, without an opinion) the trial court's final judgment in favor of the plaintiffs. The defendant paid the amount of the judgment plus accrued interest (\$196) after exhausting all appeals.
- o In February 2002, in Burton v. R.J. Reynolds Tobacco Co., et al, a federal district court jury in Kansas awarded the plaintiff \$198 in compensatory damages, and determined that the plaintiff was entitled to punitive damages. In June 2002, the trial court awarded the plaintiff \$15,000 in punitive damages. The defendant has appealed.
- o In March 2002, an Oregon state court jury found in favor of the plaintiff in Schwarz v. Philip Morris and awarded \$169 in compensatory damages and \$150,000 in punitive damages. In May 2002, the trial court reduced the punitive damages award to \$100,000. The parties have appealed.
- o In October 2002, a California state court jury found in favor of the plaintiff in Bullock v. Philip Morris and awarded \$850 in compensatory damages and \$28,000,000 in punitive damages. In December 2002, the trial court reduced the punitive damages award to \$28,000. The parties have appealed.

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

- o In April 2003, in *Eastman v. Brown & Williamson Tobacco Corp., et al.*, a Florida state court jury awarded \$6,500 in compensatory damages. In May 2004, the Florida Court of Appeals affirmed the verdict in a per curiam opinion. The defendants will seek further appellate review.
- o In May 2003, in *Boerner v. Brown & Williamson Tobacco Corp.*, a federal district court jury in Arkansas awarded \$4,000 in compensatory damages and \$15,000 in punitive damages. The defendant has appealed.
- o In November 2003, in *Thompson v. Brown & Williamson Tobacco Corp., et al.*, a Missouri state court jury awarded \$1,100 in compensatory damages. The defendants have appealed.
- o In December 2003, in *Frankson v. Brown & Williamson Tobacco Corp., et al.*, a New York state court jury awarded \$350 in compensatory damages. In January 2004, the jury awarded \$20,000 in punitive damages. The deceased smoker was found to be 50% at fault. In June 2004, the court increased the compensatory damages to \$500 and decreased the punitive damages to \$5,000. Post-trial motions are pending.

One of the states in which cases are pending against Liggett is Mississippi. During 2003, the Mississippi Supreme Court ruled that the Mississippi Product Liability Act "precludes all tobacco cases that are based on product liability." Based on this ruling, Liggett is seeking, or intends to seek, dismissal of each of the approximately 34 cases pending against it in Mississippi.

**Class Actions.** As June 30, 2004, there were approximately 33 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the *Castano* case, reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

The extent of the impact of the *Castano* decision on smoking-related class action litigation is still uncertain. The *Castano* decision has had a limited effect with respect to courts' decisions regarding narrower smoking-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, a court in Louisiana (Liggett is not a defendant in this proceeding) has certified an "addiction-as-injury" class action that covered only citizens in the state. In May 2004, the jury returned a verdict in the amount of \$591,000, plus prejudgment interest, on the class's claim for a smoking cessation program. Post-trial motions are pending. Two other class actions, *Broin* and *Engle*, were certified in state court in Florida prior to the Fifth Circuit's decision. In April 2001, the *Brown* case was certified as a class action in California.

In May 1994, an action entitled *Engle, et al. v. R.J. Reynolds Tobacco Company, et al.*, Circuit Court, Eleventh Judicial Circuit, Miami-Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. Phase I of the trial commenced in July 1998 and in July 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that: smoking cigarettes causes 20 diseases or medical conditions, cigarettes are addictive or dependence producing, defective and unreasonably dangerous, defendants made materially false statements with the intention of misleading smokers, defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and

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

agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. Phase III of the trial was to be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages. In April 2000, the jury awarded compensatory damages of \$12,704 to the three plaintiffs, to be reduced in proportion to the respective plaintiff's fault. The jury also decided that the claim of one of the plaintiffs, who was awarded compensatory damages of \$5,831, was not timely filed. In July 2000, the jury awarded approximately \$145,000,000 in the punitive damages portion of Phase II against all defendants including \$790,000 against Liggett. The court entered a final order of judgment against the defendants in November 2000. The court's final judgment, which provided for interest at the rate of 10% per year on the jury's awards, also denied various post-trial motions, including a motion for new trial and a motion seeking reduction of the punitive damages award. Liggett appealed the court's order.

In May 2003, Florida's Third District Court of Appeals decertified the Engle class and set aside the jury's decision in the case against Liggett and the other cigarette makers, including the \$145,000,000 punitive damages award. The intermediate appellate court ruled that there were multiple legal bases why the class action trial, including the punitive damages award, could not be sustained. The court found that the class failed to meet the legal requirements for class certification and that class members needed to pursue their claims on an individualized basis. The court also ruled that the trial plan violated Florida law and the appellate court's 1996 certification decision, and was unconstitutional. The court further found that the proceedings were irretrievably tainted by class counsel's misconduct and that the punitive damages award was bankrupting under Florida law.

In October 2003, the Third District Court of Appeals denied class counsel's motions seeking, among other things, a rehearing by the court. Class counsel filed a motion with the Florida Supreme Court to invoke discretionary review on the basis that the Third District Court of Appeals decision construes the due process provisions of the state and federal constitutions and conflicts with other appellate and supreme court decisions. In May 2004, the Florida Supreme Court agreed to review the case. Oral argument is scheduled for November 3, 2004. If the Third District Court's ruling is not upheld on further appeal, it will have a material adverse effect on the Company.

In May 2000, legislation was enacted in Florida that limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict to the lesser of the punitive award plus twice the statutory rate of interest, \$100,000 or 10% of the net worth of the defendant, but the limitation on the bond does not affect the amount of the underlying verdict. In November 2000, Liggett filed the \$3,450 bond required by the Florida law in order to stay execution of the Engle judgment, pending appeal. Legislation limiting the amount of bonds required to file an appeal of an adverse judgment has also been enacted in Arkansas, California, Colorado, Georgia, Idaho, Indiana, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, West Virginia and Wisconsin.

In May 2001, Liggett, along with Philip Morris and Lorillard Tobacco Co., reached an agreement with the class in the Engle case, which provided assurance of Liggett's ability to appeal the jury's July 2000 verdict. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to

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

the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. As a result, the Company recorded a \$9,723 pre-tax charge to the consolidated statement of operations for the first quarter of 2001. The agreement, which was approved by the court, assured that the stay of execution, in effect pursuant to the Florida bonding statute, would not be lifted or limited at any point until completion of all appeals, including an appeal to the United States Supreme Court. If Liggett's balance sheet net worth fell below \$33,781 (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the agreement provided that the stay granted in favor of Liggett in the agreement would terminate and the Engle class would be free to challenge the Florida bonding statute.

In June 2002, the jury in a Florida state court action entitled *Lukacs v. Philip Morris, et al.* awarded \$37,500 in compensatory damages in a case involving Liggett and two other tobacco manufacturers. In March 2003, the court reduced the amount of the compensatory damages to \$25,100. The jury found Liggett 50% responsible for the damages incurred by the plaintiff. The Lukacs case was the first individual case to be tried as part of Phase III of the Engle case; the claims of all other individuals who are members of the class were stayed pending resolution of the appeal of the Engle verdict. The Lukacs verdict, which was subject to the outcome of the Engle appeal, has been overturned as a result of the appellate court's ruling. As discussed above, class counsel in Engle is pursuing various appellate remedies seeking reversal of the appellate court's decision.

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

In August 2000, in *Blankenship v. Philip Morris, Inc.*, a West Virginia state court conditionally certified (only to the extent of medical monitoring) a class of present or former West Virginia smokers who desire to participate in a medical monitoring plan. The trial of this case ended in January 2001, when the judge declared a mistrial. In July 2001, the court issued an order severing Liggett from the retrial of the case which began in September 2001. In November 2001, the jury returned a verdict in favor of the other defendants. In May 2004, the West Virginia Supreme Court affirmed the defense jury verdict. In June 2004, plaintiff's motion for rehearing was denied.

In April 2001, the California state court in the case of *Brown v. The American Tobacco Company, Inc., et al.*, granted in part plaintiff's motion for class certification and certified a class comprised of adult residents of California who smoked at least one of defendants' cigarettes "during the applicable time period" and who were exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that defendants violated California's unfair business practices statute. The court subsequently defined "the applicable class period" for plaintiff's claims, pursuant to a stipulation submitted by the parties, as June 10, 1993 through April 23, 2001. The California Court of Appeals denied defendants' writ application, which sought review of the trial court's class certification orders. Defendants filed a petition for review with the California Supreme Court, which was subsequently denied. The defendants' summary judgment motions are pending before the court. Liggett is a defendant in the case.

In September 2002, in *In Re Simon II Litigation*, the federal district court for the Eastern District of New York granted plaintiffs' motion for certification of a nationwide non-opt-out punitive damages class action against the tobacco companies, including Liggett. The class is not seeking compensatory damages, but was created to determine whether smokers across the country may be entitled to punitive damages. In February 2003, the Second Circuit agreed to review the district court's class certification decision, and oral argument was held in November 2003.

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

Class action suits have been filed in a number of states against individual cigarette manufacturers, alleging that the use of the terms "lights" and "ultralights" constitutes unfair and deceptive trade practices. One such suit (McLaughlin v. Philip Morris USA, Inc., et al.), pending in federal court in New York against the cigarette manufacturers, seeks to create a nationwide class of "light" cigarette smokers and includes Liggett as a defendant.

In March 2003, in a class action brought against Philip Morris on behalf of smokers of light cigarettes, a state court judge in Illinois awarded \$7,100,500 in actual damages to the class members, \$3,000,000 in punitive damages to the State of Illinois (which was not a plaintiff in this matter), and approximately \$1,800,000 in attorney's fees and costs. Entry of judgment has been stayed. Philip Morris has appealed the verdict.

Approximately 38 purported state and federal class action complaints were filed against the cigarette manufacturers, including Liggett, for alleged antitrust violations. The actions allege that the cigarette manufacturers have engaged in a nationwide and international conspiracy to fix the price of cigarettes in violation of state and federal antitrust laws. Plaintiffs allege that defendants' price-fixing conspiracy raised the price of cigarettes above a competitive level. Plaintiffs in the 31 state actions purport to represent classes of indirect purchasers of cigarettes in 16 states; plaintiffs in the seven federal actions purport to represent a nationwide class of wholesalers who purchased cigarettes directly from the defendants. The federal class actions were consolidated and, in July 2000, plaintiffs filed a single consolidated complaint that did not name Liggett as a defendant, although Liggett complied with discovery requests. In July 2002, the court granted defendants' motion for summary judgment in the consolidated federal cases, which decision was affirmed on appeal by the United States Court of Appeals for the Eleventh Circuit. All state court cases on behalf of indirect purchasers have been dismissed, except for two cases pending in Kansas and New Mexico. A Kansas state court, in the case of Smith v. Philip Morris Companies Inc., et al., granted class certification in November 2001. In April 2003, plaintiffs' motion for class certification was granted in Romero v. Philip Morris Companies Inc., a case pending in New Mexico state court, which decision has been appealed. Liggett is one of the defendants in the Kansas and New Mexico cases.

Governmental Actions. As of June 30, 2004, there were approximately 13 Governmental Actions pending against Liggett. In these proceedings, both foreign and domestic governmental entities seek reimbursement for Medicaid and other health care expenditures. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

In August 2003, following the refusal by the Florida Supreme Court to hear the appeal of the Republic of Venezuela in connection with the dismissal of its health care cost recovery action (which decision plaintiff has appealed to the United States Supreme Court), the trial court hearing the health care cost recovery actions brought in Florida by the Republic of Tajikistan and the Brazilian State of Tocantins granted defendants' motions to dismiss the cases. Subsequently, plaintiffs voluntarily dismissed additional health care cost recovery cases brought in Florida by various foreign governmental entities.

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

Third-Party Payor Actions. As of June 30, 2004, there were approximately six 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. Nine United States Circuit Courts of Appeal have ruled that Third-Party Payors did not have standing to bring lawsuits against the cigarette manufacturers. The United States Supreme Court has denied petitions for certiorari in the cases decided by five of the courts of appeal. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

In June 2001, a jury in a third party payor action brought by Empire Blue Cross and Blue Shield in the Eastern District of New York rendered a verdict awarding the plaintiff \$17,800 in damages against the major tobacco companies. As against Liggett, the jury awarded the plaintiff damages of \$89. In February 2002, the court awarded plaintiff's counsel \$37,800 in attorneys' fees, without allocating the fee award among the several defendants. Liggett has appealed both the jury verdict and the attorneys' fee award. In September 2003, the United States Court of Appeals for the Second Circuit certified two questions relating to plaintiff's direct claims of deceptive business practices to the New York Court of Appeals, which has agreed to review the certified questions. The Second Circuit reversed the portion of the judgment relating to the verdict returned against defendants under plaintiff's subrogation claim, and deferred its ruling on defendants' appeal of the attorneys' fees award until such time as the New York Court of Appeals rules on the certified questions.

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

Federal Government Action. In September 1999, the United States government commenced litigation against Liggett and the other major tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of health care costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20,000,000 annually. The action asserted claims under three federal statutes, the Medical Care Recovery Act ("MCRA"), the Medicare Secondary Payer provisions of the Social Security Act ("MSP") and RICO. In September 2000, the court dismissed the government's claims based on MCRA and MSP, reaffirming its decision in July 2001. In the September 2000 decision, the court also determined not to dismiss the government's RICO claims, under which the government continues to seek court relief to restrain the defendant tobacco companies from allegedly engaging in fraud and other unlawful conduct and to compel disgorgement. In May 2003, the court denied the industry's motion which sought partial summary judgment as to the government's advertising, marketing, promotion and warning claims on the basis that these claims are within the exclusive jurisdiction of the Federal Trade Commission. In January 2004, the court granted one of the government's pending motions and dismissed certain equitable defenses of defendants. In April 2004, the court denied Liggett's motion to be dismissed from the case. In May 2004, the court denied the defendants' motion for

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

summary judgment to dismiss the government's disgorgement claim and, in June 2004, certified that decision for interlocutory appeal to the United States Court of Appeals for the District of Columbia, which has agreed to hear the appeal. Oral argument is scheduled for November 19, 2004.

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

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

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

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

The MSA restricts tobacco product advertising and marketing within the Settling States and otherwise restricts the activities of Participating Manufacturers. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each Participating Manufacturer to one tobacco brand name sponsorship during any 12-month period; bans all outdoor advertising, with the exception of signs, 14 square feet or less, at retail establishments that sell tobacco products; prohibits payments for tobacco product placement in various media; bans gift offers based on the purchase of tobacco products without sufficient proof that the intended recipient is an adult; prohibits Participating Manufacturers from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; prohibits Participating Manufacturers from using as a tobacco product brand name any nationally recognized non-tobacco brand or trade name or the names of sports teams, entertainment groups or individual celebrities; and prohibits Participating Manufacturers from selling packs containing fewer than 20 cigarettes.

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

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. As a result of the Medallion acquisition in April 2002, Vector Tobacco has no payment obligations under the MSA, except to the extent its market share exceeds a base amount of approximately 0.28% of total cigarettes sold in the



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

United States. During 1999 and 2000, Liggett's market share did not exceed the base amount. According to data from Management Science Associates, Inc., domestic shipments by Liggett and Vector Tobacco accounted for approximately 2.2% of the total cigarettes shipped in the United States during 2001, 2.5% during 2002 and 2.7% during 2003. On April 15 of any year following a year in which Liggett's and/or Vector Tobacco's market shares exceed their base shares, Liggett and/or Vector Tobacco will pay on each excess unit an amount equal (on a per-unit basis) to that due during the same following year by the OPMS under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. In March and April 2002, Liggett and Vector Tobacco paid a total of \$31,130 for their 2001 MSA obligations. In March and April 2003, Liggett and Vector Tobacco paid a total of \$37,541 for their 2002 MSA obligations. At that time, funds were held back based on Liggett's and Vector Tobacco's belief that their MSA payments for 2002 should be reduced as a result of market share loss to non-participating manufacturers. In June 2003, Liggett and Vector Tobacco reached a settlement with the jurisdictions party to the MSA whereby Liggett and Vector Tobacco agreed to pay \$2,478 in April 2004 to resolve these claims. In April 2004, Liggett and Vector Tobacco paid a total of \$50,322 for their 2003 MSA obligations. Liggett and Vector Tobacco have expensed \$8,391 for their estimated MSA obligations for the first six months of 2004 as part of cost of goods sold. Under the annual and strategic contribution payment provisions of the MSA, the OPMS (and Liggett and Vector Tobacco to the extent their market shares exceed their base shares) are required to pay the following annual amounts (subject to certain adjustments):

| Year<br>----                       | Amount<br>----- |
|------------------------------------|-----------------|
| 2004 - 2007.....                   | \$8,000,000     |
| 2008 - 2017.....                   | \$8,139,000     |
| 2018 and each year thereafter..... | \$9,000,000     |

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

The MSA replaces Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. Each of these four states, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies, separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nation" protection for both Brooke Group Holding and Liggett, the payments due these states by Liggett (with certain possible exceptions) have been eliminated, other than a \$100 a year payment to Minnesota starting in 2003, to be paid any year cigarettes manufactured by Liggett are sold in the state. With respect to all non-economic obligations under the previous settlements, both Brooke Group Holding and Liggett are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

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

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

Trials. Cases currently scheduled for trial during the next six months include two individual actions in Florida state court scheduled for trial in September 2004. Liggett is the sole defendant in each of these cases. Trial in the United States government action is scheduled for September 2004 in federal court in the District of Columbia. Trial dates, however, are subject to change.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. In May 2003, a Florida intermediate appellate court overturned a \$790,000 punitive damages award against Liggett and decertified the Engle smoking and health class action. In May 2004, the Florida Supreme Court agreed to review the case. Oral argument is scheduled for November 3, 2004. If the intermediate appellate court's ruling is not upheld on further appeal, it will have a material adverse effect on the Company. In November 2000, Liggett filed the \$3,450 bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. In May 2001, Liggett reached an agreement with the class in the Engle case, which provided assurance to Liggett that the stay of execution, in effect pursuant to the Florida bonding statute, would not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. As a result, the Company recorded a \$9,723 pre-tax charge to the consolidated statement of operations for the first quarter of 2001. In June 2002, the jury in an individual case brought under the third phase of the Engle case awarded \$37,500 (subsequently reduced by the court to \$25,100) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict, which was subject to the outcome of the Engle appeal, has been overturned as a result of the appellate court's ruling. In April 2004, a jury in a Florida state court action awarded compensatory damages of approximately \$540 against Liggett in an individual action. Liggett intends to appeal the verdict. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Liggett may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. The complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

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

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

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

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

LEGISLATION AND REGULATION:

Many cities and states have recently enacted legislation banning smoking in public places including offices, restaurants, public buildings and bars. Efforts to limit smoking in public places could have a material adverse effect on the Company and Liggett.

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

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

In August 1996, the Food and Drug Administration (the "FDA") filed in the Federal Register a Final Rule classifying tobacco as a "drug" or "medical device", asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. In March 2000, the United

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

States Supreme Court ruled that the FDA does not have the power to regulate tobacco. Liggett supported the FDA Rule and began to phase in compliance with certain of the proposed FDA regulations.

Since the Supreme Court decision, various proposals and recommendations have been made for additional federal and state legislation to regulate cigarette manufacturers. Congressional advocates of FDA regulations have introduced legislation that would give the FDA authority to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health, thereby allowing the FDA to reinstate its prior regulations or adopt new or additional regulations. In July 2004, the Senate passed a bill providing for FDA regulation of tobacco products and the elimination of the federal tobacco quota system. The Senate bill would impose assessments on manufacturers of tobacco products to compensate tobacco growers and quota holders for the elimination of their quota rights. The ultimate outcome of these proposals cannot be predicted, but FDA regulation of tobacco products could have a material adverse effect on the Company and Liggett.

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 2002, the United States Court of Appeals for the First Circuit ruled that the ingredients disclosure provisions violated the constitutional prohibition against unlawful seizure of property by forcing firms to reveal trade secrets. The decision was not appealed by the state. Liggett began voluntarily complying with this legislation in December 1997 by providing ingredient information to the Massachusetts Department of Public Health and, notwithstanding the appellate court's ruling, has continued to provide ingredient disclosure. Liggett also provides ingredient information annually, as required by law, to the states of Texas and Minnesota. Several other states are considering ingredient disclosure legislation and the Senate bill providing for FDA regulation also calls for, among other things, ingredient disclosure.

Cigarettes are subject to substantial and increasing federal, state and local excise taxes. The federal excise tax on cigarettes is currently \$0.39 per pack. State and local sales and excise taxes vary considerably and, when combined with sales taxes, local taxes and the current federal excise tax, may currently exceed \$4.00 per pack. Proposed further tax increases in various jurisdictions are currently under consideration or pending. In 2003, 15 states and the District of Columbia enacted increases in excise taxes. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and several states have pending legislation proposing further state excise tax increases. In 2004, five states increased the excise tax rate and several other states are likely to impose additional taxes on cigarettes. In the opinion of the Company, increases in excise and similar taxes have had an adverse impact on sales of cigarettes.

Various state governments have adopted or are considering adopting legislation establishing ignition propensity standards for cigarettes. Compliance with this legislation could be burdensome and costly. In June 2000, the New York State legislature passed legislation charging the state's Office of Fire Prevention and Control, referred to as the "OFPC," with developing standards for "fire-safe" or self-extinguishing cigarettes. All cigarettes manufactured for sale in New York state must be manufactured to certain self-extinguishment standards set out in the regulations. Liggett and Vector Tobacco have not historically provided products that would be compliant under these new OFPC regulations, and certain design and manufacturing changes have been necessary for cigarettes manufactured for sale in New York to comply with the standards. Inventories of cigarettes existing in the wholesale and retail trade as of June 28, 2004 that do not comply with the standards, may continue to be sold provided New York tax stamps have been affixed and such inventories have been purchased in comparable quantities to the same period in the previous year. Liggett and Vector Tobacco have complied with these New York regulatory requirements. Similar legislation is being

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

considered by other state governments and at the federal level. Compliance with such legislation could harm the business of Liggett and Vector Tobacco, particularly if there are varying standards from state to state.

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

In addition to the foregoing, there have been a number of other restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation or legislation.

OTHER MATTERS:

In March 1997, a stockholder derivative suit was filed in Delaware Chancery Court against New Valley, as a nominal defendant, its directors and Brooke Group Holding by a stockholder of New Valley. The suit alleges that New Valley's purchase of the BrookeMil Ltd. shares from Brooke (Overseas) Ltd., which was then an indirect subsidiary of Brooke Group Holding, in January 1997 constituted a self-dealing transaction which involved the payment of excessive consideration by New Valley. The plaintiff seeks a declaration that New Valley's directors breached their fiduciary duties and Brooke Group Holding aided and abetted such breaches and that damages be awarded to New Valley. In December 1999, another stockholder of New Valley commenced an action in Delaware Chancery Court substantially similar to the March 1997 action. This stockholder alleges, among other things, that the consideration paid by New Valley for the BrookeMil shares was excessive, unfair and wasteful, that the special committee of New Valley's board lacked independence, and that the appraisal and fairness opinion were flawed. By order of the court, both actions were

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

consolidated. In January 2001, the court denied a motion to dismiss the consolidated action. Brooke Group Holding and New Valley believe that the allegations in the case are without merit. Discovery in the case is ongoing. Recently, on motion of the defendants, one of the plaintiff stockholders was dismissed from the proceeding for lack of standing.

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

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

As of June 30, 2004, New Valley had \$600 of remaining prepetition bankruptcy-related claims and restructuring accruals including claims for lease rejection damages. The remaining claims may be subject to future adjustments based on potential settlements or decisions of the court.

8. EQUITY

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

Awards under the Company's stock compensation plans generally vest over periods ranging from four to five years from the date of grant. The expense related to stock option compensation included in the determination of net loss for the three and six months ended June 30, 2004 and June 30, 2003 is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value provisions of SFAS No. 123:

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

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 30,<br>2004   | June 30,<br>2003 | June 30,<br>2004 | June 30,<br>2003 |
| Net loss .....  | \$ (16,902)        | \$ (4,930)       | \$ (12,275)      | \$ (9,779)       |
| Add: stock option employee compensation<br>expense included in reported net loss,<br>net of related tax effects .....                                     | 52                 | 1,365            | 84               | 2,719            |
| Deduct: total stock option employee<br>compensation expense determined<br>under the fair value method for all<br>awards, net of related tax effects ..... | (408)              | (2,254)          | (956)            | (4,487)          |
| Pro forma net loss .....  | \$ (17,258)        | \$ (5,819)       | \$ (13,147)      | \$ (11,547)      |
| Loss per share:   |                    |                  |                  |                  |
| Basic - as reported .....   | \$ (0.43)          | \$ (0.13)        | \$ (0.31)        | \$ (0.25)        |
| Diluted - as reported .....   | \$ (0.43)          | \$ (0.13)        | \$ (0.31)        | \$ (0.25)        |
| Basic - pro forma .....   | \$ (0.44)          | \$ (0.15)        | \$ (0.34)        | \$ (0.30)        |
| Diluted - pro forma .....   | \$ (0.44)          | \$ (0.15)        | \$ (0.34)        | \$ (0.30)        |

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

During the six months ended June 30, 2004, 922,043 options, exercisable at prices ranging from \$3.92 to \$15.44 per share, were exercised for \$1,638 in cash and the delivery to the Company of 332,022 shares of common stock with a fair market value of \$5,346 or \$16.10 per share at the date of exercise.

On June 1, 2004, the Company granted 10,000 restricted shares of the Company's common stock to each of its four outside directors which will vest over a period of three years. The Company will recognize \$644 of expense over the vesting period.

9. NEW VALLEY CORPORATION

Acquisition of Real Estate. In December 2002, New Valley purchased two office buildings in Princeton, New Jersey. for a total purchase price of \$54,000. New Valley financed a portion of the purchase price through a borrowing of \$40,500 from HSBC Realty Credit Corporation (USA). (Refer to Note 5.)

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

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

In March 2003, Douglas Elliman Realty, LLC purchased the leading New York City-based residential brokerage firm, Douglas Elliman, LLC, formerly known as Insignia Douglas Elliman, and an affiliated property management company for \$71,250. New Valley invested an additional \$9,500 in subordinated debt and equity of Douglas Elliman Realty, LLC to help fund the acquisition. The subordinated debt, which has a principal amount of \$9,500, bears interest at 12% per annum and is due in March 2013.

New Valley accounts for its 50% interest in Douglas Elliman Realty LLC and in Koa Investors LLC on the equity method. Koa Investors owns the former Kona Surf Hotel in Kailua-Kona, Hawaii. Following a major renovation, the property is scheduled to reopen in late 2004 as a four star Sheraton resort with approximately 525 rooms.

LTS. In March 2004, New Valley and the other holder of the convertible notes of Ladenburg Thalmann Financial Services Inc. ("LTS") entered into a debt conversion agreement with LTS. New Valley and the other holder agreed to convert their notes, with an aggregate principal amount of \$18,010, together with the accrued interest, into common stock of LTS. Pursuant to the conversion agreement, the conversion price of the note held by New Valley will be reduced from the current conversion price of approximately \$2.08 to \$1.10 per share.

The note conversion transaction is subject to approval by the LTS shareholders and to other conditions, including the absence of any material adverse change. New Valley, several shareholders of LTS affiliated with New Valley and the other holder of the convertible notes have committed to vote their shares of common stock of LTS at its shareholder meeting in accordance with the vote of a majority of votes cast at the meeting excluding the shares held by such parties. At the closing, New Valley's note, representing approximately \$9,470 of principal and accrued interest, would be converted into approximately 8,610,000 shares of LTS common stock. New Valley currently intends to distribute to its stockholders shares of LTS common stock issued to New Valley pursuant to the conversion agreement.

On July 20, 2004, LTS announced that it is currently re-examining its capital needs to support its liquidity and capital base for the near term. LTS's 2004 annual shareholder meeting, where the debt conversion agreement was to have been presented for shareholder approval, has been delayed until LTS can determine its capital needs. Upon completion of this determination, LTS will proceed with its shareholder meeting and the debt conversion agreement as management deems appropriate.

Other. In October 1999, New Valley's Board of Directors authorized the repurchase of up to 2,000,000 common shares from time to time on the open market or in privately negotiated transactions depending on market conditions. As of June 30, 2004, New Valley had repurchased 1,185,615 shares for approximately \$4,695. At June 30, 2004, the Company owned 58.1% of New Valley's common shares.

10. INCOME TAXES

The effective tax rates for the three and six months ended June 30, 2004 and June 30, 2003 do not bear a customary relationship to pre-tax income principally as a consequence of non-deductible expenses and state income taxes.



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

The consolidated balance sheets of the Company include deferred income tax assets and liabilities, which represent temporary differences in the application of accounting rules established by generally accepted accounting principles and income tax laws. As of June 30, 2004, the Company's deferred income tax liabilities exceeded its deferred income tax assets by \$104,088. The largest component of the Company's deferred tax liabilities exists because of differences that resulted from a 1998 and 1999 transaction with Philip Morris Incorporated in which a subsidiary of Liggett contributed three of its premium cigarette brands to Trademarks LLC, a newly-formed limited liability company. In such transaction, Philip Morris acquired an option to purchase the remaining interest in Trademarks for a 90-day period commencing in December 2008, and the Company has an option to require Philip Morris to purchase the remaining interest for a 90-day period commencing in March 2010. For additional information concerning the Philip Morris brand transaction, see Note 19 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

In connection with the transaction, the Company recognized in 1999 a pre-tax gain of \$294,078 in its consolidated financial statements and established a deferred tax liability of \$103,100 relating to the gain. Upon exercise of the options during the 90-day periods commencing in December 2008 or in March 2010, the Company will be required to pay tax in the amount of the deferred tax liability, which will be offset by the benefit of any deferred tax assets, including any net operating losses, available to the Company at that time. In connection with an examination of the Company's 1998 and 1999 federal income tax returns, the Internal Revenue Service issued to the Company in September 2003 a notice of proposed adjustment. The notice asserts that, for tax reporting purposes, the entire gain should have been recognized in 1998 and in 1999 in the additional amounts of \$150,000 and \$129,900, respectively, rather than upon the exercise of the options during the 90-day periods commencing in December 2008 or in March 2010. If the Internal Revenue Service were to ultimately prevail with the proposed adjustment, it would result in the potential acceleration of tax payments of approximately \$119,000, including interest, net of tax benefits, through June 30, 2004. These amounts have been previously recognized in the Company's consolidated financial statements as tax liabilities. As of June 30, 2004, the Company believes amounts potentially due have been fully provided for in its consolidated statements of operations.

The Company believes the positions reflected on its income tax returns are correct and intends to vigorously oppose any proposed adjustments to its returns. The Company has filed a protest with the Appeals Division of the Internal Revenue Service. No payment is due with respect to these matters during the appeal process. Interest currently is accruing on the disputed amounts at a rate of 7%, with the rate adjusted quarterly based on rates published by the U.S. Treasury Department. If taxing authorities were to ultimately prevail in their assertion that the Company incurred a tax obligation prior to the exercise dates of these options and it was required to make such tax payments prior to 2009 or 2010, and if any necessary financing were not available to the Company, its liquidity could be adversely affected.

11. SEGMENT INFORMATION

The Company's significant business segments for the six months ended June 30, 2004 and 2003 were Liggett, Vector Tobacco and real estate. The Liggett segment consists of the manufacture and sale of conventional cigarettes and, for segment reporting purposes, includes the operations of Medallion acquired on April 1, 2002 (which operations are held for legal purposes as part of Vector Tobacco). The Vector Tobacco segment includes the development and marketing of the low nicotine and nicotine-free cigarette products as well as the development of reduced risk cigarette products and, for segment reporting purposes, excludes the operations of Medallion.

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

Financial information for the Company's operations before taxes and minority interests for the three and six months ended June 30, 2004 and 2003 follows:

|  | Liggett    | Vector<br>Tobacco | Real<br>Estate | Corporate<br>and Other | TOTAL       |
|--|------------|-------------------|----------------|------------------------|-------------|
| <b>Three Months Ended June 30, 2004:</b> |            |                   |                |                        |             |
| Revenues .....                           | \$ 115,551 | \$ 4,494          | \$ 1,811       | \$ --                  | \$ 121,856  |
| Operating income (loss) .....            | 25,368(1)  | (44,441)(1)       | 937            | (6,826)                | (24,962)(1) |
| Depreciation and amortization .....      | 2,013      | 543               | 325            | 650                    | 3,531       |
| <b>Three Months Ended June 30, 2003:</b> |            |                   |                |                        |             |
| Revenues .....                           | \$ 120,767 | \$ 8,633          | \$ 1,777       | \$ --                  | \$ 131,177  |
| Operating income (loss) .....            | 27,587     | (21,167)          | 984            | (6,581)                | 823         |
| Depreciation and amortization .....      | 2,130      | 1,241             | 321            | 690                    | 4,382       |
| <b>Six Months Ended June 30, 2004:</b>   |            |                   |                |                        |             |
| Revenues .....                           | \$ 237,772 | \$ 8,846          | \$ 3,592       | \$ --                  | \$ 250,210  |
| Operating income (loss) .....            | 53,151(2)  | (53,147)(2)       | 1,858          | (13,060)               | (11,198)(2) |
| Identifiable assets .....                | 281,667    | 32,876            | 80,240         | 156,721                | 551,504     |
| Depreciation and amortization .....      | 4,010      | 1,135             | 646            | 1,265                  | 7,056       |
| Capital expenditures .....               | 1,097      | 35                | --             | --                     | 1,132       |
| <b>Six Months Ended June 30, 2003:</b>   |            |                   |                |                        |             |
| Revenues .....                           | \$ 245,682 | \$ 15,061         | \$ 3,576       | \$ --                  | \$ 264,319  |
| Operating income (loss) .....            | 57,849     | (45,506)          | 1,920          | (13,640)               | 623         |
| Identifiable assets .....                | 294,588    | 93,455            | 72,261         | 224,435                | 684,739     |
| Depreciation and amortization .....      | 4,169      | 2,398             | 642            | 1,368                  | 8,577       |
| Capital expenditures .....               | 4,020      | 2,134             | --             | 349                    | 6,503       |

(1) Includes restructuring and impairment charges in the three months ended June 30, 2004 of \$1,963 at Liggett and \$396 at Vector Tobacco and a \$37,000 inventory charge at Vector Tobacco in the 2004 period.

(2) Includes restructuring and impairment charges in the six months ended June 30, 2004 of \$2,352 at Liggett and \$660 at Vector Tobacco and a \$37,000 inventory charge at Vector Tobacco in the 2004 period.

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

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

INTRODUCTION

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

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

During 2002, the sales and marketing functions, along with certain support functions, of our Liggett and Vector Tobacco subsidiaries were combined into a new entity, Liggett Vector Brands Inc. This company coordinates and executes the sales and marketing efforts for all our tobacco operations. With the combined resources of Liggett and Vector Tobacco, Liggett Vector Brands has enhanced distribution and marketing capabilities.

In October 2003, we announced that we would close Vector Tobacco's Timberlake, North Carolina cigarette manufacturing facility in order to reduce excess cigarette production capacity and improve operating efficiencies company-wide. Production of QUEST and Vector Tobacco's other cigarette brands has been transferred to Liggett's state-of-the-art manufacturing facility in Mebane, North Carolina. In July 2004, we completed the sale of the Timberlake facility and equipment.

All of Liggett's unit volume in the first half of 2004 was in the discount segment, which Liggett's management believes has been the primary growth segment in the industry for over a decade. The significant discounting of premium cigarettes in recent years has led to brands, such as EVE, that were traditionally considered premium brands to become more appropriately categorized as discount, despite their premium list price. Effective February 1, 2004, Liggett reduced the list prices for EVE and JADE from the premium price level to the branded discount level, in the case of EVE, and the deep discount level, in the case of JADE.

Liggett's cigarettes are produced in approximately 220 combinations of length, style and packaging. Liggett's current brand portfolio includes:

- o LIGGETT SELECT - the second largest brand in the deep discount category;
- o EVE - a leading brand of 120 millimeter cigarettes in the branded discount category;
- o JADE - the industry's newest free-standing deep discount menthol brand;
- o PYRAMID - the industry's first deep discount product with a brand identity; and
- o USA and various control and private label brands.

In 1999, Liggett introduced LIGGETT SELECT, one of the fastest growing brands in the deep discount category. LIGGETT SELECT is now the largest seller in Liggett's family of brands, comprising 54% of Liggett's unit volume in the first half of 2004 and 50.9% of Liggett's unit volume for the year ended December 31, 2003.

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

#### RECENT DEVELOPMENTS

Reynolds America. In July 2004, RJR Tobacco and Brown & Williamson, the second and third largest cigarette manufacturers, completed the combination of their United States tobacco businesses. This transaction will further consolidate the dominance of the domestic cigarette market by Philip Morris and the newly created Reynolds America, who will have a combined market share of approximately 76%. This concentration of United States market share could make it more difficult for Liggett and Vector Tobacco to compete for shelf space in retail outlets and could impact price competition in the market, either of which could have a material adverse affect on their sales volume, operating income and cash flows.

QUEST Introduction. In January 2003, Vector Tobacco introduced QUEST, its brand of low nicotine and nicotine-free cigarette products. QUEST is designed for adult smokers who are interested in reducing their levels of nicotine intake and is available in both menthol and non-menthol styles. Each QUEST style offers three different packagings, with decreasing amounts of nicotine - QUEST 1, 2 and 3. QUEST 1, the low nicotine variety, contains 0.6 milligrams of nicotine. QUEST 2, the extra-low nicotine variety, contains 0.3 milligrams of nicotine. QUEST 3, the nicotine-free variety, contains only trace levels of nicotine - no more than 0.05 milligrams of nicotine per cigarette. QUEST cigarettes utilize a proprietary process that enables the production of nicotine-free tobacco that tastes and smokes like tobacco in conventional cigarettes. All six QUEST varieties are being sold in box style packs and are priced comparably to other premium brands.

QUEST was initially available in New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois and Michigan. These seven states account for approximately 30% of all cigarette sales in the United States. A multi-million dollar advertising and marketing campaign, with advertisements running in magazines and regional newspapers, supported the product launch. The brand continues to be supported by significant point-of-purchase awareness campaigns and other store-related promotions.

The premium segment of the industry is currently experiencing intense competitive activity, with increased discounting of premium brands at all levels of retail. Given these marketplace conditions, and the results that we have seen to date with QUEST, we have taken a measured approach to expanding the market presence of the brand. In November 2003, Vector Tobacco introduced three menthol varieties of QUEST in the seven state market. In January 2004, QUEST and QUEST Menthol were introduced into an expansion market in Arizona, which accounts for approximately 1% of the industry volume nationwide.

During the second quarter 2004, based on an analysis of the market data obtained since the introduction of the QUEST product, we determined to postpone indefinitely the national launch of QUEST. Vector Tobacco continues to explore potential opportunities to expand the market for the brand on a more limited basis. Any determination as to future expansion of the market presence of QUEST will be based on the ongoing and projected demand for the product, market conditions in the premium segment and the prevailing regulatory environment, including any restrictions on the advertising of the product.

During the three months ended June 30, 2004, we recognized a non-cash charge of \$37,000 to adjust the carrying value of excess leaf tobacco inventory for the QUEST product, based on estimates of future demand and market conditions. If actual demand for the product or

market conditions are less favorable than those estimated, additional inventory write-downs may be required.

QUEST brand cigarettes are currently marketed solely to permit adult smokers, who wish to continue smoking, to gradually reduce their intake of nicotine. The products are not labeled or advertised for smoking cessation or as a safer form of smoking.

In October 2003, we announced that Jed E. Rose, Ph.D., Director of Duke University Medical Center's Nicotine Research Program and co-inventor of the nicotine patch, had conducted a study at Duke University Medical Center to provide preliminary evaluation of the use of the QUEST technology as a smoking cessation aid. In the preliminary study on QUEST, 33% of QUEST 3 smokers were able to achieve four-week continuous abstinence, a standard threshold for smoking cessation. Management believes these results show real promise for the QUEST technology as a smoking cessation aid. We have asked the Food and Drug Administration to supply us with guidance as to the additional research and regulatory filings necessary to market QUEST as a smoking cessation product. Management believes that obtaining the Food and Drug Administration's approval to market QUEST as a smoking cessation product will be an important factor in the long-term commercial success of the QUEST brand. No assurance can be given that such approval can be obtained or as to the timing of any such approval if received.

Timberlake Sale. On June 4, 2004, a wholly-owned subsidiary of Vector Tobacco entered into an asset purchase agreement to sell its Timberlake, North Carolina manufacturing facility along with all equipment to an affiliate of the Flue-Cured Tobacco Cooperative Stabilization Corporation for \$25,800. The Timberlake sale closed on July 13, 2004. In connection with the closing, the subsidiary of Vector Tobacco entered into a consulting agreement to provide certain services to the buyer for \$400. Approximately \$5,200 of the proceeds from the sale were used to retire debt secured by the Timberlake property.

Repurchase of Notes. In connection with an amendment to the note purchase agreement for VGR Holding's 10% senior secured notes due March 31, 2006, proceeds from the Timberlake sale were used to repurchase \$7,000 of the notes in August 2004, at a price of 100% of the principal amount plus accrued interest. We will recognize a loss of approximately \$639 in the third quarter of 2004 on the early extinguishment of debt.

Restructuring. In October 2003, we announced that we would close Vector Tobacco's Timberlake, North Carolina cigarette manufacturing facility in order to reduce excess cigarette production capacity and improve operating efficiencies company-wide. Production of the QUEST line of low nicotine and nicotine-free cigarettes, as well as production of Vector Tobacco's other cigarette brands, has been moved to Liggett's state-of-the-art manufacturing facility in Mebane, North Carolina.

The Mebane facility currently produces in excess of 9 billion units per year, but maintains the capacity to produce approximately 16 billion units per year. Vector Tobacco has contracted with Liggett to produce its cigarettes and has transitioned production from Timberlake to Mebane. All production ceased at Timberlake by December 31, 2003. As part of the transition, we eliminated approximately 150 positions.

As a result of these actions, we recognized pre-tax restructuring and impairment charges of \$21,300 in 2003, and additional charges of \$221 were taken in the first quarter 2004. Approximately \$2,045 relate to employee severance and benefit costs, \$724 to contract termination and exit and moving costs, and \$18,752 to non-cash asset impairment charges. Machinery and equipment to be disposed of was reduced to fair value less costs to sell during 2003. The asset impairment charges are based on management's current estimates of the

values we will be able to realize on sales of excess machinery and equipment, and may be adjusted in future periods based on the actual amounts realized.

We decreased the asset impairment accrual as of June 30, 2004 to reflect the actual amounts to be realized from the Timberlake sale and to reduce the values of other excess Vector Tobacco machinery and equipment in accordance with SFAS No. 144. We also adjusted the previously recorded restructuring accrual as of June 30, 2004 to reflect additional employee severance and benefits, contract termination and associated costs resulting from the Timberlake sale. No charge to operations resulted from these adjustments as there was no change to the total impairment and restructuring charges previously recognized.

In addition to the \$221 recognized in the first quarter 2004, Liggett Vector Brands, as part of the continuing effort to adjust the cost structure of our tobacco business and improve operating efficiency, eliminated 83 positions during April 2004, sublet its New York office space in July 2004 and relocated several employees. As a result of these actions, we recognized additional pre-tax restructuring charges of \$2,791 in the first half of 2004, including \$824 relating to employee severance and benefit costs and \$1,967 for contract termination and other associated costs. Approximately \$518 of these charges represent non-cash items. We recognized \$432 of these pre-tax restructuring charges in the first quarter of 2004 and \$2,359 in the second quarter of 2004.

Annual cost savings related to the restructuring and impairment charges are currently expected to be at least \$23,000 beginning in 2004. Management is currently reviewing opportunities for additional cost savings as a result of these restructuring activities at Vector Tobacco and Liggett Vector Brands.

Amended Liggett Credit Facility. On April 14, 2004, Liggett entered into an Amended and Restated Loan and Security Agreement with Congress Financial Corporation, as lender. The \$50,000 credit facility replaces Liggett's current \$40,000 facility with Congress. The facility is collateralized by all inventories and receivables of Liggett and a first mortgage on the Mebane, North Carolina plant and manufacturing equipment.

Tax Matters. In connection with the 1998 and 1999 transaction with Philip Morris Incorporated in which a subsidiary of Liggett contributed three of its premium cigarette brands to Trademarks LLC, a newly-formed limited liability company, we recognized in 1999 a pre-tax gain of \$294,078 in our consolidated financial statements and established a deferred tax liability of \$103,100 relating to the gain. In such transaction, Philip Morris acquired an option to purchase the remaining interest in Trademarks for a 90-day period commencing in December 2008, and we have an option to require Philip Morris to purchase the remaining interest for a 90-day period commencing in March 2010. Upon exercise of the options during the 90-day periods commencing in December 2008 or in March 2010, we will be required to pay tax in the amount of the deferred tax liability, which will be offset by the benefit of any deferred tax assets, including any net operating losses, available to us at that time. In connection with an examination of our 1998 and 1999 federal income tax returns, the Internal Revenue Service issued to us in September 2003 a notice of proposed adjustment. The notice asserts that, for tax reporting purposes, the entire gain should have been recognized in 1998 and in 1999 in the additional amounts of \$150,000 and \$129,900, respectively, rather than upon the exercise of the options during the 90-day periods commencing in December 2008 or in March 2010. If the Internal Revenue Service were to ultimately prevail with the proposed adjustment, it would result in the potential acceleration of tax payments of approximately \$119,000, including interest, net of tax benefits, through June 30, 2004. These amounts have been previously recognized in our consolidated financial statements as tax liabilities. As of June 30, 2004, we believe amounts potentially due have been fully provided for in our consolidated statements of operations.

We believe the positions reflected on our income tax returns are correct and intend to vigorously oppose any proposed adjustments to our returns. We have filed a protest with the Appeals Division of the Internal Revenue Service. No payment is due with respect to these

matters during the appeals process. Interest currently is accruing on the disputed amounts at a rate of 7%, with the rate adjusted quarterly based on rates published by the U.S. Treasury Department. If taxing authorities were to ultimately prevail in their assertion that we incurred a tax obligation prior to the exercise dates of these options and we were required to make such tax payments prior to 2009 or 2010, and if any necessary financing were not available to us, our liquidity could be adversely affected.

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

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

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

In March 2003, Douglas Elliman Realty purchased the leading New York City-based residential brokerage firm, Douglas Elliman, LLC, formerly known as Insignia Douglas Elliman, and an affiliated property management company for \$71,250. With that acquisition, the combination of Prudential Douglas Elliman Real Estate with Douglas Elliman has created the largest residential brokerage company in the New York metropolitan area. New Valley invested an additional \$9,500 in subordinated debt and equity of Douglas Elliman Realty to help fund the acquisition. The subordinated debt, which has a principal amount of \$9,500, bears interest at 12% per annum and is due in March 2013.

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

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of June 30, 2004, there were approximately 382 individual suits, 33 purported class actions and 19 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. A civil lawsuit has been filed by the United States federal government seeking disgorgement of approximately \$289,000,000 from various cigarette manufacturers, including Liggett. In addition to these cases, in 2000, an action against cigarette manufacturers involving approximately 1,000 named individual plaintiffs was consolidated before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. In January 2002, the court severed Liggett from the trial of the consolidated action. Approximately 38 purported class action complaints have been filed against the cigarette manufacturers for alleged antitrust violations. As new cases are commenced, the costs associated with defending these cases and the risks relating to the inherent unpredictability of litigation continue to increase.

There are eight individual actions where Liggett is the only defendant, with two of these cases currently scheduled for trial in September 2004. In April 2004, in one of these cases, a jury

in a Florida state court action awarded compensatory damages of \$540 against Liggett. Liggett believes there are a number of grounds to challenge the verdict and intends to pursue all post-trial and appellate relief.

In May 2003, a Florida intermediate appellate court overturned a \$790,000 punitive damages award against Liggett and decertified the Engle smoking and health class action. In May 2004, the Florida Supreme Court agreed to review the case. Oral argument is scheduled for November 3, 2004. If the intermediate appellate court's ruling is not upheld on further appeal, it will have a material adverse effect on us. In November 2000, Liggett filed the \$3,450 bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. In May 2001, Liggett reached an agreement with the class in the Engle case, which provided assurance to Liggett that the stay of execution, in effect under the Florida bonding statute, would not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. In June 2002, the jury in an individual case brought under the third phase of the Engle case awarded \$37,500 (subsequently reduced by the court to \$25,100) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict, which is subject to the outcome of the Engle appeal, has been overturned as a result of the appellate court's ruling discussed above. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Liggett may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met.

Federal or state regulators may object to Vector Tobacco's low nicotine and nicotine-free cigarette products and reduced risk cigarette products it may develop as unlawful or allege they bear deceptive or unsubstantiated product claims, and seek the removal of the products from the marketplace, or significant changes to advertising. Various concerns regarding Vector Tobacco's advertising practices have been expressed to Vector Tobacco by certain state attorneys general. Vector Tobacco has engaged in discussions in an effort to resolve these concerns and Vector Tobacco has recently agreed to suspend all print advertising for its QUEST brand while discussions are pending. Allegations by federal or state regulators, public health organizations and other tobacco manufacturers that Vector Tobacco's products are unlawful, or that its public statements or advertising contain misleading or unsubstantiated health claims or product comparisons, may result in litigation or governmental proceedings.

In recent years, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. We are not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any smoking-related litigation. See Note 7 to our consolidated financial statements for a description of legislation, regulation and litigation.



## CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition. Revenues from sales of cigarettes are recognized upon the shipment of finished goods to the customer, there is persuasive evidence of an arrangement, the sale price is determinable and collectibility is reasonably assured. We provide an allowance for expected sales returns, net of related inventory cost recoveries. Since our primary line of business is tobacco, our financial position and our results of operations and cash flows have been and could continue to be materially adversely effected by significant unit sales volume declines, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

Marketing Costs. We record marketing costs as an expense in the period to which such costs relate. We do not defer the recognition of any amounts on our consolidated balance sheets with respect to marketing costs. We expense advertising costs as incurred, which is the period in which the related advertisement initially appears. We record consumer incentive and trade promotion costs as an expense in the period in which these programs are offered, based on estimates of utilization and redemption rates that are developed from historical information.

Impairment of Long-Lived Assets. We evaluate our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of the asset, or related group of assets, may not be fully recoverable. Examples of such events or changes in circumstances include a significant adverse charge in the manner in which a long-lived asset, or group of assets, is being used or a current expectation that, more likely than not, a long-lived asset, or group of assets, will be disposed of before the end of its estimated useful life.

In October 2003, we announced that we would close Vector Tobacco's Timberlake, North Carolina cigarette manufacturing facility and produce its cigarette products at Liggett's Mebane, North Carolina facility. We have evaluated the net realizable value of the long-lived assets located at the Timberlake facility which will no longer be used in operations. Based on management's estimates of the values we initially recognized non-cash asset impairment charges of \$18,752 in the third quarter of 2003 on machinery and equipment. As of June 30, 2004, we decreased the asset impairment accrual to reflect the actual amounts to be realized from the Timberlake sale and to reduce values of other excess machinery and equipment in accordance with SFAS No. 144. The estimate of fair value of these long-lived assets is based on the best information available, including prices for similar assets and the results of using other valuation techniques. Such asset impairment charges may be further adjusted in future periods based on the actual amounts realized. Since judgment is involved in determining the fair value of long-lived assets, there is a risk that the carrying value of our long-lived assets may be overstated or understated.

Contingencies. We record Liggett's product liability legal expenses and other litigation costs as operating, selling, general and administrative expenses as those costs are incurred. As

discussed in Note 7 of our consolidated financial statements and above under the heading "Recent Developments in Legislation, Regulation and Litigation", legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against Liggett. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of pending smoking-related litigation or the costs of defending such cases, and we have not provided any amounts in our consolidated financial statements for unfavorable outcomes, if any. Litigation is subject to many uncertainties, and it is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

**Settlement Agreements.** As discussed in Note 7 to our consolidated financial statements, Liggett and Vector Tobacco are participants in the Master Settlement Agreement, the 1998 agreement to settle governmental healthcare cost recovery actions brought by various states. Liggett and Vector Tobacco have no payment obligations under the Master Settlement Agreement except to the extent their market shares exceed approximately 1.65% and 0.28%, respectively, of total cigarettes sold in the United States. Their obligations, and the related expense charges under the Master Settlement Agreement, are subject to adjustments based upon, among other things, the volume of cigarettes sold by Liggett and Vector Tobacco, their relative market shares and inflation. Since relative market shares are based on cigarette shipments, the best estimate of the allocation of charges under the Master Settlement Agreement is recorded in cost of goods sold as the products are shipped. Settlement expenses under the Master Settlement Agreement recorded in the accompanying consolidated statements of operations were \$8,391 for the six months ended June 30, 2004 and \$14,332 for the comparable period in 2003. Adjustments to these estimates are recorded in the period that the change becomes probable and the amount can be reasonably estimated.

**Inventories.** Tobacco inventories are stated at lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method at Liggett and the first-in, first-out (FIFO) method at Vector Tobacco. Although portions of leaf tobacco inventories may not be used or sold within one year because of time required for aging, they are included in current assets, which is common practice in the industry. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. At June 30, 2004, approximately \$3,226 of our inventory was associated with Vector Tobacco's QUEST product. During the three months ended June 30, 2004, we recognized a non-cash charge of \$37,000 to adjust the carrying value of excess leaf tobacco inventory for the QUEST product, based on estimates of future demand and market conditions. If actual demand for the product or market conditions are less favorable than those estimated, additional inventory write-downs may be required.

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

Net pension expense for defined benefit pension plans and other postretirement benefit expense aggregated approximately \$4,100 for 2003, and we currently anticipate such expense will be approximately \$4,550 for 2004. In contrast, our funding obligations under the pension plans are

governed by ERISA. To comply with ERISA's minimum funding requirements, we do not currently anticipate that we will be required to make any funding to the pension plans for the pension plan year beginning on January 1, 2004 and ending on December 31, 2004. Any additional funding obligation that we may have for subsequent years is contingent on several factors and is not reasonably estimable at this time.

#### RESULTS OF OPERATIONS

The following discussion provides an assessment of our results of operations, capital resources and liquidity and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. The consolidated financial statements include the accounts of VGR Holding, Liggett, Vector Tobacco, Liggett Vector Brands, New Valley and other less significant subsidiaries. Our interest in New Valley's common shares was 58.1% at June 30, 2004.

For purposes of this discussion and other consolidated financial reporting, our significant business segments for the six months ended June 30, 2004 and 2003 were Liggett, Vector Tobacco and real estate. The Liggett segment consists of the manufacture and sale of conventional cigarettes and, for segment reporting purposes, includes the operations of Medallion acquired on April 1, 2002 (which operations are held for legal purposes as part of Vector Tobacco). The Vector Tobacco segment includes the development and marketing of reduced nicotine and nicotine-free cigarettes as well as the development of reduced risk cigarette products and, for segment reporting purposes, excludes the operations of Medallion.

|   | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|-------------------|------------------------------|-------------------|
|   | 2004                           | 2003              | 2004                         | 2003              |
| <b>Revenues:</b>                        |                                |                   |                              |                   |
| Liggett .....                           | \$ 115,551                     | \$ 120,767        | \$ 237,772                   | \$ 245,682        |
| Vector Tobacco .....                    | 4,494                          | 8,633             | 8,846                        | 15,061            |
| <b>Total tobacco .....</b>              | <b>120,045</b>                 | <b>129,400</b>    | <b>246,618</b>               | <b>260,743</b>    |
| Real estate .....                       | 1,811                          | 1,777             | 3,592                        | 3,576             |
| <b>Total revenues .....</b>             | <b>\$ 121,856</b>              | <b>\$ 131,177</b> | <b>\$ 250,210</b>            | <b>\$ 264,319</b> |
| <b>Operating income (loss):</b>         |                                |                   |                              |                   |
| Liggett .....                           | \$ 25,368(1)                   | \$ 27,587         | \$ 53,151(2)                 | \$ 57,849         |
| Vector Tobacco .....                    | (44,441)(1)                    | (21,167)          | (53,147)(2)                  | (45,506)          |
| <b>Total tobacco .....</b>              | <b>(19,073)</b>                | <b>6,420</b>      | <b>4</b>                     | <b>12,343</b>     |
| Real estate .....                       | 937                            | 984               | 1,858                        | 1,920             |
| Corporate and other .....               | (6,826)                        | (6,581)           | (13,060)                     | (13,640)          |
| <b>Total operating income (loss) ..</b> | <b>\$ (24,962)(1)</b>          | <b>\$ 823</b>     | <b>\$ (11,198)(2)</b>        | <b>\$ 623</b>     |

(1) Includes restructuring and impairment charges in the three months ended June 30, 2004 of \$1,963 at Liggett and \$396 at Vector Tobacco and a \$37,000 inventory charge at Vector Tobacco in the 2004 period.

(2) Includes restructuring and impairment charges in the six months ended June 30, 2004 of \$2,352 at Liggett and \$660 at Vector Tobacco and a \$37,000 inventory charge at Vector Tobacco in the 2004 period.

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Revenues. Total revenues were \$121,856 for the three months ended June 30, 2004 compared to \$131,177 for the three months ended June 30, 2003. This \$9,321 (7.1%) decrease in revenues was due to a \$5,216 (4.3%) decrease in revenues at Liggett and a \$4,139 (47.9%) decrease in revenues at Vector Tobacco offset by an increase of \$34 in real estate revenues at New Valley.

Tobacco Revenues. In February 2003, Liggett increased its net sales price for selected discount brands by \$.80 per carton. In May 2003, Liggett increased its list price on USA by \$.50 per carton. In June 2003, Liggett increased its list price for LIGGETT SELECT by \$1.10 per carton. In September 2003, Liggett increased its net sales price for PYRAMID by \$.95 per carton. In December 2003, Liggett increased its list price on a leading private label brand by \$.85 per carton. In August 2004, Liggett increased its list price on LIGGETT SELECT by \$1.00 per carton.

Effective February 1, 2004, Liggett reduced the list prices for EVE and JADE from the premium price level to the branded discount level, in the case of EVE, and the deep discount level, in the case of JADE. During 2003, EVE product had been subject to promotional buy-downs at the retail level and was effectively promoted to consumers at a level that is fully reflected in the new reduced list price. During 2003, the net list price for JADE was at the deep discount level after giving effect to off-invoice promotional spending. In August 2004, the list price for JADE was increased by \$1.35 per carton.

All of Liggett's sales for the first half of 2004 were in the discount category (comprising the brand categories of branded discount, private label, control label, generic and contract manufacturing). For the three months ended June 30, 2004, net sales at Liggett totaled \$115,551, compared to \$120,767 for the three months ended June 30, 2003. Revenues decreased by 4.3% (\$5,216) due to a 7.7% decrease in sales volume (approximately 183.8 million units) accounting for \$9,288 in unfavorable volume variance and an unfavorable sales mix of \$14 offset by a net favorable price variance of \$4,086 primarily attributable to price increases subsequent to March 31, 2003 as discussed above. The favorable price variances are after adjustment for certain changes in promotional spending and approximately \$1,400 of costs incurred in the six months ended June 30, 2004, associated with buying down all unpromoted EVE inventory at retail due to the list price reduction described above. Net revenues of the LIGGETT SELECT brand increased \$660 for the second quarter of 2004 over net revenues for the second quarter of 2003, and its unit volume decreased 3.8% in the 2004 period compared to 2003.

Revenues at Vector Tobacco for the three months ended June 30, 2004 were \$4,494 compared to \$8,633 for the three months ended June 30, 2003 due to decreased sales volume. Vector Tobacco's sales in both periods related primarily to sales of QUEST.

Tobacco Gross Profit. Tobacco gross profit was \$50,066 for the three months ended June 30, 2004 excluding the inventory write-down of \$37,000 taken by Vector Tobacco to adjust the carrying value of excess leaf tobacco inventory for the QUEST product, compared to \$43,390 for the three months ended June 30, 2003, an increase of \$6,676 or 15.4% when compared to the same period last year. The increase is due to price increases discussed above at Liggett, recognition of lower Master Settlement Agreement expense at Liggett and Vector Tobacco, and reduced costs associated with the operations of Vector Tobacco. Excluding the inventory write-down, Liggett's brands contributed 96.7% to our gross profit, and Vector Tobacco contributed 3.3% for the three months ended June 30, 2004. Over the same period in 2003, Liggett brands contributed 107.2% to our gross profit and Vector Tobacco cost 7.2%.

Liggett's gross profit of \$48,418 for the three months ended June 30, 2004 increased \$1,913 from gross profit of \$46,505 for the three months ended June 30, 2003. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 67.0% for the three months ended June 30, 2004 compared to 62.7% for the same period in 2003. This increase in Liggett's gross profit in the 2004 period was attributable to the items discussed above.

Excluding the \$37,000 inventory write-down taken by Vector Tobacco in the 2004 period, Vector Tobacco had gross profit of \$1,649 for the three months ended June 30, 2004 compared to negative gross profit of \$3,115 in the same period in 2003. This increase in gross profit reflects cost savings realized with the closing of Vector Tobacco's Timberlake facility and the transfer of production, commencing January 1, 2004, to Liggett's facility in Mebane, as well as decreased promotional expense. The negative gross profit in 2003 reflected significant initial promotional costs associated with the QUEST launch, costs associated with excess manufacturing capacity at the Timberlake facility, and various inventory charges in 2003. As a percent of revenues (excluding federal excise taxes), gross profit at Vector Tobacco excluding the inventory charge was 46.9% for the three months ended June 30, 2004.

Real Estate Revenues. New Valley's real estate revenues were \$1,811 for the three months ended June 30, 2004 compared to revenues of \$1,777 from real estate activities for the three months ended June 30, 2003.

Expenses. Operating, selling, general and administrative expenses were \$37,631 for the three months ended June 30, 2004 compared to \$44,344 for the same period last year. Expenses at Liggett were \$21,086 for the three months ended June 30, 2004 compared to \$18,918 for the same period in the prior year, an increase of \$2,168 due primarily to increased selling, marketing and administrative expenses allocated from Liggett Vector Brands. Operating expenses at Liggett include Liggett's product liability legal expenses and other litigation costs of \$990 in the three months ended June 30, 2004 compared with \$1,119 for the same period in the prior year. Expenses at Vector Tobacco for the three months ended June 30, 2004 were \$8,695 compared to expenses of \$18,052 for the three months ended June 30, 2003, a decrease of \$9,357 due to lower direct marketing and advertising costs and decreased selling and administrative expenses allocated from Liggett Vector Brands. Effective January 1, 2004, we modified the allocations of the selling, marketing and administrative expenses of Liggett Vector Brands to Liggett and Vector Tobacco based on a review of relative business activities. Accordingly, for the three months ended June 30, 2004, the selling, marketing and administrative expenses allocated to Liggett increased by \$3,080 with a corresponding decrease in such expenses to Vector Tobacco, as compared to the allocation of these expenses between the segments during the three months ended June 30, 2003. These modifications did not effect the consolidated financial statements.

Restructuring and impairment charges for the three months ended June 30, 2004 were \$2,359 and relate to the closing of the Timberlake facility, sales force reductions and the loss on the sublease of Liggett Vector Brands' New York office space.

New Valley's expenses for real estate operations were \$874 for the three months ended June 30, 2004 compared to \$795 for the same period in 2003.

For the three months ended June 30, 2004, Liggett's operating income decreased to \$25,368 compared to \$27,587 for the prior year period. For the three months ended June 30, 2004, Vector Tobacco's operating loss, excluding the inventory write-down of \$37,000, decreased to \$7,441 compared to \$21,167 for the prior year period.

Other Income (Expenses). For the three months ended June 30, 2004, other income was \$4,013 compared to expense of \$7,207 for the three months ended June 30, 2003. For the three months ended June 30, 2004, interest and dividend income of \$531, gains on sales of investments of \$5,335 and equity income from non-consolidated New Valley real estate businesses of \$4,642 were primarily offset by interest expense of \$6,491. For the three months

ended June 30, 2003, interest expense of \$8,516 was offset primarily by interest and dividend income of \$1,127 and gains on sales of investments of \$332.

Interest expense was \$6,491 for the three months ended June 30, 2004 compared to \$8,516 for the same period last year, primarily due to repurchases of VGR Holding's 10% secured notes during 2003.

Income (Loss) from Operations. The loss from operations before income taxes and minority interests for the three months ended June 30, 2004 was \$20,949 compared to a loss of \$6,384 for the three months ended June 30, 2003. Income tax benefit was \$7,181 and minority interests in earnings of subsidiaries were \$3,134 for the three months ended June 30, 2004. This compared to an income tax benefit of \$649 and minority interests in losses of subsidiaries of \$805 for the three months ended June 30, 2003. The effective tax rates for the three months ended June 30, 2004 and June 30, 2003 do not bear a customary relationship to pre-tax accounting income principally as a consequence of non-deductible expenses and state income taxes.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Revenues. Total revenues were \$250,210 for the six months ended June 30, 2004 compared to \$264,319 for the six months ended June 30, 2003. This \$14,109 (5.3%) decrease in revenues was due to a \$7,910 (3.2%) decrease in revenues at Liggett, a decrease of \$6,215 (41.3%) in revenues at Vector Tobacco and an increase of \$16 in real estate revenues at New Valley.

Tobacco Revenues. In February 2003, Liggett increased its net sales price for selected discount brands by \$.80 per carton. In May 2003, Liggett increased its list price on USA by \$.50 per carton. In June 2003, Liggett increased its list price for LIGGETT SELECT by \$1.10 per carton. In September 2003, Liggett increased its net sales price for PYRAMID by \$.95 per carton. In December 2003, Liggett increased the list price on a leading private label brand by \$.85 per carton. In August 2004, Liggett increased its list price on LIGGETT SELECT by \$1.00 per carton.

Effective February 1, 2004, Liggett reduced the list prices for EVE and JADE from the premium price level to the branded discount level, in the case of EVE, and the deep discount level, in the case of JADE. During 2003, EVE product had been subject to promotional buy-downs at the retail level and was effectively promoted to consumers at a level that is fully reflected in the new reduced list price. During 2003, the net list price for JADE was at the deep discount level after giving effect to off-invoice promotional spending. In August 2004, the list price for JADE was increased by \$1.35 per carton.

All of Liggett's sales for the first half of 2004 were in the discount category. For the six months ended June 30, 2004, net sales at Liggett totaled \$237,772, compared to \$245,682 for the first half of 2003. Revenues decreased by 3.2% (\$7,910) due to a 6.4% decrease in unit sales volume (approximately 311.1 million units) accounting for \$15,794 in unfavorable volume variance and \$590 in unfavorable sales mix, partially offset by a combination of list price increases and reduced promotional spending of \$8,474. The favorable price variances for the 2004 period are after approximately \$1,400 of costs associated with the buy down of unpromoted EVE inventory at retail discussed above. Net revenues of the Liggett SELECT brand increased \$8,410 for the six months ended June 30, 2004 compared to the same period in 2003, and its unit volume increased 1.4% in the 2004 period compared to 2003.

Revenues at Vector Tobacco were \$8,846 for the six months ended June 30, 2004 compared to \$15,061 for the six months ended June 30, 2003 due to decreased sales volume. Vector Tobacco's revenues in 2003 and 2004 relate primarily to sales of QUEST.

Tobacco Gross Profit. Tobacco gross profit, excluding the inventory write-down of \$37,000, was \$102,388 for the six months ended June 30, 2004 compared to \$90,942 for the six months ended June 30, 2003, an increase of \$11,446 or 12.6% when compared to the same period last year, due primarily to the price increases discussed above at Liggett and lower Master Settlement Agreement expense at Liggett and Vector Tobacco. In the six months ended June 30, 2003, volume and price increases at Liggett were offset by costs associated with the launch of QUEST at Vector Tobacco. Liggett's brands contributed 96.4% to our gross profit and Vector Tobacco contributed 3.6% for the six months ended June 30, 2004. Over the same period in 2003, Liggett's brands contributed 105.4% to tobacco gross profit and Vector Tobacco cost 5.4%.

Liggett's gross profit of \$98,725 for the six months ended June 30, 2004 increased \$2,875 from gross profit of \$95,850 for the six months ended June 30, 2003. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 66.4% for the six months ended June 30, 2004 compared to 63.4% for the same period in 2003. This increase in Liggett's gross profit in the 2004 period was attributable to the items discussed above.

Vector Tobacco's gross profit, excluding the inventory write-down, was \$3,663 for the six months ended June 30, 2004 compared to negative gross profit of \$4,908 for the same period in 2003. The increase was due to the cost savings realized with the closing of Vector Tobacco's Timberlake facility and the transfer or production, commencing January 1, 2004, to Liggett's facility in Mebane, as well as decreased promotional expense.

Real Estate Revenues. New Valley's real estate revenues were \$3,592 for the six months ended June 30, 2004. This compares to revenues of \$3,576 from real estate activities for the six months ended June 30, 2003.

Expenses. Operating, selling, general and administrative expenses were \$77,468 for the six months ended June 30, 2004 compared to \$93,895 for the same period last year. The decrease of \$16,427 was due primarily to lower expense at Vector Tobacco of approximately \$21,447, partially offset by higher expense at Liggett of \$5,221. Expenses at Liggett were \$43,222, for the six months ended June 30, 2004 compared to \$38,001 for the same period last year, an increase of \$5,221 due primarily to increased selling, marketing and administrative expenses allocated from Liggett Vector Brands. Operating expenses at Liggett include Liggett's product liability legal expenses and other litigation costs of \$2,553 for the six months ended June 30, 2004 compared to \$2,232 for the same period in the prior year. Expenses at Vector Tobacco for the six months ended June 30, 2004 were \$19,151, excluding the \$37,000 inventory charge and restructuring and impairment charges of \$660, compared to expenses of \$40,598 for the six months ended June 30, 2003 due to lower direct marketing and advertising costs and decreased selling and administrative expenses allocated from Liggett Vector Brands. Effective January 1, 2004, we modified the allocations of the selling, marketing and administrative expenses of Liggett Vector Brands to Liggett and Vector Tobacco based on a review of relative business activities. Accordingly, for the six months ended June 30, 2004, the selling, marketing and administrative expenses allocated to Liggett increased by \$6,429 with a corresponding decrease in such expenses to Vector Tobacco, as compared to the allocation of these expenses between the segments during the six months ended June 30, 2003. These modifications did not effect the consolidated financial statements.

Restructuring and impairment charges for the six months ended June 30, 2004 were \$3,012 and relate to the closing of the Timberlake facility, sales force reductions and the loss on the sublease of Liggett Vector Brands' New York office space.

For the six months ended June 30, 2004, Liggett's operating income decreased to \$53,151 compared to \$57,849 for the prior year period. For the six months ended June 30, 2004,

Vector Tobacco's operating loss was \$53,147 compared to a loss of \$45,506 in the prior year period. Excluding the non-cash inventory charge of \$37,000, Vector Tobacco's operating loss decreased to \$16,147 for the six months ended June 30, 2004, primarily as a result of the cost savings from the closing of the Timberlake facility and decreased promotional expense.

Other Income (Expenses). For the six months ended June 30, 2004, other expense was \$822 compared to other expense of \$13,697 for the six months ended June 30, 2003. For the six months ended June 30, 2004, interest expense of \$12,913 was partially offset by interest and dividend income of \$1,226, a gain on investments of \$5,586 and equity from income from non-consolidated New Valley real estate businesses of \$5,288. For the six months ended June 30, 2003, interest expense of \$15,665 and an equity loss from non-consolidated real estate businesses of \$891 were offset primarily by interest and dividend income of \$2,572 and a gain on investments of \$270.

Interest expense decreased to \$12,913 for the six months ended June 30, 2004 compared to \$15,665 for the same period in 2003, primarily due to repurchases of VGR Holding's 10% senior secured notes during 2003.

Income (Loss) from Operations. The loss from operations before income taxes and minority interests for the six months ended June 30, 2004 was \$12,020 compared to a loss of \$13,074 for the six months ended June 30, 2003. Income tax benefit was \$2,493 and minority interests in earnings of subsidiaries was \$2,748 for the six months ended June 30, 2004. This compared to tax benefit of \$1,242 and minority interests in losses of subsidiaries of \$2,053 for the six months ended June 30, 2003. The effective tax rates for the six months ended June 30, 2004 do not bear a customary relationship to pre-tax accounting income principally as a consequence of non-deductible expenses and state income taxes.

#### CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents increased \$5,589 for the six months ended June 30, 2004 and decreased \$22,554 for the six months ended June 30, 2003.

Net cash used in operations for the six months ended June 30, 2004 was \$19,212 compared to net cash used in operations of \$23,181 for the comparable period of 2003. Cash used in operations for the 2004 period resulted primarily from the payment of the Master Settlement Agreement expense for 2003 in March and April of 2004, the non-cash unrealized gain on investment securities and the non-cash gain in equity income from non-consolidated real estate businesses offset primarily by the non-cash charge on the inventory write-down at Vector Tobacco and depreciation and amortization expense. Cash used in operations in 2003 resulted primarily from an increase in accounts receivable and inventories, an increase in other assets and a decrease in current liabilities offset by the non-cash impact of depreciation and amortization, deferred finance charges and minority interest as well as a change in current taxes payable.

Cash provided by investing activities was \$47,615 in 2004 compared to cash provided of \$14,783 in 2003. In the six months ended June 30, 2004, cash was provided primarily through the sale or maturity of investment securities for \$63,108 offset primarily by the purchase of investment securities for \$12,253, investment in non-consolidated real estate businesses at New Valley of \$2,500 and capital expenditures of \$1,132. In the six months ended June 30, 2003, cash was provided through the sale or maturity of investment securities for \$79,391 offset primarily by the purchase of investment securities for \$37,061 and the investment in non-consolidated real estate businesses at New Valley for \$9,500, an increase in restricted assets of \$11,010 and capital expenditures of \$6,503.

Cash used in financing activities was \$22,814 in 2004 compared to cash used of \$14,156 in 2003. In the six months ended June 30, 2004, cash was used for dividends of \$31,475 and repayments on debt of \$7,063. These were offset by net borrowings under the revolver of \$14,020 and proceeds from the exercise of options of \$1,724. In the six months ended June 30, 2003,



cash was used primarily for dividends of \$29,565 and repayments of debt of \$17,836 offset by net borrowings of \$32,622 under the revolver and proceeds from the exercise of warrants and options of \$623.

Liggett. On April 14, 2004, Liggett entered into an Amended and Restated Loan and Security Agreement with Congress Financial Corporation, as lender. The \$50,000 credit facility replaces Liggett's previous \$40,000 facility with Congress, under which \$14,020 was outstanding at June 30, 2004. Availability as determined under the facility was approximately \$20,900 based on eligible collateral at June 30, 2004. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility bear interest at a rate equal to 1.0% above the prime rate of Wachovia Bank, N.A. (the indirect parent of Congress). The facility requires Liggett's compliance with certain financial and other covenants including a restriction on Liggett's ability to pay cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At June 30, 2004, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$63,755 and net working capital was \$52,995, as computed in accordance with the agreement.

100 Maple LLC, a company formed by Liggett in 1999 to purchase its Mebane, North Carolina manufacturing plant, has a term loan of \$4,881 outstanding as of June 30, 2004 under Liggett's credit facility. The remaining balance of the term loan is payable in monthly installments of \$77 with a final payment on June 1, 2006 of \$3,033. Interest is charged at the same rate as applicable to Liggett's credit facility, and the outstanding balance of the term loan reduces the maximum availability under the credit facility. Liggett has guaranteed the term loan, and a first mortgage on the Mebane property and manufacturing equipment collateralizes the term loan and Liggett's credit facility.

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

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

During 2003, Liggett leased two 100 millimeter box packers, which will allow Liggett to meet the growing demand for this cigarette style, and a new filter maker to improve product quality and capacity. These operating lease agreements provide for payments totaling approximately \$4,500.

In July 2003, Liggett granted an unaffiliated third party an option to purchase Liggett's former manufacturing facility and other excess real estate in Durham, North Carolina with a net book value at June 30, 2004 of approximately \$2,313. The option agreement permits the purchaser to acquire the property during a period of up to two years, at a purchase price of \$14,000 if the closing occurs by August 23, 2004 and \$15,000 if the closing occurs thereafter during the term of the option. Liggett has received option fees of \$1,000, of which \$250 is refundable if the purchaser terminates the agreement prior to August 23, 2004. Liggett will be entitled to receive additional option fees of up to \$500 during the remaining option period. The option fees will generally be creditable against the purchase price. The purchaser is currently seeking financing for the transaction, and there can be no assurance the sale of the property will occur.

Liggett (and, in certain cases, Brooke Group Holding, our predecessor and a wholly-owned subsidiary of VGR Holding) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke from cigarettes. We believe, and have been so advised by counsel handling the respective cases, that Brooke Group Holding and Liggett have a number of valid defenses to claims asserted against them. Litigation is subject to many uncertainties. In May 2003, a Florida intermediate appellate court overturned a \$790,000 punitive damages award against Liggett and decertified the Engle smoking and health class action. In May 2004, the Florida Supreme Court agreed to review the case. Oral argument is scheduled for November 3, 2004. If the intermediate appellate court's ruling is not upheld on further appeal, it will have a material adverse effect on us. In November 2000, Liggett filed the \$3,450 bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. In May 2001, Liggett reached an agreement with the class in the Engle case, which provided assurance to Liggett that the stay of execution, in effect pursuant to the Florida bonding statute, would not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid \$6,273 into an escrow account to be held for the benefit of the Engle class, and released, along with Liggett's existing \$3,450 statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. In June 2002, the jury in an individual case brought under the third phase of the Engle case awarded \$37,500 (subsequently reduced by the court to \$25,100) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict, which was subject to the outcome of the Engle appeal, has been overturned as a result of the appellate court's ruling discussed above. In April 2004, a jury in a Florida state court action awarded compensatory damages of \$540 against Liggett in an individual action. Liggett intends to appeal the verdict. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Liggett may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. In recent years, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither we nor Liggett are able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See Note 7 to our consolidated financial statements.

Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. It is possible that our consolidated financial

position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

V.T. Aviation. In February 2001, V.T. Aviation LLC, a subsidiary of Vector Research Ltd., purchased an airplane for \$15,500 and borrowed \$13,175 to fund the purchase. The loan, which is collateralized by the airplane and a letter of credit from us for \$775, is guaranteed by Vector Research, VGR Holding and us. The loan is payable in 119 monthly installments of \$125 including annual interest of 2.31% above the 30-day commercial paper rate, with a final payment of \$1,420, based on current interest rates.

VGR Aviation. In February 2002, V.T. Aviation purchased an airplane for \$6,575 and borrowed \$5,800 to fund the purchase. The loan is guaranteed by us. The loan is payable in 119 monthly installments of \$40, including annual interest at 2.75% above the 30-day commercial paper rate, with a final payment of \$2,793, based on current interest rates. During the fourth quarter of 2003, this airplane was transferred to our direct subsidiary, VGR Aviation LLC, which has assumed the debt.

Vector Tobacco. In June 2001, Vector Tobacco purchased for \$8,400 an industrial facility in Timberlake, North Carolina. Vector Tobacco financed the purchase with an \$8,200 loan. The loan was payable in 60 monthly installments of \$85, plus interest at 4.85% above the LIBOR rate, with a final payment of approximately \$3,160. The loan, which was collateralized by a mortgage and a letter of credit of \$1,750, is guaranteed by us and by VGR Holding. During December 2001, Vector Tobacco borrowed an additional \$1,159 from the same lender to finance building improvements. This loan was payable in 30 monthly installments of \$39 plus accrued interest, with an annual interest rate of LIBOR plus 5.12%. These loans were repaid on July 13, 2004 with a portion of the proceeds from the sale of the Timberlake property.

On April 1, 2002, a subsidiary of ours acquired the stock of The Medallion Company, Inc., a discount cigarette manufacturer, and related assets from Medallion's principal stockholder. Following the purchase of the Medallion stock, Vector Tobacco merged into Medallion and Medallion changed its name to Vector Tobacco Inc. The total purchase price for the Medallion shares and the related assets consisted of \$50,000 in cash and \$60,000 in notes, with the notes guaranteed by us and by Liggett. Of the notes, \$25,000 have been repaid with the final quarterly principal payment of \$3,125 made on March 31, 2004. The remaining \$35,000 of notes bear interest at 6.5% per year, payable semiannually, and mature on April 1, 2007.

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

The notes are collateralized by substantially all of VGR Holding's assets, including a pledge of VGR Holding's equity interests in its direct subsidiaries, including Brooke Group Holding, Liggett Vector Brands, Vector Tobacco and New Valley Holdings, Inc., as well as a pledge of the shares of Liggett and all of the New Valley securities held by VGR Holding and New Valley Holdings. The purchase agreement for the notes contains covenants, which the Company is in compliance with at June 30, 2004. Among other things, the covenants limit the ability of VGR Holding to make distributions to us to 50% of VGR Holding's net income, unless VGR Holding holds an amount in cash equal to the then principal amount of the notes outstanding (\$70,000 at June 30, 2004) after giving effect to the payment of the distribution, and limit additional indebtedness of VGR Holding, Liggett, Vector Tobacco and Liggett Vector Brands to 250% of EBITDA (as defined in the purchase agreements) for the trailing 12 months. The

covenants also restrict transactions with affiliates subject to exceptions which include payments to us not to exceed \$9,500 per year for permitted operating expenses, and limit the ability of VGR Holding to merge, consolidate or sell certain assets. In August 2004, in connection with an amendment to the note purchase agreement, VGR Holding repurchased \$7,000 of the notes at a price of 100% of the principal amount plus accrued interest. The Company will recognize a loss of approximately \$639 in the third quarter of 2004 on the early extinguishment of debt.

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

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

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

Vector. We believe that we will continue to meet our liquidity requirements through 2004, although the covenants in the purchase agreement for VGR Holding's notes limit the ability of VGR Holding to make distributions to us unless certain tests are met. Under the terms of these covenants, at June 30, 2004, VGR Holding was generally not permitted to pay distributions to us except for approximately \$15,000 of dividends and except for tax sharing payments and specified amounts of operating expenses. Corporate expenditures (exclusive of Liggett, Vector Research, Vector Tobacco and New Valley) over the next twelve months for current operations include cash interest expense of approximately \$14,600, dividends on our outstanding shares (currently at an annual rate of approximately \$64,200) and corporate expenses. We anticipate funding our expenditures for current operations with available cash resources, proceeds from public and/or private debt and equity financing, management fees from subsidiaries and tax sharing and other payments from Liggett or New Valley. New Valley may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

In July 2001, we completed the sale of \$172,500 (net proceeds of approximately \$166,400) of our 6.25% convertible subordinated notes due July 15, 2008 through a private offering to qualified institutional investors in accordance with Rule 144A under the Securities Act of 1933. The notes pay interest at 6.25% per annum and are convertible into our common stock, at the option of the holder. The conversion price, which was \$26.71 at June 30, 2004, is subject to adjustment for various events, and any cash distribution on our common stock results in a corresponding decrease in the conversion price. In December 2001, \$40,000 of the notes were converted into our common stock, and \$132,500 principal amount of the notes were outstanding at June 30, 2004.

Our consolidated balance sheets include deferred income tax assets and liabilities, which represent temporary differences in the application of accounting rules established by generally accepted accounting principles and income tax laws. As of June 30, 2004, our deferred income tax liabilities exceeded our deferred income tax assets by \$104,088. The largest component of our deferred tax liabilities exists because of differences that resulted from a 1998 and 1999 transaction with Philip Morris Incorporated in which a subsidiary of Liggett contributed three of its premium brands to Trademarks LLC, a newly-formed limited liability company. In such transaction, Philip Morris acquired an option to purchase the remaining interest in Trademarks for a 90-day period commencing in December 2008, and we have an option to require Philip Morris to purchase the remaining interest commencing in March 2010. For additional information concerning the Philip Morris brand transaction, see Note 19 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2003.

In connection with the transaction, we recognized in 1999 a pre-tax gain of \$294,078 in our consolidated financial statements and established a deferred tax liability of \$103,100 relating to the gain. Upon exercise of the options during the 90-day periods commencing in December 2008 or in March 2010, we will be required to pay tax in the amount of the deferred tax liability, which will be offset by the benefit of any deferred tax assets, including any net operating losses, available to us at that time. In connection with an examination of our 1998 and 1999 federal income tax returns, the Internal Revenue Service issued to us in September 2003 a notice of proposed adjustment. The notice asserts that, for tax reporting purposes, the entire gain should have been recognized in 1998 and in 1999 in the additional amounts of \$150,000 and \$129,900, respectively, rather than upon the exercise of the options during the 90-day periods commencing in December 2008 or in March 2010. If the Internal Revenue Service were to ultimately prevail with the proposed adjustment, it would result in the potential acceleration of tax payments of approximately \$119,000, including interest, net of tax benefits, through June 30, 2004. These amounts have been previously recognized in our consolidated financial statements as tax liabilities. As of June 30, 2004, we believe amounts potentially due have been fully provided for in our consolidated statements of operations.

We believe the positions reflected on our income tax returns are correct and intend to vigorously oppose any proposed adjustments to our returns. We have filed a protest with the Appeals Division of the Internal Revenue Service. No payment is due with respect to these matters during the appeal process. Interest currently is accruing on the disputed amounts at a rate of 7%, with the rate adjust quarterly based on rates published by the U.S. Treasury Department. If taxing authorities were to ultimately prevail in their assertion that we incurred a tax obligation prior to the exercise dates of these options and we were required to make such tax payments prior to 2009 or 2010, and if any necessary financing were not available to us, our liquidity could be adversely affected.

#### OFF-BALANCE SHEET ARRANGEMENTS

We have various agreements in which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations related to such matters as title to assets sold and licensed or certain intellectual property rights. Payment by us under such indemnification clauses is generally conditioned on the other party making a claim that is subject to challenge by us and dispute resolution procedures specified in the particular contract. Further, our obligations under these arrangements may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, payments made by us under these agreements have not been material. As of June 30, 2004, we were not aware of any indemnification agreements

that would or are reasonably expected to have a current or future material adverse impact on our financial position, results of operations or cash flows.

In May 1999, in connection with the Philip Morris brand transaction, Eve Holdings Inc., a subsidiary of Liggett, guaranteed a \$134,900 bank loan to Trademarks LLC. The loan is secured by Trademarks' three premium cigarette brands and Trademarks' interest in the exclusive license of the three brands by Philip Morris. The license provides for a minimum annual royalty payment equal to the annual debt service on the loan plus \$1,000. We believe that the fair value of Eve's guarantee was negligible at June 30, 2004.

At June 30, 2004, we had outstanding approximately \$5,283 of letters of credit, collateralized by certificates of deposit. The letters of credit have been issued as security deposits for leases of office space, to secure the performance of our subsidiaries under various insurance programs and to provide collateral for various subsidiary borrowing and capital lease arrangements.

#### MARKET RISK

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

As of June 30, 2004, approximately \$68,849 of our outstanding debt had variable interest rates, which increases the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our variable rate borrowings, which could adversely affect our cash flows. As of June 30, 2004, we had no interest rate caps or swaps. Based on a hypothetical 100 basis point increase or decrease in interest rates (1%), our annual interest expense could increase or decrease by approximately \$842.

We held investment securities available for sale totaling \$19,031 at June 30, 2004. Adverse market conditions could have a significant effect on the value of these investments.

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

#### NEW ACCOUNTING PRONOUNCEMENTS

In March 2004, the FASB reached a consensus on Emerging Issues Task Force Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). EITF 03-1 provides guidance for determining when an investment is impaired and whether the impairment is other than temporary. EITF 03-1 also incorporates into its consensus the required disclosures about unrealized losses on investments announced by the EITF in late 2003 and adds new disclosure requirements relating to cost-method investments. The impairment accounting guidance is effective for reporting periods beginning after June 15, 2004 and the new disclosure requirements for annual reporting periods ending after June 15, 2004. We do not expect the adoption of the impairment guidance contained in EITF 03-1 to have a material impact on our financial position or results of operations.

In December 2003, the FASB issued SFAS No. 132(R), which replaces SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132(R) does not change the measurement and recognition provisions of SFAS No. 87, SFAS No. 88,

"Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," however, it includes additional disclosure provisions for annual reporting, including detailed plan asset information by category, expanded benefit obligation disclosure and key assumptions. In addition, interim disclosures related to the individual elements of plan costs and employer's current year contributions are required. (See Note 6 to our consolidated financial statements.)

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 7, incorporated herein by reference, to our consolidated financial statements included elsewhere in this report which contains a general description of certain legal proceedings to which Brooke Group Holding, VGR Holding, New Valley or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99 for additional information regarding the pending smoking-related material legal proceedings to which Brooke Group Holding and/or Liggett are party. A copy of Exhibit 99 will be furnished to holders of our securities and the securities of our subsidiaries without charge upon written request to us at our principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn. Investor Relations.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Securities of ours which were not registered under the Securities Act of 1933 have been issued or sold by us during the three months ended June 30, 2004, except for the grant of a total of 40,000 restricted shares of our common stock to our four non-employee directors on June 1, 2004. The grant of restricted shares was effected in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933.

Our purchases of our equity securities during the three months ended June 30, 2004 were as follows:

| Period                         | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|----------------------------------|------------------------------|--|--|
| -----                          | -----                            | -----                        | -----  | -----  |
| April 1 to April 30, 2004 .... | --                               | \$ --                        | --   | --   |
| May 1 to May 31, 2004 .....    | --                               | --                           | --   | --   |
| June 1 to June 30, 2004 .....  | 332,022(1)                       | 16.10                        | --   | --   |
|                                | -----                            | -----                        | -----  | -----  |
| Total .....                    | 332,022                          | \$ 16.10                     | --   | --   |
|                                | =====                            | =====                        | =====  | =====  |

(1) Delivery of shares to us in payment of exercise price in connection with exercises of a total of 758,079 employee stock options on June 21, 2004.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2004 annual meeting of stockholders on May 24, 2004. There were 39,112,553 shares of our common stock entitled to be voted on the April 19, 2004 record date for the meeting. The matters submitted to our stockholders for a vote at the annual meeting were to elect the following seven director nominees to serve for the ensuing year and until their successors are elected and to approve the Vector Group Ltd. Amended and Restated 1999 Long-Term Incentive Plan. The votes cast and withheld for such matters were as follows:



ELECTION OF DIRECTORS:

| NOMINEE<br>-----    | FOR<br>--- | WITHHELD<br>----- |
|---------------------|------------|-------------------|
| Bennett S. LeBow    | 34,574,455 | 1,331,865         |
| Howard M. Lorber    | 34,605,425 | 1,300,895         |
| Ronald J. Bernstein | 34,939,654 | 966,666           |
| Henry C. Beinstein  | 34,530,646 | 375,674           |
| Robert J. Eide      | 35,041,318 | 865,002           |
| Jeffrey S. Podell   | 35,564,044 | 342,276           |
| Jean E. Sharpe      | 34,495,248 | 1,411,072         |

APPROVAL OF AMENDED INCENTIVE PLAN:

| FOR<br>--- | AGAINST<br>----- | ABSTAIN<br>----- | BROKER<br>NON-VOTES<br>----- |
|------------|------------------|------------------|------------------------------|
| 18,187,654 | 2,776,998        | 78,705           | 14,862,963                   |

Based on these voting results, each of the directors nominated was elected and the amended plan was approved.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 4.1 Sixth Amendment to the Note Purchase Agreement, dated as of July 29, 2004, between VGR Holding Inc. and TCW High Income Partners, Ltd., TCW High Income Partners II, Ltd., Pioneer High Yield Cayman Unit Trust, TCW Shared Opportunity Fund III, L.P., TCW Leveraged Income Trust IV, L.P., TCW Leveraged Income Trust, L.P., TCW Leveraged Income Trust II, L.P., TCW LINC III CBO Ltd., AIMCO CDO, Series 2000-A and TCW Shared Opportunity Fund II, L.P., relating to the 10% Senior Secured Notes due March 31, 2006.
- \*10.1 Asset Purchase Agreement, dated June 4, 2004, by and between VT Roxboro LLC and Flue-Cured Tobacco Cooperative Stabilization Corporation (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated June 4, 2004).
- 31.1 Certification of Chief Executive Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99 Material Legal Proceedings.

- - - - -  
\* Incorporated by reference

(b) Reports on Form 8-K

We filed the following Reports on Form 8-K during the second quarter of 2004:

| DATE<br>-----  | ITEMS<br>----- | FINANCIAL<br>STATEMENTS<br>----- |
|----------------|----------------|----------------------------------|
| April 14, 2004 | 5, 7           | None                             |
| May 11, 2004   | 7, 12          | None                             |
| June 4, 2004   | 5, 7           | None                             |

SIGNATURE

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

VECTOR GROUP LTD.  
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

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Joselynn D. Van Siclen  
Vice President and Chief  
Financial Officer

Date: August 9, 2004

## SIXTH AMENDMENT TO NOTE PURCHASE AGREEMENT

This Sixth Amendment to Note Purchase Agreement, dated as of July 29, 2004 (this "SIXTH AMENDMENT"), amends the Note Purchase Agreement, dated as of May 14, 2001, as amended as of November 6, 2001, April 30, 2002, September 30, 2002, March 31, 2003 and October 1, 2003 (the "NOTE PURCHASE AGREEMENT"), by and among (i) VGR Holding Inc. (formerly known as BGLS Inc.), a Delaware corporation (the "COMPANY") and (ii) the signatories hereto who, collectively, are the Majority Holders (as defined in the Note Purchase Agreement). Capitalized terms used but not otherwise defined in this Sixth Amendment shall have the meanings ascribed to such terms in the Note Purchase Agreement as amended by this Sixth Amendment.

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

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

1. AMENDMENT TO SCHEDULE B. Schedule B of the Note Purchase Agreement is hereby amended as follows:

(a) The defined term "Consolidated Net Income" is hereby amended in its entirety to read as follows:

"CONSOLIDATED NET INCOME" of the Company means, without duplication, for any period, the after-tax net income (loss) of the Company and its Restricted Subsidiaries for such period on a consolidated basis as determined in accordance with GAAP, adjusted by excluding therefrom (a) net extraordinary gains or net extraordinary losses, as the case may be, of the Company and its Restricted Subsidiaries during such period, (b) net gains or losses (less all fees and expenses relating thereto) in respect of dispositions of assets (other than in the ordinary course of business) by the Company and its Restricted Subsidiaries during such period, (c) the income (or loss) of any other Person (other than a Restricted Subsidiary) in which the Company or any Restricted Subsidiary has an ownership interest, except to the extent of the amount of dividends or other distributions actually paid to such Person or its subsidiaries by such other Person during such period, (d) net income of any other Person combined with the Company or any Restricted Subsidiary on a "pooling of interests" basis attributable to any period prior the date of combination, (e) the net income of any Restricted Subsidiary during such period to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that income is not at the time permitted, directly or indirectly, by operation of the terms of its charter or any agreement (including any shareholder agreement), instrument, judgment, decree, order, statute, rule or governmental regulations applicable to that Restricted Subsidiary (except to the extent of the amount of cash dividends or distributions to the Company or other Restricted Subsidiaries (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause (e)) from such Restricted Subsidiary during such period); (f) the amount of any Shadow Dividends (but only to the extent such Shadow Dividends are counted as an expense); (g) the Note Prepayment Amount during such period; and (h) for any period including the second quarter of fiscal year 2004, the Quest Charge Amount;

PROVIDED, HOWEVER, that (1) the amount of any Tobacco Litigation Bond of the Company or any Restricted Subsidiary deemed non-refundable or forfeited shall be expensed against Consolidated Net Income on the date that such amount is deemed non-refundable or forfeited; (2) to the extent that the amount of an appealable judgment for which a Tobacco Litigation Bond has been posted is counted as a charge against net income of the Company or a Restricted Subsidiary in accordance with GAAP, the amount of such charge shall be added back when calculating Consolidated Net Income; (3) to the extent that the present value of any Tobacco Claim Obligation not immediately due and payable is counted as a charge against net income in accordance with GAAP, the amount of such charge shall be added back when calculating Consolidated Net Income; and (4) any payment in respect of a Tobacco Claim Obligation shall be expensed against Consolidated Net Income on the date that such payment is made, except that the forfeiture of a Tobacco Litigation Bond in satisfaction of all or a portion a Tobacco Claim Obligation shall be expensed in the amount forfeited in accordance with clause (1) of this proviso rather than this clause (4)."

(b) A new defined term "Note Prepayment Amount" is hereby added to Schedule B in the appropriate alphabetical order, which defined term shall read as follows:

"NOTE PREPAYMENT AMOUNT" means the losses on early extinguishment of debt incurred by the Company in connection with the repurchase by the Company of Notes in an amount not to exceed (i) \$1,318,960 for fiscal year 2002, (ii) \$1,721,299 for fiscal year 2003, and (iii) \$730,000 for fiscal year 2004."

(c) A new defined term "Quest Charge Amount" is hereby added to Schedule B in the appropriate alphabetical order, which defined term shall read as follows:

"QUEST CHARGE AMOUNT" means the non-cash charge taken by the Company in the second fiscal quarter of 2004 in an amount not to exceed \$37,000,000 in connection with the write-down of the carrying value of the Quest leaf tobacco inventory.' "

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

(a) Continuation of Representations and Warranties in Note Purchase Agreement. The representations and warranties made by it in the Note Purchase Agreement are true and correct in all material respects after giving effect to the transactions contemplated in this Sixth Amendment (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date).

(b) Leverage Ratio. After giving effect to the amendments contained herein, the Leverage Ratio is less than 2.50 to 1.

(c) No Material Adverse Effect. Other than the Quest Charge Amount, during the period from March 31, 2004 through the date hereof, there will have been no development or event which could reasonably be expected to have a Material Adverse Effect.

(d) Legal, Valid and Binding Obligation. This Sixth Amendment constitutes the legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, fraudulent conveyances, reorganization, moratorium or similar laws affecting creditor's rights.

(e) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the transactions contemplated in this Sixth Amendment.

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

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

5. LIMITED EFFECT. Except as expressly amended and modified by this Sixth Amendment, the Note Purchase Agreement shall continue to be, and shall remain, in full force and effect in accordance with its terms. Except as expressly set forth herein, any conditions of the Note Purchase Agreement and the other Note Documents shall remain unamended and unwaived.

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

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

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

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

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

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

VGR HOLDING INC.

By: /s/ Richard J. Lampen  
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Name: Richard J. Lampen  
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Title: Executive Vice President  
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TCW HIGH INCOME PARTNERS, LTD.

By: TCW Asset Management Company,  
its Investment Advisor

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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TCW HIGH INCOME PARTNERS II, LTD.

By: TCW Asset Management Company,  
its Investment Advisor

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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PIONEER HIGH YIELD CAYMAN UNIT TRUST

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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TCW SHARED OPPORTUNITY FUND III, L.P.

By: TCW Asset Management Company,  
its Investment Advisor

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
-----

By: /s/ Joseph J. Keenan

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Name: Joseph J. Keenan

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Title: Senior Vice President  
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TCW LEVERAGED INCOME TRUST IV, L.P.

By: TCW Asset Management Company,  
as its Investment Advisor

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

-----  
Title: Managing Director  
-----

AND

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

By: /s/ Steven M. Koehler

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Name: Steven M. Koehler

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Title: Senior Vice President  
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TCW LEVERAGED INCOME TRUST, L.P.

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

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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By: TCW Investment Management Company,  
as Investment Adviser

By: /s/ Steven M. Koehler

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Name: Steven M. Koehler

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Title: Senior Vice President  
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TCW LEVERAGED INCOME TRUST II, L.P.

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

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

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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By: TCW Investment Management Company,  
as Investment Adviser

By: /s/ Steven M. Koehler

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Name: Steven M. Koehler

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Title: Senior Vice President  
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TCW LINC III CBO LTD.

By: TCW Investment Management Company,  
as Collateral Manager

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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By: /s/ C. Shawn Bookin

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Name: C. Shawn Bookin

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Title: Managing Director  
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By: Allstate Investment Management  
Company, its Collateral Manager

By: TCW Asset Management Company, its  
Investment Advisor

By: /s/ Nicholas W. Tell, Jr.  
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Name: Nicholas W. Tell, Jr.  
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Title: Managing Director  
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By: /s/ C. Shawn Bookin  
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Name: C. Shawn Bookin  
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Title: Managing Director  
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By: TCW Investment Management Company,  
its Investment Manager

By: /s/ Nicholas W. Tell, Jr.

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Name: Nicholas W. Tell, Jr.

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Title: Managing Director  
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By: /s/ Joseph J. Keenan

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Name: Joseph J. Keenan

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Title: Senior Vice President  
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RULE 13A-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Bennett S. LeBow, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [intentionally omitted]

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ Bennett S. LeBow

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Bennett S. LeBow  
Chairman and Chief Executive Officer

RULE 13A-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Joselynn D. Van Siclen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [intentionally omitted]

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(c) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ Joselynn D. Van Siclen

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Joselynn D. Van Siclen  
Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bennett S. LeBow, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

August 9, 2004

/s/ Bennett S. LeBow

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Bennett S. LeBow  
Chairman and Chief Executive Officer

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joselynn D. Van Siclen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

August 9, 2004

/s/ Joselynn D. Van Siclen

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Joselynn D. Van Siclen  
Vice President and Chief Financial Officer

## I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

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

UNITED STATES OF AMERICA V. PHILIP MORRIS, INC., ET AL., Case No. 1:99CV02496, USDC, District of Columbia (case filed 9/22/99). The United States of America seeks to recover the proceeds received, and to be received, by tobacco company defendants and certain affiliates for wrongful sales of tobacco products. In October 2000, the District Court dismissed the government's claims pursuant to the Medicare Secondary Payor Act and the Medical Cost Recovery Act, but denied motions to dismiss RICO claims. Trial is scheduled for September 2004. See Note 7, Contingencies, for a more detailed discussion of the case.

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

GENERAL SICK FUND (KUPAT HOLIM CLALIT) V. PHILIP MORRIS, INC., ET AL., Case No. 1571/98, District Court, Israel, Jerusalem (case filed 9/28/98). General Sick Fund seeks monetary damages and declaratory and injunctive relief on behalf of itself and all of its members.

REPUBLIC OF PANAMA V. THE AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. 98-17752, Civil District Court, State of Louisiana, Orleans Parish (case filed 10/20/98). The Republic of Panama seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers. Transferred to the Judicial Panel on Multidistrict Litigation in the United States District Court of the District of Columbia on 11/6/00.

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

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

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

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

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

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

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

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

## II. THIRD-PARTY PAYOR ACTIONS

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.

GLOVER, ET AL. V. PHILIP MORRIS USA, ET AL., Case No. 3:04-CV-403-J-16 MMH,, USDC, Middle District of Florida (case filed 5/26/04). Plaintiffs are seeking to recover for the Medicare program all the expenditures it made from May, 26, 1998 to the present for the healthcare services received by Medicare beneficiaries for the treatment of certain tobacco related diseases.

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.

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

OWENS-ILLINOIS, INC. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 00-0077, Circuit Court, Mississippi, Sharkey County (case filed 4/9/01). Asbestos manufacturer seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-3287, New York, Eastern District. Action brought on behalf of twenty-four Blue Cross/Blue Shield insurers seeking to recover health care costs attributable to smoking. Judgment has been entered on a jury verdict and award of attorneys fees in favor of one plan, Empire Blue Cross and Blue Shield. The case has been appealed to the United States Court of Appeals for the Second Circuit. On September 16, 2003, the Second Circuit rendered a decision which, among other things, certified certain legal questions concerning that appeal to the Court of Appeals of the State of New York, which agreed to review the certified questions. See Note 7, Contingencies, for a more detailed discussion of the case.

### III. SLAVERY REPARATIONS

JOHNSON, ET AL. V. AETNA , INC., ET AL., Case No. 02-2712, USDC, Louisiana, Eastern District. This class action is brought on behalf of all African American slave descendants for slavery reparations.

BANKHEAD, ET AL. V. LLOYD'S OF LONDON, ET AL., Case No. 05 CV 6966, USDC, Southern District of New York (case filed 9/3/02). This class action is brought on behalf of all African American slave descendants for slavery reparations.

TIMOTHY HURDLE V. FLEET BOSTON FINANCIAL, ET AL., Case No. 02-02653, USD, Northern District of California (case filed 09/10/02). This class action is brought on behalf of all African American slave descendants for slavery reparations.

### IV. CLASS ACTION CASES

JEFFERSON COUNTY, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. CV 02-6170, Circuit Court, Jefferson County, Alabama (case filed 10/10/02). This action is for injunctive relief and damages. Plaintiffs allege a class action against the tobacco defendants for their smoking related medical expenses unpaid by Medicaid.



BROWN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 711400, Superior Court of California, County of San Diego (case filed 10/1/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California. In April 2001, the court granted in part plaintiff's motion for class certification. Summary judgment motions are currently pending. See Note 7, Contingencies, for a more detailed discussion of this case.

SIMS, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:01CV01107, USDC, District of Columbia (case filed 5/23/01). Plaintiffs bring this class action to recover the purchase price paid by plaintiffs and class members while they were under age through the use of fraud, deception, misrepresentation and other activities constituting racketeering, in violation of federal law.

ENGLE, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 94-08273 CA 20, Circuit Court, Florida, Dade County (case filed 5/5/94). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Florida. The case was certified as a class action on October 31, 1994. Trial commenced in July 1998. A judgment for compensatory and punitive damages was entered in November 2000. The judgment was reversed by the intermediate appellate court on May 21, 2003. The Florida Supreme Court has accepted this case for appeal and has scheduled oral argument for November 2004. See Note 7, Contingencies, for a more detailed discussion of this case.

CLEARY, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 98 L06427, Circuit Court of the State of Illinois, Cook County (case filed 6/11/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated smokers resident in Illinois.

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

YOUNG, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:97-CV-03851, Civil District Court, State of Louisiana, Orleans Parish (case filed 11/12/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Louisiana.

RICHARDSON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 96145050/CL212596, Circuit Court, Baltimore City, Maryland (case filed on 5/29/96). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Maryland.

BROWN, CHARLENE, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2003-0003-B, Superior Court, District of the Trial Court, Massachusetts, Hampden (case filed on 01/10/03). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Massachusetts.

LEWIS, TARJI, ET AL. V. PHILIP MORRIS, INCORPORATED, ET AL., Case No. MICV2000-03447, Superior Court, Massachusetts, Middlesex County. This class action is brought on behalf of Massachusetts residents who began smoking under the legal age and who now wish to quit.

WHITE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 5:97-CV-91BRS, Chancery Court of Mississippi, Jefferson County (case filed 4/24/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Mississippi.

BADILLO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV-N-97-573-HDM (RAM), USDC, District of Nevada (case filed 11/4/97). This action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to environmental tobacco smoke.

BIRCHALL, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. A453181, 8th Judicial District Court, Nevada, Clark County (case filed 7/10/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

ELLINGTON, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. A454215, 8th Judicial District Court, Nevada, Clark County (case filed 7/31/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

MARTINEZ, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. A455846, 8th Judicial District Court, Nevada, Clark County (case filed 9/4/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

RAMSDEN, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. A455989, 8th Judicial District Court, Nevada, Clark County (case filed 9/6/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

VANDINA, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. A454216, 8th Judicial District Court, Nevada, Clark County (case filed 7/31/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

VAVREK, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. A454217, 8th Judicial District Court, Nevada, Clark County (case filed 7/31/02). This action is brought on behalf of all Nevada citizens, residents and survivors, who have suffered, presently suffer, or who have died from diseases or medical conditions caused by their addiction to cigarettes that contain nicotine.

AVALLONE, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. MID-L-4883-98, Superior Court of New Jersey, Middlesex County (case filed 5/5/98). This personal injury class action is brought on behalf of plaintiff and all similarly situated non-smokers allegedly injured from exposure to second hand smoke resident in New Jersey.

COSENTINO, ET AL. V. PHILIP MORRIS, ET AL., Case No. L-5135-97, Superior Court of New Jersey, Law Division, Middlesex County (case filed 5/21/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

MASON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 02-7923, USCA, Second Circuit of New York. Plaintiffs filed a Petition for Writ of Certiorari on March 8, 2004. Appeal to the Supreme Court is pending.

MCLAUGHLIN, ET AL. V. PHILIP MORRIS USA, INC., ET AL., Case No. CV-04 1945, USDC, Eastern District of New York (case filed 5/11/04). This personal injury action is brought on behalf of plaintiffs and all others similarly situated under the RICO act challenging the practices of defendants in connection with the marketing, advertising, promotion, distribution and sale of light cigarettes in comparison to regular cigarettes delivering lower levels of tar and/ or nicotine. Plaintiff seeks certification of a nationwide class.

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

IN RE SIMON (II) LITIGATION, Case No 00-CV-5332, USDC, Eastern District of New York (case filed 9/6/2000). This action consolidates claims of ten other individual and class action personal injury tobacco cases, and is brought on behalf of plaintiffs seeking certification of a nationwide class under the applicable provisions of Rule 23 of the Federal Rules of Civil Procedure. In September 2002, the court granted plaintiff's motion for certification of a nationwide punitive damages class. Defendants have taken an appeal of the class certification order to the United States Court of Appeals for the Second Circuit. See Note 7, Contingencies, for a more detailed discussion of this case. (Consolidated Cases: 99-CV-1988, 00-CV-2340, 00-CV-4632, 00-CV-4442, 98-CV-1492, 99-CV-6142, 98-CV-3287, 98-CV-7658, 98-CV-0675, 99-CV-7392)

CREEKMORE, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 98 CV 03403, Superior Court of North Carolina, Buncombe County (case filed 11/19/98). This personal injury class action is brought on behalf of plaintiffs and all similarly situated allegedly injured smokers resident in North Carolina.

TRIVISONNO, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 459031, Court of Common Pleas, Ohio, Cuyahoga County. This personal injury class action is brought by behalf of plaintiff and all Ohio residents.

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

JACKSON, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 980901634PI, 3rd Judicial Court of Utah, Salt Lake County (case filed 3/10/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Utah.

MARTINEZ, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 030900239, 3rd Judicial Court of Utah, Salt Lake County (case filed 01/07/03). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Utah.

INGLE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-C-21-S, Circuit Court, State of West Virginia, McDowell County (case filed 2/4/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in West Virginia.

IN RE TOBACCO MM (6000) (BLANKENSHIP), Case No. 00-C-6000, Circuit Court, West Virginia, Ohio County. Class action seeking payments for costs of medical monitoring for current and former smokers. Liggett was severed from trial of other tobacco company defendants. Judgment upon jury verdict in favor of other tobacco company defendants was affirmed by the West Virginia Supreme Court in May 2004.

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.

V. INDIVIDUAL SMOKER CASES

DUNN, ET AL. V. HOLCOMB GROCERY, ET AL., Case No. 2001-395, Circuit Court, Alabama, Walker County (case filed 6/8/01). One individual suing.

SPRINGER V. LIGGETT GROUP INC. AND LIGGETT & MYERS, INC., Case No. LR-C-98-428, USDC, Eastern District of Arkansas (case filed 7/19/98). Two individuals suing. Liggett is the only defendant.

ADAMS, DIXIE, ET AL. V. AMERICAN TOBACCO CO, INC., ET AL., Case No. GC 030373, Superior Court, Los Angeles County, California. Three individuals suing.

BIRREN, D., ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. RIC 356880, Superior Court, Riverside County, California (case filed 04/03/01). Two individuals suing.

BROWN, D., ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC 226245, Superior Court, Los Angeles County, California (case filed 3/9/00). One individual suing. Liggett has not been served.

BROWN V., ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 00AS02085, Superior Court, Sacramento County, California (case filed 4/18/00). Two individuals suing.

CRAYTON V. SAFEWAY, INC., ET AL., Case No. RDC 820871-0, Superior Court, Alameda County, California (case filed 1/18/00). One individual suing.

DONALDSON, ET AL. V. RAYBESTOS MANHATTAN, INC., ET AL., Case No.998147, Superior Court of California, County of San Francisco (case filed 9/25/98). Two individuals suing.

FLEURY V. PHILIP MORRIS INC., ET AL., Case No. BC 261184, Superior Court of California, County of Los Angeles. One individual suing.

KING V. PHILLIP MORRIS INCORPORATED., ET AL., Case No. 2002068646, Superior Court of California, County of Alameda (case filed 10/11/2002). One individual suing.

JACOBS, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. KC 041304, Superior Court, California, Los Angeles County (case filed 3/14/2003). Two individuals suing.

LONG, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. CV-00-12679, USDC, Central District, California (case filed 3/2/00). Two Individuals suing.

LAMB, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. RIC 343417, Superior Court, Riverside County, California (case filed 5/26/00). Two individuals suing.

MCDONALD, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2002-044907, Superior Court, Alameda County, California (case filed 3/21/02).Three individuals suing.

MORSE V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 822825-9, Superior Court, Alameda County, California. One individual suing.

REIN V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 807453-1, Superior Court of California, County of Alameda (case filed 5/5/99). One individual suing.

ROBINSON, ET AL. V. RAYBESTOS-MANHATTAN, INC., ET AL., Case No. 996378, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

ROBINSON, ET AL. V. RAYBESTOS- MANHATTAN, ET AL., Case No. 309286, Superior Court, California, County of San Francisco (case filed 1/18/00). Three individuals suing.

SELLERS, ET AL. V. RAYBESTOS-MANHATTAN, ET AL., Case No. 996382, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

SMITH, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. AS02275998, Superior Court, California, County of Santa Clara. Two individuals suing.

SOLIMAN V. PHILIP MORRIS INCORPORATED, ET AL, Case No. 31105, Superior Court, San Francisco County, California (case filed 3/28/00). One individual suing.

STERN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. M37696, Superior Court of California, County of Monterey (case filed 4/28/97). Two individuals suing.

WILLIAMS, KATHLEEN, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. C01-04164, Superior Court, California, Contra Costa County (case filed 10/16/2001). Two individuals suing.

CHRISTENSEN, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 02136, Court of Special Appeals, District of Columbia (case filed 9/03). Two individuals suing.

PLUMMER, BRENDA, ET AL. V. THE AMERICAN TOBACCO., Case No. 6480, Superior Court, District of Columbia. Three individuals suing.

ARMAND V. PHILIP MORRIS, ET AL., Case No. 97-31179-CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 7/9/97). Two individuals suing.

ARNOLD, JAMES, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 04 00472, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 01/16/04). One individuals suing. -

ATCHESON V. R. J. REYNOLDS, ET AL., Case No. 97-31148-CICU, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 7/29/97). One individual suing.

BARTLEY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11153, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/21/97). Two individuals suing.

BLAKE, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 01-13549, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 6/7/01). Two individuals suing.

BLAIR V. R. J. REYNOLDS, ET AL., Case No. 97-31177, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 7/29/97). One individual suing.

BLANK V. PHILIP MORRIS, ET AL., Case No. 97-05443, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/10/97). Two individuals suing.

BLUM V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 96005881, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County. One individual suing.

BOWDELL, ET AL. V. BROWN & WILLIAMSON TOBACCO, ET AL., Case No. 02-7726-CI-11, Circuit Court for the 6th Judicial Circuit, Pinellas County (case filed 9/30/02). Two individuals suing.

BRADLEY, ET AL. V. AMERICAN TOBACCO, ET AL., Case No. 6:02-CV-01385, USDC, Middle District, Florida. Two individuals.

BRITAN, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 01-13451, County Court of the 11th Judicial Circuit, Florida, Miami-Dade County. One individual suing.

BRONSTEIN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008769, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

BROWN, S. , ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 03-18552 CA 04, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 08/11/03). Two individuals suing.

BURNS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11175-27, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/3/98). One individual suing.

CAGLE, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 02 10718, 13th Judicial Circuit, Florida, Hillsborough County (case filed 11/22/02). Two individuals suing.

CALHOUN, C., ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 02-7970, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 8/27/02). Two individuals suing.

COTTO, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-748, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 1/22/03). Two individuals suing.

CLARK, CAROL M. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 02-16981, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County, (case filed 7/3/02). One individual suing.

COFFEY V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 01-09335, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

COLIC, ET AL V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-10844, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

COWART V. LIGGETT GROUP INC, ET AL., Case No.98-01483CA, Circuit Court of the 11th Judicial Circuit, Florida, Duval County (case filed 3/16/98). One individual suing.

DAVIS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11145, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

DAVIS, BEVERLY, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 02-48914, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 10/4/02). Jury decision on April 28, 2004 awarded compensatory damages of \$540,000 against Liggett. The Company intends on appealing.

DAVISON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008776, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

DE LA TORRE, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11161, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

DILL V. PHILIP MORRIS, ET AL., Case No. 97-05446, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/10/97). One individual suing.

DOUGHERTY V. PHILIP MORRIS INC., ET AL., Case No. 1999 32074 CICI, Circuit Court, Florida, Volusia County (case filed 11/17/99). One individual suing.

DUECKER V. LIGGETT GROUP INC., Case No. 98-03093 CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 7/5/98). One individual suing. Liggett is the only defendant.

EASTMAN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 01-98-1348, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 3/11/98). One individual suing.



FERLANTI, ET AL. V. LIGGETT GROUP INC., ET AL., Case No.0321697, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 12/11/03). Two individuals suing. Liggett is the only defendant.

FLAKS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008750, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

GARRETSON, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97-32441 CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 10/22/96). One individual suing.

GOLDBERG, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-008780, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

GRANT, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-2673-Div. I, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

GRAY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-21657 CA 42, Circuit Court of the 11th Judicial Circuit, Florida, Putnam County (case filed 10/15/97). Two individuals suing.

GUARCH, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 02-3308 CA 22, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 2/5/02). Two individuals suing.

HALEN V. R.J. REYNOLDS, ET AL., Case No. CL 96005308, Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 6/19/96). One individual suing.

HARRIS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-1151, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). Two individuals suing.

HARRIS, DONALD, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 02-8105, 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

HART, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 9708781, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). One individual suing.

HAYES, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97-31007, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 6/30/97). Two individuals suing.

HAYHURST, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 03-12302, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/14/03). Two individuals suing.

HECKER V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-9336, 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

HENIN V. PHILIP MORRIS, ET AL., Case No. 97-29320 CA 05, Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 12/26/97). One individual suing.

HENNING, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11159, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). Two individuals suing.

HITCHENS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008783, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97).

JONES, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 02-21922 CA 22, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 08/29/02). Two individuals suing.

KATZ V. BROWN & WILLIAMSON, ET AL., Case No. 95-15307-CA-01, USDC, Southern District of Florida (case filed 8/3/95). One individual suing. Plaintiff has dismissed all defendants except Liggett.

KALOUSTIAN V. LIGGETT GROUP INC., ET AL., Case No. 95-5498, Circuit Court for the 13th Judicial Circuit, Florida, Hillsborough County (case filed 8/28/95). Two individuals suing.

KRUEGER, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 96-1692-CIV-T-24A, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

LAPPIN V. R.J. REYNOLDS, ET AL., Case No. 97-31371 CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 6/2/97). One individual suing.

LEVINE V. R.J. REYNOLDS, ET AL., Case No. CL 95-98769 (AH), Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 7/24/96). One individual suing.

LOBLEY V. PHILIP MORRIS, ET AL., Case No. 97-1033-CA-10-L, Circuit Court of the 18th Judicial Circuit, Florida, Seminole County (case filed 7/29/97). Two individuals suing.

LUKACS, JOHN V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court of the 11th Judicial Circuit Court, Florida, Miami-Dade County. One individual suing. See Note 8, Contingencies, for a more detailed discussion of this case.

LUSTIG, ET AL. V. BROWN & WILLIAMSON TOBACCO CO., ET AL., Case No. 97 11168, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

MAGALDI, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 02-2120 CA 11, Circuit court of the 11th Judicial Court, Florida, Miami-Dade County (case filed 8/21/02). Two individuals suing.

MAGLIARISI, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008895, Circuit Court of the 17 Judicial Circuit, Florida, Broward County (case filed 6/11/97). One individual suing.

MANLEY, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11173-27, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/3/98). Two individuals suing.

MARTINEZ, ET AL. V. LIGGETT GROUP INC., Case No. 02-20943-CA15, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 10/14/02). One individual suing. Liggett is the only defendant. Trial is scheduled for September 2004.

MCBRIDE, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 02-0585, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 6/4/02). One individual suing.

MCDONALD, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 03-4767, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 5/19/03). One individual suing.

MECKLER, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-03949-CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 7/10/97). One individual suing.

MULLIN V. PHILIP MORRIS, ET AL., Case No. 95-15287 CA 15, Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 11/7/95). One individual suing.

O'ROURKE V. LIGGETT GROUP INC., ET AL., Case No. 97-31345-CICI, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 6/2/97). One individual suing.

PEREZ, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 96-1721-CIV-T-24B, USDC, Middle District of Florida (case filed 8/20/96). One individual suing.

PHILLIPS V. R.J. REYNOLDS, ET AL., Case No. 97-31278, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 5/27/97). One individual suing.

PIPOLO V. PHILIP MORRIS, ET AL., Case No. 97-05448, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 4/10/97). Two individuals suing.

PULLARA, RUBY M. , ET AL. V. LIGGETT GROUP, INC. , ET AL., Case No. 01-1626-Div. C, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individuals suing. Consortium claim only.

PULLARA, ESTATE OF RUBY M., ET AL. V. LIGGETT GROUP, INC. , ET AL., Case No.03-2653- Div. F, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individuals suing.

QUINN, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-4768, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County (case filed 5/19/03). One individual suing.

RAUCH, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11144, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). Two individuals suing.

RAWLS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-01354 CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 3/6/97). One individual suing.

RODRIGUEZ V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 02-04912-CA-11, Circuit Court, Florida, Miami-Dade County. One individual suing.

SCHULTZ V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 99019898, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 11/24/99). One individual suing.

SCHWARTZ, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. CA 030027078, Circuit Court of the 15th Judicial Circuit, Florida, Palm Beach County (case filed 02/24/03). Two individuals suing. Liggett is the only defendant. Trial is scheduled for September 2004.

SHAW, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008755, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). Two individuals suing.

SHEEHAN V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 01-9559, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. One individual suing.

SHIRAH, ET AL. V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-1589-Div. C, Circuit Court of the 13th Judicial Circuit, Florida, Hillsborough County. Two individual suing.

SPOTTS V. R.J. REYNOLDS, ET AL., Case No. 97-31373 CICI, Circuit Court of the 4th Judicial Circuit, Florida, Volusia County (case filed 9/16/97). One individual suing.

STAFFORD V. BROWN & WILLIAMSON, ET AL., Case No. 97-7732-CI-019, Circuit Court of the 6th Judicial Circuit, Florida, Pinellas County (case filed 11/14/97). One individual suing.

STEWART, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97 2025 CA, Circuit Court of the 5th Judicial Circuit, Florida, Lake County (case filed 9/16/97). Two individuals suing.

STRICKLAND, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 98-00764, Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 1/8/98). Two individuals suing.

STROHMETZ V. PHILIP MORRIS, ET AL., Case No. 98-03787 CA, Circuit Court of the 4th Judicial Circuit, Florida, Duval County (case filed 7/16/98). One individual suing.

SWANK-REICH V. BROWN & WILLIAMSON, ET AL., Case No. 97008782, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). One individual suing.

THOMSON, BARRY, V. R.J. REYNOLDS, ET AL., Case No. 97-400-CA, Circuit Court of the 7th Judicial Circuit, Florida, Flagler County (case filed 9/2/97). One individual suing.

THOMSON, EILEEN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11170, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 7/21/97). One individual suing.

VENTURA V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 97-27024 CA (09), Circuit Court of the 11th Judicial Circuit, Florida, Dade County (case filed 11/26/97). One individual suing.

WALKER V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-8482, 13th Judicial Circuit, Florida, Hillsborough County. (case filed 09/11/03). One individual suing.

WARD V. BROWN & WILLIAMSON CORPORATION, ET AL., Case No. 03-8480, 13th Judicial Circuit, Florida, Hillsborough County. (case filed 09/11/03). One individual suing.

WASHINGTON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-10575 CIDL, Circuit Court of the 7th Judicial Circuit, Florida, Volusia County (case filed 9/16/97). Two individuals suing.

WELLS V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 02 21340 CA 30, Circuit Court of the 11th Judicial Circuit, Florida, Miami-Dade County (case filed 8/22/02). One individual suing.

WEIFFENBACH, ET UX. V. PHILIP MORRIS, ET AL., Case No. 96-1690-CIV-T-24C, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

WISCH V. LIGGETT GROUP INC., ET AL., Case No. 97-008759, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 6/10/97). One individual suing.

ZARRELLA, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 0313947, Circuit Court of the 17th Judicial Circuit, Florida, Broward County (case filed 8/12/03). Two individuals suing.

BROWN-JONES V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-RCCV-28, Superior Court of Georgia, Richmond County (case filed 1/13/98). Two individuals suing.

DELUCA V. LIGGETT & MYERS, ET AL., Case No. 00L13792, Circuit Court, Cook County, Illinois County (case filed 11/29/00). One individual suing.

DENBERG, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No. 97L07963, USDC, Northern District of Illinois (case filed 8/13/97) (formerly Daley). Four individuals suing.

KOBOLD, ET AL. V. BAT INDUSTRIES, ET AL., Case No. CL-77551, District Court, State of Iowa, Polk County (case filed 9/15/98). Two individuals suing.

MAHONEY V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. LALA5187(S), District Court, Iowa, Lee County (case filed 4/13/01). One individual suing.

MASON V. AMERICAN BRANDS, INC., ET AL., Case No. CL7922, District Court, State of Iowa, Polk County (case filed 4/13/99). One individual suing. Trial date is scheduled for October 4, 2004.

MITCHELL, ESTATE OF LOREN H. ET AL. V. LIGGETT & MYERS, ET AL., Case No. C03-3025, USDC, State of Iowa, Northern District (case filed 3/18/03). Seven individuals suing.

WELCH, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. LA CV 017535, District Court, Iowa, Shelby County (case filed 10/16/2000). Two individuals suing.

WRIGHT, ET AL. V. BROOKE GROUP LIMITED, ET AL., Case No. LA CV 05867, District Court, State of Iowa, Cerro Gordo County (case filed 11/10/99). Two individuals suing.

BADON, ET UX. V. RJR NABISCO INC., ET AL., Case No. 10-13653, USDC, Western District of Louisiana (case filed 5/24/94). Six individuals suing.

DIMM, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 53919, 18th Judicial District Court, Parish of Iberville, Louisiana. Seven individuals suing.

HUNTER, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002/18748m District Court, Parish of Orleans, Louisiana. (12/4/2002) Two Individuals suing.

NEWSOM, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 105838, 16th Judicial District Court, Parish of St. Mary, Louisiana (case filed 5/17/00). Five individuals suing.

OSER V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-9293, Civil District of the Judicial District Court, State of Louisiana, Orleans Parish (case filed 5/27/97). One individual suing.

RACCA, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 10-14999, 38th Judicial District Court, State of Louisiana, Cameron Parish (case filed 7/16/98). Eleven individuals suing.

REESE, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2003-12761, 22nd Judicial District Court, Louisiana, St. Tammany (case filed 6/10/03). Five individuals suing.

BATEMAN, PERRY V. A C AND S INC., ET AL., Case No. 24-X-02-001595, Circuit Court, Maryland, Baltimore City. One individuals suing.

BARBE, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-001362, Circuit Court, Maryland, Baltimore City (6/7/02). Two individuals suing.

BECKER, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-99-002152, Circuit Court, Maryland, Baltimore City (case filed 10/22/99). Two individuals suing.

BENNETT, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-000192, Circuit Court, Maryland, Baltimore City (case filed 1/25/02). Two individuals suing.

BERKEY V. OWENS-ILLINOID GLASS CO., ET AL., Case No. 24-X-03-001009, Circuit Court, Maryland, Baltimore City. One individual suing.

BIEDRZYCKI, ET AL. V. OWENS CORNING FIBERGLAS CORPORATION, ET AL., Case No. 24-X-98-149503, Circuit Court, Maryland, Baltimore City (case filed 5/29/98) . Two individuals suing.

BISIGNANI, ET AL. V. OWENS CORNING FIBERGLAS CORPORATION, ET AL., Case No. 24-X-97-010510, Circuit Court, Maryland, Baltimore City (case filed 1/10/97). Two individuals suing.

BOYD, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-00-000305, Circuit Court, Maryland, Baltimore City ( case filed 4/21/00). Two individuals suing.

BUTTA, GLORIA, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002559, Circuit Court, Maryland, Baltimore City (case filed 11/22/02). Four individuals suing,

CARAVELLO, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-95-15350, Circuit Court, Maryland, Baltimore City. Two individuals suing.

CARNES, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-98-028535, Circuit Court, Maryland, Baltimore City. Two individuals suing

CASPER AL. V. A C AND S ET AL., Case No. 24-X-01-001604, Circuit Court, Maryland, Baltimore City (case filed 10/22/01). Two individuals suing

CAVEY , ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-98-093530, Circuit Court, Maryland, Baltimore City. Two individuals suing

CITRANO, ET AL. V. A C AND S INC., ET AL. , Case No.24-X-02-001513, Circuit Court, Maryland, Baltimore City (case filed 6/24/02). One individual suing.

CISSIN V. A C AND S INC., ET AL., Case No.24-X-01-000078, Circuit Court, Maryland, Baltimore City (case filed 01/17/01). One individual suing.

CHATHAM, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-01-000780, Circuit Court, Maryland, Baltimore City. Two individuals suing.

CONN, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000983, Circuit Court, Maryland, Baltimore City. Two individuals suing.

COYNE, ET AL. V. A C AND S INC., ET AL, Case No. 24-X-99-001004, Circuit Court, Maryland, Baltimore City (case filed 5/28/99). Four individuals suing.

CULBERTSON, ET AL. V. OWENS ILLINOIS GLASS CO. ET AL., Case No. 24-X-03-0002060, Circuit Court, Maryland, Baltimore City (case filed 2/14/03). One individual suing.

DINGUS, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-91290503, Circuit Court, Maryland, Baltimore City. Two individuals suing.

DOHLER, ET UX. V. OWENS -ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000451, Circuit Court, Maryland, Baltimore City (Case filed 4/25/03). Two individuals suing.

DUNAJA, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000189, Circuit Court, Maryland, Baltimore City (case filed 2/10/03). Seven individuals suing.

EICHELBERGER, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000378, Circuit Court, Maryland, Baltimore City (case filed 4/11/03). Six individuals suing.

EIKENBERG, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-99-001782, Circuit Court, Maryland, Baltimore City (case filed 9/8/99). Two individuals suing.

ENGLE, WILLIAM, ET UX V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002162, Circuit Court, Maryland, Baltimore City (case filed 9/27/02). Two individuals suing.

EVERSON, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-219536, Circuit Court, Maryland, Baltimore City (case filed 8/7/98). Two individuals suing.

FAIR, JOYCE, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-219540, Circuit Court, Maryland, Baltimore City (case filed 8/7/98). Six individuals suing.

FAZENBAKER, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000137, Circuit Court, Maryland, Baltimore City (case filed 1/31/03). One individual suing.

FIORENZA, ET AL. V. OWENS -ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002448, Circuit Court, Maryland, Baltimore City (case filed 11/6/02). Two individuals suing.

FLEISCHMAN, ET AL. V. OWENS -ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-001120, Circuit Court, Maryland, Baltimore City. One individual suing.

FRTIZ, ET UX V. A C AND S INC., ET AL, Case No. 24-X-02-000825, Circuit Court, Maryland, Baltimore City (case filed 4/5/02). Two individuals suing.



FOX, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-96-239541, Circuit Court, Maryland, Baltimore City. Two individuals suing.

GERVASI, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-020506, Circuit Court, Maryland, Baltimore City (case filed 1/20/98). Two individuals suing.

GRANT, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-00-001432, Circuit Court, Maryland, Baltimore City ( case filed 12/1/00). Two individuals suing.

GROSE, V. A C AND S INC., ET AL., Case No. 24-X-99-002199, Circuit Court, Maryland, Baltimore City (10/29/99). One individual suing.

HAIRSINE, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-289544, Circuit Court, Maryland, Baltimore City (case filed 10/16/98). Two individuals suing.

HAJINICOLAS, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-000829, Circuit Court, Maryland, Baltimore City (case filed 4/5/02). Two individuals suing.

HARPER, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-289543, Circuit Court, Maryland, Baltimore City (case filed 10/16/98). Two individuals suing.

HARRIS, ET AL. V. OWENS ILLINOIS GLASS CO. INC., ET AL., Case No. 24-X-02-002656, Circuit Court, Maryland, Baltimore City (case filed 12/6/02). One individual suing.

HEMPFIELD, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000055, Circuit Court, Maryland, Baltimore City (case filed 1/17/03). Two individuals suing.

HENN, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-00-001374, Circuit Court, Maryland, Baltimore City (case filed 11/22/00). Two individuals suing.

HILL V. A C AND S INC., ET AL., Case No. 24-X-02-000957, Circuit Court, Maryland, Baltimore City (case filed 4/12/02). One individual suing.

HILL, THELMA C., ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000143, Circuit Court, Maryland, Baltimore City. Two individuals suing.

HOLMES, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-90-264509, Circuit Court, Maryland, Baltimore City. One individual suing.

HUFFMAN, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-90-358501, Circuit Court, Maryland, Baltimore City (6/18/90). Two individuals suing

HUNCHER, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-97-353534, Circuit Court, Maryland, Baltimore City (case filed 12/19/97). Two individuals suing.

INGRAM, ET AL. V. B. F. GOODRICH COMPANY, ET AL., Case No. 24-X-01-002030, Circuit Court, Maryland, Baltimore City (case filed 12/10/01). Two individuals suing.

IRELAND, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-002493, Circuit Court, Maryland, Baltimore City (11/15/02). Five individuals suing.

JACOB, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-000931, Circuit Court, Maryland, Baltimore City (case filed 4/12/02). Four individuals suing.

JAGODZINSKI, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-001365, Circuit Court, Maryland, Baltimore City (6/7/02). Three individuals suing.

JAMES, ET AL. V. OWENS CORNING FIBERGLAS CORP., ET AL., Case No. 24-X-98-072526, Circuit Court, Maryland, Baltimore City ( case filed 03/13/98). Two individuals suing.

JENNETTE, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-135533, Circuit Court, Maryland, Baltimore City (case filed 5/15/98). Four individuals suing.

JOHNSON, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-95146511, Circuit Court, Maryland, Baltimore City (case filed 1/6/97). Two individuals suing.

JONES, H, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-00-000061, Circuit Court, Maryland, Baltimore City (case filed 1/27/00). Two individuals suing.

JONES, W, ET UX. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002649, Circuit Court, Maryland, Baltimore City (case filed 12/6/02). One individual suing.

JORDON, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X95-055503, Circuit Court, Maryland, Baltimore City. Three individuals suing.

KAHLER, ET AL. V. A C AND S, INC., ET AL., Case No. 24-X-02-002634, Circuit Court, Maryland, Baltimore City. Two individuals suing.

KRAUS, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002351, Circuit Court, Maryland, Baltimore City (case filed 10/18/02). Two individuals suing.

LANG, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002564, Circuit Court, Maryland, Baltimore City (11/22/02). Three individuals suing.

LEGRAND, ET UX. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000986, Circuit Court, Maryland, Baltimore City. Two individuals suing.

LEWIS, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-01-001906, Circuit Court, Maryland, Baltimore City (11/29/01). Two individuals suing.

MACKENZIE, ET AL. V. OWENS CORNING FIBERGLAS CORPORATION, ET AL., Case No. 24-X-98-341506, Circuit Court, Maryland, Baltimore City (case filed 12/7/98). Two individuals suing.

MARSHALL, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-89-188528, Circuit Court, Maryland, Baltimore City. Two individuals suing.

MASIMORE V. A C AND S INC., ET AL., Case No. 24-X-01-000578, Circuit Court, Maryland, Baltimore City (case filed 04/19/01). One individual suing.

MCCORMACK, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-90-358501, Circuit Court, Maryland, Baltimore City (case filed 8/1/90). Two individuals suing.

MCCORMICK, ROSE, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000260, Circuit Court, Maryland, Baltimore City (case filed 3/7/03). Two individuals suing.

MCCOY, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-001436, Circuit Court, Maryland, Baltimore City (case filed 6/14/02). Five individuals suing.

MCCLUNG, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000743, Circuit Court, Maryland, Baltimore City ( case filed 6/20/03). Two individuals suing.

MCDERMOTT, ET AL. V. OWENS CORNING FIBERGLAS CORPORATION, ET AL., Case No. 24-X-97-045522, Circuit Court, Maryland, Baltimore City (case filed 9/8/00). One individual suing.

NEEDHAM, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-001192, circuit Court, Maryland, Baltimore City. Two individuals suing.

NIELSEN, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-00-000479, Circuit Court, Maryland, Baltimore City (case filed 5/16/00). Two individuals suing.

PARTON, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000063, Circuit Court, Maryland, Baltimore City (case filed 1/17/03). Seven individuals suing.

PIERCE, ET AL. V. OWENS CORNING FIBERGLAS CORPORATION, ET AL., Case No. 24-X-98-219529, Circuit Court, Maryland, Baltimore City. Two individuals suing.

PIERCY, ET AL. V. OWENS- ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002314, Circuit Court, Maryland, Baltimore City (case filed 10/11/02). Two individuals suing.

POMPA, ET AL. V. OWENS CORNING FIBERGLAS, ET AL., Case No. 24-X-98-072505, Circuit Court, Maryland, Baltimore City (case filed 3/13/98). One individual suing.

PRESSLEY V. A C AND S INC., ET AL., Case No. 24-X-02-002682, Circuit Court, Maryland, Baltimore City (case filed 12/13/02). One individual suing.

PRICE, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-001058, Circuit Court, Maryland, Baltimore City. Two individuals suing.

PUSINSKY, ET AL., V. A C AND S INC., ET AL., Case No. 24-X-99-000929, Circuit Court, Maryland, Baltimore City (case filed 5/21/99). Two individuals suing.

RHOADES, ET UX. V. QUIGLEY COMPANY, INC., ET AL., Case No. 24-X-04-000060, Circuit Court, Maryland, Baltimore City. Two individuals suing.

RIDGLEY, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000124, Circuit Court, Maryland, Baltimore City (case filed 1/31/03). Two individuals suing.

ROBERTS V. A C AND S INC., ET AL., Case No. 24-X-02-001161, Circuit Court, Maryland, Baltimore City (case filed 5/10/02). One individual suing.

ROLLINS, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-000748, Circuit Court, Maryland, Baltimore City (case filed 3/28/02). Two individuals suing.

RUSSELL, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-98-343501, Circuit Court, Maryland, Baltimore City (case filed 12/9/98). Two individuals suing.

RYAN, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-97-045529, Circuit Court, Maryland, Baltimore City. One individual suing.

SASSLER, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X96341506, Circuit Court, Maryland, Baltimore City. Three individuals suing.

SAVOIE, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-001666, Circuit Court, Maryland, Baltimore City (7/25/2002). Two individuals suing.

SILBERSACK, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-97083510, Circuit Court, Maryland, Baltimore City (case filed 3/24/96). Three individuals suing.

SMITH, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-01-000771, Circuit Court, Maryland, Baltimore City (case filed 5/25/01). Two individuals suing.

SMITH, K., ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-000954, Circuit Court, Maryland, Baltimore City (case filed 4/12/02). Two individuals suing.

SPERANZELLA, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-99-002733, Circuit Court, Maryland, Baltimore City (case filed 12/22/99). One individual suing.

STUCHINSKI, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-02-000243, Circuit Court, Maryland, Baltimore City (case filed 1/31/02). Two individuals suing.

STRAUSBURG, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-135539, Circuit Court, Maryland, Baltimore City (case filed 5/15/98). Four individuals suing.

STOCKSTILL, ET AL. V. OWENS ILLINOIS GRACE COMPANY, ET AL., Case No. 24-X-03-000272, Circuit Court, Maryland, Baltimore City (case filed 3/7/03). Two individuals suing.

THAMES, ET AL. V. A C AND S INC., ET AL., Case No. 24-X94-325506, Circuit Court, Maryland, Baltimore City (case filed 11/21/94). Two individuals suing.

TULL, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-01-000537, Circuit Court, Maryland, Baltimore City (case filed 4/11/01). Two individuals suing.

TURNER V. A C AND S INC., ET AL., Case No. 24-X-98-301502, Circuit Court, Maryland, Baltimore City. One individual suing.

TWINE V. A C AND S INC., ET AL., Case No. 24-X-02-000582, Circuit Court, Maryland, Baltimore City (3/8/02). One individual suing.

WALPOLE, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-02-002177, Circuit Court, Maryland, Baltimore City (case filed 9/27/02). Two individuals suing.

WALTER, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-91-310530, Circuit Court, Maryland, Baltimore City. Two individuals suing.

WAUGH, ET AL. V. QUIGLEY COMPANY, INC., ET AL., Case No. 24-X-04-000209, Circuit Court, Maryland, Baltimore City. Four individuals suing.

WILSON, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-95146533, Circuit Court, Maryland, Baltimore City (case filed 5/26/95). Three individuals suing.

WILLIAMS, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-99-000113, Circuit Court, Maryland, Baltimore City (case filed 1/20/99). Two individuals suing.

WINKLER, ET AL. V. OWENS CORNING FIBERGLAS CORPORATION, ET AL., Case No. 24-X-98-402564, Circuit Court, Maryland, Baltimore City. Two individuals suing.

WITKOWSKI, ET AL. V. A C AND S INC., ET AL., Case No. 24-X-98-020519, Circuit Court, Maryland, Baltimore City (case filed 1/20/98). One individual suing.

WEST, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000970, Circuit Court, Maryland, Baltimore City. Five individuals suing.

WRIGHT, ET AL. V. OWENS ILLINOIS GLASS CO., ET AL., Case No. 24-X-03-000162, Circuit Court, Maryland, Baltimore City (case filed 1/31/03). Two individuals suing.

YOUNG, ET AL. V. OWENS CORNING FIBERGLASS CORPORATION, ET AL., Case No. 24-X-97-139547, Circuit Court, Maryland, Baltimore City (case filed 5/19/97). Two individuals suing.

ZNOVENA, ET AL. V. AC AND S INC., ET AL., Case No. 24-X-97240553CX1848, Circuit Court, Maryland, Baltimore City (case filed 8/24/98). Two individuals suing.

ADAMS, ESTATE OF PHYLLIS, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 00-2636, Superior Court, Massachusetts, Middlesex County. Two individuals suing.

CAMERON V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4960, Superior Court of Massachusetts, Middlesex County (case filed 8/3/98). One individual suing.

MONTY V. HARVARD PILGRIM HEALTH CARE, ET AL., Demand Letter. Superior Court, Massachusetts.

NYSKO, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. Three individuals suing.

PISCIONE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. One individual suing.

SATCHELL V. THE TOBACCO INSTITUTE, INC., ET AL., Demand Letter. Superior Court, Massachusetts.

ANGELETHY, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 02-KV-0315-J, Circuit Court, Mississippi, Adams County (case filed 4/21/03). Six individuals suing.

ANDERSON, HARVEY, L., ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2002-309, Chancery Court, Mississippi, Adams County (case filed 4/25/02). Two individuals suing.

BANKS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2000-136, Circuit Court, Mississippi, Jefferson County (case filed 12/22/2000). Six individuals suing.

BARKER, PEARLIE, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2001-64, Circuit Court, Mississippi, Jefferson County (case filed 3/30/01). Three individuals suing.

BELL, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2001-271, Chancery Court, Mississippi, Jefferson County (case filed 12/18/01). Six individuals suing.

BLYTHE V. RAPID AMERICAN CORPORATION, ET AL., Case No. CI 96-0080-AS, Circuit Court, Mississippi, Jackson County (case filed 9/23/96). One individual suing.

BROWN, GLAYSON, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2001-0022(1) Circuit Court, Mississippi, George County (case filed 3/30/01). 224 individuals suing.

CHAMBLISS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2001-273, Circuit Court, Mississippi, George County (case filed 12/21/01). Four individuals suing.

COCHRAN, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2002-0366(3), Circuit Court, Mississippi, George County (case filed 12/31/02). One individual suing.

COLEBERG, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 200-169, Circuit Court, Mississippi, Jefferson County (case filed 10/18/00). Twenty-eight individuals suing.

COOK, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2001-166, Chancery Court, Mississippi, Claiborne County (case filed 10/01/01). Two individuals suing.

DOSS, ESTATE OF ED , ET AL. V. R. J. REYNOLDS, ET AL., Case No. 99-0108, Circuit Court, State of Mississippi, Jefferson County (case filed 8/17/99). Nine individuals suing. Liggett has not been served.

FISCHER, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 02-0196, Circuit Court, Mississippi, Wilkinson County (case filed 4/29/03). Five individuals suing.

GALES, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2000-170, Circuit Court, Mississippi, Jefferson County (case filed 9/18/00). Seven individuals suing.

GLASS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-338, Circuit Court, Mississippi, Jefferson County (case filed 12/20/02). Seven individuals suing.

GOSS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-308, Chancery Court, Mississippi, Adams County (case filed 4/25/02). Three individuals suing.

HARRIED, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-041, Chancery Court, Mississippi, Jefferson County (case filed 03/01/02). Two individuals suing.

HARRIS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-853, Chancery Court, Mississippi, Adams County (case filed 4/21/03). Six individuals suing.

HESS, ET AL. V. BRITISH AMERICAN TOBACCO COMPANY, ET AL., Case No. 01-0124, Circuit Court, Mississippi, Wilkerson County (case filed 11/27/01). One individual suing.

HILL, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2001-163, Chancery Court, Mississippi, Claiborne County (case filed 9/27/01). Two individuals suing.

HOLMES, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-424, Chancery Court, Mississippi, Copiah County (case filed 9/11/02). Five individuals suing.

JENNINGS, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2000-238, Circuit Court, Mississippi, Claiborne County (case filed 11/2/00). Fourteen individuals suing.

KELLY, ET AL. V. R. J. REYNOLDS, ET AL., Case No. 2002-404, Circuit Court, Mississippi, Claiborne County. Seven individuals suing.

LANE, ET AL. V. R. J. REYNOLDS, ET AL., Case No. CI 00-00239, Circuit Court, Mississippi, Forrest County (case filed 2/6/01). Six individuals suing.

MCDUGEL, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-040, Chancery Court, Mississippi, Jefferson County (case filed 03/01/02). Three individuals suing.

MC GEE, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2000-596, Circuit Court, Mississippi, Jefferson County (case filed 11/16/00). Nineteen individuals suing.

MITCHELL, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-392, Chancery Court, Mississippi, Adams County (case filed 05/28/02). Three individuals suing.

MURPHY, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-390, Chancery Court, Mississippi, Adams County (case filed 05/28/02). Three individuals suing.

PILGRAM, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. G2002-2374W/4, Chancery Court, Mississippi, Hinds County (case filed 12/30/02). Eighteen individuals suing.

SMITH, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-391, Chancery Court, Mississippi, Adams County (case filed 05/28/02). Three individuals suing.

STARKS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-071, Chancery Court, Mississippi, Jefferson County (case filed 04/25/02). Three individuals suing.

STEVENS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 03-KV-0055-J, Circuit Court, Mississippi, Adams County (case filed 4/30/03). One individual suing.

WALTERS, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-845, Chancery Court, Mississippi, Adams County (case filed 12/31/02). Thirteen individuals suing.

WILSON, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 2002-208, Chancery Court, Mississippi, Adams County (case filed 03/15/02). Four individuals suing.

ALEXANDER, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 03-CV-202909, Circuit Court, Missouri, Jackson County (case filed 5/21/03). Nineteen individuals suing.



BAYRO, ET AL. V. PHILIP MORRIS, INC., ET AL., Circuit Court, Missouri, Jackson County. Three individuals suing. Liggett has not yet been served with the complaint.

DAVIS, ET AL. V. AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:00-CV-26-CEJ, USDC, Missouri, Eastern District (case filed 9/25/00). Two individuals suing.

MATTERN, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 032-09705, Circuit Court, 22nd Judicial Circuit, Missouri, St. Louis City (case filed 9/5/03) Two individuals suing. Plaintiff has dismissed all defendants except Liggett.

ARMENDARIZ V. PHILIP MORRIS, ET AL., Case No. 999/862, District Court, Nebraska, Douglas County (case filed 11/17/00). One individual suing.

MUMIN V. PHILIP MORRIS, ET AL., Doc. 1000 No. 46, District Court, Nebraska, Douglas County (case filed 11/27/00). One individual suing.

GODFREY, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. A467043, 8th District Court, Nevada, Clark County (case filed 5/1/03). Two individuals.

HOWARD, ET AL. V. PHILIP MORRIS, INC., ET AL., Superior Court, New Hampshire, Merrimack County. Two individuals suing.

FRENCH, ET AL. V. PHILIP MORRIS, ET AL., Superior Court, New Hampshire, Merrimack County. Two individuals suing.

MUELLER V. PHILIP MORRIS INCORPORATED, ET AL., Case No. L-8417-01, Superior Court, Middlesex, New Jersey (case Filed 9/5/01). One individual suing.

ALVAREZ V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102872/02, Supreme Court of New York, New York County. Individual suing.

BRANTLEY V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 114317/01, Supreme Court of New York, New York County. Individual suing.

BRAND, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 29017/98, Supreme Court of New York, Kings County (case filed 12/21/98). Two individuals suing.

CAMERON V. THE AMERICAN TOBACCO CO., ET AL., Case No. 019125/97, Supreme Court of New York, Nassau County (case filed 7/18/97). Five individuals suing.

CAPLAN V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 103035/02, Supreme Court of New York, New York County. Individual suing.

CRESCENZO V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102817/02, Supreme Court of New York, New York County. Individual suing.

GRESSER, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 36009/96, Supreme Court of New York, Kings County (case filed 10/4/96). Two individuals suing.

DAVEY V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102816/02, Supreme Court of New York, New York County. Individual suing.

DEBOBES V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 29544/92, Supreme Court of New York, Nassau County. One Individual suing.

DOUGHERTY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-09768, Supreme Court of New York, Suffolk County (case filed 4/18/97). Two individuals suing.

EVANS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28926/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

FABINO, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 04-102715, Supreme Court of New York, New York County (case filed 2/20/2004). Two individuals suing.

GRECO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15514-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

GUILLOTEAU, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 46398/97, Supreme Court of New York, Kings County (case filed 11/26/97). Four individuals suing.

HAUSRATH, ET AL. V. PHILIP MORRIS INC., ET AL, Case No. I2001-09526, Superior Court, New York, Erie County (case filed 01/24/02). Two individuals suing.

HELLEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28927/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

HOBART V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102869/02, Supreme Court of New York, New York County. Individual suing.

HOCHMAN V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102860/02, Supreme Court of New York, New York County. Individual suing.

JAMES V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 103034/02, Supreme Court of New York, New York County. Individual suing.

KENNY , ET AL. V. PHILIP MORRIS USA, ET AL., Case No. 111486/01, Supreme Court, New York, New York County. Two individuals suing.

KRISTICH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-29078, Supreme Court of New York, Suffolk County (case filed 10/12/97). Two individuals suing.

KROCHTENGEL V. THE AMERICAN TOBACCO CO., ET AL., Case No. 24663/98, Supreme Court of New York, Kings County (case filed 7/15/98). One individual suing.

LABRIOLA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-12855, Supreme Court of New York, Suffolk County (case filed 7/20/97). Four individuals suing.

LEIBSTEIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-019145, Supreme Court of New York, Nassau County (case filed 7/25/97). Six individuals suing.

LEIDERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 22691/97, Supreme Court of New York, Kings County (case filed 7/23/97). Three individuals suing.

LEVINSON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 13162/97, Supreme Court of New York, Kings County (case filed 4/17/97). Seven individuals suing.

LITKE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15739/97, Supreme Court of New York, Kings County (case filed 5/1/97). Five individuals suing.

LOMBARDO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16765/97, Supreme Court of New York, Nassau County (case filed 6/6/97). Five individuals suing.

LOPARDO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 027182/97, Supreme Court of New York, Nassau County (case filed 10/27/97). Six individuals suing.

LUCCA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 3583/97, Supreme Court of New York, Kings County (case filed 1/27/97). Two individuals suing.

MARIANI V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102789/02, Supreme Court of New York, New York County. Individual suing.

MAISONNET, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 17289/97, Supreme Court of New York, Kings County (case filed 5/20/97). Three individuals suing.

MCCORMACK V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102864/02, Supreme Court of New York, New York County. Individual suing.

MEDNICK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 29140/1997, Supreme Court of New York, Kings County (case filed 9/19/97). Eight individuals suing.

NOCIFORO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-16324, Supreme Court of New York, Suffolk County (case filed 7/12/96). One individual suing.

OBERST V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 108428/98, Supreme Court of New York, New York County. Individual suing.

PINTABONA V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102877/02, Supreme Court of New York, New York County. Individual suing.

PRIEST V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102812/02, Supreme Court of New York, New York County. Individual suing.

REITANO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28930/96, Supreme Court of New York, Kings County (case filed 8/22/96). One individual suing.

RINALDI, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 48021/96, Supreme Court of New York, Kings County (case filed 12/11/96). Five individuals suing.

RUBINOBITZ, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15717/97, Supreme Court of New York, Nassau County (case filed 5/28/97). Five individuals suing.

SENZER, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11609/97, Supreme Court of New York, Queens County (case filed 5/13/97). Eight individuals suing.

SHEA, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102863/02, Supreme Court of New York, New York County. Two individuals suing.

SILVERMAN, ET AL. V. LORILLARD TOBACCO COMPANY. ET AL., Case No. 11328/99, Supreme Court of New York, Kings County (case filed 7/9/99). Five individuals suing.

SMITH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 020525/97, Supreme Court of New York, Queens County (case filed 9/19/97). Eight individuals suing.

SPRUNG, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16654/97, Supreme Court of New York, Kings County (case filed 5/14/97). Ten individuals suing.

STANDISH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 18418-97, Supreme Court of New York, Bronx County (case filed 7/28/97). Individuals suing.

VALENTIN, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 019539/97, Supreme Court of New York, Queens County (case filed 9/16/97). Seven individuals suing.

YUEN V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 102861/02, Supreme Court of New York, New York County. Individual suing.

ZIMMERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Supreme Court of New York, Queens County (case filed 1997).

ZUZALSKI, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 001378/97, Supreme Court of New York, Queens County (case filed 4/3/97). Seven individuals suing.

WILSON, ET AL. V. LIGGETT & MYERS, ET AL., USDC, Middle District Court, North Carolina. One individual suing.

TOMPKIN, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 5:94 CV 1302, USDC, Northern District of Ohio (case filed 7/25/94). One individual suing. Notice of Appeal.

BUSCEMI V. BROWN & WILLIAMSON, ET AL., Case No. 002007, Court of Common Pleas, Pennsylvania, Philadelphia County (case filed 9/21/99). Two individuals suing.

AYALA , THE ESTATE OF, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 02-2175(VJ/PG), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Five individuals suing.

CABRERA, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 03-207, USDC, District of Puerto Rico, Puerto Rico (case filed 10/7/03). Three individuals suing.

CASTRO, THE ESTATE OF SANTO, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 02-2171, USCA, First Circuit. Notice of Appeal June 16, 2004.

COLLAZO, THE ESTATE OF SHERIDAN, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 02-2173, USCA, First Circuit. Notice of Appeal June 16, 2004.

CRUZ, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 02-2507(RLA), USDC, District of Puerto Rico, Puerto Rico (case filed 10/7/02). Twenty-three individuals suing.

DE JESUS DIAZ, ET AL. V. PHILIP MORRIS INC, ET AL., Case No. 03-1900, USDC, District of Puerto Rico, Puerto Rico (case filed 8/21/03). Two Hundred Sixty-Six individuals suing.

DE JESUS RIVERA, ET AL. V. R. J. REYNOLDS TOBACCO, ET AL., Case No. 03-1099, USDC, District of Puerto Rico, Puerto Rico (case filed 01/03/03). Twelve individuals suing.

LAREGUI, THE ESTATE OF SANTO, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 02-2174, USCA, First Circuit. Notice of Appeal June 16, 2004.

LINDER, ET AL. V. LIGGETT MYERS, ET AL., Case No. 02-2435, USDC, District of Puerto Rico, Puerto Rico (case filed 1/3/03). Two individuals suing.

LOPEZ, THE ESTATE OF, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 02-2173(RLA), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Nine individuals suing.

LOPEZ, ISABEL QUINTANA, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 03-2048, USDC, District of Puerto Rico, Puerto Rico (case filed 9/26/03). Two individuals suing.

MARTINEZ, THE ESTATE OF, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 02-2171 (HL), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Six individuals suing.

PANDAL, THE ESTATE OF, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 03-1642, USCA, First Circuit. Notice of Appeal June 16, 2004.

REYES, THE ESTATE OF , ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 02-2174(SEC), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Ten individuals suing.

RODRIGUEZ-TORRES, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 03-1644 (SEC), USDC, District of Puerto Rico (case filed 6/10/03). Eight individuals suing.

RUIZ DIAZ, ET AL., V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 03-1003 JAG, USDC, District of Puerto Rico (case filed 1/3/03). Eight individuals suing.

VELEZ, THE ESTATE OF, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 02-2172(JAG), USDC, District of Puerto Rico, Puerto Rico (case filed 8/8/02). Twelve individuals suing.

VELEZ, MARIBEL ARTURET, V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 03-2049, USDC, District of Puerto Rico, Puerto Rico (case filed 9/28/03). One Individual suing.

BROWN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 98-5447, Superior Court, Rhode Island (case filed 10/30/98). One individual suing.

NICOLO V. PHILIP MORRIS, ET AL., Case No. 96-528 B, USDC, Rhode Island (case filed 9/24/96). One individual suing.

TEMPLE V. PHILIP MORRIS TOBACCO CORP., ET AL. Case No. 3:00-0126, USDC, Middle District, Tennessee. One individual suing.

ADAMS V. BROWN & WILLIAMSON, ET AL., Case No. 96-17502, District Court of the 164th Judicial District, Texas, Harris County (case filed 4/30/96). One individual suing.

COLUNGA V. AMERICAN BRANDS, INC., ET AL., Case No. C-97-265, USDC, Texas, Southern District (case filed 4/17/97). One individual suing.

HALE, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No. C-6568-96B, District Court of the 93rd Judicial District, Texas, Hidalgo County (case filed 1/30/97). One individual suing.

HAMILTON, ET AL. V. BGLS, INC., ET AL., Case No. C 70609 6 D, USDC, Texas, Southern District (case filed 2/26/97). Five individuals suing.

HODGES, ET VIR V. LIGGETT GROUP, INC., ET AL., Case No. 8000\*JG99, District Court of the 239th Judicial District, Texas, Brazoria County (case filed 5/5/99). Two individuals suing.

JACKSON, HAZEL, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. G-01-071, USDC, Texas, Southern District (case filed 2/7/2001). Five individuals suing.

LUNA V. AMERICAN BRANDS, ET AL., Case No. 96-5654-H, USDC, Texas, Southern District (case filed 2/18/97). One individual suing.

MCLEAN, ET AL. V. PHILIP MORRIS, ET AL., Case No. 2-96-CV-167, USDC, Texas, Eastern District (case filed 8/30/96). Three individuals suing.

MIRELES V. AMERICAN BRANDS, INC., ET AL., Case No. 966143A, District Court of the 28th Judicial District, Texas, Nueces County (case filed 2/14/97). One individual suing.

MISELL, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 96-6287-H, District Court of the 347th Judicial District, Texas, Nueces County (case filed 1/3/97). Four individuals suing.

RAMIREZ V. AMERICAN BRANDS, INC., ET AL., Case No. M-97-050, USDC, Texas, Southern District (case filed 12/23/96). One individual suing.

THOMPSON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2981-D, District Court of the 105th Judicial District, Texas, Nueces County (case filed 12/15/97). Two individuals suing.

BOWDEN, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 98-0068-L, USDC, Virginia, Western District (case filed 1/6/99).

VAUGHAN V. MARK L. EARLEY, ET AL., Case No. 760 CH 99 K 00011-00, Circuit Court, Virginia, Richmond (case filed 1/8/99). One individual suing.

BREWER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 01-C-82, Circuit Court, West Virginia, Ohio County. Two individuals suing.

IN RE TOBACCO PI (5000), Case NO. 00-C-5000, Circuit Court, West Virginia, Ohio County. Consolidating approximately 1,050 individual smoker actions which were pending prior to 2001. Liggett has been severed from the trial of the consolidated action.

LITTLE, W. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 01-C-235, Circuit Court, West Virginia, Ohio County (case filed 6/4/01). One individual suing.

FLOYD V. STATE OF WISCONSIN, ET AL., Case No. 99 CV 001125, Circuit Court, Wisconsin, Milwaukee County (case filed 2/10/99). One individual suing.

#### VI. PRICE FIXING CASES

GRAY, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. C2000 0781, Superior Court, Pima County, Arizona (case filed 2/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Arizona.

GREER, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 309826, Superior Court, San Francisco, California (case filed 2/9/00). In this class action plaintiffs allege

that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

MORSE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 822825-9, Superior Court, Alameda County, California (case filed 2/14/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

MUNOZ, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 309834, Superior Court, San Francisco City and County, California (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

PEIRONA, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 310283, Superior Court, San Francisco City and County, California (case filed 2/28/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

TEITLER V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 823161-9, Superior Court, County of Alameda, California (case filed 2/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

SULLIVAN V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 823162-8, Superior Court, County of Alameda, California (case filed 2/17/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

ULAN V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 823160-0, Superior Court, County of Alameda, California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

SAND V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. BC225580, Superior Court, County of Los Angeles, California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

BELMONTE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 825112-1, Superior Court, County of Alameda, California (case filed 4/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

BELCH V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 825115-8, Superior Court, County of Alameda, California (case filed 4/11/00). In this class action plaintiffs allege



that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

AGUAYO V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 826420-8, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

PHILLIPS V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 826421-7, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

CAMPE V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 826425-3, Superior Court, County of Alameda, California (case filed 5/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

BARNES, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-0003678, Superior Court, District of Columbia (case filed 5/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the District of Columbia.

BROWNSTEIN V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00002212, Circuit Court, Broward County, Florida (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the Florida.

SMITH, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-CV-26, District Court, Kansas, Seward County (case filed 2/7/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Kansas. The court granted class certification in November 2001.

TAYLOR, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. CV-00-203, Superior Court, Maine (case filed 3/27/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Maine.

DEL SERRONE, ET AL. V. PHILIP MORRIS COMPANIES, INC., Case No. 00-004035 CZ, Circuit Court, Wayne County, Michigan (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Michigan.

UNRUH, ET AL. V. R. J. REYNOLDS TOBACCO CO., Case No. CV00-2674, District Court, Washoe County, Nevada (case filed 6/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Nevada.

ROMERO, ET AL. V. PHILIP MORRIS COMPANIES, INC. ET AL., Case No. D0117 CV-00000972, District Court, Rio Arriba County, New Mexico (case filed 4/10/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New Mexico. Plaintiffs' motion for class certification was granted in April 2003. The defendants have appealed the court's decision.

NEIRMAN, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Index No. 00/102396, Supreme Court of New York, New York County, New York (case filed 3/6/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

SHAFER, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-C-1231, District Court, Morton County, North Dakota (case filed 4/18/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of North Dakota.