

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

JOINT QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended March 31, 2000

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

1-5759
Commission File Number

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

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

Delaware
(State or other jurisdiction of
incorporation or organization)

33-93576
Commission File Number

65-0949536
(I.R.S. Employer Identification No.)

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

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

At May 12, 2000, Brooke Group Ltd. had 21,989,782 shares of common stock outstanding, and BGLS Inc. had 100 shares of common stock outstanding, all of which are held by Brooke Group Ltd.

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BROOKE GROUP LTD.
BGLS INC.

FORM 10-Q

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BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	MARCH 31, 2000	DECEMBER 31, 1999
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents.....	\$ 22,810	\$ 20,123
Receivables from clearing brokers.....	21,120	10,903
Investment securities available for sale.....	48,689	48,722
Trading securities owned.....	11,106	15,707
Accounts receivable - trade.....	19,103	19,658
Other receivables.....	4,391	1,290
Inventories.....	59,562	45,205
Restricted assets.....	937	3,239
Deferred income taxes.....	21,457	21,374
Other current assets.....	4,570	2,511
	-----	-----
Total current assets.....	213,745	188,732
Property, plant and equipment, net.....	159,430	154,260
Investment in real estate, net.....	53,879	53,353
Long-term investments, net.....	7,757	8,731
Investment in joint venture.....	38,366	38,378
Restricted assets.....	4,295	5,195
Deferred income taxes.....	45,631	45,631
Other assets.....	10,899	10,168
	-----	-----
Total assets.....	\$534,002	\$504,448
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt.....	\$156,414	\$ 41,547
Margin loan payable.....	4,306	983
Accounts payable.....	45,123	36,456
Securities sold, not yet purchased.....	3,368	7,625
Accrued promotional expenses.....	23,247	22,473
Accrued taxes payable.....	39,385	42,408
Deferred income taxes.....	2,274	2,274
Accrued interest.....	3,946	8,488
Prepetition claims and restructuring accruals.....	12,263	12,279
Other accrued liabilities.....	57,499	52,121
	-----	-----
Total current liabilities.....	347,825	226,654
Notes payable, long-term debt and other obligations, less current portion.....	54,813	148,349
Noncurrent employee benefits.....	16,425	23,264
Deferred income taxes.....	118,378	117,285
Other liabilities.....	88,428	76,628
Minority interests.....	43,457	45,366
Commitments and contingencies.....		
Stockholders' equity (deficit):		
Preferred stock, par value \$1.00 per share, authorized 10,000,000 shares.....		
Common stock, par value \$0.10 per share, authorized 100,000,000 shares, issued 27,822,779 shares, outstanding 21,989,782.....	2,199	2,199
Additional paid-in capital.....	191,088	196,695
Deficit.....	(300,897)	(302,155)
Accumulated other comprehensive income.....	3,097	1,379
Other.....	(3,338)	(3,743)
Less: 5,832,997 shares of common stock in treasury, at cost.....	(27,473)	(27,473)
	-----	-----
Total stockholders' equity (deficit).....	(135,324)	(133,098)
	-----	-----
Total liabilities and stockholders' equity (deficit).....	\$534,002	\$504,448
	=====	=====

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	MARCH 31, 2000	DECEMBER 31, 1999
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 22,243	\$ 19,590
Receivables from clearing brokers	21,120	10,903
Investment securities available for sale	48,689	48,722
Trading securities owned	11,106	15,707
Accounts receivable - trade	19,103	19,658
Other receivables	4,336	1,237
Inventories	59,562	45,205
Restricted assets	937	3,239
Deferred income taxes	21,457	21,374
Other current assets	4,539	2,350
	-----	-----
Total current assets	213,092	187,985
Property, plant and equipment, net	159,418	154,246
Investment in real estate, net	53,879	53,353
Long-term investments, net	7,757	8,731
Investment in joint venture	38,366	38,378
Restricted assets	4,295	5,195
Deferred income taxes	45,631	45,631
Other assets	9,589	9,002
	-----	-----
Total assets	\$ 532,027	\$ 502,521
	-----	-----
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 155,865	\$ 41,333
Margin loan payable	4,306	983
Accounts payable	44,998	36,236
Securities sold, not yet purchased	3,368	7,625
Accrued promotional expenses	23,247	22,473
Accrued taxes payable	39,385	42,408
Deferred income taxes	2,274	2,274
Accrued interest	3,946	8,488
Prepetition claims and restructuring accruals	12,263	12,279
Other accrued liabilities	55,474	50,254
	-----	-----
Total current liabilities	345,126	224,353
Notes payable, long-term debt and other obligations, less current portion ..	54,813	148,349
Noncurrent employee benefits	16,425	23,264
Deferred income taxes	118,378	117,285
Other liabilities	88,265	76,360
Minority interests	43,457	45,366
Commitments and contingencies.....		
Stockholder's equity (deficit):		
Common stock, par value \$0.01 per share; 100 shares authorized, issued and outstanding		
Additional paid-in capital	161,683	161,800
Deficit	(299,217)	(295,635)
Accumulated other comprehensive income	3,097	1,379
	-----	-----
Total stockholder's equity (deficit)	(134,437)	(132,456)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 532,027	\$ 502,521
	=====	=====

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

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	THREE MONTHS ENDED	
	MARCH 31, 2000	MARCH 31, 1999
Revenues:		
Tobacco*	\$ 147,148	\$ 108,397
Broker-dealer transactions	30,296	
Real estate leasing	771	
Total revenues	178,215	108,397
Expenses:		
Cost of goods sold*	68,575	41,427
Operating, selling, administrative and general expenses	99,503	44,722
Settlement charges	37	115
Operating income	10,100	22,133
Other income (expenses):		
Interest and dividend income	1,530	60
Interest expense	(11,756)	(14,988)
Equity in loss of affiliate	(1,551)	(7,629)
Recognition of deferred gain on sale of assets		7,050
Foreign currency gain	1,223	2,270
Loss in joint venture	(226)	
Gain on sale of investments, net	4,753	
Other, net	(23)	387
Income from continuing operations before provision for income taxes and minority interests	4,050	9,283
Provision for income taxes	823	1,729
Minority interests	1,739	
Income from continuing operations	1,488	7,554
Gain on disposal of discontinued operations		1,249
Loss on extraordinary items	(230)	
Net income	\$ 1,258	\$ 8,803
Per basic common share:		
Income from continuing operations	\$ 0.07	\$ 0.34
Gain from discontinued operations		\$ 0.06
Loss from extraordinary items	\$ (0.01)	
Net income applicable to common shares	\$ 0.06	\$ 0.40
Basic weighted average common shares outstanding	21,989,782	21,989,782
Per diluted common share:		
Income from continuing operations	\$ 0.06	\$ 0.28
Gain from discontinued operations		\$ 0.05
Loss from extraordinary items	\$ (0.01)	
Net income applicable to common shares	\$ 0.05	\$ 0.33
Diluted weighted average common shares outstanding	26,232,353	26,851,374

*Tobacco revenues and Cost of goods sold include excise taxes of \$24,701 and \$14,038 for the three months ended March 31, 2000 and 1999, respectively.

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	THREE MONTHS ENDED	
	MARCH 31, 2000	MARCH 31, 1999
Revenues:		
Tobacco*	\$ 147,148	\$ 108,397
Broker dealer transactions	30,296	
Real estate leasing	771	
	-----	-----
Total revenues	178,215	108,397
Expenses:		
Cost of goods sold*	68,575	41,427
Operating, selling, administrative and general expenses	98,376	44,320
Settlement charges	37	115
	-----	-----
Operating income	11,227	22,535
Other income (expenses):		
Interest and dividend income	1,530	60
Interest expense	(11,732)	(16,244)
Equity in loss of affiliate	(1,551)	(7,629)
Recognition of deferred gain on sale of assets		8,264
Foreign currency gain	1,223	2,270
Loss in joint venture	(226)	
Gain on sale of investments, net	4,753	
Other, net	(52)	357
	-----	-----
Income from continuing operations before provision for income taxes and minority interests	5,172	9,613
Provision for income taxes	823	1,729
Minority interests	1,739	
	-----	-----
Income from continuing operations	2,610	7,884
	-----	-----
Gain on disposal of discontinued operations		1,249
Loss on extraordinary items	(230)	
	-----	-----
Net income	\$ 2,380	\$ 9,133
	=====	=====

*Tobacco revenues and Cost of goods sold include excise taxes of \$24,701 and \$14,038 for the three months ended March 31, 2000 and 1999, respectively.

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

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	TREASURY STOCK	OTHER	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1999	21,989,782	\$ 2,199	\$ 196,695	\$(302,155)	\$(27,473)	\$(3,743)	\$1,379	\$(133,098)
Net income				1,258				1,258
Unrealized gain on investment securities							1,629	1,629
Other New Valley capital transactions			(117)				89	(28)
Total other comprehensive income								1,601
Total comprehensive income								2,859
Distributions on common stock			(5,498)					(5,498)
Amortization of deferred compensation			8			405		413
Balance, March 31, 2000	<u>21,989,782</u>	<u>\$ 2,199</u>	<u>\$ 191,088</u>	<u>\$(300,897)</u>	<u>\$(27,473)</u>	<u>\$(3,338)</u>	<u>\$3,097</u>	<u>\$(135,324)</u>

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

BGLS INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
 (Dollars in Thousands, Except Per Share Amounts)
 (Unaudited)

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1999.....	100	\$	\$161,800	\$(295,635)	\$1,379	\$(132,456)
Net income.....				2,380		2,380
Unrealized gain on investment securities.....					1,629	1,629
Other New Valley capital transactions.....			(117)		89	(28)
Total other comprehensive income.....						1,601
Total comprehensive income.....						3,981
Distributions to parent.....				(5,962)		(5,962)
Balance, March 31, 2000.....	100	\$	\$161,683	\$(299,217)	\$3,097	\$(134,437)
	===	=====	=====	=====	=====	=====

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

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	THREE MONTHS ENDED	
	MARCH 31, 2000	MARCH 31, 1999
Net cash (used in) provided by operating activities	\$ (22,086)	\$ 2,571
Cash flows from investing activities:		
Proceeds from sale of businesses and assets, net	2	36
Sale or maturity of investment securities	14,849	
Purchase of investment securities	(5,503)	
Purchase of long-term investments	(504)	
Decrease in restricted assets	3,202	
Payment of prepetition claims	(16)	
Investment in joint venture	(213)	
Repurchase by New Valley of common shares.....	(166)	
Capital expenditures	(8,029)	(19,617)
Net cash provided by (used in) investing activities	3,622	(19,581)
Cash flows from financing activities:		
Proceeds from debt	1,500	4,500
Repayments of debt	(8,395)	(323)
Borrowings under revolvers	120,442	83,986
Repayments on revolvers	(89,890)	(71,319)
Decrease in cash overdraft		(34)
Increase in margin loans payable	3,324	
Distributions on common stock	(5,498)	(1,358)
Net cash provided by financing activities	21,483	15,452
Effect of exchange rate changes on cash and cash equivalents	(332)	(319)
Net increase (decrease) in cash and cash equivalents	2,687	(1,877)
Cash and cash equivalents, beginning of period	20,123	7,396
Cash and cash equivalents, end of period	\$ 22,810	\$ 5,519

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

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	THREE MONTHS ENDED	
	MARCH 31, 2000	MARCH 31, 1999
Net cash (used in) provided by operating activities	\$ (21,321)	\$ 1,019
Cash flows from investing activities:		
Proceeds from sale of businesses and assets, net	2	36
Sale or maturity of investment securities	14,849	
Purchase of investment securities	(5,503)	
Purchase of long-term investments	(504)	
Decrease in restricted assets	3,202	
Payment of prepetition claims	(16)	
Investment in joint venture	(213)	
Repurchase by New Valley of common shares.....	(166)	
Capital expenditures	(8,029)	(19,617)
Net cash provided by (used in) investing activities	3,622	(19,581)
Cash flows from financing activities:		
Proceeds from debt	1,000	4,500
Repayments of debt	(8,230)	(143)
Borrowings under revolvers	120,442	83,986
Repayments on revolvers	(89,890)	(71,319)
Decrease in cash overdraft		(20)
Increase in margin loans payable	3,324	
Distributions paid to parent	(5,962)	
Net cash provided by financing activities	20,684	17,004
Effect of exchange rate changes on cash and cash equivalents	(332)	(319)
Net increase (decrease) in cash and cash equivalents	2,653	(1,877)
Cash and cash equivalents, beginning of period	19,590	7,396
Cash and cash equivalents, end of period	\$ 22,243	\$ 5,519

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

BROOKE GROUP LTD.
BGLS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The consolidated financial statements of Brooke Group Ltd. (the "Company" or "Brooke") include the consolidated financial statements of its wholly-owned subsidiary, BGLS Inc. ("BGLS"). The consolidated financial statements of BGLS include the accounts of Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("Brooke (Overseas)"), Liggett-Ducat Ltd. ("Liggett-Ducat") and other less significant subsidiaries. As of June 1, 1999, New Valley Corporation ("New Valley") became a consolidated subsidiary of the Company as a result of New Valley's recapitalization in which the Company's interest in New Valley's common shares increased to 55.1%. (See Note 3.) All significant intercompany balances and transactions have been eliminated.

Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Liggett-Ducat is engaged in the manufacture and sale of cigarettes in Russia. New Valley is engaged primarily in the investment banking and brokerage business through its ownership of Ladenburg Thalmann & Co. Inc., in the real estate development business in Russia and in investment in Internet-related businesses.

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

At the Company's annual meeting to be held on May 24, 2000, stockholders will be asked to approve a corporate name-change to Vector Group Ltd. If the name-change proposal is approved, the New York Stock Exchange symbol for the Company's common stock will change from "BGL" to "VGR".

The interim consolidated financial statements of the Company and BGLS are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's and BGLS' consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's and BGLS' Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Securities and Exchange Commission. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)
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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) Liquidity:

The Company's anticipated sources of liquidity for 2000 include, among other things, additional debt and/or equity financing, management fees, tax sharing and other payments from Liggett and certain funds available from New Valley subject to limitations imposed by BGLS' indenture agreements. Liggett's and New Valley's ability to make such payments is subject to risks and uncertainties attendant to their businesses. (Refer to Notes 3 and 12.) New Valley may also acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

The BGLS 15.75% Series B Senior Secured Notes (the "Notes"), together with all deferred and accrued interest, mature on January 31, 2001. (Refer to Note 10.) Accordingly, as of March 31, 2000, the Notes and deferred interest of \$101,413, net of unamortized discount, are classified as current liabilities. The current maturities of the Notes contribute substantially to the working capital deficiency of \$134,080. The principal amount of the Notes currently outstanding is \$82,570, including \$50,100 principal amount of the Notes which were held by holders who have agreed to defer payment of interest.

(c) Risks and Uncertainties:

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

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

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

(d) Estimates and Assumptions:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)
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and the reported amounts of revenues and expenses. Significant estimates subject to material changes in the near term include deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans and litigation and defense costs. Actual results could differ from those estimates.

(e) Reclassifications:

Certain amounts in the 1999 consolidated financial statements have been reclassified to conform to the 2000 presentation.

(f) Provision for Income Taxes:

The effective tax rate does not bear a customary relationship to pre-tax accounting income principally as a consequence of foreign taxes and the change in the valuation allowance on deferred tax assets.

(g) 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 30, 1999. In connection with the 5% dividend, the Company increased the number of warrants and stock options by 5% and reduced the exercise prices accordingly. All share amounts have been presented as if the stock dividend had occurred on January 1, 1999.

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options, vested restricted stock grants and warrants.

Basic and diluted EPS were calculated using the following for the three-month period ended March 31, 2000 and March 31, 1999.

	MARCH 31, 2000	MARCH 31, 1999
	-----	-----
Weighted average shares for basic EPS.....	21,989,782	21,989,782
Plus incremental shares from conversions:		
Stock options and warrants.....	4,242,571	4,861,592
	-----	-----
Weighted average shares for diluted EPS.....	26,232,353	26,851,374
	-----	-----

(h) Other Comprehensive Income (Loss):

Other comprehensive income is a component of stockholders' equity and includes such items as the Company's proportionate interest in New Valley's capital transactions,

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BGLS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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unrealized gains and losses on investment securities and minimum pension liability adjustments. Total other comprehensive income was \$1,601 for the three months ended March 31, 2000 and \$5,920 for the three months ended March 31, 1999.

2. PHILIP MORRIS BRAND TRANSACTION

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

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

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

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

On May 24, 1999, Trademarks borrowed \$134,900 from a lending institution. The loan is guaranteed by Eve and collateralized by a pledge by Trademarks of the three brands and Trademarks' interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B interest. In connection with the closing of the Class A option, Trademarks distributed the loan proceeds to Eve as the holder of the Class B interest. The cash exercise price of the Class B option and Trademarks' redemption price were reduced by the amount distributed to Eve. Upon Philip Morris' exercise of the Class B option or Trademarks' exercise of its redemption right, Philip Morris or Trademarks, as relevant, will be required to obtain Eve's release from its guaranty. The Class B interest will be entitled to a guaranteed payment of \$500 each year with the Class A interest allocated all remaining income or loss of Trademarks. The proceeds of the loan and the exercise of the Class A option were used to retire a portion of BGLS' 15.75% Senior Secured Notes. (Refer to Note 10.)

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

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

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

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

3. NEW VALLEY CORPORATION

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

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

	NUMBER OF SHARES -----	FAIR VALUE -----	CARRYING AMOUNT -----
Class A Preferred Shares.....	618,326	\$51,939	\$ 51,939
Class B Preferred Shares.....	250,885	847	847
Common Shares.....	3,989,710	1,621	(52,786)
		----- \$54,407 =====	----- \$ =====

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

On October 5, 1999, New Valley's Board of Directors authorized the repurchase of up to 2,000,000 Common Shares from time to time on the open market or in privately negotiated

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transactions depending on market conditions. As of May 12, 2000, New Valley had repurchased 114,900 shares for approximately \$475. At March 31, 2000, the Company owned 55.5% of New Valley's Common Shares.

BrookeMil Ltd. In connection with the sale by Brooke (Overseas) of the common shares of BrookeMil to New Valley in 1997, a portion of the gain was deferred in recognition of the fact that the Company retained an interest in BrookeMil through its 42% equity ownership of New Valley prior to recapitalization and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BrookeMil, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, \$7,050, in March 1999.

4. PRO FORMA EFFECTS OF BRAND AND NEW VALLEY TRANSACTIONS

The following table presents unaudited pro forma results of operations as if the Philip Morris brand transaction, New Valley's recapitalization and the sale of five of New Valley's shopping centers and the Thinking Machines assets had occurred immediately prior to January 1, 1999. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had these transactions been consummated as of such date.

	THREE MONTHS ENDED MARCH 31, 1999
Revenues.....	\$116,965 =====
Operating income.....	\$ 10,551 =====
Income from continuing operations.....	\$ 9,157 =====
Net income.....	\$ 9,157 =====
Net income per common share:	
Basic.....	\$ 0.42 =====
Diluted.....	\$ 0.35 =====

5. INVESTMENT IN WESTERN REALTY

Western Realty Development LLC. In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Development") to make real estate and other investments in Russia. New Valley agreed to contribute the real estate assets of BrookeMil, including Ducat Place II and the site

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for Ducat Place III, to Western Realty Development and Apollo agreed to contribute up to \$69,625, including the investment in Western Realty Repin discussed below.

The ownership and voting interests in Western Realty Development are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Development to the extent of its investment commitment of \$43,750, of which \$40,213 had been funded through March 31, 2000, together with a 15% annual rate of return. New Valley will then be entitled to a return of its investment commitment of \$23,750, of which \$20,213 has been funded through March 31, 2000, together with a 15% annual rate of return. Subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Development is managed by a board of managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Development generally require the unanimous consent of the board of managers. Accordingly, New Valley accounts for its non-controlling interest in Western Realty Development using the equity method of accounting. New Valley recognizes losses incurred by Western Realty Development to the extent that cumulative earnings of Western Realty Development are not sufficient to satisfy Apollo's preferred return.

Summarized financial information as of March 31, 2000 and December 31, 1999 and for the three-month periods ended March 31, 2000 and March 31, 1999 for Western Realty Development follows:

	MARCH 31, 2000 -----	DECEMBER 31, 1999 -----
Current assets.....	\$ 2,950	\$ 3,557
Participating loan receivable.....	39,261	37,849
Real estate, net.....	77,579	77,988
Furniture and fixtures, net.....	249	249
Other noncurrent assets.....	273	320
Goodwill, net.....	636	722
Notes payable - current.....	6,707	6,445
Other current liabilities.....	6,391	7,067
Notes payable - long-term.....	6,436	8,211
Other long-term liabilities.....	752	752
Members' equity.....	100,662	98,210
	THREE MONTHS ENDED MARCH 31, 2000 -----	THREE MONTHS ENDED MARCH 31, 1999 -----
Revenues.....	\$2,390	\$3,448
Costs and expenses.....	2,170	4,425
Accretion of return on participating loan.....	1,412	1,002
Income tax provision.....		16
Net income.....	1,632	9

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Western Realty Development has made a \$30,000 participating loan to Western Tobacco Investments LLC ("Western Tobacco Investments"), which holds Brooke (Overseas') interests in Liggett-Ducat and its new factory. (Refer to Note 10 for information concerning pledges of interests in Western Tobacco Investments.) The loan bears no fixed interest and is payable only out of 30% of distributions made by Western Tobacco Investments to Brooke (Overseas). After prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco Investments to Brooke (Overseas) will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. In addition, Western Realty Development is entitled to receive a 15% annual rate of return on amounts advanced on the loan under certain circumstances in the event of a sale or refinancing of Western Tobacco Investments or the new factory. Any rights of repayment on the loan are subordinate to the rights of all other creditors of BrookeMil. Brooke (Overseas) has recognized net interest expense of \$1,412 for the three months ended March 31, 2000 and \$1,002 for the three months ended March 31, 1999, which represents a 15% cumulative adjustment to realizable value on the loan and 30% of any net expense applicable to common interests in Western Tobacco Investments. The loan is classified in other long-term liabilities on the consolidated balance sheet at March 31, 2000.

Western Realty Repin LLC. In June 1998, New Valley and Apollo organized Western Realty Repin to make a loan to BrookeMil. The proceeds of the loan will be used by BrookeMil for the acquisition and preliminary development of the Kremlin sites, two adjoining sites totaling 10.25 acres located in Moscow across the Moscow River from the Kremlin. BrookeMil is planning the development of a hotel, office, retail and residential complex on the Kremlin sites. BrookeMil owned 96.8% of one site and 100% of the other site at March 31, 2000. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of \$25,875 together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment of \$10,525, together with a 20% annual rate of return. Subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin is managed by a board of managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Repin will generally require the unanimous consent of the board of managers.

Through March 31, 2000, Western Realty Repin has advanced \$36,400 to BrookeMil, of which \$25,875 was funded by Apollo under the loan and is classified in other long-term liabilities on the consolidated balance sheet at March 31, 2000 and December 31, 1999. The loan bears no fixed interest and is payable only out of distributions by the entities owning the Kremlin sites to BrookeMil. Such distributions will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of BrookeMil. BrookeMil used a portion of the proceeds of the loan to repay New Valley for certain expenditures on the Kremlin sites previously incurred. The loan is due and payable upon the dissolution of BrookeMil and is collateralized by a pledge of New Valley's shares of BrookeMil.

As of March 31, 2000, BrookeMil had invested \$32,678 in the Kremlin sites and held \$1,664 in cash and receivables from an affiliate, which were restricted for future investment in the Kremlin sites. In connection with the acquisition of a 34.8% interest in one of the Kremlin sites, BrookeMil agreed with the City of Moscow to invest an additional \$22,000 by May 2000 in the development of the property. In April 2000, Western Realty Repin arranged short-term

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financing to fund the investment. Under the terms of the investment, BrookeMil is required to make additional construction expenditures of \$22,000 on the site by June 2002. Failure to make the expenditures could result in forfeiture of the 34.8% interest in the site. Based on the distribution terms contained in the Western Realty Repin LLC agreement, the 20% annual rate of return preference to be received by Apollo on funds advanced to Western Realty is treated as interest cost in the consolidated statement of operations to the extent of the Company's net investment in the Kremlin sites. New Valley's investment in the Kremlin sites, net of the participating loan of \$33,686, was \$656 at March 31, 2000.

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

6. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains included as a component of stockholders' equity, net of minority interest. The Company had realized gains on sales of investment securities available for sale of \$4,753 for the three months ended March 31, 2000.

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

	COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	FAIR VALUE
	-----	-----	-----	-----
Marketable equity securities.....	\$41,246	\$14,230	\$10,837	\$44,639
Notes receivable.....	437			437
Marketable warrants.....		3,613		3,613
	-----	-----	-----	-----
Investment securities.....	\$41,683	\$17,843	\$10,837	\$48,689
	=====	=====	=====	=====

7. INVENTORIES

Inventories consist of:

	MARCH 31, 2000	DECEMBER 31, 1999
	-----	-----
Leaf tobacco	\$ 13,812	\$ 13,599
Other raw materials	8,483	6,423
Work-in-process	3,197	3,542
Finished goods	33,524	20,662
Replacement parts and supplies ...	5,531	4,795
	-----	-----
Inventories at current cost	64,547	49,021
LIFO adjustments	(4,985)	(3,816)
	-----	-----
	\$ 59,562	\$ 45,205
	=====	=====

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At March 31, 2000, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately \$2,162 and \$43,907, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	MARCH 31, 2000	DECEMBER 31, 1999
	-----	-----
Land and improvements	\$ 442	\$ 415
Buildings	52,913	51,773
Machinery and equipment	132,626	129,693
Construction-in-progress	18,810	14,605
	-----	-----
	204,791	196,486
Less accumulated depreciation	(45,361)	(42,226)
	-----	-----
	\$ 159,430	\$ 154,260
	=====	=====

9. LONG-TERM INVESTMENTS

At March 31, 2000, long-term investments consisted primarily of investments in limited partnerships of \$7,757. The Company believes the fair value of the limited partnerships exceeds their carrying amount by approximately \$5,335 based on the indicated market values of the underlying investment portfolio provided by the partnerships. The Company's estimates of the fair value of its long-term investments are subject to judgment and are not necessarily indicative of the amounts that could be realized in the current market. The Company's investments in limited partnerships are illiquid, and the ultimate realization of these investments is subject to the performance of the underlying partnership and its management by the general partners.

Also included in long-term investments are various Internet-related businesses which are carried at \$4,549 at March 31, 2000. These investments include a 33.3% interest in AtomicPop LLC, an online music company, and smaller interests in other Internet companies. The Company accounts for its investment in AtomicPop LLC and its investment in one other internet company under the equity method.

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

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

	March 31, 2000	December 31, 1999
	-----	-----
BGLS:		
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of \$3,865 and \$5,468	\$ 78,705	\$ 82,602
Deferred interest on 15.75% Series B Senior Secured Notes due 2001	22,708	25,435
New Valley:		
Notes payable	19,743	19,813
Liggett:		
Revolving credit facility	23,166	
Term loan under credit facility	4,860	5,040
Notes payable	5,116	4,232
Brooke (Overseas):		
Foreign credit facilities	36,489	29,470
Notes payable	19,891	23,090
Other	549	214
	-----	-----
Total notes payable, long-term debt and other obligations	211,227	189,896
Less:		
Current maturities	(156,414)	(41,547)
	-----	-----
Amount due after one year	\$ 54,813	\$ 148,349
	=====	=====

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

During 1999, BGLS repurchased \$144,794 principal amount of its Notes, together with accrued interest thereon. The purchases were funded primarily with proceeds from the Philip Morris brand transaction which closed on May 24, 1999. In January 2000, BGLS repurchased an additional \$5,500 principal amount of the Notes, together with accrued interest thereon. At March 31, 2000, the principal amount of Notes outstanding was \$82,570, and \$50,100 principal amount of the Notes were held by the holders who have agreed to defer payment of interest as discussed below.

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

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Company pledged 50.1% of Western Tobacco Investments to collateralize the Notes held by the Apollo Holders (and any transferees). Interest on all of the Notes for the six-month period ended January 31, 2000 was paid in cash.

In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued to the Apollo Holders a five-year warrant to purchase 2,100,000 shares of the Company's common stock at a price of \$4.76 per share. The Apollo Holders were also issued a second warrant expiring October 31, 2004 to purchase an additional 2,257,500 shares of the Company's common stock at a price of \$0.095 per share. The second warrant became exercisable on October 31, 1999. Based on the fair value of the equity instruments given to the holders of the debt, imputed interest of approximately \$23,000 is being accreted over the term of the modified debt based on its recorded fair value.

The Notes outstanding are collateralized by substantially all of BGLS' assets, including a pledge of BGLS' equity interests in Liggett, Brooke (Overseas) and New Valley. The Notes Indenture contains certain covenants which, among other things, limit the ability of BGLS to make distributions to the Company to \$12,000 per year (which amount increased from \$6,000 per year in May 1999 when more than 50% of the original principal amount of the Notes were retired) plus any unpaid distribution amounts from prior years. The Notes also limit additional indebtedness of BGLS to \$10,000, limit guaranties of subsidiary indebtedness by BGLS to \$50,000, and restrict certain transactions with affiliates that exceed \$2,000 in any year subject to certain exceptions which include payments to the Company not to exceed \$6,500 per year for permitted operating expenses, payment of the Chairman's salary and bonus and certain other expenses, fees and payments. In addition, the Indenture contains certain restrictions on the ability of the Chairman and certain of his affiliates to enter into certain transactions with, and receive payments above specified levels from, New Valley. The Notes may be redeemed, in whole or in part, at a price of 100% of the principal amount plus accrued interest. Interest is payable at the rate of 15.75% per annum on January 31 and July 31 of each year.

Revolving Credit Facility - Liggett:

Liggett has a \$35,000 credit facility, under which \$23,166 was outstanding at March 31, 2000. Availability under the credit facility was approximately \$6,974 based on eligible collateral at March 31, 2000. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 9.75% at March 31, 2000. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At March 31, 2000, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$17,977 and net working capital was \$36,795, as

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computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, 100 Maple Lane LLC, a new company formed by Liggett to purchase an industrial facility in Mebane, North Carolina, borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 including annual interest at 1% above the prime rate with a final payment of \$1,500. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility. Liggett plans to relocate its manufacturing operations to this facility in late 2000.

Equipment Loans - Liggett:

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

Notes Payable - New Valley:

During the third quarter 1999, New Valley refinanced its notes payable on its two remaining shopping centers in Florida and West Virginia for \$19,743, in the aggregate. Interest rates range from 7.5% to 9.03% per annum. The four notes are due between 2002 and 2024. Two, for \$8,389 at March 31, 2000, are subject to call in 2001 under certain conditions.

Foreign Credit Facilities - Liggett-Ducat:

At March 31, 2000, Liggett-Ducat had various credit facilities with Russian banks under which \$36,489 was outstanding. The facilities are denominated in dollars, bear interest at rates of 13% to 20% per annum and expire within the next twelve months. The facilities are collateralized by the new factory building, factory equipment and tobacco inventory.

Notes Payable - Brooke (Overseas):

Western Tobacco Investments has entered into several contracts for the purchase of cigarette manufacturing equipment. The equipment is being utilized at the new factory, built by Liggett-Ducat, on the outskirts of Moscow which began production in June 1999. Approximately 85% of the amount of the contracts were financed with promissory notes generally payable over a period of five years. The outstanding balance on these notes, which are denominated in various European currencies, is \$15,891 at March 31, 2000. Other short-term notes for purchases of equipment are approximately \$4,000. The terms of these notes ranged from four to twelve months and carried interest rates of up to 16%. A promissory note issued by Brooke (Overseas) for approximately \$1,290 covering deposits for equipment purchased for the new factory was paid in full on March 31, 2000.

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11. 1999 LONG-TERM INCENTIVE PLAN

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

On November 4, 1999, the Company granted non-qualified stock options to six executive officers of the Company or its subsidiaries pursuant to the 1999 Plan. The grant of the options to the option holders is conditioned upon the approval of the 1999 Plan by the Company's stockholders. Under the options, the option holders have the right to purchase an aggregate of 2,100,000 shares of common stock at an exercise price of \$15 7/16 per share (the fair market value of a share of common stock on the date of grant), subject to increase under certain circumstances. Common stock dividend equivalents will be paid currently with respect to each share underlying the unexercised portion of the options. The options have a ten-year term and become exercisable on the fourth anniversary of the date of grant. However, the options will earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" or (ii) the termination of the option holder's employment with the Company due to death or disability.

12. CONTINGENCIES

SMOKING-RELATED LITIGATION:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. These cases are reported here as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Brooke Group Holding, the Company's predecessor and a wholly-owned subsidiary of BGLS, or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not

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quantifiable at this time. For the three months ended March 31, 2000, Liggett incurred counsel fees and costs totaling approximately \$1,969 compared to \$1,568 for the comparable prior year period.

Individual Actions. As of March 31, 2000, there were approximately 310 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 85 were pending in Florida, 94 in New York, 39 in Massachusetts, 17 in Texas and 24 in California. The balance of the individual cases were pending in 29 states. There are five individual cases pending where Liggett is the only named defendant.

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

In February 1999, a California jury awarded \$51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by Philip Morris. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages. The court subsequently reduced the punitive damages award to \$25,000. In March 1999, an Oregon jury awarded \$80,311 in damages to the family of a deceased smoker who smoked Marlboro cigarettes made by Philip Morris. The award includes \$79,500 in punitive damages. The court subsequently reduced the punitive damages award to \$32,000. Philip Morris has appealed both the verdict and damage awards in both cases.

In March 2000, a California jury awarded \$1,700 in compensatory damages and \$20,000 in punitive damages to a former smoker and her husband. The jury found Philip Morris and R.J. Reynolds Tobacco misrepresented the health dangers of cigarettes and that they acted with malice. The defendants have stated that they intend to appeal both the verdict and damage awards.

Class Actions. As of March 31, 2000, there were approximately 60 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

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Castano case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

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

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

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

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

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to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. On April 7, 2000, the jury awarded compensatory damages of \$12,704 to the three plaintiffs, to be reduced in proportion to the respective plaintiff's fault. The jury also decided that the claim of one of the plaintiffs, who was awarded compensatory damages of \$5,831, was not timely filed. The punitive damages portion of Phase II is scheduled to begin May 15, 2000 and is expected to last several weeks. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages. The defendants' motion to order the trial court to assess punitive damages on an individual basis was denied and the petition for review was also denied, without prejudice to raise the same issue on subsequent appeals.

It is unclear how the trial court's order will be implemented. The order provides that the punitive damage amount, if any, should be standard as to each class member and acknowledges that the actual size of any class will not be known until the last case has withstood appeal. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, a process that could take years to conclude. Recently, legislation has been 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, \$100 million plus twice the statutory rate of interest, or 10% of the net worth of the defendant, but the limitation on the bond does not affect the amount of the underlying verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to its application. Similar legislation has been enacted in Georgia, Kentucky, North Carolina and Virginia.

Class certification motions are pending in a number of putative class actions. Classes remain certified against Liggett in Florida (Engle) and Maryland (Richardson). A number of class certification denials are on appeal.

Approximately 30 purported state class action complaints have been filed on behalf of various consumers of cigarette products against the tobacco manufacturers. The complaints allege that cigarette manufacturers engaged in illegal and unethical activities since the 1940's, many conspiratorial in nature, designed to increase profits at the financial and physical expense of customers. These alleged activities include knowingly increasing the addictiveness of cigarettes through crop manipulation; downplaying the detrimental health effects of cigarette smoking; conspiring to refrain from researching and introducing "safer" cigarettes; creating false and misleading scientific research design to combat the growing scientific consensus about the lethal health effects associated with cigarettes; aggressively marketing products to children and minors in an effort to addict them to cigarettes at a young age; and systematically covering up activities to avoid regulation of products by governmental agencies. The purported class actions are brought pursuant to various state laws.

In February 2000, Liggett and plaintiffs sent correspondence to the court, in *Simon v. Philip Morris' et al.*, a putative nationwide smokers class action, indicating that Liggett and the plaintiffs are engaged in preliminary settlement discussions. There are no assurances that any settlement will be reached or that the class will ultimately be certified.

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Governmental Actions. As of March 31, 2000, there were approximately 20 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.

Third-Party Payor Actions. As of March 31, 2000, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. Five United States Circuit Courts of Appeal have ruled that Third-Party Payors did not have standing to bring lawsuits against the tobacco companies. The United States Supreme Court recently denied petitions for certiorari filed by several of the union health and welfare trust funds. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

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

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

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.

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

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

The MSA has been initially approved by trial courts in all Settling States. The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, as of March 31, 2000, in 47 jurisdictions. If final judicial approval is not obtained in a jurisdiction by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the MSA will be terminated with respect to such jurisdiction.

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

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

Liggett has no payment obligations under the MSA unless its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. Liggett believes, based on published industry sources, that its domestic shipments accounted for 1.2% of the total cigarettes shipped in the United States during 1999. In the year following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during

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such following year by the OPMS under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Under the annual and strategic contribution payment provisions of the MSA, the OPMS (and Liggett to the extent its market share exceeds the base share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

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

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

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled Fletcher, et al. v. Brooke Group Ltd., et al., Circuit Court of Mobile County, Alabama, where the

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court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, Brooke Group Holding and plaintiffs filed an amended class action settlement agreement in Fletcher which agreement was preliminarily approved by the court in December 1998. In July 1999, the court denied approval of the Fletcher class action settlement. The parties' motion for reconsideration is still pending.

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

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

Trials. In addition to the ENGLE case, cases currently scheduled for trial in 2000 include Third-Party Payor Actions brought by several Blue Cross/Blue Shield plans in federal court in New York (September), asbestos companies in Mississippi (September) and New York (July) and certain unions in New York (November). Also, one Individual Action, ANDERSON, is currently being tried in State court in New York and two other Individual Actions are scheduled to be tried later this year. Trial dates, however, are subject to change.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida and the jury will now consider the award of lump sum punitive damages, if any, for the entire class. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, if necessary, 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 of loss that could result from an unfavorable outcome of many of the cases pending against Brooke Group Holding or Liggett, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

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

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

LEGISLATION AND REGULATION:

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

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

In August 1996, the Food and Drug Administration (the "FDA") filed in the Federal Register a Final Rule classifying tobacco as a "drug" or "medical device", asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. On March 21, 2000, the United States Supreme Court ruled that the FDA does not have the power to regulate tobacco. Liggett supported the FDA Rule and began to phase in compliance with certain of the proposed FDA regulations.

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect on the grounds that it is preempted by federal law. In November 1999, the First Circuit affirmed this ruling. Notwithstanding the foregoing, in

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December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.66 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local level.

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

OTHER MATTERS:

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

In July 1999, a purported class action was commenced on behalf of New Valley's former Class B preferred shareholders against New Valley, Brooke Group Holding and certain directors and

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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 unspecified compensatory damages as well as all costs and fees. Brooke Group Holding and New Valley believe that the allegations are without merit. Brooke Group Holding and New Valley recently filed a motion to dismiss the action. Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

On October 18, 1999, an action was commenced against a subsidiary of Brooke Group Holding in the Supreme Court of the State of New York, County of New York. The complaint alleges that under the terms of a 1993 Put Agreement, Brooke Group Holding's subsidiary was obligated to purchase certain shares of plaintiff's stock for \$7,500. In addition, the complaint seeks prejudgment interest in the amount of approximately \$3,000. Brooke Group Holding believes, and has been so advised by counsel, that it has a number of valid defenses to this matter.

As of March 31, 2000, New Valley had \$12,263 of prepetition claims and restructuring accruals. The remaining prepetition claims may be subject to future adjustments depending on pending discussions with the various parties and the decisions of the bankruptcy court.

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

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13. SEGMENT INFORMATION

Financial information for the Company's continuing operations before taxes and minority interest for the three months ended March 31, 2000 and 1999 follows:

	United States Tobacco -----	Russia Tobacco -----	Broker- Dealer -----	Real Estate -----	Corporate and Other -----	Total -----
2000						
Revenues	\$ 106,902	\$ 40,246	\$ 30,296	\$ 771	\$	\$ 178,215
Operating income	9,089	498	4,883	(1,983)	(2,387)	10,100
Identifiable assets	125,900	157,827	50,039	57,826	142,410	534,002
Depreciation and amortization	998	2,022	220	149	9	3,398
Capital expenditures	4,514	2,775	66	674		8,029
1999						
Revenues	\$ 86,047	\$ 22,350			\$	\$ 108,397
Operating income	20,069	1,290			774	22,133
Identifiable assets	77,000	121,812			49,533	248,345
Depreciation and amortization	855	798			3	1,656
Capital expenditures	6,369	13,248				19,617

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

(Dollars in Thousands, Except Per Share Amounts)

INTRODUCTION

The following discussion provides an assessment of the consolidated results of operations, capital resources and liquidity of Brooke Group Ltd. (the "Company") and its subsidiaries and should be read in conjunction with the Consolidated Financial Statements and notes thereto of the Company and BGLS Inc. ("BGLS") included elsewhere in this document. BGLS is a wholly owned subsidiary of the Company. The consolidated financial statements include the accounts of BGLS, Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("BOL"), Liggett-Ducat Ltd. ("Liggett-Ducat") and other less significant subsidiaries. As of June 1, 1999, New Valley Corporation ("New Valley") became a consolidated subsidiary of the Company as a result of New Valley's recapitalization in which the Company's interest in New Valley's common shares increased to 55.1%. New Valley's stock repurchase program, which began in late 1999, increased the Company's interest to 55.5% at March 31, 2000.

The Company is a holding company for a number of businesses which it holds through its wholly-owned subsidiary BGLS. Accordingly, a separate Management's Discussion and Analysis of Financial Condition and Results of Operations for BGLS is not presented herein as it would not differ materially from the discussion of the Company's consolidated results of operations, capital resources and liquidity. The Company is principally engaged in the manufacture and sale of cigarettes in the United States through its subsidiary Liggett; in the manufacture and sale of cigarettes in Russia through its subsidiary Liggett-Ducat; and in the investment banking and brokerage business in the United States, real estate operations in Russia and investment in Internet-related businesses through its majority-owned subsidiary New Valley.

At the Company's annual meeting to be held on May 24, 2000, stockholders will be asked to approve a corporate name-change to Vector Group Ltd. If the name-change proposal is approved, the New York Stock Exchange symbol for the Company's common stock will change from "BGL" to "VGR".

RECENT DEVELOPMENTS IN LEGISLATION, REGULATION AND LITIGATION

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of March 31, 2000, there were approximately 310 individual suits, 60 purported class actions and 90 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. Additionally, approximately 30 purported class action complaints have been filed on behalf of consumers alleging illegal and unethical business activities by the tobacco manufacturers. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida and the jury will now consider the award of lump sum punitive damages, if any, for the entire class. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, if necessary, and there is a risk that those requirements will not be able to be met. In recent years, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. The Company is not able to evaluate the effect of these developing

matters on pending litigation or the possible commencement of additional litigation, but the Company's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any of such tobacco-related litigation. See Part II, Item 1, "Legal Proceedings" and Note 12 to the Company's Consolidated Financial Statements for a description of legislation, regulation and litigation.

In March 1996, March 1997 and March 1998, the Company and Liggett entered into settlements of tobacco-related litigation with the Attorneys General of 45 states and territories. The settlements released the Company and Liggett from all tobacco claims including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors. See the discussions of the tobacco litigation settlements appearing in Note 12 to the Company's Consolidated Financial Statements.

RESULTS OF OPERATIONS

	Three Months Ended	
	March 31,	
	2000	1999
Revenues:		
Liggett.....	\$ 106,902	\$ 86,047
Liggett-Ducat.....	40,246	22,350
Total tobacco.....	147,148	108,397
*Broker-dealer.....	30,296	
*Real estate.....	771	
Total revenues.....	178,215	108,397
Operating income:		
Liggett.....	9,089	20,069
Liggett-Ducat.....	498	1,290
Total tobacco.....	9,587	21,359
*Broker-dealer.....	4,883	
*Real estate.....	(1,983)	
Corporate and other.....	(2,387)	774
Total operating income....	\$ 10,100	\$ 22,133

*New Valley became a consolidated subsidiary on June 1, 1999. Accordingly, results of operations for New Valley are not included for the three months ended March 31, 1999.

Three Months Ended March 31, 2000 Compared to Three Months Ended March 31, 1999

Revenues. Total revenues were \$178,215 for the three months ended March 31, 2000 compared to \$108,397 for the three months ended March 31, 1999. This 64.4% increase in revenues was due to a \$20,855 or 24.2% increase in revenues at Liggett, an increase of \$17,896 or 80.1% in revenues at Liggett-Ducat and the addition of three months' revenues from New Valley of \$31,067.

Tobacco Revenues. In August 1999, the major cigarette manufacturers, including Liggett, announced a list price increase of \$1.50 per carton. In January 2000, an additional list price increase of \$1.30 per carton was announced.

Total tobacco revenues were \$147,148 for the three months ended March 31, 2000 compared to \$108,397 for the three months ended March 31, 1999. This 35.7% increase in revenues was due to an increase in tobacco revenues at Liggett and at Liggett-Ducat discussed above. Revenues at Liggett increased by 24.2% (\$20,855) for both the premium and discount segments due to price increases of \$17,848 and a 13.9% increase in unit sales volume (approximately 149.2 million units), accounting for \$11,973 in volume variance, partially offset by an unfavorable sales mix of \$8,966.

Premium sales at Liggett for the first quarter of 2000 amounted to \$15,692 and represented 14.7% of Liggett's total sales, compared to \$25,366 and 29.5% of total sales in the first quarter of 1999. In the premium segment, revenues declined by 38.1% (\$9,674) for the three months ended March 31, 2000, compared to the prior year first quarter, due to the contribution of three of Liggett's premium brands, Lark, Chesterfield and L & M, in the Philip Morris brand transaction which closed on May 24, 1999. The contribution of the brands accounted for an unfavorable volume variance in the first quarter of 2000 of \$11,704, reflecting a 46.1% decline in unit sales volume (approximately 124.3 million units). This was partially offset by price increases of \$2,030. As adjusted for the contribution of the three brands in the Philip Morris brand transaction, Liggett's premium segment increased from the prior year period by 7.6% (approximately 10.2 million units). This compares to an overall industry increase in the premium segment of 4.6%, or approximately 3.3 billion units, in the first quarter of 2000 from the prior year period.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for the three months ended March 31, 2000 amounted to \$91,210 and represented 85.3% of Liggett's total sales, compared to \$60,681 and 70.5% of total sales for the three months ended March 31, 1999. In the discount segment, revenues grew by 50.3% (\$30,529) for the three months ended March 31, 2000 compared to the prior year period, due to price increases of \$15,818, along with a 34.1% increase in unit sales volume (approximately 273.5 million units), accounting for \$20,670 in volume variance, partially offset by an unfavorable product mix among the discount brand categories of \$5,959.

For the three months ended March 31, 2000, fixed manufacturing costs at Liggett on a basis comparable to 1999 were \$368 lower than in the same period in 1998, with a decrease in costs per thousand units of \$2.29 per thousand declining 20.8% (\$0.60) from \$2.89 in the prior period, due to the 14.1% increase in production volume.

Net tobacco revenues at Liggett-Ducat for the three months ended March 31, 2000 increased 80.1% over the same period in 1999 due to a 102.3% increase in unit sales volume (\$22,860) (approximately 5,125 million units) and a favorable product mix of \$2,873 offset by a 43.8% decrease in prices (\$7,838).

Tobacco Gross Profit. Tobacco consolidated gross profit was \$78,423 for the three months ended March 31, 2000 compared to \$66,820 for the three months ended March 31, 1999, an increase of \$11,603 or 17.1% when compared to the same period last year, reflecting an increase in gross profit at Liggett of \$10,377 and at Liggett-Ducat of \$1,226 for the three months ended March 31, 2000 compared to the same period in the prior year. For the three months ended March 31, 2000, Liggett's premium brands contributed 14.5% and discount brands contributed 78.9% to the Company's gross tobacco profit. Liggett-Ducat contributed 6.6%. Over the same period in 1999, Liggett's premium brands contributed 28.6%, Liggett's discount brands contributed 65.3% and Liggett-Ducat contributed 6.1% to the Company's gross profit.

Gross profit at Liggett of \$73,259 for the three months ended March 31, 2000 increased \$10,377 from gross profit of \$62,882 for the first quarter of 1999, due primarily to the price increases discussed above. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett decreased to 84.3% for the three months ended March 31, 2000 compared to

85.6% for the same period in 1999, with gross profit for the premium segment at 85.8% in the 2000 period compared to 86.6% in the 1999 period. Gross profit for the discount segment was 84.1% for the three months ended March 31, 2000 and 85.1% for the three months ended March 31, 1999. These decreases are primarily the result of increased indirect costs in distribution over the prior year.

As a percent of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat decreased 6.0% to 14.5% for the three months ended March 31, 2000 compared to 20.5% in the same period in 1999, primarily due to lower prices offset in part by higher sales volumes.

Broker-Dealer and Real Estate Revenues. For the three months ended March 31, 2000, Ladenburg's revenues were \$30,296 and real estate revenues were \$771.

Expenses. Operating, selling, general and administrative expenses were \$99,503 for the three months ended March 31, 2000 compared to \$44,722 for the same period last year, an increase of \$54,781 primarily due to increased expenses at Liggett of \$21,435, increased expenses at Liggett-Ducat of \$2,108 and an increase of \$30,602 caused by consolidation of New Valley, which was not a consolidated subsidiary during the three months ended March 31, 1999. The increase in operating expenses at Liggett was due primarily to higher spending for promotional and marketing programs, factory relocation costs and increased administrative expenses partially offset by a reduction in the Company's obligation under non-current employee benefits. At Liggett-Ducat, depreciation expense increased over the prior year period due to the opening of the new factory in June 1999 and marketing and advertising expense increased due primarily to the introduction of western style cigarettes.

Other Income (Expenses). For the three months ended March 31, 2000, other expense was \$6,050 compared to expense of \$12,862 for the period ended March 31, 1999.

Interest expense was \$11,756 for the three months ended March 31, 2000 compared to \$14,988 for the same period last year. This decrease of \$3,232 was primarily due to a savings of \$6,939 at corporate because of the purchase by BGLS of \$150,294 principal amount of its 15.75% Series B Senior Secured Notes (the "Notes") beginning in May 1999. This was offset by the addition of \$2,167 in interest expense of New Valley and higher interest expense at Western Tobacco Investment LLC ("Western Tobacco Investments") primarily due to non-cash interest expense under the participating loan agreement.

New Valley contributed gains on sale of investment securities of \$4,753 and interest and dividend income of \$1,494 offset by a loss in equity of its affiliate of \$1,551.

For the three months ended March 31, 1999, equity in earnings of affiliate was a loss of \$7,629 and related to New Valley's net loss applicable to common shares of \$23,801 for the period. This loss in the 1999 period was offset by recognition of deferred gain of \$7,050 relating to the expiration of the put obligation on Ducat Place III (the site of the old cigarette factory in Russia) in connection with the sale of the BrookeMil Ltd. common shares in 1997. The factory ceased operations in March 1999.

Income from Continuing Operations. The income from continuing operations for the three months ended March 31, 2000 was \$1,488 compared to income of \$7,554 for the three months ended March 31, 1999. Income tax expense for the first quarter of 2000 was \$823 compared to \$1,729 for the for the first quarter of 1999. The effective tax rates for the three months ended March 31, 2000 and March 31, 1999 do not bear a customary relationship to pre-tax accounting income principally as a consequence of foreign taxes and the change in the valuation allowance on deferred tax assets.

CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents increased \$2,687 for the three months ended March 31, 2000 and decreased \$1,877 for the three months ended March 31, 1999. Net cash used in operations for the three months ended March 31, 2000 was \$22,086 compared to net cash provided by operations of \$2,571 for the comparable period of 1999. Cash used in the 2000 period for operating activities resulted principally from lower net income at Liggett, an increase in inventories of \$14,357, an increase in receivables from clearing brokers of \$10,217 and a decrease in net deferred taxes of \$4,126 offset by an increase in accounts payable and accrued expenses of \$10,320. Cash provided in the 1999 period was due to higher net income at Liggett and a reduction in debt service due to the December 1998 bond redemption at Liggett.

Cash provided by investing activities of \$3,622 compares to cash used of \$19,581 for the periods ended March 31, 2000 and 1999, respectively. For the three months ended March 31, 2000, proceeds are primarily attributable to net sales of marketable securities and long-term investments in 2000 of \$8,842 and the decrease in restricted assets of \$3,202 offset primarily by capital expenditures of \$8,029. Cash used in investment activities for the three months ended March 31, 1999 was due to capital expenditures of \$6,369 at Liggett for machinery and equipment and \$13,248 at Liggett-Ducat for factory construction and equipment costs.

Cash provided by financing activities was \$21,483 for the three months ended March 31, 2000 as compared with cash provided of \$15,452 for the three months ended March 31, 1999. Cash was provided in the 2000 period through net borrowings under credit facilities of \$30,552 and an increase in margin loans payable. These amounts were offset by net repayments on debt of \$6,895 and distributions on common stock of \$5,498. During the three months ended March 31, 1999, cash was provided by net borrowings under credit facilities of \$12,667 and net proceeds on a promissory note of \$4,177. These were offset principally by distributions on common stock of \$1,358.

Liggett. Liggett has a \$35,000 credit facility under which \$23,166 was outstanding at March 31, 2000. Availability under the facility was approximately \$6,974 based on eligible collateral at March 31, 2000. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 9.75% at March 31, 2000. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At March 31, 2000, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$17,977 and net working capital was \$36,795, as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, 100 Maple Lane LLC, a new company formed by Liggett to purchase an industrial facility in Mebane, North Carolina, borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 including annual interest at 1% above the prime rate with a final payment of \$1,500. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility. Liggett plans to relocate its manufacturing operations to this facility in late 2000.

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

Liggett (and, in certain cases, Brooke Group Holding, the Company's predecessor and a wholly-owned subsidiary of BGLS) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke from cigarettes. The Company believes, and has been so advised by counsel handling the respective cases, that Brooke Group Holding and Liggett have a number of valid defenses to claims asserted against them. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida and the jury will now consider the award of lump sum punitive damages, if any, for the entire class. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, if necessary, and there is a risk that those requirements will not be able to be met. 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 the Company nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See Note 12 to the Company's Consolidated Financial Statements.

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

Brooke (Overseas). Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow which became operational in June 1999. The new factory, which utilizes Western cigarette making technology and has a capacity in excess of 40 billion units per year, produces American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Development has made a \$30,000 participating loan to Western Tobacco Investments, which holds Brooke (Overseas)'s interest in Liggett-Ducat and the new factory. In addition, Western Tobacco Investments has entered into note agreements for equipment purchases which have a liability of approximately \$19,891 at March 31, 2000. The remaining costs for construction and equipment for the new factory and working capital requirements have been financed by loans and credit facilities from Russian banks of \$36,489.

BGLS. On January 20, 2000, BGLS repurchased an additional \$5,500 principal amount of the Notes, together with accrued interest, for a purchase price of \$8,456. Through March 31, 2000, BGLS has repurchased \$150,294 principal amount of the Notes, together with accrued interest thereon. The purchases have been made using primarily the proceeds of the Philip Morris brand transaction which closed on May 24, 1999.

At March 31, 2000, BGLS had outstanding \$82,570 principal amount of the Notes which mature on January 31, 2001. Of this amount, \$50,100 of the Notes carry deferred interest. On March 2, 1998, BGLS entered into a standstill agreement with the holders of \$97,239 principal amount of its notes, who were affiliated with Apollo, under which the Apollo holders (and any transferees) agreed to the deferral of interest payments, commencing with the interest payment

due July 31, 1997 through the interest payment due July 31, 2000. BGLS had total deferred interest of \$22,708 as of March 31, 2000. Interest on all of the Notes for the six month period ended January 31, 2000 was paid in cash.

Consolidated. Brooke has substantial near-term consolidated debt service requirements, with aggregate required principal payments of approximately \$156,500 due within the next twelve months. Brooke believes that it will continue to meet its liquidity requirements through 2000, although the BGLS Notes Indenture limits the amount of restricted payments BGLS is permitted to make to the Company during the calendar year. At March 31, 2000, the remaining amount available through December 31, 2000 in the restricted payment basket related to BGLS' payment of dividends to the Company (as defined by the BGLS Notes Indenture) is \$18,357. Brooke expenditures (exclusive of Liggett, Liggett-Ducat and New Valley) over the next twelve months for current operations include cash interest expense of approximately \$14,089, dividends on Brooke's shares (currently at an annual rate of approximately \$21,990) and corporate expenses. Brooke anticipates funding its expenditures for current operations with public and/or private debt and equity financing, management fees from subsidiaries and tax sharing and other payments from Liggett or New Valley. New Valley may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

MARKET RISK

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

Foreign Market Risk

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

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

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

Domestic Market Risk

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

Current and proposed underwriting, corporate finance, merchant banking and other commitments at Ladenburg are subject to due diligence reviews by Ladenburg's senior

management, as well as professionals in the appropriate business and support units involved. Credit risk related to various financing activities is reduced by the industry practice of obtaining and maintaining collateral. Ladenburg monitors its exposure to counterparty risk through the use of credit exposure information, the monitoring of collateral values and the establishment of credit limits.

Equity Price Risk. Ladenburg maintained inventories of trading securities at March 31, 2000 with fair values of \$11,106 in long positions and \$3,368 in short positions. Ladenburg performed an entity-wide analysis of its financial instruments and assessed the related risk and materiality. Based on this analysis, in the opinion of management, the market risk associated with the Ladenburg's financial instruments at March 31, 2000 will not have a material adverse effect on the consolidated financial position or results of operations of Brooke.

New Valley held investment securities available for sale totaling \$48,689 at March 31, 2000. Approximately 24% of these securities represent an investment in RJ Reynolds Tobacco Holdings, Inc. and Nabisco Group Holdings Corp., which are defendants in numerous tobacco products-related litigation, claims and proceedings. An adverse outcome in any of these proceedings could have a significant effect on the value of New Valley's investment.

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

NEW ACCOUNTING PRONOUNCEMENTS

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

YEAR 2000 COSTS

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

Brooke, New Valley and Liggett-Ducat. Brooke, New Valley and Liggett-Ducat use personal computers for all transactions. All such computers and related systems and software are less than three years old and are Year 2000 compliant. As a result, Brooke, New Valley and Liggett-Ducat are Year 2000 compliant.

Liggett. Liggett is Year 2000 compliant. The focus of Liggett's Year 2000 compliance and verification efforts were directed at the implementation of new customer service, inventory control and financial reporting systems at each of the three regional Strategic Business Units formed as part of Liggett's reorganization which began in January 1997. Liggett estimates that approximately \$138 of the expenditures for this reengineering effort related to Year 2000 compliance, validation and testing. In November 1998, Liggett completed a major conversion of

factory accounting, materials management and information systems at its Durham production facility with upgrades that were successfully tested for Year 2000 compliance. Program upgrades to Liggett's payroll system were completed in July 1999 with parallel upgrades to the human resources system software completed in August 1999. Enhancements to Liggett's warehouse management finished goods inventory tracking systems were completed in October 1999.

Ladenburg. Ladenburg is Year 2000 compliant. Ladenburg's plan addressed external interfaces with third party computer systems necessary in the broker-dealer industry. It also addressed internal operations software necessary to continue operations on a daily basis. Ladenburg's Year 2000 plan cost approximately \$650. The cost was inclusive of hardware and software upgrades and replacements as well as consulting.

External Service Providers. The modifications for Year 2000 compliance by Brooke and its subsidiaries were completed in 1999. However, the failure of Brooke's service providers, including Ladenburg's clearing agent, to resolve their own processing issues in a timely manner could result in a material financial risk. Published reports have stated that Year 2000 miscalculations could occur throughout 2000. To date, neither Brooke nor its subsidiaries have experienced any material disruption to their business operations.

It is unclear whether the Russian government and other organizations that provide significant infrastructure services in Russia have addressed the Year 2000 problem sufficiently to mitigate potential substantial disruption to these infrastructure services. The substantial disruption to these services would have an adverse effect on Brooke's operations. Furthermore, the current financial crises in Russia could affect the ability of the government and other organizations to fund Year 2000 compliance programs. To date, Brooke is not aware of any Year 2000 related issues reported in Russia.

Although Brooke and its subsidiaries have confirmed that their service providers adequately addressed Year 2000 issues, there can be no complete assurance of success, or that interaction with other service providers will not impair Brooke's or its subsidiaries' services.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995, including any statements that may be contained in the foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to stockholders, which reflect management's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Private Securities Reform Act, the Company has identified under "Risk Factors" in Item 1 of the Company's Form 10-K for the year ended December 31, 1999 filed with the Securities and Exchange Commission important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company.

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. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 12, incorporated herein by reference, to the Consolidated Financial Statements of Brooke Group Ltd. and BGLS Inc. included elsewhere in this Report on Form 10-Q which contains a general description of certain legal proceedings to which Brooke Group Holdings, BGLS, New Valley or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending smoking-related material legal proceedings to which Brooke Group Holding, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of the Company and its subsidiaries without charge upon written request to the Company at its principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn. Investor Relations.

Item 2. Changes in Securities and Use of Proceeds

No securities of the Company which were not registered under the Securities Act of 1933, as amended, have been issued or sold by the Company during the three months ended March 31, 2000.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 27.1 Brooke Group Ltd.'s Financial Data Schedule (for SEC use only).
- 27.2 BGLS Inc.'s Financial Data Schedule (for SEC use only).
- 99.1 Material Legal Proceedings.
- 99.2 Liggett Group Inc.'s Interim Consolidated Financial Statements for the quarterly periods ended March 31, 2000 and 1999.
- * 99.3 New Valley Corporation's Interim Consolidated Financial Statements for the quarterly periods ended March 31, 2000 and 1999 (incorporated by reference to New Valley's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000, Commission File No. 1-2493).
- 99.4 Brooke (Overseas) Ltd.'s Interim Consolidated Financial Statements for the quarterly periods ended March 31, 2000 and 1999.

*Incorporated by reference

- (b) Reports on Form 8-K
None.

SIGNATURES

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

BROOKE GROUP LTD.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: May 15, 2000

BGLS INC.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: May 15, 2000

3-MOS
DEC-31-2000
JAN-01-2000
MAR-31-2000
22,810
59,795
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213,745
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0.05

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MAR-31-2000
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68,575
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(11,732)
5,172
823
2,610
0
(230)
0
2,380
0
0

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).

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

United States of America v. Philip Morris, Inc., et al., Case No. 1:99CV02496, USDC, District of Columbia (case filed 9/22/99). The United States of America seeks to recover health care costs paid for and furnished, and to be paid for and furnished, by the federal government through Medicare and otherwise, for lung cancer, heart disease, emphysema and other tobacco-related illnesses.

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

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

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

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

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

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

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

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

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

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

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

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

Republic of Bolivia v. Philip Morris Companies, Inc., et al., Case No. 6949*J699, District Court, State of Texas, Brazoria County, State of Texas (case filed 1/20/99). The Republic of Bolivia seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the medicaid expenses of indigent smokers.

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

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

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

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

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

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

Ukraine v. American Brands, et al., Case No. 1:99CV03080, USDC, District of Columbia (case filed 11/19/99). Ukraine seeks compensatory and injunctive relief for damages incurred by the country in paying for the healthcare expenses of resident smokers.

II. THIRD-PARTY PAYOR ACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UA Local No. 159 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., Case No. 796938-8, Superior Court of California, County of Alameda (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

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

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

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

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

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

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

Service Employees International Union Health and Welfare Trust Fund, et al. v. Philip Morris, Inc. et al., Case No. 1:98CV00704, USDC, District of Columbia (case filed 3/19/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

Sheet Metal Workers Trust Fund, et al. v. Philip Morris, Inc., et al., Case No. 1:99CV02326, USDC, District of Columbia (case filed 8/31/99). Sheet Metal Workers Trust Fund seeks to obtain injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to their participants and beneficiaries suffering from smoking-related illnesses.

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

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

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

Central States Joint Board Health & Welfare Fund v. Philip Morris, et al., Case No. 97L12855, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief

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

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

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

Kentucky Laborers District Council Health & Welfare Trust Fund v. Philip Morris, et al., Case No.3-97-394, USDC, Western District of Kentucky (case filed 6/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Trust Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

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

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

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

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

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

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

Construction Laborers of Greater St. Louis Welfare Fund, Case No. 4:97CV02030ERW, USDC, Eastern District of Missouri (case filed 12/1/98). Health and Welfare Trust Fund seeks injunctive relief and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

United Federation of Teachers Welfare Fund, et al. v. Philip Morris, et al., Case No. 97-CIV-4676, USDC, Southern District of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UNR Asbestos-Disease Claims Trust v. Brown & Williamson, et al., Case No. 105152/99, Supreme Court of the State of New York, New York County (case filed 3/15/99). The Trust brings this action to recover contribution, indemnity and/or reimbursement from the tobacco defendants.

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

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

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

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

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

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

Northwest Laborers-Employers Health & Security Trust Fund, et al. v. Philip Morris, et al., Case No. C97-849-WD, USDC, Western District of Washington (case filed 6/26/97). Health and Welfare Trust Fund seeks economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

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

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

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

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

III. CLASS ACTION CASES

The Navajo Nation v. Philip Morris, Incorporated, et al., Case No. WR-CV-449-99, District Court of the Navajo Nation, Judicial District of Window Rock, Arizona (case filed 8/11/99). The Navajo nation seeks civil penalties, damages, remediation through tobacco education and anti-addiction programs, injunctive relief, attorney's fees and cost.

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

Brown, et al. v. The American Tobacco Company, et al., Case No. 711400, Superior Court of California, County of San Diego (case filed 10/1/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

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

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

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

Engle, et al. v. R.J. Reynolds, et al., Case No. 94-08273 CA 20, Circuit Court, State of Florida, Dade County (case filed 5/5/94). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Florida. The case was certified as a class action on October 31, 1994. Trial commenced in July 1998. See Note 12 - Contingencies, for a more detailed discussion of this case.

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

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

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

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

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

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

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

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

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

National Tobacco Consumers' Group Number 1 v. Philip Morris Incorporated, et al., Demand letter and draft complaint, Superior Court, Massachusetts, Middlesex County.

National Tobacco Consumers' Group Number 3 v. Philip Morris Incorporated, et al., Demand letter and draft complaint, Superior Court, Massachusetts, Middlesex County.

Poirier, et al. v. R. J. Reynolds Tobacco Company, et al., Demand letter and draft complain, Superior Court, Massachusetts, Middlesex County.

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

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

Jackson, et al. v. R. J. Reynolds, et al., Case No., Circuit Court, State of Mississippi, Jefferson County. This action seeks judgement from both the Tobacco Defendants and the Asbestos Defendants for joint and several liability.

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

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

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

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

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

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.

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

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

Bergeron, et al. v. Philip Morris Inc., et al., Case No. CV 99 6142, USDC, State of New York, Eastern District (case filed 10/8/99). This action seeks is brought on behalf of the trustees and fiduciaries of the Massachusetts State Carpenters Health and Benefits Funds on behalf of themselves and other similarly situated trustees of Taft_hartley Health & Welfare funds.

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

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

Simon, et al. v. Philip Morris Inc, et al., Case No CV 99 1998, USDC, Eastern District of New York (case filed 4/9/99), This personal injury action is brought on behalf of plaintiffs seeking certification of a nation wide class under the applicable provisions of Rule 23 of the Federal Rules of Civil Procedure, on behalf of persons who have smoked defendant's cigarettes and who presently have a claim for personal injuries or damages, or wrongful death, arising from the smoking of defendants' cigarettes.

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

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

Sweeney, et al. v. American Tobacco Company, et al., Case No. GD98-16226, Court of Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/15/98). This putative class action is brought on behalf of all current smokers who began smoking prior to the age of eighteen resident in the State of Pennsylvania.

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

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

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

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

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

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

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

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

Walker, et al. v. Liggett Group Inc., et al., Case No. 2:97-0102, USDC, Southern District of West Virginia (case filed 2/12/97). Nationwide class certified and limited fund class action settlement preliminarily

approved with respect to Liggett and Brooke Group on May 15, 1997. Class decertified and preliminary approval of settlement withdrawn by order of district court on August 5, 1997, which order currently is on appeal to the Fourth Circuit.

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

Fletcher, et al. v. Brooke Group Ltd., Civil Action No. 97-913, Circuit Court of Mobile County, Alabama (Case filed 3/19/97). Nationwide class of individuals alleging smoking-related claims. The limited fund settlement was preliminarily approved by the court in December 1998. Final approval of the limited fund settlement was denied on July 22, 1999. A motion for reconsideration of that order presently is pending.

IV. INDIVIDUAL SMOKER CASES

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

Baker, et al v. Safeway, Inc., et al., Case No. 304532, Superior Court of California, County of San Francisco (case filed 6/28/99). Two individuals suing.

Chandler v. Philip Morris Incorporated, et al., Case No. BC226097, Superior Court of California, Los Angeles County (case filed 3/7/00). One individual suing.

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

Coner v. Philip Morris Incorporated, et al., Case No. BC227929, Superior Court, California, Los Angeles (case filed 3/7/00). One individual suing.

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

Cooper v. Philip Morris Incorporated, et al., Case No. BC227929, Superior Court, California, Los Angeles County (case filed 4/7/00). One individual suing.

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

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

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

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

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

Jones v. Philip Morris Incorporated, et al., Case No. 812307, Superior Court, State of California, County of Orange (case filed 7/26/99). One individual suing.

Maggard, et al. v. Philip Morris, Inc., et al., Case No. CV779940, Superior Court, State of California, Santa Clara County (case filed 2/16/99). Two individuals suing.

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

Reynolds, et al. v. Philip Morris Incorporated, et al., Case No. SC024107, Superior Court of California, County of Ventura (case filed 10/04/99). Two individuals suing.

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

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

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

Shaffer v. The American Tobacco Company, Inc., et al., Case No. 99AD06057, Superior Court, Sacramento County, California (case filed 10/29/99). One individual suing.

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

Williams v. Philip Morris Incorporated, et al., Case No. BC227930, Superior Court, California, Los Angeles County (case filed 4/7/00). One individual suing.

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

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

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

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

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

Atkins v. R. J. Reynolds, et al., Case No. CI97-6597, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). One individual suing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Polston, et al. v. Philip Morris, Inc., et al., Case No. 1:99-CV-2958, USDC, Northern District, State of Georgia (case filed 11/15/99). Two individuals suing.

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

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

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

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

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

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

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

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

Alexander, et ux v. Philip Morris Companies, Inc., et al., Case No. 99-C-3975-A, 27th Judicial District Court, St. Landry Parish (case filed 9/27/99). Two individuals suing.

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

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

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

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

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

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

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

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

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

Potts , et al. v. R. J. Reynolds Tobacco Company, et al., Case No. 41844, 40th Judicial District, State of Louisiana, St. John the Baptist Parish (case filed 4/6/00). Seven individuals suing.

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

Adams v. The Tobacco Institute, Inc., et al., Massachusetts, Demand Letter. One individual suing.

Anderson v. R. J. Reynolds Tobacco Company, Case No. 99-2915, Superior Court of Massachusetts, Middlesex County (case filed 6/8/99). One individual suing.

Estate of Fred G. Arnold v. R. J. Reynolds Tobacco Company, Demand Letter. Two individuals suing.

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

Bistany v. Michael T. Shannon, D.M.D., et al., Case No. 00-1557, Superior Court of Massachusetts, Middlesex County. One individual suing.

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

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

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

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

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

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

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

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

Grebauski v. R. J. Reynolds Tobacco Company, et al., Case No. 99-1063B, Superior Court of Massachusetts, Middlesex County (case filed 1/25/99). One individual suing.

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

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

Estate of John C. Johnson, et al v. R. J. Reynolds Tobacco Company, et al., Demand Letter, Superior Court of Massachusetts, Middlesex, County. Four individuals suing.

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

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

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

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

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

Estate of Etta 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.

Paige v. Marilyn Kovant, M.D., et al., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. One individual suing.

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

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

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

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

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

West v. The Tobacco Institute, Inc., et al., Massachusetts. Demand letter. One individual suing.

Wolf v. Philip Morris Incorporated, et al., Case No. 99-01260, Superior Court of Massachusetts, Norfolk County (case filed 9/1/99). One individual suing.

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

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

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

Walecki v. R. J. Reynolds, et al., Case No. 00-081, Superior Court of Massachusetts, Middlesex County. One individual suing.

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

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

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

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

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

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

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

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

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

Mumin v, Philip Morris, et al., Case No. 4:99CV-03005, USDC, District Court of Nebraska (case filed 7/5/99). Eleven individuals suing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Siegel, et al. v. The American Tobacco Co., et al., Case No.36857/96, Supreme Court of New York, Kings County (case filed 10/8/96). Two individuals suing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Campanella, et al. v. Lorillard Tobacco Company, et al., Case No. 003575, Court of Common Pleas, Philadelphia County, PA (case filed 1/31/00). Two individuals suing.

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

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

Taylor v. Brown & Williamson Tobacco Corporation, et al., Case No. 004378, Court of Common Pleas, Philadelphia County (case filed 12/13/99). One individual suing.

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

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

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

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

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

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

Burleson et al. v. Liggett Group, Inc., et al., Case No. 9:99CV233, USDC, Eastern District (case filed 9/10/99). Two individuals suing.

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

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

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

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

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

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

Harris, et al. v. Koch Refining Co., et al., Case No. 98-03426-00-0-G, District Court of Texas, 319th Judicial District (case Filed 6/10/99). Three individuals suing.

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

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

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

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

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

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

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

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

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

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

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

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

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

Bishop, et al. v. Liggett Group Inc., et al., Case No. 97-C-2696 through 2713, Circuit Court, State of West Virginia, Kanawha County (case filed 10/28/98). One individual suing.

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

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

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

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

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

V. ACTIONS CHALLENGING MSA

PTI, Inc., et al. v. Philip Morris Incorporated, et al., Case No. 99-08235 NM, USDC, Central District of California (case filed 8/13/99). Plaintiffs seek damages, declaratory, equitable, injunctive relief and to invalidate the Master Settlement Agreement between the largest manufacturers of cigarettes in the United States and the Attorneys General of forty-six states and the settlement entered into by the State of Texas settlement.

Herek, et al. v. State of Wisconsin, et al., Case No. 99CV2644, Circuit Court, State of Wisconsin, Dane County (case filed 11/5/99).

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 (case filed 3/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Middlekauff, et al. v. British American Tobacco Industries, et al., Case No. 307006, Superior Court of California, San Francisco County (case filed 10/13/99). 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 of California, Alameda County (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, State of California. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Amsterdam Tobacco Corp., et al. v. Philip Morris Companies, Inc., et al., Case No.1: 00CV0460, USDC, District of Columbia (case filed 3/6/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States and elsewhere in the world.

Barnes, et al. v. Philip Morris Companies, Inc., et al., Case No. 00-0000954, Superior Court, District of Columbia (case filed 2/10/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the District of Columbia.

Buffalo Tobacco Products, Inc., et al. v. Philip Morris Companies, Inc., et al., Case No. 1:00CV00224, USDC, District of Columbia (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

Williamson Oil Company, Inc. v. Philip Morris Companies, Inc., et al., Case No. 00-CV- 0447, USDC, Georgia, Northern District (case filed 2/18/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

Smith, et al. v. Philip Morris Companies, Inc., et al., Case No. 00-CV-26, District Court, Kansas, Seward County. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Kansas.

Faherty, et al. v. Philip Morris Companies, Inc., et al., n/k/a Taylor, et al. v. Philip Morris Companies, Inc., et al. Superior Court, Maine (case filed 2/16/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Maine.

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

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

Rowlen, et al. v. Philip Morris Companies, Inc., et al., Case No. 3:00CV119WS, USDC, Southern District, Mississippi. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Mississippi.

Romero, et al. v. Philip Morris Companies, Inc. et al., Case No. D0117 CV-00000462 District Court, Rio Arriba County, New Mexico (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 New Mexico.

Lennon, et al. v. Philip Morris Companies, Inc., et al., Index No. 102396, Supreme Court of New York, New York County, New York (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

ROG-GLO, LTD., et al. v. R. J. Reynolds Tobacco Company, et al., Index No. 00CIV 1255, USDC, Southern District, New York (case filed 2/22/00). In this class action plaintiff alleges that the defendants conspired to fix, raise, stabilize or maintain prices for cigarettes in the United States and elsewhere in the world.

Sylvester, et al. v. Philip Morris Companies, Inc., et al., Index No. 00/601008 Supreme Court of New York, New York County, New York (case filed 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 New York.

Shafer, et al. v. Philip Morris Companies, Inc., et al., Case No. 00-C-1107, District Court, Morton County, North Dakota (case filed 2/16/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of North Dakota.

I. Goldshlack Company v. Philip Morris Companies, Inc., et al., Case No. 00-CV-1286, USDC, Eastern District of Pennsylvania. In this class action plaintiff allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

Brenda Vetter, et al. v. Philip Morris Companies, Inc., et al., Circuit Court, Hughes County, South Dakota (case filed 2/16/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of South Dakota.

Withers, et al. v. Philip Morris Companies, Inc., et al., Case No. 17, 194-I, Circuit Court, Jefferson County, Tennessee (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Tennessee.

Quickle, et, al. v. Philip Morris, et al., Case No. 90-C-28-RI, Circuit Court, State of West Virginia, Brooke County. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of West Virginia.

Cusatis v, Philip Morris Companies, Inc., et al., Case No. 00CV001359, Circuit Court, Milwaukee County, Wisconsin (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 Wisconsin.

LIGGETT GROUP INC.
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2000

LIGGETT GROUP INC.
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Financial Statements

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LIGGETT GROUP INC.
 CONSOLIDATED BALANCE SHEETS
 (Dollars in thousands)
 (Unaudited)

	March 31, 2000 -----	December 31, 1999 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 906	\$ 2,959
Accounts receivable:		
Trade, less allowances of \$1,100 and \$1,002, respectively	8,959	7,228
Other	4,029	1,568
Inventories	37,818	27,119
Other current assets	39,905	42,656
	-----	-----
Total current assets	91,617	81,530
Property, plant and equipment, at cost, less accumulated depreciation of \$34,814 and \$33,924, respectively	33,205	29,668
Other assets	1,673	1,702
	-----	-----
Total assets	\$126,495 =====	\$112,900 =====

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

LIGGETT GROUP INC.
 CONSOLIDATED BALANCE SHEETS (Continued)
 (Dollars in thousands)
 (Unaudited)

	March 31, 2000 -----	December 31, 1999 -----
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 1,246	\$ 1,074
Accounts payable, principally trade	7,150	2,575
Accrued expenses:		
Promotional	23,247	22,473
Other taxes, principally excise taxes	6,168	225
Estimated allowance for sales returns	4,190	4,190
Settlement accruals	2,042	2,005
Other	15,792	16,675
	-----	-----
Total current liabilities	59,835	49,217
Long-term debt, less current maturities	31,896	8,198
Non-current employee benefits	11,960	11,966
Other long-term liabilities	9,812	9,738
Commitments and contingencies (Note 8)		
Stockholder's equity:		
Redeemable preferred stock (par value \$1.00 per share; authorized 1,000 shares; no shares issued and outstanding)		
Common stock (par value \$0.10 per share; authorized 2,000 shares; issued and outstanding 1,000 shares)		
and contributed capital	60,106	60,002
Accumulated deficit	(47,114)	(26,221)
	-----	-----
Total stockholder's equity	12,992	33,781
	-----	-----
Total liabilities and stockholder's equity	\$ 126,495	\$ 112,900
	=====	=====

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

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

	Three Months Ended March 31,	
	2000	1999
Net sales*	\$ 106,902	\$ 86,047
Cost of sales*	33,643	23,165
Gross profit	73,259	62,882
Selling, general and administrative expenses excluding non-cash stock-based expense	64,133	42,210
Settlement charges	37	115
Non-cash stock-based expense		488
Operating income	9,089	20,069
Other income (expense):		
Interest expense	(606)	(707)
Other, net	(42)	(47)
Income before income taxes	8,441	19,315
Income tax provision	3,334	7,632
Net income	\$ 5,107	\$ 11,683

*Net sales and cost of sales include federal excise taxes of \$20,042 and \$12,553, respectively.

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

LIGGETT GROUP INC.
 CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
 (Dollars in thousands)
 (Unaudited)

	Common Stock and Contributed Capital	Accumulated Deficit	Total Stockholder's Equity
	-----	-----	-----
Balance at December 31, 1999	\$ 60,002	\$(26,221)	\$ 33,781
Net income		5,107	5,107
Amortization of deferred compensation	104		104
Distributions and other payments		(26,000)	(26,000)
	-----	-----	-----
Balance at March 31, 2000	\$ 60,106	\$(47,114)	\$ 12,992
	=====	=====	=====

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

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

	Three Months Ended March 31,	
	2000	1999
Net cash provided by operating activities	\$ 4,590	\$ 14,346
Cash flows from investing activities:		
Capital expenditures	(4,514)	(6,356)
Net cash used in investing activities	(4,514)	(6,356)
Cash flows from financing activities:		
Repayments of notes payable	(295)	(25)
Issuance of equipment loan payable	1,000	4,500
Borrowings under revolving credit facility	103,442	75,574
Repayments under revolving credit facility	(80,276)	(71,319)
Distributions and other payments	(26,000)	(16,700)
Decrease in cash overdraft		(20)
Net cash used in financing activities	(2,129)	(7,990)
Net increase in cash and cash equivalents	(2,053)	
Cash and cash equivalents:		
Beginning of period	2,959	
End of period	\$ 906	\$

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

LIGGETT GROUP INC.

Notes to Consolidated Financial Statements
(Dollars in thousands)
(Unaudited)

1. THE COMPANY

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

The interim consolidated financial statements included herein are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's consolidated financial position, results of operations and cash flows. The December 31, 1999 balance sheet has been derived from audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included as Exhibit 99.2 in Brooke's and BGLS' Annual Report on Form 10-K, for the year ended December 31, 1999, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

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

2. ESTIMATES AND ASSUMPTIONS

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

3. PHILIP MORRIS BRAND TRANSACTION

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

Under the terms of the Philip Morris agreements, Eve contributed the three brands to Trademarks, a newly-formed limited liability company, in exchange for 100% of two classes of Trademarks' interests, the Class A Voting Interest and the Class B Redeemable Nonvoting Interest. Philip Morris acquired two options to purchase the interests from Eve. In December 1998, Philip Morris paid Eve a total of \$150,000 for the options, \$5,000 for the option for the Class A interest and \$145,000 for the option for the Class B interest. The Class A option entitled Philip Morris to purchase the Class A interest for \$10,100. On March 19, 1999, Philip Morris exercised the Class A option, and the closing occurred on May 24, 1999.

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

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

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

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

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

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

4. PRO FORMA EFFECTS OF BRAND TRANSACTION

The following table presents unaudited pro forma results of operations as if the Philip Morris brand transaction had occurred immediately prior to January 1, 1999. These pro forma results are presented for comparative purposes only and do not purport to be indicative of what would have occurred had these transactions been consummated as of such date.

	For the three months ended March 31, 1999

Revenues	\$73,355
	=====
Operating income	\$12,059
	=====
Income from continuing operations	\$11,305
	=====
Net income	\$ 6,833
	=====

5. INVENTORIES

Inventories consist of the following:

	March 31, 2000	December 31, 1999
	-----	-----
Leaf tobacco	\$ 8,018	\$ 6,871
Other raw materials	1,857	1,841
Work-in-process	2,514	2,583
Finished goods	28,186	17,461
Replacement parts and supplies	2,228	2,179
	-----	-----
Inventories at current cost	42,803	30,935
LIFO adjustment	(4,985)	(3,816)
	-----	-----
Inventories at LIFO cost	\$ 37,818	\$ 27,119
	=====	=====

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. Liggett had leaf tobacco purchase commitments of approximately \$2,162 at March 31, 2000.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	March 31, 2000	December 31, 1999
	-----	-----
Land and improvements	\$ 442	\$ 415
Buildings	5,852	5,852
Construction-in-progress	14,391	10,342
Machinery and equipment	47,334	46,983
	-----	-----
Property, plant and equipment	68,019	63,592
Less accumulated depreciation	(34,814)	(33,924)
	-----	-----
Property, plant and equipment, net	\$ 33,205	\$ 29,668
	=====	=====

As of March 31, 2000, the company has capitalized into construction-in-progress approximately \$2,791 of the contracted \$4,924 construction costs related to the new manufacturing facility.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2000	December 31, 1999
	-----	-----
Borrowings outstanding under revolving credit facility	\$ 23,166	\$ --
Other	9,976	9,272
	-----	-----
	33,142	9,272
Current portion	(1,246)	(1,074)
	-----	-----
Amount due after one year	\$ 31,896	\$ 8,198
	=====	=====

REVOLVING CREDIT FACILITY:

Liggett has a \$35,000 revolving credit facility under which \$23,166 was outstanding at March 31, 2000. The facility is collateralized by all inventories and receivables of the Company. Availability under the facility was approximately \$6,974 based upon eligible collateral at March 31, 2000. Borrowings under the facility bear interest equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate. At March 31, 2000, Liggett's interest rate was 9.75%. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At March 31, 2000, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$17,977 and net working capital was \$36,795 as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, 100 Maple Lane, LLC, a new company formed by Liggett to purchase an industrial facility in Mebane, North Carolina, borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 with a final payment of \$1,500. Interest is charged at the same rate as applicable to the facility. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility.

EQUIPMENT LOANS:

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

In March 2000, Liggett purchased equipment for \$1,000 through a capital lease arrangement payable in 60 monthly installments of \$21 with an effective annual interest rate of 10.14%.

8. COMMITMENTS AND CONTINGENCIES

SMOKING-RELATED LITIGATION:

OVERVIEW. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. These cases are reported here as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Brooke Group Holding, the Company's parent or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. For the three months ended March 31, 2000, Liggett incurred counsel fees and costs totaling approximately \$1,969, compared to \$1,568 for the comparable prior year period.

INDIVIDUAL ACTIONS. As of March 31, 2000, there were approximately 310 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 85 were pending in Florida, 94 in New York, 39 in Massachusetts, 17 in Texas and 24 in California. The balance of the individual cases were pending in 29 states. There are five individual cases pending where Liggett is the only named defendant.

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

In February 1999, a California jury awarded \$51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by Philip Morris. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages. The court subsequently reduced the punitive damages award to \$25,000. In March 1999, an Oregon jury awarded \$80,311 in damages to the family of a deceased smoker who smoked Marlboro cigarettes made by Philip Morris. The award includes \$79,500 in punitive damages. The court subsequently reduced the punitive damages award to \$32,000. Philip Morris has appealed both the verdict and damage awards in both cases.

In March 2000, a California jury awarded \$1,700 in compensatory damages and \$20,000 in punitive damages to a former smoker and her husband. The jury found Philip Morris and R.J. Reynolds Tobacco misrepresented the health dangers of cigarettes and that they acted with malice. The defendants have stated that they intend to appeal both the verdict and damage awards.

CLASS ACTIONS. As of March 31, 2000, there were approximately 60 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the CASTANO case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

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

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

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

In May 1994, an action entitled Engle, et al. v. R.J. Reynolds Tobacco Company, et al., Circuit Court, Eleventh Judicial Circuit, Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. Phase I of the trial commenced in July 1998 and in July 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that: smoking cigarettes causes 20 diseases or medical conditions, cigarettes are addictive or dependence producing, defective and unreasonably dangerous, defendants made materially false statements with the intention of misleading smokers, defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-

wide basis, before the same jury that returned the verdict in Phase I. On April 7, 2000, the jury awarded compensatory damages of \$12,704 to the three plaintiffs, to be reduced in proportion to the respective plaintiff's fault. The jury also decided that the claim of one of the plaintiffs, who was awarded compensatory damages of \$5,831, was not timely filed. The punitive damages portion Phase II is scheduled to begin May 15, 2000 and is expected to last several weeks. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages. The defendants' motion to order the trial court to assess punitive damages on an individual basis was denied and the petition for review was also denied, without prejudice to raise the same issue on subsequent appeals.

It is unclear how the trial court's order will be implemented. The order provides that the punitive damage amount, if any, should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, a process that could take years to conclude. Recently, legislation has been 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, \$100 million plus twice the statutory rate of interest, or 10% of the net worth of the defendant, but the limitation on the bond does not affect the amount of the underlying verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to its application. Similar legislation has been enacted in Georgia, Kentucky, North Carolina and Virginia.

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

Approximately 30 purported state class action complaints have been filed on behalf of various consumers of cigarette products against the tobacco manufacturers. The complaints allege that cigarette manufacturers engaged in illegal and unethical activities since the 1940's, many conspiratorial in nature, designed to increase profits at the financial and physical expense of customers. These alleged activities include knowingly increasing the addictiveness of cigarettes through crop manipulation; downplaying the detrimental health effects of cigarette smoking; conspiring to refrain from researching and introducing "safer" cigarettes; creating false and misleading scientific research design to combat the growing scientific consensus about the lethal health effects associated with cigarettes; aggressively marketing products to children and minors in an effort to addict them to cigarettes at a young age; and systematically covering up activities to avoid regulation of products by governmental agencies. The purported class actions are brought pursuant to various state laws.

In February 2000, Liggett and plaintiffs sent correspondence to the court, in *SIMON V. PHILIP MORRIS ET AL.*, a putative nationwide smokers class action, indicating that Liggett and the plaintiffs are engaged in preliminary settlement discussions. There are no assurances that any settlement will be reached or that the class will ultimately be certified.

GOVERNMENTAL ACTIONS. As of March 31, 2000, there were approximately 20 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.

THIRD-PARTY PAYOR ACTIONS. As of March 31, 2000, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. Five United States Circuit Courts of Appeal have ruled that Third-Party Payors did not have standing to bring lawsuits against the tobacco companies. The United States Supreme Court recently denied petitions for certiorari filed by several of the union health and welfare trust funds. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

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

FEDERAL GOVERNMENT ACTION. In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of healthcare costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, and to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20,000,000 annually. The action asserts claims under three federal statutes, the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide the basis for the relief sought. Oral argument on the motion is currently scheduled for June 2000.

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

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

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

The MSA has been initially approved by trial courts in all Settling States. The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, as of March 31, 2000, in 47 jurisdictions. If final judicial approval is not obtained in a jurisdiction by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the MSA will be terminated with respect to such jurisdiction.

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

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

Liggett has no payment obligations under the MSA unless its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. Liggett believes, based on published industry sources, that its domestic shipments accounted for 1.2% of the total cigarettes shipped in the United States during 1999. In the year following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMs under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Under the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the base share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

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

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

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

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

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

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

TRIALS. In addition to the ENGLE case, cases currently scheduled for trial in 2000 include Third-Party Payor Actions brought by several Blue Cross/Blue Shield plans in federal court in New York (September), asbestos companies in Mississippi (September) and New York (July) and certain unions in New York (November). Also, one Individual Action, ANDERSON, is currently being tried in State Court in New York and two other Individual Actions are scheduled to be tried later this year. Trial dates, however, are subject to change.

Management is not able to predict the outcome of the litigation pending against Liggett. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida and the jury will now consider the award of lump sum punitive damages, if any, for the entire class. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, if necessary, 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 of loss that could result from an unfavorable outcome of many of the cases pending against Liggett, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

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

Management is unaware of any material environmental conditions affecting its existing facilities. Management believes that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise

relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

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

LEGISLATION AND REGULATION:

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

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

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. On March 21, 2000, the United States Supreme Court ruled that the FDA does not have the power to regulate tobacco. Liggett supported the FDA Rule and began to phase in compliance with certain of the proposed FDA regulations.

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

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as

\$1.66 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local level.

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

8. RELATED PARTY TRANSACTIONS

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

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

In addition, Liggett has entered into an annually renewable Corporate Services Agreement with BGLS wherein BGLS agreed to provide corporate services to the Company at an annual fee paid in monthly installments. Corporate services provided by BGLS under this agreement include the provision of administrative services related to Liggett's participation in its parent company's multi-employer benefit plan, external publication of financial results, preparation of consolidated financial statements and tax returns and such other administrative and managerial services as may be reasonably requested by Liggett. The charges for services rendered under the agreement amounted to \$960 in the first three months of 2000 and \$915 in the first three months of 1999.

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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

	March 31, 2000	December 31, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,838	\$ 3,078
Accounts receivable - trade	10,144	11,648
Inventories	21,744	18,086
Other current assets	2,507	1,066
	-----	-----
Total current assets	36,233	33,878
Property, plant and equipment, at cost, less accumulated depreciation of \$7,395 and \$5,376	117,962	116,169
Other	3,605	3,272
	-----	-----
Total assets	\$ 157,800	\$ 153,319
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Credit facilities and current portion of notes payable	\$ 44,735	\$ 39,982
Accounts payable - trade	36,166	32,412
Due to affiliates	686	394
Accrued taxes	8,106	9,483
Accrued interest	315	474
Other accrued liabilities	2,211	3,401
	-----	-----
Total current liabilities	92,219	86,146
Long-term portion of notes payable	11,645	12,578
Participating loan	39,261	37,849
Other liabilities	4,295	5,436
Commitments and contingencies		
Stockholder's equity:		
Common stock, par value \$1 per share, 701,000 shares authorized, authorized, issued and outstanding	701	701
Additional paid-in-capital	103,115	103,115
Deficit	(93,436)	(92,506)
	-----	-----
Total stockholder's equity	10,380	11,310
	-----	-----
Total liabilities and stockholder's equity	\$ 157,800	\$ 153,319
	=====	=====

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

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

	Three Months Ended	
	March 31, 2000	March 31, 1999
Net sales*	\$ 40,261	\$ 22,362
Cost of sales*	35,082	18,412
Gross profit	5,179	3,950
Operating, selling, administrative and general expenses	4,808	2,648
Operating income	371	1,302
Other income (expense):		
Interest expense	(3,537)	(3,940)
Gain on sale of assets		8,478
Gain on foreign currency exchange	1,223	2,270
Other, net	(29)	51
(Loss) income before income taxes	(1,972)	8,161
Benefit for income taxes	(1,042)	(1,717)
Net (loss) income	\$ (930)	\$ 9,878

* Net sales and Cost of goods sold include excise taxes of \$4,659 and \$1,485 for the three months ended March 31, 2000 and 1999, respectively.

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

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

	Common Stock		Additional Paid-In Capital	Deficit	Total
	Shares	Amount			
Balance, December 31, 1999.....	701,000	\$ 701	\$103,115	\$(92,506)	\$ 11,310
Net loss.....				(930)	(930)
Balance, March 31, 2000.....	701,000	\$ 701	\$103,115	\$(93,436)	\$ 10,380

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

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

	Three Months Ended	
	March 31, 2000 ----	March 31, 1999 ----
Net cash (used in) provided by operating activities	\$ (4,292)	\$ 6,646
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(2,775)	(13,248)
	-----	-----
Net cash used in investing activities	(2,775)	(13,248)
	-----	-----
Cash flows from financing activities:		
Repayments of debt	(1,241)	(79)
Borrowings under credit facilities	17,000	8,412
Repayment under credit facilities	(9,600)	
	-----	-----
Net cash provided by financing activities	6,159	8,333
	-----	-----
Effect of currency rate translation on cash	(332)	(319)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(1,240)	1,412
Cash and cash equivalents, beginning of period	3,078	2,722
	-----	-----
Cash and cash equivalents, end of period	\$ 1,838	\$ 4,134
	=====	=====

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

1. ORGANIZATION

Brooke (Overseas) Ltd. ("the Company"), a Delaware corporation, is a wholly-owned subsidiary of BGLS Inc. ("BGLS") and an indirect subsidiary of Brooke Group Ltd. ("Brooke"). The consolidated financial statements of the Company include Western Tobacco Investments LLC ("Western Tobacco Investments"), a Delaware limited liability company. Western Tobacco Investments holds the Company's 99.9% interest in Liggett-Ducat Ltd. ("Liggett-Ducat"), a Russian closed joint stock company engaged in the manufacture and sale of cigarettes in Russia, and Liggett-Ducat Tobacco Ltd., a wholly-owned subsidiary of Liggett-Ducat which recently completed construction of a new cigarette factory.

The interim consolidated financial statements of the Company are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto included as Exhibit 99.4 in Brooke's and BGLS' Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

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

Certain amounts in the 1999 consolidated financial statements have been reclassified to conform to the 2000 presentation.

2. LIQUIDITY

At March 31, 2000, the Company had a net working capital deficiency of \$55,986 which included \$44,735 of payments due over the next twelve months to third parties under credit facilities and notes payable. The Company plans to use cash flows from operating activities to fund ongoing working capital needs in 2000 and is in the process of negotiating with a number of Russian banks for revolving credit facilities that would be used to repay existing credit lines. Furthermore, the Company may request additional funding from its parent in order to meet its liquidity needs.

3. SALE OF BROOKEMIL

In connection with the sale by the Company of its 99.1% of the outstanding shares of BrookeMil Ltd. ("BrookeMil") to New Valley Corporation ("New Valley") in 1997, a portion

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of the gain was deferred in recognition of the fact that the Company's parent, BGLS, retained an interest in BrookeMil through its then 42% equity ownership of New Valley and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BrookeMil) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, \$8,478, in March 1999.

4. INVENTORIES

Inventories consist of:

	March 31, 2000	December 31, 1999
	-----	-----
Leaf tobacco	\$ 5,794	\$ 6,727
Other raw materials	6,626	4,582
Work-in-process	683	959
Finished goods	5,338	3,201
Replacement parts and supplies	3,303	2,617
	-----	-----
	\$21,744	\$18,086
	=====	=====

At March 31, 2000, the Company had leaf tobacco purchase commitments of approximately \$43,907.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	March 31, 2000	December 31, 1999
	-----	-----
Buildings	\$ 47,061	\$ 46,510
Factory machinery and equipment	66,961	64,385
Computers and software	1,347	1,343
Office furniture and equipment	1,449	1,205
Vehicles	4,120	3,839
Construction-in-progress	4,419	4,263
	-----	-----
	125,357	121,545
Less accumulated depreciation	(7,395)	(5,376)
	-----	-----
	\$ 117,962	\$ 116,169
	=====	=====

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6. CREDIT FACILITIES AND NOTES PAYABLE

Credit facilities and notes payable consist of the following:

	March 31, 2000	December 31, 1999
Notes payable	\$ 19,891	\$ 23,090
Credit facilities	36,489	29,470
Total notes payable and credit facilities	56,380	52,560
Less current portion	(44,735)	(39,982)
Amount due after one year	\$ 11,645	\$ 12,578
	=====	=====

At March 31, 2000, Liggett-Ducat had various credit facilities under which \$36,489 was outstanding. The facilities bear interest at rates of 13% to 20% per annum and expire within the next twelve months. The facilities are collateralized by the new factory building, factory equipment and tobacco inventory.

Western Tobacco Investments has entered into several contracts for the purchase of cigarette manufacturing equipment. Approximately 85% of the amount of the contracts were financed with promissory notes generally payable over a period of five years. The outstanding balance on these notes, which are denominated in various European currencies, is \$15,891 at March 31, 2000. In addition, at March 31, 2000, the Company had several short-term notes payable totaling approximately \$4,000 for additional equipment purchases. The terms of these notes ranged from four to twelve months and carried interest rates of up to 16%.

The Company paid in full a promissory note for approximately \$1,290 due March 31, 2000.

7. PARTICIPATING LOAN

In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Development") to make real estate and other investments in Russia. Western Realty Development had made a \$30,000 participating loan to Western Tobacco Investments with the proceeds used by the Company to reduce intercompany debt to BGLS and for payments on the new factory construction contracts. The loan bears no fixed interest and is payable only out of 30% of distributions made by Western Tobacco Investments to the Company. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco Investments to the Company will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. In addition, Western Realty Development is entitled to receive a 15% annual rate of return on amounts advanced under the participating loan agreement under certain circumstances in the event of a sale or refinancing of Western Tobacco Investments or the new factory. Any rights of payment on the loan are subordinate to the rights of all other creditors of the Company. For the three months ended March 31, 2000 and March

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31, 1999, the net effect of these preference requirements is recorded as interest expense of \$1,412 and \$1,002, respectively.

8. INCOME TAXES

For the three months ended March 31, 2000, the tax benefit consists of U.S. income tax benefit of \$1,042 in accordance with the Company's tax sharing agreement with Brooke. In connection with the construction of Liggett-Ducat's new cigarette factory, Liggett-Ducat has received an exemption from Russian taxes on income from certain production lines for the 2000 tax year. Such exemption may be also available in 2001 and 2002 and resulted in no provision for Russian taxes being recorded.

For the three months ended March 31, 1999, the tax benefit of \$1,717 consists of income tax benefit pursuant to Russian statutory requirements of \$485 and U.S. income tax benefit of \$1,232 in accordance with the Company's tax sharing agreement with Brooke.

9. CONTINGENCIES

BGLS Notes. BGLS has pledged its ownership interest in the Company's common stock as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes due 2001 ("BGLS Notes").

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

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

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

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

Taxation. Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant.

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