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 JUNE 30, 1999

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

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

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

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

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

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

At August 13, 1999 Brooke Group Ltd. had 20,943,730 shares of common stock outstanding, and BGLS Inc. had 100 shares of common stock outstanding, all of which are held by Brooke Group Ltd.

BROOKE GROUP LTD.
BGLS INC.

FORM 10-Q

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Item 1. Consolidated Financial Statements

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

	June 30, 1999	December 31, 1998
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 8,368	$ 7,396
Receivables from clearing brokers	13,427	
Investment securities available for sale	48,114	
Trading securities owned	11,695	
Accounts receivable - trade	12,366	15,160
Other receivables	2,200	924
Inventories	46,421	36,316
Restricted assets	3,266	
Deferred income taxes	87,983	59,613
Other current assets	8,608	3,151
Total current assets	242,448	122,560
Property, plant and equipment, net	132,603	93,504
Investment in real estate, net	92,887	
Long-term investments, net	5,762	
Investment in joint venture	49,466	
Restricted assets	8,310	
Other assets	19,056	12,918
Total assets	$ 550,532	$ 228,982
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt	$ 34,257	$ 21,176
Margin loan payable	4,853	
Accounts payable	28,680	13,880
Cash overdraft	1,250	77
Securities sold, not yet purchased	2,979	
Accrued promotional expenses	18,750	23,760
Accrued taxes payable	49,181	14,854
Accrued interest	9,389	17,189
Proceeds received for options		150,000
Other accrued liabilities	59,818	32,505
Total current liabilities	209,157	273,441
Notes payable, long-term debt and other obligations, less current portion	191,193	262,665
Noncurrent employee benefits	20,874	21,701
Deferred income taxes	132,982	
Other liabilities	68,366	65,350
Minority interests	51,793	
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 26,498,043 shares, outstanding 20,943,730 shares	2,094	2,094
Additional paid-in capital	194,788	124,120
Deficit	(288,621)	(512,182)
Accumulated other comprehensive income	(12)	24,774
Other	(4,609)	(5,508)
Less: 5,554,313 shares of common stock in treasury, at cost	(27,473)	(27,473)
Total stockholders' deficit	(123,833)	(394,175)
Total liabilities and stockholders' equity (deficit)	$ 550,532	$ 228,982

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

Item 1. Consolidated Financial Statements - (Continued)

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

	June 30, 1999	December 31, 1998
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 8,368	$ 7,396
Receivables from clearing brokers	13,427	
Investment securities available for sale	48,114	
Trading securities owned	11,695	
Accounts receivable - trade	12,366	15,160
Other receivables	2,098	755
Inventories	46,421	36,316
Restricted assets	3,266	
Deferred income taxes	87,983	59,613
Other current assets	8,187	2,946
Total current assets	241,925	122,186
Property, plant and equipment, net	132,584	93,481
Investment in real estate, net	92,887	
Long-term investments, net	5,762	
Investment in joint venture	49,466	
Restricted assets	8,310	
Other assets	17,929	11,729
Total assets	$ 548,863	$ 227,396
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt	$ 33,829	$ 20,955
Margin loan payable	4,853	
Accounts payable	28,555	13,746
Cash overdraft	1,243	63
Securities sold, not yet purchased	2,979	
Due to parent	32,543	32,394
Accrued promotional expenses	18,750	23,760
Accrued taxes payable	49,181	14,854
Accrued interest	9,389	17,188
Proceeds received from options		150,000
Other accrued liabilities	58,828	31,556
Total current liabilities	240,150	304,516
Notes payable, long-term debt and other obligations, less current portion	191,193	262,665
Noncurrent employee benefits	20,874	21,701
Deferred income taxes	132,982	
Other liabilities	70,744	69,216
Minority interests	51,793	
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	143,207	69,297
Deficit	(302,068)	(524,773)
Accumulated other comprehensive income	(12)	24,774
Total stockholder's deficit	(158,873)	(430,702)
Total liabilities and stockholder's equity (deficit)	$ 548,863	$ 227,396

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Three Months Ended		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Revenues:				
Tobacco*	$ 109,265	$ 111,262	$ 217,662	$ 196,065
Broker-dealer transactions	5,876		5,876	
Real estate leasing	754		754	
Total revenues	115,895	111,262	224,292	196,065
Expenses:				
Cost of goods sold*	40,098	51,680	81,525	93,336
Operating, selling, administrative and general expenses	62,199	46,643	107,036	82,126
Operating income	13,598	12,939	35,731	20,603
Other income (expenses):				
Interest and dividend income	672	185	732	250
Interest expense	(12,073)	(19,637)	(27,061)	(40,423)
Equity in loss of affiliate	(1,569)	(7,261)	(9,198)	(11,448)
Recognition of deferred gain on sale of assets			7,050	
Loss in joint venture	(790)		(790)	
Gain on sale of investments, net	327		327	
Sale of assets	3,984	468	4,125	1,318
Gain on brand transaction	294,287		294,287	
Other, net	405	(1,079)	2,921	(998)
Income (loss) from continuing operations before provision for income taxes and minority interests	298,841	(14,385)	308,124	(30,698)
Provision for income taxes	81,645	381	83,374	1,312
Minority interests	1,382		1,382	
Income (loss) from continuing operations	215,814	(14,766)	223,368	(32,010)
Gain on discontinued operations in equity investee, net of taxes			1,249	
Loss on extraordinary items, net of taxes	(1,056)		(1,056)	
Net income (loss)	$ 214,758	$ (14,766)	$ 223,561	$ (32,010)
Per basic common share:				
Income (loss) from continuing operations	$ 10.30	$ (0.72)	$ 10.67	$ (1.60)
Income from discontinued operations			$ 0.06	
Loss from extraordinary items	$ (0.05)		$ (0.05)	
Net income (loss) applicable to common shares	$ 10.25	$ (0.72)	$ 10.68	$ (1.60)
Basic weighted average common shares outstanding	20,943,730	20,444,353	20,943,730	19,957,412
Per diluted common share:				
Income (loss) from continuing operations	$ 8.25	$ (0.72)	$ 8.56	$ (1.60)
Income from discontinued operations			$ 0.05	
Loss from extraordinary items	$ (0.04)		$ (0.04)	
Net income (loss) applicable to common shares	$ 8.21	$ (0.72)	$ 8.57	$ (1.60)
Diluted weighted average common shares outstanding	26,167,956	20,444,353	26,094,156	19,957,412

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* Tobacco revenues and Cost of goods sold include excise taxes of $14,718, $22,427, $28,756 and $40,345, respectively.

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Three Months Ended		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Revenues:				
Tobacco*	$109,265	$111,262	$217,662	$196,065
Broker dealer transactions	5,876		5,876	
Real estate leasing	754		754	
Total revenues	115,895	111,262	224,292	196,065
Expenses:				
Cost of goods sold*	40,098	51,680	81,525	93,336
Operating, selling, administrative and general expenses	62,050	45,426	106,485	80,797
Operating income	13,747	14,156	36,282	21,932
Other income (expenses):				
Interest and dividend income	670	63	730	119
Interest expense	(13,406)	(20,738)	(29,650)	(42,562)
Equity in loss of affiliate	(1,569)	(7,261)	(9,198)	(11,448)
Recognition of deferred gain on sale of assets			8,264	
Loss in joint venture	(790)		(790)	
Gain on sale of investments, net	327		327	
Sale of assets	3,984	468	4,125	1,318
Gain on brand transaction	294,287		294,287	
Other, net	405	(1,079)	2,891	(1,001)
Income (loss) from continuing operations before provision for income taxes and minority interests	297,655	(14,391)	307,268	(31,642)
Provision for income taxes	81,645	381	83,374	1,312
Minority interests	1,382		1,382	
Income (loss) from continuing operations	214,628	(14,772)	222,512	(32,954)
Gain on discontinued operations in equity investee			1,249	
Loss on extraordinary items, net of taxes	(1,056)		(1,056)	
Net income (loss)	$213,572	$ (14,772)	$222,705	$ (32,954)

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* Tobacco revenues and cost of goods sold include excise taxes of $14,718, $22,427, $28,756 and $40,345, respectively.

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Common Stock		Additional Paid-In		Treasury		Accumulated Other Compre-hensive	
	Shares	Amount	Capital	Deficit	Stock	Other	Income	Total
Balance, December 31, 1998.....	20,943,730	$2,094	$124,120	$(512,182)	$(27,473)	$(5,508)	$ 24,774	$(394,175)
Net income.....				223,561				223,561
Unrealized loss on investment securities.....							(139)	(139)
Effect of New Valley recapitalization on other comprehensive income.....							(24,647)	(24,647)
Total other comprehensive loss.....								(24,786)
Total comprehensive income.....								198,775
Recapitalization of New Valley.....			72,926					72,926
Distributions on common stock.....			(3,104)					(3,104)
Amortization of deferred compensation.....			846			899		1,745
Balance, June 30, 1999.....	20,943,730	$2,094	$194,788	$(288,621)	$(27,473)	$(4,609)	$ (12)	$(123,833)

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

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

	Common Stock		Additional Paid-In		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income	Total
Balance, December 31, 1998	100	$	$ 69,297	$(524,773)	$ 24,774	$(430,702)
Net income				222,705		222,705
Unrealized loss on investment securities					(139)	(139)
Effect of New Valley recapitalization on other comprehensive income					(24,647)	(24,647)
Total other comprehensive loss						(24,786)
Total comprehensive income						197,919
Recapitalization of New Valley			72,926			72,926
Amortization of deferred compensation			984			984
Balance, June 30, 1999	100	$	$143,207	$(302,068)	$ (12)	$(158,873)

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Six Months Ended	
	June 30, 1999	June 30, 1998
Net cash provided by (used in) operating activities	$ 12,116	$ (17,409)
Cash flows from investing activities:		
Proceeds from sale of businesses and assets, net	5,214	1,686
Proceeds from brand transaction	145,000	
Sale or maturity of investment securities	491	
Purchase of investment securities	(2,529)	
Sale or liquidation of long-term investments	217	
Purchase of real estate	(338)	
Payment of prepetition claims	(23)	
Capital expenditures	(37,864)	(7,138)
Net cash provided by (used in) investing activities	110,168	(5,452)
Cash flows from financing activities:		
Proceeds from debt	4,976	
Repayments of debt	(142,906)	(1,068)
Borrowings under revolver	163,978	133,671
Repayments on revolver	(152,599)	(129,464)
Effect of New Valley recapitalization	9,055	
Decrease in margin loan payable	(1,147)	
Decrease (increase) in cash overdraft	1,173	(824)
Distributions on common stock	(3,210)	(3,055)
Proceeds from participating loan		20,000
Issuance of common stock		10,144
Net cash (used in) provided by financing activities	(120,680)	29,404
Effect of exchange rate changes on cash and cash equivalents	(632)	84
Net increase in cash and cash equivalents	972	6,627
Cash and cash equivalents, beginning of period	7,396	4,749
Cash and cash equivalents, end of period	$ 8,368	$ 11,376

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)

	Six Months Ended	
	June 30, 1999	June 30, 1998
Net cash provided by (used in) operating activities	$ 9,327	$ (10,298)
Cash flows from investing activities:		
Proceeds from sale of businesses and assets, net	5,214	1,686
Proceeds from brand transaction	145,000	
Sale or maturity of investment securities	491	
Purchase of investment securities	(2,529)	
Sale or liquidation of long-term investments	217	
Purchase of real estate	(338)	
Payment of prepetition claims	(23)	
Capital expenditures	(37,864)	(7,138)
Net cash provided by (used in) investing activities	110,168	(5,452)
Cash flows from financing activities:		
Proceeds from debt	4,500	
Repayments of debt	(142,858)	(1,023)
Borrowings under revolver	163,978	133,671
Repayments on revolver	(152,599)	(129,464)
Effect of New Valley recapitalization	9,055	
Decrease in margin loan payable	(1,147)	
Decrease (increase) in cash overdraft	1,180	(891)
Proceeds from participating loan		20,000
Net cash (used in) provided by financing activities	(117,891)	22,293
Effect of exchange rate changes on cash and cash equivalents	(632)	84
Net increase in cash and cash equivalents	972	6,627
Cash and cash equivalents, beginning of period	7,396	4,749
Cash and cash equivalents, end of period	$ 8,368	$ 11,376

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

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

1. PRINCIPLES OF REPORTING

The consolidated financial statements of Brooke Group Ltd. (the "Company") include the consolidated statements of its wholly-owned subsidiary, BGLS Inc. ("BGLS"). The consolidated statements of BGLS include the accounts of Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("BOL"), 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 in the investment banking and brokerage business through its ownership of Ladenburg Thalmann & Co. Inc., in the real estate development business in Russia, in the ownership and management of commercial real estate in the United States and in the acquisition of operating companies.

The interim consolidated financial statements of the Company and BGLS are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's and BGLS' consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's and BGLS' Annual Report on Form 10-K, as amended, for the year ended December 31, 1998, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

RISKS AND UNCERTAINTIES:

In 1998, the Russian Federation entered a period of economic instability which has continued in 1999. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The Company's Russian operations may be significantly affected by these factors for the foreseeable future.

USE OF ESTIMATES:

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

RECLASSIFICATIONS:

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

PROVISION FOR INCOME TAXES:

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

EARNINGS PER SHARE:

For the three and six months ended June 30, 1999, basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options and warrants (both vested and non-vested). For the three and six months ended June 30, 1998, stock options and warrants (both vested and non-vested) were excluded from the calculation of diluted per share results because their effect was accretive.

COMPREHENSIVE INCOME:

Comprehensive income is a component of stockholders' equity and includes the Company's net income and other comprehensive income, unrealized gains and losses on investment securities and minimum pension liability adjustments. For the six months ended June 30, 1999, total comprehensive income was $198,775. For the six months ended June 30, 1998, the total comprehensive loss was $21,505.

2. PHILIP MORRIS BRAND TRANSACTION

On November 20, 1998, the Company and Liggett 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 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. On December 2, 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. Liggett used the payments to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

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.

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.

The $150,000 in proceeds received from the sale of the Class A and B options was presented as a liability on the consolidated balance sheet until the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999. Upon closing, Philip Morris obtained control of Trademarks, and the Company recognized a pre-tax gain of $294,287 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".

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

Summarized financial information for New Valley for the periods ended May 31, 1999 and June 30, 1998 follows:

	Five Months Ended May 31, 1999	Six Months Ended June 30, 1998
Revenues	$ 39,452	$ 59,112
Costs and expenses	50,659	66,969
Loss from continuing operations	(10,668)	(6,719)
Gain from discontinued operations	4,100	880
Net loss applicable to common shares(A)	(44,327)	(44,429)

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

Recapitalization. On June 4, 1999, following approval by New Valley's stockholders, New Valley consummated a plan of recapitalization. Pursuant to the plan of recapitalization:

- each Class A Senior Preferred Share was reclassified into 20 Common Shares and one Warrant to purchase a Common Share at $12.50 per share exerciseable for five years,
- each Class B Preferred Share was reclassified into 1/3 of a Common Share and five Warrants, and
- each outstanding Common Share was reclassified into 1/10 of a Common Share and 3/10 of a Warrant.

The recapitalization had a significant effect on the Company's financial position and results of operations. The recapitalization resulted in the elimination of the existing redeemable preferred shares of New Valley and the on-going dividend accruals thereon, as well as the redemption obligation for the Series A Senior Preferred Shares in January 2003. The Company increased its ownership of the outstanding Common Shares of New Valley from 42.3% to 55.1%, and its total voting power from 42% to 55.1%. As a result of the increase in ownership, New Valley became a consolidated subsidiary of the Company as of June 1, 1999. In addition, the Company's equity in New Valley increased by $59,263 which, presented net of tax, is $38,331.

In connection with the sale by BOL of the common shares of BrookeMil Ltd. ("BML") to New Valley in 1997, a portion of the gain was deferred in recognition of the fact that the Company retained an interest in BML 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 BML, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, $7,050, in March 1999.

Subsequent Event. In July 1999, New Valley agreed to sell five of its shopping centers for an aggregate purchase price of $46,100 (before closing adjustments and expenses) including the assumption of $35,000 of mortgage financing. Closing of the sale is subject to completion of due diligence and other customary conditions.

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

4. PRO FORMA EFFECTS OF BRAND TRANSACTION AND NEW VALLEY RECAPITALIZATION

The following table presents unaudited pro forma results of operations as if the brand transaction and New Valley's recapitalization had occurred immediately prior to January 1, 1998. 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.

	Year Ended December 31, 1998	Six Months Ended June 30, 1999
Revenues	$467,564	$241,743
Operating income	$ 23,658	$ 15,367
Income from continuing operations	$ 6,970	$ 5,734
Net income	$ 11,235	$ 6,246
Net income per common share:		
Basic	$ 0.55	$ 0.30
Diluted	$ 0.45	$ 0.24

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 Ducat") to make real estate and other investments in Russia. New Valley agreed to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to $58,750, including the investment in Western Realty Repin discussed below.

The ownership and voting interests in Western Realty Ducat are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Ducat to the extent of its investment commitment of $40,000, of which $38,494 had been funded through June 30, 1999, together with a 15% annual rate of return. New Valley will then be entitled to a return of $20,000 of BML-related expenses incurred and cash invested by New Valley since March 1, 1997, together with a 15% annual rate of return. Subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Ducat 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 Ducat generally require the unanimous consent of the Board of Managers. Accordingly, New Valley accounts for its non-controlling interest in Western Realty Ducat using the equity method of accounting.

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

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

value of the investment and New Valley's proportionate interest in the underlying value of net assets of Western Realty Ducat. New Valley recognizes losses in its investment in Western Realty Ducat to the extent that cumulative earnings of Western Realty Ducat are not sufficient to satisfy Apollo's preferred return.

Summarized balance sheet information as of June 30, 1999 for Western Realty Ducat follows:

	June 30, 1999
Current assets	$ 4,873
Participating loan receivable	32,242
Real estate, net	85,910
Furniture and fixtures, net	169
Noncurrent assets	450
Goodwill, net	6,398
Notes payable - current	5,938
Current liabilities	5,940
Notes payable - long-term	11,561
Long-term liabilities	759
Members' equity	105,844

Western Realty Ducat has made a $30,000 participating loan to Western Tobacco Investments LLC ("Western Tobacco), which holds BOL's interest in Liggett-Ducat and the new factory constructed by Liggett-Ducat. (Refer to Note 10 for information concerning a pledge of interests in Western Tobacco.) The loan bears no fixed interest and is payable only out of 30% of distributions made by Western Tobacco to BOL. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to BOL will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of Western Tobacco. For the three and six months ended June 30, 1999, a preference requirement equal to 30% of Western Tobacco's net (loss) income of $(741) and $261, respectively, has been charged to interest expense. The loan is classified in other long-term liabilities on the consolidated balance sheet at June 30, 1999.

WESTERN REALTY REPIN LLC. In June 1998, New Valley and Apollo organized Western Realty Repin LLC to make a loan to BML. The proceeds of the loan will be used by BML 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. BML is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin sites. In May 1999, BML acquired an additional 48% interest in the second Kremlin site and the related land lease rights. BML owned 95.9% of one site and 100% of the other site at June 30, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of $18,750 together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment of $6,250, together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin 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.

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

Through June 30, 1999, Western Realty Repin has advanced $25,000, of which $18,773 was funded by Apollo, under the Western Realty Repin loan. The loan is classified in other long-term obligations on the consolidated balance sheet at June 30, 1999. The loan bears no fixed interest and is payable only out of 100% of the distributions by the entities owning the Kremlin sites to BML. 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 BML. BML 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 BML and is collateralized by a pledge of New Valley's shares of BML.

As of June 30, 1999, BML had invested $29,940 in the Kremlin sites and held $2,852, in cash, which was restricted for future investment. In acquiring its interest in one of the Kremlin sites, BML agreed with the City of Moscow to invest an additional $6,000 in 1999 (which has been funded) and $22,000 in 2000 in the development of the property. Failure to make the required investment could result in forfeiture of 34.8% interest in the site.

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 Ducat and BML. However, in light of the recent economic turmoil in Russia, no assurance can be given that such financing will be available on acceptable terms. Failure to obtain sufficient capital for the projects would force Western Realty Ducat and BML to curtail or delay the planned development of Ducat Place III and the Kremlin sites.

6. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains or losses included as a component of accumulated other comprehensive income. Investment securities available for sale totaling $48,114 at June 30, 1999 is comprised of marketable equity securities and warrants of $46,109 and notes receivable of $2,005.

7. INVENTORIES

Inventories consist of:

	June 30, 1999	December 31, 1998
Leaf tobacco	$16,139	$13,882
Other raw materials	10,871	4,629
Work-in-process	3,315	2,001
Finished goods	16,544	15,446
Replacement parts and supplies	4,556	4,130
Inventories at current cost	51,425	40,088
LIFO adjustments	(5,004)	(3,772)
	$46,421	$36,316

At June 30, 1999, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately $5,123 and $34,870, respectively.

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

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	June 30, 1999	December 31, 1998
Land and improvements	$ 416	$ 412
Buildings	5,852	5,823
Machinery and equipment	116,994	54,144
Construction-in-progress	48,526	66,981
	171,788	127,360
Less accumulated depreciation	(39,185)	(33,856)
	$132,603	$ 93,504

In May 1999, Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow and began production in June 1999. At June 30, 1999, the remaining liability under the construction contracts is $4,045 and the remaining liability under equipment purchase agreements is $21,795.

9. LONG-TERM INVESTMENTS

At June 30, 1999, long-term investments consisted primarily of investments in limited partnerships of $3,162. The Company believes the fair value of the limited partnerships exceeds their carrying amount by approximately $3,889 based on the indicated market values of the underlying investment portfolio provided by the partnerships. The Company's investments in limited partnerships are illiquid and the ultimate realization of these investments are subject to the performance of the underlying partnership and its management by the general partners.

Also included in long-term investments are various Internet-related businesses which are carried at $2,600 at June 30, 1999. These investments include an approximate 10% interest in Orchard/JFAX Investors LLC, which is the beneficial owner of 40.6% of JFAX.COM, Inc. JFAX is an Internet-based messaging and communications services provider to individuals and businesses, which completed an initial public offering in July 1999. New Valley also holds a 45% interest in Ant 21, LLC, which is engaged in the online music industry and operates the Internet site www.atomicpop.com.

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

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

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

	June 30, 1999	December 31, 1998
BGLS:		
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of $9,018 and $17,374	$ 91,159	$215,490
Deferred interest on 15.75% Series B Senior Secured Notes due 2001	23,000	24,985
New Valley:		
Notes payable	54,801	
Liggett:		
Revolving credit facility	2,958	2,538
Note payable	4,394	
BOL:		
Foreign credit facilities	22,285	11,600
Notes payable	23,753	28,057
Other	3,100	1,171
Total notes payable, long-term debt and other obligations	225,450	283,841
Less:		
Current maturities	34,257	21,176
Amount due after one year	$ 191,193	$262,665

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

On May 25, 1999, BGLS repurchased $132,687 principal amount of its 15.75% Senior Secured Notes due 2001 (the "Notes"), together with accrued interest thereon of $18,276, for a purchase price of $147,694. The purchases were made using the proceeds of the Philip Morris brand transaction which closed on May 24, 1999. The Company recognized an extraordinary loss on early extinguishment of debt primarily due to the unamortized imputed interest associated with the related Notes. At June 30, 1999, the principal amount of Notes outstanding was $100,177. Of this amount, $60,100 principal amount of the Notes are held by the holders who have agreed to defer payment of interest as discussed below. On August 6, 1999, the Company repurchased $897 principal amount of the Notes.

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 will be payable at final maturity of the Notes on January 31, 2001 or upon an event of default under the Indenture for the Notes. In connection with the agreement, the Company pledged 50.1% of Western Tobacco to collateralize the Notes held by the Apollo Holders (and any transferees).

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

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

The Notes outstanding are collateralized by substantially all of BGLS' assets, including a pledge of BGLS' equity interests in Liggett, BOL 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, through December 31, 1999, at a price of 101% of the principal amount and thereafter at 100%. Interest is payable at the rate of 15.75% per annum on January 31 and July 31 of each year.

Notes Payable - New Valley:

At June 30, 1999, New Valley's investment in real estate collateralized seven promissory notes aggregating $54,801 due 2001 related to shopping centers located throughout the United States. Each shopping center note has a term of five years, requires no principal amortization and bears interest payable monthly at the rate of 8% for the first two and one-half years and at the rate of 9% for the remainder of the term.

Revolving Credit Facility - Liggett:

Liggett entered into a revolving credit facility (the "Facility") for $40,000 with a syndicate of commercial lenders in 1994 which is collateralized by all inventories and receivables of Liggett. At June 30, 1999, $15,634 was available under the Facility based on eligible collateral. Borrowings under the Facility, whose interest is calculated at a rate equal to 1.5% above the Philadelphia National Bank's prime rate, bore a rate of 9.25% at June 30, 1999. The Facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended, imposes requirements with

respect to Liggett's permitted maximum adjusted net worth (not to fall below a deficit of $195,000 as computed in accordance with the agreement, this computation was $40,300 at June 30, 1999) and net working capital (not to fall below a deficit of $17,000 as computed in accordance with the agreement, this computation was $34,826 at June 30, 1999). The Facility expires on March 8, 2000 subject to automatic renewal for an additional year unless notice of termination is given by the lender at least 60 days prior to the anniversary date.

Equipment Loan - Liggett:

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

Foreign Loans - Liggett-Ducat:

At June 30, 1999, Liggett-Ducat had various credit facilities under which approximately $22,300 was outstanding. One facility for $10,000, which is fully utilized and bears interest at 25%, expires in May 2000. Another facility for $5,000, of which $2,500 is utilized and bears interest at 20%, expires in December 1999. The remaining facilities, denominated in rubles (approximately $9,800 at the June 30, 1999 exchange rate), have terms of six - twelve months with interest rates of 52% - 63%. The facilities are collateralized by factory equipment and tobacco inventory.

Notes Payable - BOL:

In 1997, Western Tobacco entered into several contracts for the purchase of cigarette manufacturing equipment. Approximately 85% of the contracts are being financed with promissory notes generally over a period of 5 years. The outstanding balance on these notes, which are denominated in various European currencies, is $20,386 at June 30, 1999. BOL also has issued a promissory note for $1,339 at June 30, 1999 covering deposits for equipment being purchased for the new factory. The note is due March 31, 2000.

On July 29, 1998, BOL borrowed $3,000, subsequently reduced to $2,034, from an unaffiliated third party with interest at 14% per annum. The remaining principal and interest on the loan of $1,950 was paid on August 2, 1999.

11. CONTINGENCIES

TOBACCO-RELATED LITIGATION:

OVERVIEW. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are reported hereinafter as though having been commenced against Liggett (without regard to whether such cases were actually

commenced against the Company or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into four categories: (i) smoking and health cases alleging personal injury brought on behalf of individual smokers ("Individual Actions"); (ii) smoking and health cases alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. For the six months ended June 30, 1999, Liggett incurred counsel fees and costs totaling approximately $3,001, compared to $2,562 for the comparable prior year period.

INDIVIDUAL ACTIONS. As of June 30, 1999, there were approximately 275 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to ETS and seek compensatory and, in some cases, punitive damages. Of these, 80 were pending in Florida, 91 in New York, 31 in Massachusetts and 22 in Texas. The balance of the individual cases were pending in 21 states. There are six individual cases pending where Liggett is the only named defendant.

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

In February 1999, a state court jury in San Francisco awarded $51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by 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, a state court jury in Portland awarded $80,311 in damages to the family of a deceased smoker who smoked Marlboro made by Philip Morris. The award includes $79,500 in punitive damages. The court subsequently reduced the punitive damages award to $32,000. A Notice of Appeal has been filed by Philip Morris.

CLASS ACTIONS. As of June 30, 1999, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant.

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

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

The extent of the impact of the Castano decision on tobacco-related class action litigation is still uncertain, although the decertification of the Castano class by the Fifth Circuit may preclude other federal courts from certifying a nationwide class action for trial purposes with respect to tobacco-related claims. The Castano decision has had to date, however, only limited effect with respect to courts' decisions regarding narrower tobacco-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, courts in 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 class actions were certified in state court in Florida prior to the Fifth Circuit's decision, Broin and Engle. The Castano decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

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. This case was brought by plaintiffs, on behalf of all individuals in the State of Florida, who allegedly have been injured as a result of smoking cigarettes. In July 1998, Phase I of the trial in this action commenced. (See "Subsequent Events".)

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

GOVERNMENTAL ACTIONS. As of June 30, 1999, there were approximately 20 Governmental Actions pending against Liggett. In these proceedings, the governmental entities seek reimbursement for Medicaid and other health care expenditures allegedly caused by use of tobacco products. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent

misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

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

THIRD-PARTY PAYOR ACTIONS. As of June 30, 1999, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross and Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District Courts in New York, Chicago, and Seattle and seek billions of dollars in damages. The lawsuits allege conspiracy, fraud, misrepresentation and violation of federal racketeering and antitrust laws as well as other claims. In January 1999, a federal judge in Seattle dismissed the Third-Party Payor Action brought by seven Blue Cross/Blue Shield Plans. The court ruled that the insurance providers did not have standing to bring the lawsuit. However, in February 1999, a federal judge in the Eastern District of New York denied pleas by the industry to dismiss the Third-Party Payor Action brought by 24 Blue Cross/Blue Shield Plans. Similarly, in March 1999, a federal judge in the Northern District of Illinois denied the industry's motion to dismiss.

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

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

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

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

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

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

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

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

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

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"), or 1.67% of total cigarettes sold in the United States. In the year following any year in which Liggett's market share does exceed the Base Share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMs pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

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

In March 1997, Liggett, the Company and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled Fletcher, et al. v. Brooke Group Ltd., et al., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement in Fletcher which agreement was preliminarily approved by the court in December 1998. (See "Subsequent Events".)

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

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

TRIALS. There are no trials involving the Company or Liggett scheduled for 1999, other than the Engle case. Cases currently scheduled for trial during the first six months of 2000 include a lawsuit brought by several Blue Cross/Blue Shield plans in federal court in New York (January), two asbestos company contribution lawsuits in Mississippi and New York (February), one class action in Maryland (February) and two third-party payor actions brought by unions in West Virginia (March) and New York (April). Also, three individual cases and an adequacy of warning case are currently scheduled for trial during the first six months of 2000. Trial dates, however, are subject to change.

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

In March 1996, and in each of March, July, October and December 1997, the Company and/or Liggett received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of: the health consequences of smoking cigarettes; the targeting of children by the industry; and the addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas. The Company understands that the Eastern District Investigation and the DOJ Investigation essentially have been consolidated into one investigation conducted by the DOJ. In April 1998, the Company announced that Liggett had reached an agreement with the DOJ to cooperate in both the Eastern District Investigation and the DOJ Investigation. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation. The Company and Liggett are unable, at this time, to predict the outcome of this investigation.

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

Litigation is subject to many uncertainties, and it is possible that some of the aforementioned actions could be decided unfavorably against the Company or Liggett. An unfavorable outcome of a pending smoking and

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

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

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

There are several other proceedings, lawsuits and claims pending against the Company 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 United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of ETS which concludes that ETS is a known human lung carcinogen in adults and in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest of the major domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate ETS, and that given the current body of scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's classification of ETS was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, the court ruled that the EPA made procedural and scientific mistakes when it declared in its 1993 report that secondhand smoke caused as many as 3,000 cancer deaths a year among nonsmokers. On June 6, 1999, the Fourth Circuit Court of Appeals heard oral argument in the appeal taken by the EPA from the district court order invalidating the EPA report.

In February 1996, the United States Trade representative issued an "advance notice of rule making" concerning how tobaccos imported under a previously established tobacco rate quota ("TRQ") should be allocated. Currently, tobacco imported under the TRQ is allocated on a "first-come, first-served" basis, meaning that entry is allowed on an open basis to those first requesting entry in the quota year. Others in the cigarette industry have suggested an "end-user licensing" system under which the

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

In August 1996, the FDA filed in the Federal Register a Final Rule (the "FDA Rule") classifying tobacco as a drug, asserting jurisdiction by the FDA over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The Fourth Circuit reversed the district court on appeal and in August 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. In April 1999, the Supreme Court granted certiorari to review the Fourth Circuit's decision that the FDA does not have the authority to regulate access to, and labeling of, tobacco products. The Company and Liggett support the FDA Rule and have begun to phase in compliance with certain of the proposed interim FDA regulations. See discussions of the Castano and Governmental Actions settlements above.

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

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

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

OTHER MATTERS:

In March 1997, a shareholder derivative suit was filed against New Valley, as a nominal defendant, its directors and the Company in the Delaware Chancery Court, by a shareholder of New Valley. The suit alleges that New Valley's purchase in January 1997 of the BML shares from BOL constituted a self-dealing transaction which involved the payment of excessive consideration by New Valley. The plaintiff seeks (i) a declaration that New Valley's directors breached their fiduciary duties, the Company aided and abetted such breaches and such parties are therefore liable to New Valley, and (ii) unspecified damages to be awarded to New Valley. The Company's and New Valley's time to respond to the complaint has not yet expired. The Company and New Valley believe that the allegations are without merit. Although there can be no

assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

SUBSEQUENT EVENTS: On July 2, 1999, a purported class action was commenced on behalf of New Valley's former Class B preferred shareholders against New Valley, the Company and certain directors and officers of New Valley in Delaware Chancery Court. The complaint alleges that the recapitalization, approved by a majority of each class of New Valley's stockholders in May 1999, was fundamentally unfair to the Class B preferred shareholders, the proxy statement relating to the recapitalization was materially deficient and the defendants breached their fiduciary duties to the Class B preferred shareholders in approving the transaction. The plaintiffs seek class certification of the action and an award of unspecified compensatory damages as well as all costs and fees. The Company and New Valley believe that the allegations are without merit. Although there can be no assurances, the Company 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 July 7, 1999, the jury in the Engle matter returned a verdict in Phase I of the trial finding that smoking causes various diseases and is addictive and finding the defendants liable on various tort and warranty claims. Additionally, the jury found that the class may be entitled to punitive damages from the defendants. It is expected that the defendants will appeal the Phase I liability verdict. The court has decided that Phase II of the trial will commence September 7, 1999, with a causation and damages trial for two of the class representatives and a punitive damages trial on a class-wide basis. 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. On August 2, 1999, the companies filed a motion to disqualify the trial judge. On August 5, 1999, the trial judge denied the motion.

On July 22, 1999, the Circuit Court of Mobile County, Alabama denied approval of the Fletcher class action settlement.

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

12. SEGMENT INFORMATION

Financial information for the Company's continuing operations before taxes and minority interest for the three and six months ended June 30, 1999 and 1998 follows:

	United States Tobacco	Russia Tobacco	Broker-Dealer*	Real Estate*	Corporate and Other*	Total
Three Months Ended June 30, 1999:						
Net revenues	$ 93,926	$15,339	$ 5,876	$ 754	$	$115,895
Operating income (loss)	16,146	(807)	(107)	(371)	(1,263)	13,598
Depreciation and amortization	965	429	80	168	103	1,745
Capital expenditures	603	17,317			327	18,247
Three Months Ended June 30, 1998:						
Net revenues	$ 83,398	$27,864			$	$111,262
Operating income (loss)	8,895	7,018			(2,974)	12,939
Depreciation and amortization	1,708				10	1,718
Capital expenditures	341	6,092			310	6,743
Six Months Ended June 30, 1999:						
Net revenues	$179,973	$37,689	$ 5,876	$ 754	$	$224,292
Operating income (loss)	36,215	568	(107)	(371)	(574)	35,731
Identifiable assets	102,650	133,130	44,390	100,360	170,002	550,532
Depreciation and amortization	1,820	1,182	80	168	151	3,401
Capital expenditures	6,972	30,565			327	37,864
Six Months Ended June 30, 1998:						
Net revenues	$149,024	$47,041			$	$196,065
Operating income (loss)	15,146	8,728			(3,271)	20,603
Identifiable assets	66,322	57,055			21,796	145,173
Depreciation and amortization	3,293	159			168	3,620
Capital expenditures	694	6,444				7,138

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* Broker-Dealer, Real Estate and New Valley's portion of Corporate and Other are included for the month ended June 30, 1999 when New Valley became a consolidated subsidiary of the Company.

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%.

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 and real estate operations in Russia and the United States through its majority-owned subsidiary New Valley.

RECENT DEVELOPMENTS

MASTER SETTLEMENT AGREEMENT. On November 23, 1998, Liggett and the four largest U.S. cigarette manufacturers, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation, R. J. Reynolds Tobacco Company and Lorillard Tobacco Company, entered into the Master Settlement Agreement with 46 states, the District of Columbia, Puerto Rico and various other territories to settle their asserted and unasserted health care cost recovery and certain other claims caused by cigarette smoking.

Pursuant to the Master Settlement Agreement, Liggett has no payment obligation unless its market share exceeds 125% of its 1997 domestic market share, or 1.67% of total cigarettes sold in the United States. In the year following any year in which Liggett's market share exceeds 1.67%, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during the year by the four original participating manufacturers pursuant to the annual and strategic contribution payments provided for under the Master Settlement Agreement. Under the Master Settlement Agreement terms, the original participating manufacturers (and Liggett to the extent its market share exceeds 1.67%) will make annual payments based on relative unit volume of domestic cigarette shipments.

PHILIP MORRIS BRAND TRANSACTION. On November 20, 1998, the Company and Liggett granted Philip Morris options to purchase interests in Trademarks LLC which holds three 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 LLC interests, the Class A and the Class B interests. Philip Morris acquired two options to purchase the interests from Eve. On December 2, 1998, Philip Morris paid Eve a total of $150,000 for the options. Liggett used the payments to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

On May 24, 1999, Philip Morris paid Eve $10,100 upon exercise of the option to purchase the Class A interest and Trademarks borrowed $134,900, the proceeds of which were distributed to Eve. These proceeds were used to retire a portion of BGLS' Senior Secured Notes. Financial information related to these three brands, which represented approximately one-half of Liggett's premium brand sales, are reflected in the Company's financial statements through May 21, 1999.

CIGARETTE PRICING ACTIVITY. During 1998, the major cigarette manufacturers, including Liggett, announced list price increases of $6.35 per carton. This included an increase of $4.50 per carton announced by the industry in December following the signing of the Master Settlement Agreement.

NEW LIGGETT-DUCAT FACTORY. During the second quarter of 1999, Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow. This factory uses Western cigarette making technology and has a capacity of approximately 35 billion cigarettes per year. Production began at the new factory in June 1999.

NEW VALLEY RECAPITALIZATION. On June 4, 1999, following approval by New Valley's stockholders, New Valley consummated a plan of recapitalization. Under the recapitalization, New Valley's outstanding preferred and common shares were exchanged for new common shares and warrants. As a result of the recapitalization, the Company increased its ownership from approximately 42.3% of New Valley's outstanding common shares to 55.1%. New Valley became a consolidated subsidiary of the Company as of June 1, 1999. In addition, the Company's equity in New Valley increased by $59,263($38,331, net of taxes). Prior to the recapitalization, the Company had accounted for its investment in New Valley's common shares using the equity method and its New Valley preferred shares were classified as available for sale and carried at fair value.

NEW VALLEY SHOPPING CENTERS. In July 1999, New Valley agreed to sell five of its shopping centers for an aggregate purchase price of $46,100 (before closing adjustments and expenses) including the assumption of $35,000 of mortgage financing. Closing of the sale is subject to completion of due diligence and other customary conditions.

RECENT DEVELOPMENTS IN LEGISLATION, REGULATION AND LITIGATION

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of June 30, 1999, there were approximately 275 individual suits, 50 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. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. Recently, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency 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 11 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. The Company accrued approximately $4,000 for the present value of the fixed payments under the March 1996 Attorneys General settlements and $16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of the Company's treatment under the Master Settlement Agreement, $14,928 of net charges accrued for the prior settlements were reversed in 1998. See the discussions of the tobacco litigation settlements appearing in Note 11 to the Company's Consolidated Financial Statements.

RESULTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(Dollars in Thousands)			
Net revenues:				
Liggett	$ 93,926	$ 83,398	$179,973	$149,024
Liggett-Ducat	15,339	27,864	37,689	47,041
Total tobacco	109,265	111,262	217,662	196,065
*Broker-dealer	5,876		5,876	
*Real estate	754		754	
Total revenues	115,895	111,262	224,292	196,065
Operating income:				
Liggett	16,146	8,895	36,215	15,146
Liggett-Ducat	(807)	7,018	568	8,728
Total tobacco	15,339	15,913	36,783	23,874
*Broker-dealer	(107)		(107)	
*Real estate	(371)		(371)	
Corporate and other	(1,263)	(2,974)	(574)	(3,271)
Total operating income	$ 13,598	$ 12,939	$ 35,731	$ 20,603

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* New Valley became a consolidated subsidiary on June 1, 1999. Results of operations are included for the month ended June 30, 1999.

Three Months Ended June 30, 1999 Compared to Three Months Ended June 30, 1998

Revenues. Total revenues were $115,895 for the three months ended June 30, 1999 compared to $111,262 for the three months ended June 30, 1998. This 4.2% increase in revenues was due to a $10,528 or 12.6% increase in revenues at Liggett and the addition of one month's revenues from New Valley of $6,630 offset by a decrease in revenues of $12,525 at Liggett-Ducat. The decline in Liggett-Ducat's revenues was due primarily to the closing of its old factory in March 1999 and the temporary halt in production in connection with the move to its new factory which became operational in mid-June 1999.

Tobacco Revenues. Total tobacco revenues were $109,265 for the three months ended June 30, 1999 compared to $111,262 for the three months ended June 30, 1998. This 1.8% decrease in revenues was primarily due to a decline in tobacco revenues at Liggett-Ducat of $12,525 offset by an increase at Liggett of $10,528. Revenues at Liggett increased in both the premium and discount segments by 12.6% ($10,528) due to price increases of $30,189 (see "Recent Developments-Cigarette Pricing Activity"), partially offset by a 22.2% decline in unit sales volume (approximately 332.1 million units), accounting for $18,535 in volume variance and an unfavorable product mix of $1,126. The decline in Liggett's unit sales volume was due primarily to an overall decline in industry volume, certain competitors continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers and, to a lesser degree, the closing of the Philip Morris brand transaction on May 24, 1999.

Premium sales at Liggett for the second quarter of 1999 amounted to $23,297 and represented 24.8% of Liggett's total sales, compared to $26,994 and 32.4% of total sales in the second quarter of 1998. Premium revenues declined by 13.7% ($3,697) for the three months ended June 30, 1999, compared to the prior year period, due, in part, to the overall industry decline and also to the contribution of the three premium brands, Lark, Chesterfield and L & M, to Trademarks LLC on May 24, 1999 which accounts in part for an unfavorable volume variance of $10,688 reflecting a 39.6% decline in unit sales volume (approximately 158.7 million units), which was partially offset by price increases of $6,991.

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 June 30, 1999 amounted to $70,629 and represented 75.2% of Liggett's total sales, compared to $56,404 and 67.6% of total sales for the three months ended June 30, 1998. In the discount segment, revenues grew by 25.2% ($14,225) for the three months ended June 30, 1999 compared to the prior year period, due to price increases of $23,198, which were partially offset by a 15.8% decline in unit sales volume (approximately 173.4 million units), accounting for $8,944 in volume variance and an unfavorable product mix among the discount brand categories of $29.

For the three months ended June 30, 1999, fixed manufacturing costs at Liggett were $1,068 higher than in the same period 1998, with an increase in costs per thousand units of $1.59 per thousand due to the impact of lower volumes on fixed costs.

Net tobacco revenues at Liggett-Ducat for the three months ended June 30, 1999 decreased 45.0% over the same period in 1998 due to a 26.9% decrease in unit sales volume ($7,484) and an 18.6% decrease in prices ($5,189), slightly offset by a small favorable product mix ($148). The decline in sales volume was due in large part to the temporary halt in production in connection with the move to the new factory.

Tobacco Gross Profit. Tobacco consolidated gross profit was $69,167 for the three months ended June 30, 1999 compared to $59,582 for the three months ended June 30, 1998, an increase of $9,585 or 16.1% when compared to the same period last year, reflecting an increase in gross profit at Liggett of $16,146 offset by a decrease at Liggett-Ducat of $6,561 for the three months ended June 30, 1999 compared to the same period in the prior year. For the three months ended June 30, 1999, Liggett's premium brands contributed 24.8% and discount brands contributed 71.5% to the Company's gross profit. Liggett-Ducat contributed 3.7%. Over the same period in 1998, Liggett's premium brands contributed 29.6%, Liggett's discount brands contributed 55.0% and Liggett-Ducat contributed 15.4% to the Company's gross profit.

Gross profit at Liggett of $66,462 for the three months ended June 30, 1999 increased $16,146 from gross profit of $50,316 for the second quarter of 1998, due primarily to the price increases discussed above. (See "Recent Developments-Cigarette Pricing Activity".) In the second quarter of 1999,

Liggett's premium and discount brands contributed 25.8% and 74.2%, respectively, to Liggett's gross profit. Over the same period in 1998, Liggett's premium and discount brands contributed 35.0% and 65.0%, respectively, to Liggett's gross profit. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 82.7% for the three months ended June 30, 1999 compared to 76.5% for the same period in 1998, with gross profit for the premium segment at 84.0% in the 1999 period compared to 79.4% in the 1998 period. Gross profit for the discount segment was 82.3% for the three months ended June 30, 1999 and 75.1% for the three months ended June 30, 1998. This increase is primarily the result of the 1998 list price increases.

As a percent of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat decreased to 17.9% for the three months ended June 30, 1999 compared to 39.6% in the same period in 1998, primarily due to lower prices and lower sales volumes coinciding with the move to the new factory.

Broker-Dealer and Real Estate Revenues. For the month ended June 30, 1999, Ladenburg's revenues were $5,876 and real estate revenues were $754.

Expenses. Operating, selling, general and administrative expenses were $62,199 for the three months ended June 30, 1999 compared to $46,643 for the same period last year, an increase of $15,556 due primarily to increased expenses at Liggett of $8,895, an increase of $1,265 at Liggett-Ducat and an increase of $7,392 caused by consolidation of New Valley, which was not a consolidated subsidiary during the prior year. The increase in operating expenses at Liggett was due primarily to higher spending for promotional and marketing programs. The increase at Liggett-Ducat was primarily due to increased administrative costs relating to the completion of the new factory. These expenses were primarily offset by reduction in amortization expenses and decreased systems development costs.

Other Income (Expenses). For the three months ended June 30, 1999, Liggett recognized a gain of $294,287 in connection with the closing of the Philip Morris brand transaction. In addition, New Valley recognized a gain of $3,801 on the sale of substantially all of Thinking Machines' assets.

Interest expense was $12,073 for the three months ended June 30, 1999 compared to $19,637 for the same period last year. This decrease of $7,564 was primarily due to a savings of $6,943 because of the redemption by Liggett of its Senior Secured Notes on December 28, 1998 and lower interest expense of approximately $1,690 at corporate due to the retirement of debt in May 1999. This was offset by higher interest expense at BOL of $259 primarily due to increased interest rates on credit facilities in Russia and the addition of $784 interest expense of New Valley.

Equity in earnings of affiliate was a loss of $1,569 for the two months ended May 31, 1999 compared to a loss of $7,261 for the three months ended June 30, 1998 and relates in both periods to New Valley's net loss applicable to common shares of $20,525 and $25,754, respectively.

Income tax expense for the second quarter of 1999 was $81,645 compared to $381 for the second quarter of 1998. The effective tax rate for the three months ended June 30, 1998 does not bear a customary relationship to pre-tax accounting income principally as a consequence of the change in the valuation allowance relating to deferred tax assets and foreign taxes.

Six Months Ended June 30, 1999 Compared to Six Months Ended June 30, 1998

Revenues. Total revenues were $224,292 for the six months ended June 30, 1999 compared to $196,065 for the six months ended June 30, 1998. This 14.4% increase in revenues was due to a $30,949 or 20.8% increase in revenues

at Liggett and the addition of one month's revenues from New Valley of $6,630 offset by a decrease in revenues of $9,352 at Liggett-Ducat due primarily to the temporary halt in production in connection with the move to the new factory.

Tobacco Revenues. Tobacco revenues at Liggett increased for both the premium and discount segments due to price increases of $60,570 (see "Recent Developments-Cigarette Pricing Activity") partially offset by an 18.6% ($27,692) decline in unit sales volume (approximately 510.0 million units) and $1,929 in unfavorable sales mix. The decline in Liggett's unit sales volume was due to an overall decline in industry volume, certain competitors continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers. Also contributing to the decline in the premium segment was the closing of the Philip Morris brand transaction on May 24, 1999. The decrease in tobacco revenues at Liggett-Ducat is attributable to decreased prices of $10,115 and a minor volume variance slightly offset by a favorable product mix of $906 compared to the prior year period. Liggett-Ducat's sales volume during the 1999 period was adversely affected by the move to the new factory and price declines in Russia, following the continued decline in the value of the ruble.

Premium sales at Liggett for the six months ended June 30, 1999 amounted to $48,663 and represented 27.0% of total Liggett sales, compared to $49,932 and 33.5% of total sales for the same period in 1998. In the premium segment, revenues declined by 2.5% ($1,269) over the six months ended June 30, 1999, compared to the same period in 1998, due to an unfavorable volume variance of $16,375, reflecting a 32.8% decline in unit sales volume (approximately 249.6 million units), which was partially offset by price increases of $15,106.

Liggett's discount sales over the six month period amounted to $131,310 and represented 73.0% of total Liggett sales, compared to $99,092 and 66.5% of total Liggett sales for the same period in 1998. In the discount segment, revenues grew by 32.5% ($32,218) over the six months ended June 30, 1999 compared to the same period in 1998, due to price increases of $45,464, partially offset by a 13.1% decline in unit sales volume (approximately 260.4 million units) accounting for $13,010 in volume variance and an unfavorable product mix of $236. For the six months ended June 30, 1999, fixed manufacturing costs on a basis comparable to the same period in 1998 were $937 higher, with an increase in costs per thousand units of $0.80 per thousand due to the impact of lower volumes on fixed costs.

Tobacco Gross Profit. Gross profit was $135,837 for the six months ended June 30, 1999 compared to $102,397 for the six months ended June 30, 1998, an increase of $33,440 or 32.7% when compared to the same period last year, due primarily to price increases at Liggett offset by the price declines at Liggett-Ducat discussed above. Liggett's premium brands contributed 26.8% to the Company's gross profit, the discount segment contributed 68.4% and Liggett-Ducat contributed 4.8% for the six months ended June 30, 1999. Over the same period in 1998, Liggett's premium brands contributed 12.4%, the discount segment contributed 55.9% and Liggett-Ducat contributed 31.7%.

Liggett's gross profit of $129,344 for the six months ended June 30, 1999 increased $39,590 from gross profit of $89,754 for the same period in 1998, due primarily to the price increases discussed above. In 1999, Liggett's premium brands contributed 28.1% and Liggett's discount brands contributed 71.9% to Liggett's overall gross profit. Over the same period in 1998, Liggett's premium brands contributed 36.2% and Liggett's discount brands contributed 63.8% to Liggett's gross profit. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 84.1% for the six months ended June 30, 1999 compared to 77.0% for the same period in 1998, with gross profit for the premium segment at 85.3% and 79.6% in the six months ended June 30 of 1999 and 1998, respectively, and gross profit for the discount segment at 83.6% and 75.6% in 1999 and 1998, respectively. This increase is primarily the result of the 1998 list price increases.

As a percentage of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat decreased to 18.5% for the six months ended June 30, 1999 compared to 32.44% in the same period in 1998, due to lower prices and reduced volume in connection with the move to the new factory.

Broker-Dealer and Real Estate Revenues. New Valley's broker-dealer revenues were $5,876 and real estate revenues were $754 for the month ended June 30, 1999.

Expenses. Operating, selling, general and administrative expenses were $107,036 for the six months ended June 30, 1999 compared to $82,126 for the prior year period. The increase of $24,910 is due primarily to an $18,045 increase at Liggett and additional expenses of $7,392 as a result of the consolidation of New Valley. The increase in operating expenses at Liggett was due primarily to higher spending for promotional and marketing programs.

Other Income (Expenses). For the six months ended June 30, 1999, Liggett recognized a gain of $294,287 in connection with the closing of the Philip Morris brand transaction. In addition, New Valley recognized a gain of $3,801 on the sale of substantially all of Thinking Machines' assets.

Interest expense was $27,061 for the six months ended June 30, 1999 compared to $40,423 for the same period in the prior year. The decrease of $13,662 is largely due to a saving of $13,319 because of the redemption by Liggett of its Senior Secured Notes on December 28, 1998, and a savings of $2,501 at BGLS due to the repurchase of a portion of BGLS' Senior Secured Notes. This was offset by additional interest expense at Liggett-Ducat of $1,689 and interest at New Valley of $784.

Equity in earnings of affiliate was a loss of $9,198 for the five months ended May 31, 1999 compared to a loss of $11,488 for the six months ended June 30, 1998 and relates in both periods to New Valley's net loss applicable to common shares of $44,326 and $44,429, respectively.

Income tax expense for the six months ended June 30, 1999 was $83,374 compared to $1,312 for the six months ended June 30, 1998. The effective tax rate does not bear a customary relationship to pre-tax accounting income principally as a consequence of the change in the valuation allowance relating to deferred tax assets and foreign taxes.

CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents increased $972 for the six months ended June 30, 1999 and increased $6,627 for the six months ended June 30, 1998. Net cash provided by operations for the six months ended June 30, 1999 was $12,116 compared to net cash used in operations of $17,409 for the comparable period of 1998. The increase of $29,525 in net cash provided by operating activities in 1999 over the prior year was primarily due to an increase in operating income at Liggett, a reduction in debt service, resulting primarily from Liggett's note redemption on December 28, 1998, an increase in deferred interest expense at BGLS and an increase in accrued liabilities. In the 1998 period, cash payments included interest payments by BGLS and Liggett of approximately $28,800. In addition, increases in inventories and receivables were partially offset by increases in payables and in other long-term liabilities.

Cash provided by investing activities of $110,168 compares to cash used of $5,452 for the periods ended June 30, 1999 and 1998, respectively. For the six months ended June 30, 1999, the majority of the proceeds were from the purchase of the Class A option by Philip Morris in May 1999 and loan proceeds which Trademarks borrowed and distributed to Eve. In the 1999 period, these proceeds were partially offset by capital expenditures for machinery and

equipment at Liggett of $6,972 and equipment and construction costs for the new factory of $30,565 at Liggett-Ducat. Other payments made principally pertained to broker-dealer transactions and real estate at New Valley. In 1998, capital expenditures at Liggett of $694 and $6,444 at Liggett-Ducat were partially offset by proceeds from the sale of equipment.

Cash used in financing activities was $120,680 for the six months ended June 30, 1999 as compared with cash provided of $29,404 for the six months ended June 30, 1998. Cash was used in the 1999 period to retire the BGLS Senior Secured Notes in the amount of $142,584. Cash was also used in 1999 to decrease the margin loan at New Valley and for distributions on the Company's common stock. Net borrowings under the revolving credit facilities were $11,379, of which $420 is attributable to Liggett and $10,959 is attributable to Liggett-Ducat. Proceeds included $4,976 of equipment financing and the effect of the New Valley recapitalization. Proceeds in the 1998 period included $20,000 from a participating loan made by Western Realty Ducat, $10,144 from the issuance of stock and net borrowings under revolving credit facilities at both Liggett and Liggett-Ducat of $4,207. These proceeds were offset primarily by distributions on common stock of $3,055 and repayments on debt of $1,068.

Liggett. On December 28, 1998, Liggett redeemed the $144,891 principal amount of the Liggett Notes at 100% of the principal amount together with accrued interest. Proceeds of $150,000 from the purchase by Philip Morris of two options to purchase interests in the entity which acquired the three brands of Eve were used to fund the redemption.

The closing of the exercise by Philip Morris of the Class A option occurred on May 24, 1999. Upon closing, Liggett received $145,000 from the purchase of the Class A interest and the distribution of certain loan proceeds by the entity to Eve, which guaranteed the loan.

Liggett has a $40,000 credit facility under which $2,958 was outstanding at June 30, 1999. Availability under the facility was approximately $15,634 based on eligible collateral at June 30, 1999. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.5% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 9.25% at June 30, 1999. The facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below a deficit of $195,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of $17,000 as computed in accordance with the agreement). At June 30, 1999, Liggett was in compliance with all covenants under the facility; Liggett's adjusted net worth was $40,300 and net working capital was $34,826, as computed in accordance with the agreement. The facility expires on March 8, 2000 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 January 1999, Liggett purchased equipment for $5,750 and borrowed $4,500 to fund the purchase from a third party. The loan, which is collateralized by the equipment, is payable in 60 monthly installments of $56 including annual interest of 7.6% with a final payment of $2,550.

On May 28, 1999, a newly formed entity owned by Liggett signed an agreement to purchase an industrial facility for $8.4 million in Mebane, North Carolina. Liggett plans to relocate its tobacco manufacturing operations to the new facility. Liggett is currently seeking financing for the purchase, which is subject to the completion of due diligence and other customary conditions.

Liggett (and, in certain cases, the Company) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that

they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke (environmental tobacco smoke) from cigarettes. The Company believes, and has been so advised by counsel handling the respective cases, that the Company and Liggett have a number of valid defenses to claims asserted against them. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Recently, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither the Company nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See Note 11 to the Company's Consolidated Financial Statements.

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

BGLS. On May 25, 1999, BGLS repurchased $132,687 principal amount of its 15.75% Senior Secured Notes due 2001 (the "Notes"), together with accrued interest thereon of $18,276, for a discounted purchase price of $147,694. The purchases were made using the proceeds of the Philip Morris brand transaction which closed on May 24, 1999.

At June 30, 1999, BGLS had outstanding $100,177 principal amount of the BGLS Notes which mature on January 31, 2001. Of this amount, $60,100 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 a total of $23,000 of deferred interest outstanding as of June 30, 1999.

On August 6, 1999, the Company repurchased an additional $897 principal amount of the BGLS Notes together with accrued interest thereon. BGLS and its subsidiaries may, from time to time, based on current market conditions, purchase additional BGLS Notes in the open market or in privately negotiated transactions.

BOL. Liggett-Ducat has recently 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 of approximately 35 billion units per year, will produce American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Ducat has made a $30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat and the new factory. In addition, BOL has entered into promissory notes for equipment purchases which have a liability of approximately $21,795 at June 30, 1999. The Company is a guarantor on purchases for which the remaining obligation is approximately $8,500. The remaining costs for construction and equipment for the new factory are being financed by loans from Russian banks and approximately $13,000 of loans from BOL made during the first half of 1999.

The Company. The Company has substantial near-term consolidated debt service requirements, with aggregate required principal payments of approximately $220,500 due in the years 1999 through 2001. The Company believes that it will continue to meet its liquidity requirements through 1999, although the BGLS Notes Indenture limits the amount of restricted payments BGLS is permitted to make to the Company during the calendar year. At June 30, 1999,

the remaining amount available through December 31, 1999 in the Restricted Payment Basket related to BGLS' payment of dividends to the Company (as defined by the BGLS Notes Indenture) is $19,982. Corporate expenditures (exclusive of Liggett, BOL and New Valley) over the next twelve months for current operations include cash interest expense of approximately $5,250, dividends on the Company's shares (currently at an annual rate of approximately $6,300) and corporate expenses. The Company 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

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

Russia. Liggett-Ducat's, Western Tobacco's, BrookeMil Ltd.'s and Western Realty Ducat's operations are conducted in Russia. During 1998, the economy of the Russian Federation entered a period of economic instability which has continued in 1999. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The Company seeks to minimize such risks by reducing its cash exposure when appropriate. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The Company'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 June 30, 1999 with fair values of $11,695 in long positions and $2,979 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 June 30, 1999 will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

New Valley held investment securities available for sale totaling $48,114 at June 30, 1999. Approximately 43% of these securities represent an investment in RJ Reynolds Tobacco Holdings and Nabisco Group Holdings, which are defendants in numerous tobacco products-related litigation, claims and proceedings. An adverse outcome in any of these proceedings against these companies 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, FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company has not yet determined the impact that the adoption of SFAS 133 will have on its earnings or statement of financial position.

YEAR 2000 COSTS

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

The Company, New Valley and Liggett-Ducat. The Company, 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, the Company, New Valley and Liggett-Ducat believe they are Year 2000 compliant.

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

finished goods inventory system are expected to be completed in September 1999. It is anticipated that all factory, corporate, field sales and physical distribution systems will be completed in sufficient time to support Year 2000 compliance and verification.

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

Ladenburg. Ladenburg has recently completed a plan to address Year 2000 compliance. Ladenburg's plan addresses external interfaces with third party computer systems necessary in the broker-dealer industry. It also addresses internal operations software necessary to continue operations on a daily basis. Ladenburg believes that all phases of its Year 2000 plan have been completed and cost approximately $650. The cost was inclusive of hardware and software upgrades and replacements as well as consulting. All costs were incurred by July 1999. Ladenburg completed the contingency planning phase in May 1999.

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act"), including any statements that may be contained in the foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to 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 Reform Act, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company. Liggett continues to be subject to risk factors endemic to the domestic tobacco industry including, without limitation, health concerns

relating to the use of tobacco products and exposure to environmental tobacco smoke, the effects of legislative actions, including tax increases, governmental regulation and privately imposed smoking restrictions, decline in consumption, governmental and grand jury investigations and litigation. Each of the Company's operating subsidiaries, namely Liggett and Liggett-Ducat, are subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Furthermore, the performance of Liggett-Ducat's, BrookeMil's and Western Realty Ducat's operations in Russia are affected by uncertainties in Russia which include, among others, political or diplomatic developments, regional tensions, currency repatriation restrictions, foreign exchange fluctuations, inflation, and an undeveloped system of commercial laws and legislative reform relating to foreign ownership in Russia. In addition, the Company has a high degree of leverage and substantial near-term debt service requirements, as well as a net worth deficiency. The Indenture for the BGLS Notes provides for, among other things, the restriction of certain affiliated transactions between the Company and its affiliates, as well as for certain restrictions on the use of future distributions received from New Valley. The failure of the Company or its significant suppliers and customers, especially Ladenburg's clearing agent, to adequately address the "Year 2000" issue could result in misstatement of reported financial information or could adversely affect its business. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 11, 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 the Company and/or BGLS or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending material legal proceedings to which the Company, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of the Company and its subsidiaries without charge upon written request to the Company at its principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn. Investor Relations.

Item 2. Changes in Securities and Use of Proceeds

No securities of the Company which were not registered under the Securities Act of 1933, as amended, have been issued or sold by the Company during the three months ended June 30, 1999.

Item 3. Defaults Upon Senior Securities

On June 4, 1999, New Valley consummated a recapitalization under which its outstanding Class A Senior Preferred Shares, Class B Preferred Shares and Common Shares were exchanged for new Common Shares and warrants. As a result of the recapitalization, all accrued and unpaid dividends on the preferred shares were eliminated.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

* 10.1 Amended and Restated Limited Liability Company Agreement (Second Restatement) dated as of February 20, 1998 by and among Western Realty Development LLC, New Valley, BrookeMil Ltd. ("BML") and Apollo Real Estate Investment Fund III, L.P. ("Apollo") (incorporated by reference to Exhibit 10.1 in New Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Commission File No. 1-2493).

* 10.2 Limited Liability Company Agreement, dated as of June 18, 1998, by and among Western Realty Repin LLC, Apollo and New Valley (incorporated by reference to Exhibit 10.3 in New Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Commission File No. 1-2493).

* 10.3	Participating Loan Agreement, dated as of June 18, 1998, by and between Western Realty Repin LLC and BML (incorporated by reference to Exhibit 10.4 in New Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, Commission File No. 1-2493).
10.4	Amended and Restated Formation and Limited Liability Company Agreement of Trademarks LLC, dated as of May 24, 1999, among the Company, Liggett & Myers Inc., Eve Holdings Inc. ("Eve"), Liggett and Philip Morris Incorporated, including the form of Trademark License Agreement.
10.5	Pledge Agreement dated as of May 24, 1999 from Eve, as grantor, in favor of Citibank, N.A., as agent.
10.6	Guaranty dated as of June 10, 1999 from Eve, as guarantor, in favor of Citibank, N.A., as agent.
* 10.7	Sale-Purchase Agreement, dated as of September 2, 1998, by and between New Valley and PW/MS OP Sub I, LLC (incorporated by reference to Exhibit 2.1 in New Valley's Current Report on Form 8-K dated September 28, 1998, Commission File No. 1-2493).
10.8	Employment Agreement dated as of August 1, 1999, between the Company and Joselynn D. Van Siclen.
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 June 30, 1999 and 1998.
* 99.3	New Valley Corporation's Interim Consolidated Financial Statements for the quarterly periods ended June 30, 1999 and 1998 (incorporated by reference to New Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, Commission File No. 1-2493).
99.4	Brooke (Overseas) Ltd.'s Interim Consolidated Financial Statements for the quarterly periods ended June 30, 1999 and 1998.

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*Incorporated by reference

(b) Reports on Form 8-K

The Company filed the following Report on Form 8-K during the second quarter of 1999:

DATE	ITEMS	FINANCIAL STATEMENTS
May 26, 1999	5	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: August 16, 1999

BGLS INC.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice president and Chief
Financial Officer

Date: August 16, 1999

EXHIBIT 10.4

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AMENDED AND RESTATED

FORMATION AND

LIMITED LIABILITY COMPANY AGREEMENT

OF

TRADEMARKS LLC

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ARTICLE XIX

AMENDMENTS

AMENDED AND RESTATED FORMATION AND LIMITED LIABILITY COMPANY AGREEMENT OF TRADEMARKS LLC

This Amended and Restated Formation and Limited Liability Company Agreement (this "Agreement") of Trademarks LLC (formerly known as Brands LLC) (the "Company"), dated as of May 24, 1999, is entered into among Brooke Group Ltd., a Delaware corporation ("Brooke"), Liggett & Myers Inc., a Delaware corporation ("LMI"), Eve Holdings Inc., a Delaware corporation ("Eve"), Liggett Group Inc., a Delaware corporation ("Liggett", and, together with Brooke, Eve and LMI, the "Liggett Parties"), and Philip Morris Incorporated, a Virginia corporation ("PM" and, together with the Liggett Parties, the "Parties").

WHEREAS, the Parties, intending to form the Company for purposes of the transactions described herein, entered into a Formation and Limited Liability Company Agreement of Brands LLC dated as of January 12, 1999 (the "Original Agreement");

WHEREAS, Eve desires to contribute the Marks to the Company in exchange for 100% of the Class A Shares and 100% of the Class B Shares of the Company;

WHEREAS, concurrently with the execution of the Original Agreement, the Liggett Parties and PM executed the Class A Option Agreement and the Class B Option Agreement pursuant to which Eve granted to PM an option to purchase the Class A Shares and Class B Shares, respectively;

WHEREAS, if PM exercises the Class A Option, the Company and PM will enter into the License Agreement, pursuant to which PM and its Affiliates will receive an exclusive, domestic license of the Marks;

WHEREAS, the Parties wish to amend and restate the Original Agreement in its entirety;

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members hereby agree to form a limited liability company pursuant to and in accordance with the Delaware Limited Liability Company Act (6 Del. C. ss. 18-101, et seq.), as amended from time to time (the "Delaware Act"), as provided herein, and hereby agree as follows:

ARTICLE I

DEFINED TERMS

Section 1.1 Definitions. Unless the context otherwise requires, the terms defined in this Article I shall, for the purposes of this Agreement, have the meanings herein specified.

"Adjusted Capital Account Deficit" shall mean, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts which such Member is deemed to be obligated to restore pursuant to the penultimate sentence of either of Treasury Regulation ss.ss. 1.704-2(g)(1) or 1.704-2(i)(5); and

(b) Debit to such Capital Account the items described in Treasury Regulation ss.ss. 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6).

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulation ss. 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Affiliate" shall mean, with respect to any Person, any direct or indirect subsidiary of such Person, any other Person that directly or through one or more intermediaries, is controlled by, or is under common control with, the specified Person, and, if such a Person is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person who is controlled by any such member or trust. As used in this definition, the term "control" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise. Notwithstanding the foregoing, for purposes of this Agreement (i) the Liggett Parties and their Subsidiaries shall not be deemed to be Affiliates of PM, and (ii) PM and its Subsidiaries (including the Company) shall not be deemed to be Affiliates of the Liggett Parties.

"Agreement" shall have the meaning set forth in the recitals hereof. The Members hereby agree that this Agreement shall constitute a "limited liability company agreement" for purposes of the Delaware Act.

"Assign" shall mean to, directly or indirectly, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any Shares (and "Assignment" shall mean such an act).

"Brands" shall mean the "Lark," "Chesterfield" and "L&M" brands produced by the Liggett Parties.

"Brooke" shall have the meaning set forth in the preamble hereof.

"Capital Account" shall mean, with respect to any Member and any Share, the account maintained for such Member and such Share in accordance with the provisions of Section 9.3 hereof.

"Capital Contribution" shall mean, with respect to any Member and any Share, the aggregate amount of cash and the initial Gross Asset Value of any property (other than cash)

contributed to the Company pursuant to Section 9.1 hereof with respect to such Share, net of any liabilities of such Member that are assumed by the Company in connection with such contribution or that are secured by property so contributed, and shall include the initial Capital Contribution and any subsequent Capital Contribution.

"Certificate" shall mean the Certificate of Formation of the Company and any and all amendments thereto and restatements thereof filed on behalf of the Company with the office of the Secretary of State of the State of Delaware pursuant to the Delaware Act.

"Claims" shall have the meaning in Section 2.9 of this Agreement.

"Class A Exercise Price" shall have the meaning in Section 2.3 of the Class A Option Agreement.

"Class B Exercise Price" shall have the meaning in Section 2.3 of the Class B Option Agreement.

"Class A Member" shall mean a permitted holder of a Class A Share pursuant to this Agreement, in its capacity as a member of the Company.

"Class B Member" shall mean a permitted holder of a Class B Share pursuant to this Agreement, in its capacity as a member of the Company.

"Class A Option Agreement" shall mean that certain option agreement, dated as the date hereof, pursuant to which PM (or its designee) may purchase from the Liggett Parties the Class A Shares owned by the Liggett Parties and their Affiliates. Such right to purchase the Class A Shares is the "Class A Option".

"Class B Option Agreement" shall mean that certain option agreement, dated as of the date hereof, pursuant to which PM (or its designee) may purchase from the Liggett Parties the Class B Shares owned by the Liggett Parties and their Affiliates. Such right to purchase the Class B Shares is the "Class B Option".

"Class A Option Consideration" shall have the meaning set forth in Section 2.1 of the Class A Option Agreement.

"Class B Option Consideration" shall have the meaning set forth in Section 2.1 of the Class B Option Agreement.

"Class A Share" and "Class B Share" shall have the respective meanings set forth in Section 7.4 hereof.

"Closing" shall have the meaning set forth in Section 2.7(a).

"Closing Date" shall mean the date on which the Closing occurs.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any corresponding United States federal tax statute enacted after the date of this Agree-

ment. A reference to a specific section (ss.) of the Code refers not only to such specific section but also to any corresponding provision of any United States federal tax statute enacted after the date of this Agreement, as such specific section or corresponding provision is in effect on the date of application of the provisions of this Agreement containing such reference.

"Company" shall have the meaning set forth in the preamble hereto.

"Company Minimum Gain" shall have the meaning given the term "partnership minimum gain" in Treasury Regulation ss. 1.704-2(b)(2) and shall be computed in accordance with Treasury Regulation ss. 1.704-2(d).

"Covered Person" shall mean the Manager or any Officer or director of the Company or its Affiliates (and any officer, employee or director of the Manager or its Affiliates who acts on behalf of the Manager in its capacity as such).

"Delaware Act" shall have the meaning set forth in the preamble hereof.

"Depreciation" shall mean, for each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such Fiscal Year or other period; provided, however, that, if the Gross Asset Value of an asset differs from its adjusted basis for United States federal income tax purposes at the beginning of such Fiscal Year or other period, Depreciation shall be an amount that bears the same ratio to such beginning Gross Asset Value as the United States federal income tax depreciation, amortization or other cost recovery deduction with respect to such asset for such Fiscal Year or other period bears to such beginning adjusted tax basis; and provided, further, that if the United States federal income tax depreciation, amortization or other cost recovery deduction for such Fiscal Year or other period is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Manager.

"Distributions" shall mean distributions of cash or other property made by the Company with respect to the Class A Shares or the Class B Shares. Distributions shall not mean payments of cash or other property to holders of Shares for reasons other than their ownership of such Shares.

"Economic Risk of Loss" shall have the meaning set forth in Treasury Regulation ss. 1.752-2.

"Eve" shall have the meaning set forth in the preamble hereof.

"Fiscal Year" shall mean (a) the period commencing upon the date of this Agreement and ending on December 31, 1999, (b) any subsequent twelve-month period commencing on January 1 and ending on December 31, (c) any other twelve-month period required by the Code or the Treasury Regulations to be used as the taxable year of the Company or (d) any portion of the periods described in clauses (a), (b) or (c) of this sentence for which the Company is required to allocate Profits, Losses and other items of Company income, gain, loss or deduction pursuant to Article X hereof.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"Governmental Entity" has the meaning set forth in Section 3.2 of this Agreement.

"Gross Asset Value" means, with respect to any asset, such asset's adjusted basis for United States federal income tax purposes, except as follows:

(a) the initial Gross Asset Value of the Marks shall be as set forth on Schedule A hereto, and of any other asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the Manager;

(b) the Gross Asset Value of all Company assets shall be adjusted to equal their respective gross fair market values (taking ss. 7701(g) of the Code into account), as determined by the Manager, as of the following times: (i) immediately prior to the acquisition of an additional Share in the Company by any new or existing Member in exchange for more than a de minimis Capital Contribution; (ii) immediately prior to the distribution by the Company to a Member of more than a de minimis amount of Company assets in redemption of a Share in the Company; and (iii) the liquidation of the Company within the meaning of Treasury Regulation ss. 1.704-1(b)(2)(ii)(g);

(c) the Gross Asset Value of any Company asset distributed to any Member shall be the gross fair market value (taking ss. 7701(g) of the Code into account) of such asset on the date of distribution, as determined by the Manager; and

(d) the Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to ss. 734(b) or ss. 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Treasury Regulation ss. 1.704-1(b)(2)(iv)(m) and subparagraph (f) of the definition of "Profits" and "Losses" or Section 10.5(e) hereof; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) to the extent that an adjustment pursuant to subparagraph (b) is required in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to paragraph (a), paragraph (b) or paragraph (d) above, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

"Guarantors" shall mean the guarantors of the Company's obligations under the Loan Agreement.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended.

"HSR Clearance" means expiration or termination of the waiting period under the HSR Act with respect to the filings made in connection with the exercise of the Class A Option.

"Indemnified Parties" shall have the meaning set forth in Section 2.9.

"LMI" shall have the meaning set forth in the preamble hereof.

"License Agreement" shall mean that certain license agreement attached hereto as Exhibit A, dated as of the Closing Date, between the Company and PM pursuant to which PM and its Affiliates will obtain the exclusive (including with respect to the Company) license to use the Marks in the United States (as defined in the License Agreement).

"Liens" shall have the meaning set forth in Section 3.3.

"Liggett" and "Liggett Parties" shall have the respective meanings set forth in the preamble hereof.

"Loan Agreement" shall mean the loan agreement entered into between the Company and the lending institutions named therein, with respect to the Loan Amount, which borrowing shall be guaranteed by Eve or such other entity designated by the Liggett Parties which has received the Option Consideration and by any other holder of Class B Shares (such entities are referred to herein as the Guarantors).

"Loan Amount" shall mean $134.9 million or, if less, the maximum amount that the Company is able to borrow in the circumstances described in Section 5.2 hereof.

"Manager" shall have the meaning set forth in Section 8.2 hereof.

"Marks" shall mean all of the interest of the Liggett Parties and any Affiliate of any Liggett Party in all trademarks, trade names, trade dress, service marks, registrations and applications for registrations therefor, in each case relating to "Lark," "Chesterfield" and "L&M" brands, including any variation or product line extension thereof and any derivative pertaining thereto, but shall not include the rights retained by the Liggett Parties pursuant to Section 5.7 hereof.

"Member" shall mean any Person named as a member of the Company on Schedule A hereto (which is incorporated herein by reference), as it may be amended from time

to time, who acquires a Share pursuant to the provisions of this Agreement, in its capacity as a member of the Company. For purposes of the Delaware Act, the Members shall constitute two (2) separate classes or groups of members, referred to as Class A Members and Class B Members, and there are no separate classes or groups of members other than the Class A Members and the Class B Members. A Person who ceases to own any Shares shall cease to be a Member.

"Member Minimum Gain" means an amount, with respect to each Member Nonrecourse Liability, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt was treated as a Nonrecourse Liability, determined in accordance with Treasury Regulation ss. 1.704-2(i)(3).

"Member Nonrecourse Debt" has the same meaning as the term "member nonrecourse debt" in Treasury Regulation ss. 1.704-2(b)(4).

"Member Nonrecourse Deductions" has, with respect to a Member, the same meaning as the "partner nonrecourse deductions" in Treasury Regulation ss.ss. 1.704-2(i)(1) and 1.704-2(i)(2).

"Member Nonrecourse Liability" has, with respect to a Member, the same meaning as the term "partner nonrecourse debt" or "partner nonrecourse liability" in Treasury Regulation ss. 1.704-2(b)(4).

"Nonrecourse Deductions" has the meaning set forth in Treasury Regulation ss. 1.704-2(b)(3).

"Notice of Exercise" shall have the meaning set forth in Section 2.5 of the Class A Option Agreement.

"Officers" means those Persons, if any, appointed by the Manager to manage the day-to-day affairs of the Company pursuant to Section 8.3 hereof.

"Option Agreements" means the Class A Option Agreement and the Class B Option Agreement.

"Option Consideration" means the sum of the Class A Option Consideration and the Class B Option Consideration.

"PM" shall have the meaning set forth in the preamble hereof.

"Permitted Assignee" shall have the meaning set forth in Section 2.2(d) of the Class A Option Agreement.

"Person" includes any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

"Profits" and "Losses" means, for each Fiscal Year, an amount equal to the Company's taxable income or loss for such Fiscal Year, determined in accordance with ss. 703(a) of the Code (but including in taxable income or loss, for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to ss. 703(a)(1) of the Code), with the following adjustments:

(a) any income of the Company exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

(b) any expenditures of the Company described in ss. 705(a)(2)(B) of the Code (or treated as expenditures described in ss. 705(a)(2)(B) of the Code pursuant to Treasury Regulation ss. 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be subtracted from such taxable income or loss;

(c) in the event the Gross Asset Value of any Company asset is adjusted in accordance with paragraph (b) or paragraph (c) of the definition of "Gross Asset Value" above, the amount of such adjustment shall be taken into account as gain (if the adjustment increases the Gross Asset Value of an asset) or loss (if the adjustment decreases the Gross Asset Value of an asset) from the disposition of such asset for purposes of computing Profits or Losses;

(d) gain or loss resulting from any disposition of any asset of the Company with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(e) in lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of "Depreciation";

(f) to the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code ss. 734(b) is required, pursuant to Treasury Regulation ss. 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses; and

(g) any items of income, gain, loss or deduction specially allocated under Section 10.5 shall be excluded.

"Put Option" shall have the meaning set forth in Section 9.6.

"Put Period" shall have the meaning set forth in Section 9.6.

"Redemption Price" shall have the meaning set forth in Section 9.5(b).

"Regulatory Allocations" shall have the meaning set forth in Section 10.6.

"Share" shall mean a unit of limited liability company interest owned by a Member in the Company which represents, in respect of any Class A Share or Class B Share, all the interest in the Company granted to such class of Members under the provisions of this Agreement and the Delaware Act, including, but not limited to, a right to allocations of the Profits and Losses of the Company, a right to participate in certain voting and/or management rights and a right to receive distributions as provided in Articles XI and XVII hereof, in each case in accordance with the provisions of this Agreement and the Delaware Act.

"Subsidiaries" shall mean, with respect to any Person, any other Person in which such Person owns, directly or indirectly, 50% or more of the voting interests.

"Tax Matters Partner" shall have the meaning set forth in Section 13.1(a) hereof.

"Total Voting Power" means the total number of votes represented by the Class A Shares, with each Class A Share entitled to one vote.

"Trade Loading" shall mean selling to any supplier or distributor more inventory than such supplier or distributor can reasonably be expected to sell in the ordinary course.

"Treasury Regulations" means the income tax regulations, including temporary regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

Section 1.2 Headings. The headings and subheadings in this Agreement are included for convenience and identification only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

ARTICLE II

FORMATION AND TERM; CLOSING

Section 2.1 Formation. (a) Subject to, and effective upon, the filing of the Certificate with the Office of the Secretary of State of the State of Delaware as provided in Section 2.3, the Members hereby form the Company as a limited liability company under and pursuant to the provisions of the Delaware Act, and agree that the rights, duties and liabilities of the Members shall be as provided in the Delaware Act, except as otherwise provided herein.

(b) Brooke and PM, acting jointly, by their respective duly authorized officers, are hereby designated as authorized persons, within the meaning of the Delaware Act, to jointly execute, deliver and file, or cause the execution, delivery and filing of the Certificate. The Manager is hereby designated as an authorized person, within the meaning of the Delaware Act, to execute, deliver and file, or cause the execution, delivery and filing of, all other certificates, notices or other instruments (and any amendments and/or restatements thereof) required or

permitted by the Delaware Act to be filed in the office of the Secretary of State of Delaware and any other certificates, notices or other instruments (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.

Section 2.2 Name. The name of the Company shall be "Trademarks LLC."

Section 2.3 Term. The term of the Company shall commence on the date the Certificate is filed in the office of the Secretary of State of the State of Delaware, which shall be as soon as practicable after HSR Clearance is received, and shall continue perpetually unless the Company is dissolved pursuant to Section 17.2, which dissolution shall be carried out pursuant to the Delaware Act and the provisions of this Agreement.

Section 2.4 Registered Agent and Office. The Company's registered agent and office in Delaware shall be The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle.

Section 2.5 Principal Place of Business. The principal place of business of the Company shall be in New York or such other location as the Manager may designate from time to time and embody in a writing to be filed with the records of the Company.

Section 2.6 Qualification in Other Jurisdictions. The Manager shall cause the Company to be qualified, formed or registered under assumed or fictitious name statutes or similar laws in any jurisdiction in which the Company transacts business and such qualification, formation or registration is necessary or appropriate for the transaction of such business.

Section 2.7 Closing. (a) Subject to the conditions set forth herein, the closing of the transactions contemplated by this Section (the "Closing") shall take place at the offices of Wachtell, Lipton, Rosen & Katz at 10:00 a.m. on a date that is set forth in the Notice of Exercise delivered by PM pursuant to the Class A Option Agreement. In the event that PM is not obligated to, and does not, exercise the Class A Option and deliver the related Notice of Exercise, the Closing shall not occur. The completion of all transactions described in this Section shall be deemed to occur simultaneously, and the Closing shall not be deemed to have occurred until all such transactions have been completed; except that the transaction described in item (viii) of Section 2.7(b) shall occur immediately after the events described in items (i)-(vii).

(b) At the Closing, the following transactions shall occur and circumstances shall exist:

(i) Eve will sell, transfer, convey and assign to the Company, as a contribution to the capital of the Company, all right, title and interest in and to the Marks, together with that part of the goodwill of the business connected with the use of and symbolized by the Marks (the "Associated Goodwill"), pursuant to the Assignment Agreement, a form of which is attached as Exhibit B hereto, such assignment to result in the capital account allocations set forth on Schedule A hereto. In connection with the execution of the Assignment Agreement, Eve shall acquire all of the Class A Shares and Class B Shares of the Company as set forth on Schedule A hereto.

(ii) Neither the Company nor PM or any of their respective Affiliates shall assume any past, present or future liabilities of any nature, express or implied, whether or not contingent, relating to the Marks or the Brands and arising from production, sales, marketing, consumption or use of or exposure to any product or any activity or omission of the Liggett Parties and their Affiliates prior to the Closing. Neither the Company's nor PM's acquisition, registration or enforcement of the Marks, or any "goodwill" or other intangible asset attributable to the Marks, shall be deemed an assumption, express or implied, of any liability excluded under this paragraph or indemnified under Section 2.9.

(iii) The Company shall acquire from the Liggett Parties only the Marks and the Associated Goodwill, and shall not acquire any assets other than the Marks and the Associated Goodwill.

(iv) The Company shall have no other equity or voting interests of any kind, and no rights to acquire any such interests, outstanding (other than as contemplated by this Agreement, the Class A Option Agreement and the Class B Option Agreement).

(v) PM and the Company shall execute the License Agreement in the form attached as Exhibit A hereto.

(vi) The Company and the lending institutions shall enter into (or have entered into) the Loan Agreement and the Company shall borrow the Loan Amount.

(vii) The Company shall distribute to the Liggett Parties holding the Class B Shares as distributions on such Shares the proceeds of the borrowing under the Loan Agreement, and the Class B Exercise Price shall be reduced by the aggregate amount of such distributions.

(viii) PM or any Permitted Assignee under the Class A Option Agreement shall purchase all of the Class A Shares from the Liggett Parties for the Class A Exercise Price, and the Liggett Parties shall deliver such Class A Shares, free and clear of any Liens whatsoever.

(ix) The Parties shall take such other actions and execute such other documents as may be reasonably appropriate or necessary to effect the transactions described in clauses (i) through (viii).

Notwithstanding the foregoing and for the avoidance of doubt, the inability of the Company to enter into the Loan Agreement or obtain the Loan Amount (and therefore the non-occurrence of the distributions described in clause (vii)) will not interfere with or otherwise delay the consummation of the other transactions contemplated by this Section. In the event such events do not occur at the Closing, the Parties shall use their reasonable best efforts to cause the Loan Agreement to be entered into, the Loan Amount to be borrowed and the distributions contemplated by clause (vii) to occur as promptly as practicable following the Closing Date.

Section 2.8 Conditions to Closing.

(a) Exercise of Class A Option. PM shall exercise, or be obligated to exercise the Class A Option, as provided in the Class A Option Agreement.

(b) Representations, Warranties and Covenants of the Liggett Parties. The representations and warranties of the Liggett Parties made in this Agreement shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and the Liggett Parties shall have performed or complied in all material respects with the obligations and covenants required by this Agreement to be performed or complied with by the Liggett Parties by the time of the Closing; the Liggett Parties shall have delivered to PM a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

(c) Representations, Warranties and Covenants of PM. The representations and warranties of PM made in this Agreement shall be true and correct in all material respects as of the date hereof and, except as specifically contemplated by this Agreement, on and as of the Closing Date, as though made on and as of the Closing Date, and PM shall have performed or complied in all material respects with the obligations and covenants required by this Agreement be performed or complied with by it by the time of the Closing; PM shall have delivered to the Liggett Parties a certificate dated the Closing Date and signed by an authorized officer confirming the foregoing.

(d) Satisfaction of Conditions in the Class A Option Agreement. The obligations of PM under this Agreement are subject to the satisfaction of the conditions set forth in Article VIII of the Class A Option Agreement and the obligations of the Liggett Parties under this Agreement are subject to the satisfaction of the conditions set forth in Article VII of the Class A Option Agreement.

(e) Letter Agreement. Neither PM nor any of the Liggett Parties shall have breached any of its material obligations under paragraph 9 of that certain letter agreement dated November 20,1998 between PM and the Liggett Parties, which obligations shall survive the execution of this Agreement and the Closing.

(f) Waiver of Conditions. The conditions in Section 2.8(b) and 2.8(e) (with respect to the obligations of the Liggett Parties) and Article VIII of the Class A Option Agreement are for the sole benefit of PM and may be waived by PM, and the conditions in 2.8(c) and 2.8(e) (with respect to PM's obligations) and Article VII of the Class A Option Agreement are for the sole benefit of the Liggett Parties and may be waived by the Liggett Parties.

Section 2.9 Liggett Parties' Indemnification Obligation. The Liggett Parties jointly and severally shall indemnify and hold harmless the Company, PM, their respective Affiliates, officers, directors, employees, agents and representatives (collectively, the "Indemnified Parties") from and against any and all claims, actions, suits, demands, assessments, judgments, losses, liabilities, damages, costs and expenses (including without limitation, penalties, attorneys' fees and accounting fees and investigation costs) (collectively, "Claims") that may be incurred by the Indemnified Parties resulting or arising from or related to, or

incurred in connection with, (i) the liabilities described in Section 2.7(b)(ii), none of which are being assumed by the Company, (ii) the failure by the Liggett Parties to transfer the Marks as provided in Section 2.7(b)(i), and (iii) any failure to comply with the limitations set forth in Section 2.7(b)(iii) regarding any other assets of the Liggett Parties other than the Marks. The rights of the Indemnified Parties to indemnification as set forth in this Section shall be in addition to, and not in limitation of, any other remedies they may have, whether in law or equity, and shall survive any termination of this Agreement or termination or dissolution of the Company.

Section 2.10 Reasonable Best Efforts. Each of the Parties agrees to use its reasonable best efforts to cause the conditions to the Closing to be satisfied; provided, however, that, subject to the terms and conditions of the License Agreement, PM shall not be required to agree to divest or hold separate any brand, product, business or assets or to take or agree to take any action that limits its freedom of action with respect to, or its ability to retain, any of the Marks or any brand, product, business or other asset of PM or its Affiliates.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE LIGGETT PARTIES

Each of the Liggett Parties hereby jointly and severally represents and warrants to PM as follows:

Section 3.1 Corporate Authority. Each of the Liggett Parties is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each Liggett Party has all requisite corporate power and authority to enter into this Agreement, the Class A Option Agreement and the Class B Option Agreement (collectively, the "Transaction Agreements") and to consummate the transactions contemplated thereby. All corporate acts and other proceedings required to be taken by each Liggett Party to authorize the execution, delivery and performance of each of the Transaction Agreements and the consummation of the transactions contemplated thereby have been duly and properly taken. The Transaction Agreements have been duly executed and delivered by each Liggett Party, and each such agreement constitutes the legal, valid and binding obligations of each Liggett Party, enforceable against each Liggett Party in accordance with its terms.

Section 3.2 No Conflict; Required Filings and Consents. The execution and delivery of each of the Transaction Agreements by each Liggett Party, the consummation by each Liggett Party of the transactions contemplated thereby and compliance by each Liggett Party with all of the provisions of each of the Transaction Agreements to which it is a party will not (i) conflict with or violate the certificate of incorporation or by-laws of any Liggett Party or any comparable organizational documents, (ii) conflict with or violate any statute, ordinance, rule, regulation, order, judgment or decree applicable to any Liggett Party, or by which any of them or any of their respective properties or assets are bound, encumbered or affected, or (iii) result in a violation or breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in any loss of any material benefit to, or result in increased, additional, accelerated or guaranteed rights or entitlements of any person

under, or the creation of any Lien on any of the Marks pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which any Liggett Party is a party or by which any of the Marks are bound or affected. None of the execution and delivery of any of the Transaction Agreements by any Liggett Party, the consummation by each Liggett Party of the transactions contemplated thereby or compliance by each Liggett Party with any of the provisions of any of the Transaction Agreements to which it is a party will require any consent, waiver, approval, authorization or permit of, license, or registration or filing with, or notification to any government or subdivision thereof, domestic, foreign or supranational or any administrative, governmental or regulatory authority, agency, commission, tribunal or body, domestic, foreign or supranational (a "Governmental Entity"), except for (i) the filing of the Certificate pursuant to the Delaware Act and (ii) compliance with the HSR Act.

Section 3.3 Intellectual Property. At the Closing, the Company will own and have the right in the United States (as defined in the License Agreement) to use, execute, reproduce, display, modify, enhance, distribute, prepare derivative works of and license the Marks without payment to any other person and the consummation of the transactions contemplated by the Transaction Agreements will not conflict with, alter or impair such right. Other than the Transaction Agreements and the License Agreement, none of the Liggett Parties or any of their respective Subsidiaries has granted any options, licenses or agreements of any kind relating to the Marks or the marketing or distribution thereof. At the Closing, the Company will hold the Marks free and clear of the claims of others and of all liens, claims, charges, security interests, options or other legal or equitable encumbrances or restrictions whatsoever (any of the foregoing, a "Lien"). The present use of the Marks by the Liggett Parties and their Subsidiaries does not violate, conflict with or infringe the intellectual property of any other person or entity. No claims are pending, or to the best knowledge of any of the Liggett Parties, threatened, by any person with respect to the ownership, validity, enforceability, effectiveness or use of the Marks, and during the past three years, none of the Liggett Parties has received any communications alleging that any of the Liggett Parties or any of their Subsidiaries through their use of the Marks has violated any rights relating to the intellectual property of any person or entity. None of the Liggett Parties will retain any interest whatsoever in the Marks except for its ownership of the Class A Shares and the Class B Shares, subject to the exercise of the Class A Option and the exercise of the Class B Option.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PM

PM hereby represents and warrants to the Liggett Parties as follows:

Section 4.1 Corporate Authority. PM is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia. PM has all requisite corporate power and authority to enter into each of Transaction Agreements and the License Agreement and to consummate the transactions contemplated thereby. All corporate acts and other proceedings required to be taken by PM to authorize the execution, delivery and performance of the Transaction Agreements and the License Agreement and the consummation of the transactions contemplated thereby have been duly and properly taken. The Transaction

Agreements have been, and, when executed and delivered, the License Agreement will have been, duly executed and delivered by PM, and each such agreement, once executed and delivered, does and will constitute the legal, valid and binding obligations of PM, enforceable against it in accordance with its terms.

Section 4.2 No Conflict; Required Filings and Consents. The execution and delivery of each of the Transaction Agreements and the License Agreement by PM, the consummation by PM of the transactions contemplated thereby and compliance by PM with all of the provisions of each of the Transaction Agreements and the License Agreement will not (i) conflict with or violate the certificate of incorporation or by-laws of PM, (ii) conflict with or violate any statute, ordinance, rule, regulation, order, judgment or decree applicable to PM, or by which it or any of its properties or assets are bound, encumbered or affected, or (iii) result in a violation or breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in any loss of any material benefit to, or result in increased, additional, accelerated or guaranteed rights or entitlements of any person under, or the creation of any Lien on any of the property or assets of PM pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which PM is a party or by which any of its properties are bound or affected. None of the execution and delivery of any of the Transaction Agreements and the License Agreement by PM, the consummation by PM of the transactions contemplated thereby or compliance by PM with any of the provisions of any of the Transaction Agreements and the License Agreement will require any consent, waiver, approval, authorization or permit of, license, or registration or filing with, or notification to Governmental Entity, except for (i) the filing of the Certificate pursuant to the Delaware Act and (ii) compliance with the HSR Act.

ARTICLE V

COVENANTS

Section 5.1 Activities of Liggett Relating to the Brands. Prior to the Closing, the Liggett Parties may only sell inventory related to the Marks in the normal course and may not engage in any Trade Loading with respect to the Marks. Promptly after the Closing, the Liggett Parties shall destroy any inventory of finished goods related to the Brands, as well as all point-of-sale, packaging, advertising and marketing materials related to the Brands.

Section 5.2 Loan Agreement. PM, the Liggett Parties and the Company shall use their respective reasonable best efforts to enable the Company to obtain the Loan Amount; provided, however, that PM shall not be required pursuant to the foregoing to directly or indirectly guarantee or subsidize the obtaining of the Loan Amount. In connection with the cooperation contemplated by this Section 5.2, PM shall consent to the pledge by the Company of the Marks and of the Company's interest in the License Agreement to the lenders under the Loan Agreement, and the Liggett Parties shall (or shall cause the holder thereof to) pledge all of the Class B Shares (including the put right set forth in Section 9.6 hereof) to such lenders. PM shall use its reasonable best efforts, which shall include, if required, confirming the continuation of the guarantee of Philip Morris Companies Inc. of PM's obligations under the License Agreement, to cause the Company to cause the indebtedness represented by the Loan Amount (including any

extension or refinancing of the indebtedness incurred under the Loan Agreement) to remain outstanding until the earlier of (a) the day on which the Class B Option becomes exercisable and (b) the first day on which the Class B Shares are no longer owned by the Liggett Parties or their Affiliates; provided, however, that the Company may repay such indebtedness if (i) as a result of developments subsequent to the date hereof, there is no reasonable basis to conclude that there will be any material benefit to the Liggett Parties of having such indebtedness remain outstanding or (ii) Eve has taken any action to repudiate its obligation as a Guarantor.

Section 5.3 HSR Clearance. The Parties shall comply with the covenants set forth in Sections 5.1 and 6.1 of the Option Agreements regarding obtaining HSR Clearance and any other Governmental Filings.

Section 5.4 Tax Basis of Marks. The Liggett Parties shall provide the Company with such information as it may reasonably request concerning the basis of the Marks for federal income tax purposes.

Section 5.5 Access to Information. Prior to the Closing, the Liggett Parties shall, and shall cause each of their respective Subsidiaries to, give PM and its representatives, employees, counsel and accountants full access, during normal business hours and upon reasonable notice, to the employees, agents, independent contractors, properties, books and records relating to the Marks, only to the extent, in the reasonable judgment of counsel, permitted by law, including antitrust law, and provided that the Liggett Parties and their Subsidiaries shall not be obligated to make any disclosure which would cause forfeiture of attorney-client privilege. The Liggett Parties shall notify PM in writing if any disclosure is withheld in order to avoid such forfeiture. No investigation pursuant to this Section shall affect or be deemed to affect any representation or warranty made by the Liggett Parties. PM agrees that all information received pursuant to this Section shall be kept confidential and PM shall not disclose such information to any third party unless required to do so by applicable law.

Section 5.6 Representations and Warranties. Each of the Parties shall give written notice to the other Party promptly upon the occurrence of any event that would cause or constitute a material breach or would have caused a material breach, had such event occurred or been known to it prior to the date hereof, of any of its representations or warranties contained in any of the Transaction Agreements.

Section 5.7 Retention of Certain Trademarks, etc. (a) PM and the Company each acknowledge that the Liggett Parties shall continue to own in the United States (as defined in the License Agreement) all right, title and interest in, to and under the "LIGGETT," "MYERS" and "LIGGETT & MYERS" trademarks, trade names, service marks, Internet domain names or any similar electronic designation, and all registrations and applications for registration therefor, provided, however, that any use by the Liggett Parties of "LIGGETT & MYERS" as a trademark shall be subject to the consent of PM or the Company, which consent shall not be unreasonably withheld or delayed so long as such use does not encroach upon the prior trade dress, type style or logo associated with the "L&M" Mark. Neither PM nor the Company shall use or register any trademarks, service marks, trade dress, trade names, Internet domain names or any similar electronic designation that is the same as or confusingly similar to "LIGGETT," "MYERS" or "LIGGETT & MYERS." None of the Liggett Parties shall use or register any

trademarks, service marks, trade dress, trade names, Internet domain names or any similar electronic designation that is the same as or confusingly similar to "L&M," "LARK" or "CHESTERFIELD."

(b) Except as set forth in the proviso to the first sentence of Section 5.7(a), neither PM nor the Company, nor any of their respective Affiliates shall (i) take any action, or permit any Affiliate to take any action, which (x) is inconsistent with the ownership rights of the Liggett Parties in, to and under the "LIGGETT," "MYERS" or "LIGGETT & MYERS" marks or (y) will impair the ownership, validity, enforceability, effectiveness or use of the "LIGGETT," "MYERS" or "LIGGETT & MYERS" marks, or (ii) challenge the ownership, validity, enforceability, effectiveness or use of the "LIGGETT," "MYERS" or "LIGGETT & MYERS" marks.

ARTICLE VI

PURPOSE AND POWERS OF THE COMPANY

Section 6.1 Purpose. The Company is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Delaware Act.

Section 6.2 Powers of the Company. The Company shall have the power and authority to take any and all actions necessary, appropriate, proper, advisable, incidental or convenient to or for the furtherance of the purpose set forth in Section 6.1.

Section 6.3 Other Authority. Notwithstanding anything to the contrary contained in this Agreement, the Company, and the Manager on behalf of the Company, may enter into the License Agreement, the Loan Agreement and any agreements or documents contemplated by any of the foregoing agreements, and the Company is authorized to perform its obligations under the License Agreement, the Loan Agreement and such agreements or documents, all without any further act, vote or approval of any Member or any other Person.

ARTICLE VII

MEMBERS

Section 7.1 Members. The name and mailing address of each Member and the number and class of Shares owned thereby shall be listed on Schedule A attached hereto. The Manager or a designated Officer shall be required to update Schedule A from time to time as necessary to accurately reflect changes in address and/or the ownership of Shares. Any amendment or revision to Schedule A made to reflect an action taken in accordance with this Agreement shall not be deemed an amendment to this Agreement. Any reference in this Agreement to Schedule A shall be deemed to be a reference to Schedule A as amended and in effect from time to time.

Section 7.2 Powers of Members. The Members shall have the power to exercise any and all rights or powers granted to the Members pursuant to the express terms of this Agreement. Members shall not have the authority to bind the Company by virtue of their status as Members.

Section 7.3 Member's Shares. A Member's Shares shall for all purposes be personal property. No holder of a Share or Member shall have any interest in specific Company assets or property, including any assets or property contributed to the Company by such Member as part of any Capital Contribution.

Section 7.4 Classes. (a) The Shares shall be divided between Class A Shares and Class B Shares.

(b) The Class A Shares and Class B Shares may not be subdivided, and each of such Shares shall have identical rights and terms in all respects except as specifically set forth in this Agreement.

(c) The Class A Shares and Class B Shares shall be securities governed by Article 8 of the Uniform Commercial Code as in effect in the States of New York and Delaware. Each Member shall be entitled to receive one or more certificates registered in its name and representing all or any portion of the Class A Shares or the Class B Shares then held by it (each, a "Certificate of Interest"). A security interest in any Class A Shares or Class B Shares may be perfected by control (as defined in Article 8 of the Uniform Commercial Code as in effect in States of New York and Delaware) of a Certificate of Interest representing such Class A Shares or Class B Shares, and the Company hereby makes any elections which may be required under the Uniform Commercial Code as in effect in the States of New York and Delaware to give effect to the provisions of this paragraph (c).

Section 7.5 Partition. Each Member waives any and all rights that it may have to maintain an action for partition of the Company's property.

Section 7.6 Resignation. A Member shall cease to be a Member at the time such Member ceases to own any Shares. Shares are redeemable only pursuant to Section 9.5 of this Agreement.

Section 7.7 Member Meetings. (a) A meeting of Class A Members for such business as may be stated in the notice of the meeting shall be held at such dates, time and place as is determined by the Manager.

(b) Special meetings of the Class A Members for any purpose or purposes may be called only by the Manager.

(c) Class B Members shall have no right to attend any meeting of the Company.

Section 7.8 Voting. Each Member entitled to vote in accordance with the terms of this Agreement may vote in person or by proxy. The Members shall be entitled to vote only to the extent expressly set forth herein. Unless otherwise provided for by this Agreement, all matters to be decided by the Members shall be decided by an affirmative vote (or consent in

writing) of the majority of the Total Voting Power of the holders of the Class A Shares, voting together as a single class, and no matter may be decided without such affirmative vote or consent in writing. Except as required by the following sentence, Class B Members shall have no voting rights as a Member of the Company, and the Class A Members shall have all voting rights of the Members. Any amendment, modification or waiver to, or with respect to, the License Agreement, or any other action under or with respect to the License Agreement, that would shorten the term of the License Agreement or decrease the amount of the Minimum Royalty (as defined in the License Agreement) or postpone the date on which any royalty under the License Agreement is payable shall require the approval of the holders of the Class B Shares as a separate class.

Section 7.9 Quorum. Except as otherwise required by law, the presence, in person or by proxy, of a majority of the holders of the Class A Shares shall constitute a quorum at all meetings of the Members. In case a quorum shall not be present at any meeting, Members holding a majority of the Total Voting Power held by Members represented thereat, in person or by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of Shares shall be present. At any such adjourned meeting at which the requisite amount of Shares shall be represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

Section 7.10 Notice of Meetings. Written notice, stating the place, date and time of the meeting, shall be given to each Class A Member, at such Member's address as it appears on the records of the Company, not less than two business days before the date of the meeting (except that notice to any Member may be waived in writing by such Member).

Section 7.11 Action Without a Meeting. Any action required or permitted to be taken at any annual or special meeting of Members may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the number of Members as would be required to take such action at a meeting, notice of such action shall be given to those Members who have not so consented in writing to such action without a meeting and such written consent is filed with the minutes of proceedings of the Members.

Section 7.12 Admission of Class B Member upon Certain Transfers. In the event that any lender under the Loan Agreement acquires an interest in Class B Shares as a result of a foreclosure of the pledge contemplated by Section 9.8(b), such lender shall be admitted as a Class B Member without any further action by the Company or the Members.

ARTICLE VIII

MANAGEMENT

Section 8.1 Board of Directors. The Company shall have a board of directors consisting of one or more persons elected by the Class A Members (each, a "director" and collectively, the "directors" or "Board of Directors"). Each person elected to the Board of Directors shall hold office for one year or until his successor is elected and duly qualified. A majority of the total number of directors shall constitute a quorum for the transaction of business.

The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. The number of directors shall be determined from time to time by the Class A Members. No director (as such) shall have authority to bind the Company. The directors shall not be "managers" within the meaning of the Delaware Act. The Board of Directors shall act on behalf of the Members to select the Manager as provided in Section 8.2.

Section 8.2 Manager. In accordance with Section 18-402 of the Delaware Act, management of the Company shall be vested in the manager of the Company (the "Manager"), who shall be elected by the Board of Directors. The Manager shall continue as such until such time as a new Manager is elected by the Board of Directors. The business and affairs of the Company shall be managed exclusively by and under the direction of the Manager in accordance with the terms of this Agreement, and the Manager shall have the sole and exclusive responsibility and authority for the management of the Company.

Section 8.3 Officers. The Manager may, but shall not be required to, designate and appoint such Officers as may be appropriate, as determined by the Manager, to conduct the business and affairs of the Company, and such Officers shall hold office until their successors are duly appointed. The Manager may also establish additional or alternate offices of the Company as it deems advisable, and such offices shall be filled with such Officers, who shall perform such duties and serve such terms, as the Manager shall determine from time to time.

ARTICLE IX

SHARES AND CAPITAL ACCOUNTS

Section 9.1 Capital Contributions. The agreed value of the initial capital contributions contemplated by Section 2.7 shall be as set forth on Schedule A.

Section 9.2 Status of Capital Contributions. (a) No Member shall receive any interest, salary or drawing with respect to its Capital Contributions or its Capital Account or for services rendered on behalf of the Company or otherwise in its capacity as a Member, except as otherwise specifically provided in this Agreement with respect to allocations and distributions.

(b) Except as otherwise provided herein and by the Delaware Act, the Members shall be liable only to make their Capital Contributions pursuant to Section 2.7 hereof, and no Member shall be required to lend any funds to the Company or to make any additional Capital Contributions to the Company except as provided herein or therein. Other than as provided under the Delaware Act, no Member shall have any personal liability for the payment of any Capital Contribution of any other Member who is not an Affiliate of such Member.

Section 9.3 Capital Accounts. (a) An individual Capital Account shall be established and maintained for each Member by class of Share.

(b) The Capital Account of each Member by class of Share shall be maintained in accordance with the following provisions:

(i) to such Member's Capital Account there shall be credited such Member's Capital Contributions, if any, when and as received, Profits and Gross Income and other items of Company income and gain allocated to such Member pursuant to Sections 10.1 and 10.2 hereof and the amount of any Company liabilities that are assumed by such Member or that are secured by any Company assets distributed to such Member;

(ii) to such Member's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Company assets (other than cash) transferred in kind to such Member in a Distribution pursuant to any provision of this Agreement, Losses and other items of Company loss and deduction allocated to such Member pursuant to Sections 10.1 and 10.2 hereof and the amount of any liabilities of such Member that are assumed by the Company (other than liabilities taken into account in determining a Member's Capital Contribution);

(iii) in determining the amount of any liability for purposes of this subsection (b), there shall be taken into account ss. 752(c) of the Code and any other applicable provisions of the Code and the Treasury Regulations;

(iv) Capital Accounts shall be otherwise adjusted in accordance with Treasury Regulation ss. 1.704-1(b); and

(v) if Shares are transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Shares.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulation ss. 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Treasury Regulation.

Section 9.4 Advances. If any Member shall advance any funds to the Company in addition to its Capital Contributions, the amount of such advance shall neither increase its Capital Account nor entitle it to any increase in its share of the Distributions of the Company. The amount of any such advance shall be a debt obligation of the Company to such Member and shall be repaid to it by the Company with such interest rate, conditions and terms as mutually agreed upon by such Member and the Manager. Any such advance shall be payable and collectible only out of Company assets, and the other Members shall not be personally obligated to repay any part thereof. No Person who makes any nonrecourse loan to the Company shall have or acquire, as a result of making such loan, any direct or indirect interest in the profits, capital or property of the Company, other than as a creditor.

Section 9.5 Redemption of Shares. (a) Class A Shares shall not be redeemable by the Company.

(b) The Class B Shares shall be redeemable in whole by the Company during the exercise period for the Class B Option, as set forth in the Class B Option, for an aggregate redemption price of $139.9 million, less the aggregate amount of all distributions made on the Class B Shares (other than the distributions required by Section 11.2) plus the aggregate amount of capital contributed by the holder of the Class B Shares (other than the Marks and Associated

Goodwill) (as adjusted pursuant to this paragraph, the "Redemption Price"). Upon such redemption, PM shall be required to cause each Guarantor to be released from its obligation as guarantor of the Loan and for any related Liens on the Class B Shares to be released. In the event of such redemption, the Company shall provide notice to the Liggett Parties, which notice shall set forth a date for the redemption to be effected, which date shall be a date not less than 20 days following the date such notice is provided. At the specified date, the Liggett Parties shall deliver to the Company any certificates or other evidence of the Class B Shares, free and clear of all Liens (other than Liens relating to the Loan), against payment of the Redemption Price, and the parties shall execute such other customary documents as may be required to effect the redemption of the Class B Shares. In the event that the outstanding principal amount under the Loan Agreement has been reduced due to payments to the lenders by any Guarantor, then, provided that the Company or a Class A Member (i) has no further liability (contingent or otherwise) with respect to the Loan amount so repaid (whether to the lender, the Guarantor or another) and (ii) has not previously repaid or otherwise reimbursed such Guarantor for such payment, the Redemption Price shall be increased by the amount of such reduction.

Section 9.6 Liggett Parties' Class B Put Option. Provided that either the Class A Option has been exercised or was required to have been exercised pursuant to the Class A Option Agreement, the Liggett Parties shall have a put option pursuant to which, upon written notice provided by the Liggett Parties to PM, PM (or its designee) shall be required to purchase, and the Liggett Parties shall be required to sell, all, but not less than all, of the then-outstanding Class B Shares to PM (or PM's designee) at a put price that is $5 million less than the then-applicable Redemption Price but in no event less than $500,000 (the "Put Option"). The Put Option shall be exercisable at any time during the period (the "Put Period") beginning on March 2, 2010 and ending at 5:00 p.m. (New York City time) on May 31, 2010. The Put Option shall be consummated on the date specified in the written notice described in this paragraph, which date shall be a date not less than 20 days following the date such notice is provided. Upon consummation of the Put Option exercise, PM shall be required to cause each Guarantor to be released from its obligations as guarantor of the Loan and for any related Liens on the Class B Shares to be released. At the specified date, the Liggett Parties shall deliver to PM (or its designee) any certificates or other evidence of the Class B Shares, free and clear of all Liens against payment of the Put Option price, and the parties shall execute such other customary documents as may be required to effect the exchange of the Class B Shares.

Section 9.7 Liggett Parties' Class B Conversion Right. At the expiration of the Put Period, if the Class B Option has not been exercised, and the Class B Shares have not been redeemed by the Company pursuant to Section 9.5, the holders of the Class B Shares shall be entitled, at their election, to convert all, but not less than all, of the then-outstanding Class B Shares into an equivalent number of Class A Shares, which newly issued Class A Shares shall have the same rights to share in future profits and losses of the Company, and the same aggregate voting power, as the Class A Shares issued at the Closing. The Class A Shares issued pursuant to this Section shall represent 50% of the aggregate capital of the Company created pursuant to Section 2.7.

Section 9.8 Assignment and Encumbrance of Interests. (a) Except as otherwise provided herein or in the Class A Option Agreement or the Class B Option Agreement, the Class A Shares and the Class B Shares shall not be transferable or otherwise subject to

Assignment by any party, except that the Class A Shares (or, upon exercise of the Class B Option or the Put Option, the Class B Shares) may be Assigned by PM so long as the acquiring party assumes the obligations of PM under this Agreement (or the pro rata portion thereof, based on the percentage interest transferred) and such transfer shall not relieve PM of any of its obligations hereunder.

(b) The Liggett Parties shall not in any way Assign any Class A Shares or Class B Shares owned by them; provided, however, that the Class B Shares may be pledged by a Guarantor to secure the borrowing under the Loan Agreement, so long as such pledge, by its terms, provides that the encumbrance shall be eliminated when the Guarantor is released from its obligations under the Loan Agreement (including upon repayment of the entire Loan Amount).

ARTICLE X

ALLOCATIONS

Section 10.1 Allocation of Gross Income. Beginning on the date immediately following the Closing Date, gross income in an amount equal to $500,000 (prorated for periods less than twelve months) shall be credited annually (and at such other times that such allocation would make a difference in connection with another allocation, distribution or other event under this Agreement) pro rata to the holders of Class B Shares.

Section 10.2 Allocation of Profits. Subject to Sections 10.3 and 10.4, the Company's Profits (taking into account the amount of any gross income allocated under Section 10.1 above as an item of deduction) shall be allocated annually (and at such other times that such allocation would make a difference in connection with another allocation, distribution or other event under this Agreement) to the Class A Members in the following order:

(i) first, pro rata to the holders of the Class A Shares until they have been allocated Profits equal to the amount of Losses previously allocated under Section 10.3(i) below not previously offset by an allocation of Profits under this clause; and

(ii) second, pro rata to the holders of the Class A Shares.

Section 10.3 Allocation of Losses. Subject to Sections 10.3 and 10.4, the Company's Losses (taking into account the amount of gross income allocated under Section 10.1 above as an item of deduction) shall be allocated annually (and at such other times that such allocation would make a difference in connection with another allocation, distribution or other event under this Agreement) to the Class A Shares in the following order:

(i) first, pro rata to the holders of the Class A Shares until such holders have been allocated an amount of Losses equal to the amount of Profits previously allocated to the holders of Class A Shares under Section 10.2(ii) not previously offset by an allocation of Losses under this clause; and

(ii) second, pro rata to the holders of Class A Shares.

Section 10.4 Allocation Rules. (a) In the event there is a change in the respective ownership interests of Class A Members during the year, the Profits (or Losses) allocated to the Members for each Fiscal Year during which there is a change in the respective ownership interests of Members during the year shall be allocated among the Members in proportion to the ownership interests during such Fiscal Year in accordance with ss. 706 of the Code, using any convention permitted by law and selected by the Manager.

(b) For purposes of determining the Profits, Losses or any other items allocable to any period, Profits, Losses and any such other items shall be determined on a daily, monthly or other basis, as determined by the Manager using any method that is permissible under ss. 706 of the Code and the Treasury Regulations thereunder.

(c) Except as otherwise provided in this Agreement, all items of Company income, gain, loss, deduction, credit and any other allocations not otherwise provided for shall be divided among the Class A Members in the same proportions as they share Profits and Losses for the Fiscal Year in question.

(d) The Members agree to report their shares of Company income, gain, loss, deduction and credit in conformity with the allocation provisions contained in this Article X.

Section 10.5 Regulatory Allocations. The following allocations shall be made in the following order of priority:

(a) Company Minimum Gain Chargeback. Except as otherwise provided in Treasury Regulation ss. 1.704-2(f), notwithstanding any other provision of this Article X, if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulation ss. 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations ss.ss. 1.704-2(f)(6) and 1.704-2(j)(2). This Section 10.5(a) is intended to comply with the minimum gaiN chargeback requirements set forth in Treasury Regulation ss. 1.704-2(f) and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Except as otherwise provided in Treasury Regulation ss. 1.704-2(i)(4), notwithstanding any other provision of this Article X, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulation ss. 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to the portion of such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulations ss. 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations ss.ss. 1.704-2(i)(4) and

1.704-2(j)(2). This Section 10.5(b) is intended to comply with Treasury Regulation ss. 1.704-2(i)(4) and shall be interpreted consistently therewith.

(c) Nonrecourse Deductions. Nonrecourse Deductions for any Fiscal Year shall be specially allocated among the Class A Members in proportion to the allocations for such Fiscal Year of Profits under Section 10.2 or Losses under Section 10.3, as applicable.

(d) Allocation of Member Nonrecourse Deductions. Any Member Nonrecourse Deduction for any Fiscal Year shall be specially allocated to the Member who bears the Economic Risk of Loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation ss. 1.704-2(i)(1). The Members acknowledge and agree that, as collateralized guarantor of the Loan Amount, Eve shall be deemed for purposes of this Section 10.5(d) during the period of such guaranty to bear the Economic Risk of Loss with respect to the Loan Amount which, for such period, shall constitute Member Nonrecourse Debt.

(e) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulations ss.ss. 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) or 1.704-1(b)(2)(ii)(d)(6), items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for the Fiscal Year) shall be specially allocated to each such Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulation, the Adjusted Capital Account Deficit of such Member created by such adjustments, allocations or distributions as quickly as possible; provided that an allocation pursuant to this Section 10.5(e) shall be made if and only to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Section 10.5 have been tentatively made as if this Section 10.5(e) were not in this Agreement. This Section 10.5(e) is intended to comply with the qualified income offset requirement in Treasury Regulation ss. 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

(f) Gross Income Allocation. In the event any Member has a deficit Capital Account at the end of any Fiscal Year that is in excess of the sum of (i) the amount such Member is obligated to restore pursuant to the terms of this Agreement or otherwise, and (ii) the amount such Member is deemed to be obligated to restore pursuant to the penultimate sentence of each of Treasury Regulations ss.ss. 1.704-2(g)(1) and 1.704-2(i)(5), each such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 10.5(f) shall be made if and only to the extent that such Member would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Section 10.5 have been tentatively made as if Section 10.5(e) and this Section 10.5(f) were not in this Agreement.

(g) Member Nonrecourse Deductions. If any Class A Member bears the Economic Risk of Loss with respect to a Member Nonrecourse Liability, any Member Nonrecourse Deduction for any Fiscal Year shall be specially allocated to the Member who bears the Economic Risk of Loss with respect to the Member Nonrecourse Liability to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation ss. 1.704-2(i).

(h) Adjustments Occasioned by Code ss. 754 Election. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code ss. 734(b) or Code ss. 743(b) is required pursuant to an election under Code ss. 754 to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of its interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Member in accordance with their interests in the event Treasury Regulation ss. 1.704-1(b)(2)(iv)(m)(2) applies, or to the Member to whom such distribution was made in the event Treasury Regulation ss. 1.704-1(b)(2)(iv)(m)(4) applies.

(i) Deductions under ss. 709 of the Code. Deductions under ss. 709 of the Code for amortization of amounts paid or incurred to organize the Company or, in the case of liquidation of the Company prior to the end of the amortization period specified in ss. 709 of the Code, deductions under ss. 165 of the Code for the previously unrecovered portion of such amounts, shall be specially allocated to the Member who paid or incurred such amounts and such Member's Capital Account shall be credited for amounts paid or incurred by such Member.

Section 10.6 Treatment of Regulatory Allocations. The allocations set forth in Section 10.5 (the "Regulatory Allocations") are intended to comply with and shall be interpreted consistently with certain requirements of Treasury Regulations ss.ss. 1.704-1 and 1.704-2. Notwithstanding any other provisions of this Article VI (other than the Regulatory Allocations), the Regulatory Allocations shall be taken into account in allocating other Profits and Losses and items of income, gain, loss and deduction among Members so that, to the extent possible, the net amount of such allocations of other Profits and Losses and other items and the Regulatory Allocations to each Member shall be equal to the net amount that would have been allocated to such Member if the Regulatory Allocations had not occurred.

Section 10.7 Tax Allocations; ss. 704(c) of the Code. (a) In accordance with ss. 704(c) of the Code and Treasury Regulation ss. 1.704-3(c) thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for income tax purposes, be allocated among the Members using the traditional method of allocation under ss. 704(c) of the Code so as to take account of any variation between the adjusted basis of such property to the Company for United States federal income tax purposes and its initial Gross Asset Value (computed in accordance with paragraph (a) of the definition of "Gross Asset Value" contained in Section 1.1 hereof).

(b) In the event the Gross Asset Value of any Company asset is adjusted pursuant to paragraph (b) of the definition of "Gross Asset Value" contained in Section 1.1 hereof, subsequent allocations of income, gain, loss and deduction with respect to such asset shall, solely for income tax purposes, take account of any variation between the adjusted basis of such asset for United States federal income tax purposes and its Gross Asset Value in the same manner as under ss. 704(c) of the Code and the Treasury Regulations thereunder.

(c) Allocations pursuant to this Section 10.7 are solely for purposes of United States federal, state and local taxes, and shall not affect, or in any way be taken into account in

computing, any Member's Capital Account or share of Profits, Losses, other items or distributions pursuant to any provision of this Agreement.

ARTICLE XI

DISTRIBUTIONS

Section 11.1 Distributions. Subject to Section 11.2, the Manager may make pro rata Distributions in accordance with the Class A Members' respective Capital Accounts, in each case in proportion to the respective Capital Accounts at such times as it deems appropriate, at its sole discretion.

Section 11.2 Mandatory Distributions. Notwithstanding Section 11.1 above, but subject to Section 2.7(b)(vii), during each Fiscal Year that the Class B Shares are outstanding, all Distributions made by the Company shall be made 50% to the Class A Members and 50% to the Class B Members until such time as the Class B Members shall have received Distributions equal to the amount of gross income allocated to the Class B Shares pursuant to Section 10.1 and thereafter shall be made entirely to the Class A Members. Such Distribution shall be made to all Class B Members in accordance with their percentage ownership of the Class B Shares.

Section 11.3 Limitations on Distribution. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make any Distribution if such Distribution would violate Section 18-607 of the Delaware Act or other applicable law, but shall instead make such Distribution as soon as practicable after the making of such Distribution would not cause such violation.

ARTICLE XII

BOOKS AND RECORDS

Section 12.1 Books, Records and Financial Statements. (a) The Company shall at all times maintain, at its principal place of business, separate books of account for the Company that shall show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received and all income derived in connection with the operation of the Company in accordance with GAAP consistently applied, and, to the extent inconsistent therewith, in accordance with this Agreement. Such books of account, together with a copy of this Agreement and the Certificate, shall at all times be maintained at the principal place of business of the Company and shall be open to inspection and examination at reasonable times by each Class A Member and its duly authorized representatives for any proper purpose reasonably related to such Member's interest in the Company.

(b) The Manager or duly appointed Officers shall prepare and maintain, or cause to be prepared and maintained, the books of account of the Company. The following financial information, prepared in accordance with GAAP and applied on a basis consistent with prior periods, shall be transmitted by the Company to each Class A Member as soon as reasonably practicable after the close of each Fiscal Year:

(i) balance sheet of the Company as of the beginning and close of such Fiscal Year;

(ii) statement of profits and losses for such Fiscal Year;

(iii) statement of each Member's Capital Account as of the close of such Fiscal Year, and changes therein during such Fiscal Year; and

(iv) statement of the Company's cash flows during such Fiscal Year.

(c) The Company shall prepare in accordance with United States federal income tax principles and transmit to each Member as soon as reasonably practicable after the close of each Fiscal Year a statement indicating such Member's share of each item of the Company income, gain, loss, deduction or credit for such Fiscal Year for income tax purposes, which statement shall include or consist of a Schedule K-1 to the Company's Internal Revenue Service Form 1065 (or any corresponding schedule to any successor form) for such Fiscal Year.

Section 12.2 Accounting Method. For both financial and tax reporting purposes and for purposes of determining Profits and Losses, the books and records of the Company shall be kept on the accrual method of accounting and shall reflect all Company transactions and be appropriate and adequate for the Company's business.

Section 12.3 Annual Audit. The financial statements of the Company shall be audited by an independent certified public accountant, selected by the Manager, with such audit to be accompanied by a report of such accountant containing its opinion. The cost of such audit shall be an expense of the Company.

ARTICLE XIII

TAX MATTERS

Section 13.1 Tax Matters. (a) PM shall be the "Tax Matters Partner" of the Company for purposes of ss. 6231(a)(7) of the Code; provided, however, that if PM shall at any time not own a majority of the Class A Shares, the Tax Matters Partner shall be the Member owning the largest percentage of the Class A Shares. The Tax Matters Partner shall cause to be prepared for each taxable year of the Company the federal, state and local tax returns and information returns, if any, which the Company is required to file.

(b) The Company shall, within ten (10) days of the receipt of any notice from the Internal Revenue Service or any state, local or foreign tax authority in any administrative proceeding at the Company level relating to the determination of any Company item of income, gain, loss, deduction or credit, mail a copy of such notice to each Member.

Section 13.2 Section 709 Election. The Tax Matters Partner may cause the Company to file, with the Company's Internal Revenue Service Form 1065 for the taxable year in which the Company begins business, an election under ss. 709 of the Code (meeting the requirements of Treasury Regulation ss. 1.709-1(c)) to amortize its organizational expenses over

60 months. Each Member agrees to (i) treat any amounts paid or incurred by such Member to organize the Company as deferred expenses of the Company that are subject to ss. 709 of the Code and (ii) maintain records of any such amounts that are sufficiently detailed to enable the Company to file an election meeting the requirements of Treasury Regulation ss. 1.709-1(c).

Section 13.3 Taxation as Partnership. The Company will elect to be treated as a partnership for United States federal income tax purposes.

ARTICLE XIV

LIABILITY, EXCULPATION AND INDEMNIFICATION

Section 14.1 Liability. Except as otherwise provided by the Delaware Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Covered Person or Member shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Covered Person or Member. Except as expressly provided herein, no Member, in its capacity as such, shall have liability to the Company, any other Member or the creditors of the Company.

Section 14.2 Exculpation. (a) No Covered Person shall be liable to the Company, any Member or any other Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of authority conferred on such Covered Person by this Agreement, the Board of Directors (if any), the Manager or an appropriate Officer or employee of the Company, except that a Covered Person shall be liable for any such loss, damage or claim incurred by reason of such Covered Person's gross negligence, fraud or willful misconduct.

(b) A Covered Person shall be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any Person as to matters the Covered Person reasonably believes are within such other Person's professional or expert competence, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, Profits or Losses or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid.

Section 14.3 Fiduciary Duty. To the extent that, at law or in equity, a Covered Person has duties (including fiduciary duties) and liabilities relating thereto to the Company or to any Member, a Covered Person acting under this Agreement shall not be liable to the Company or to any Member for its good faith acts or omissions in reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of a Covered Person otherwise existing at law or in equity, are agreed by the parties hereto to replace such other duties and liabilities of such Covered Person.

Section 14.4 Indemnification. To the fullest extent permitted by applicable law, a Covered Person shall be entitled to indemnification from the Company for any loss, damage,

expense or claim incurred by, or asserted against, such Covered Person, or for which such Covered Person is liable, by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of authority conferred on such Covered Person by this Agreement, except that no Covered Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Covered Person by reason of gross negligence, fraud or willful misconduct with respect to such acts or omissions; provided, however, that any indemnity under this Section shall be provided out of and to the extent of Company assets only, and no Covered Person shall have any personal liability on account thereof.

Section 14.5 Expenses. To the fullest extent permitted by applicable law, reasonable expenses (including reasonable legal fees) incurred by a Covered Person in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Company of an undertaking by or on behalf of the Covered Person to repay such amount if it shall be determined that the Covered Person is not entitled to be indemnified as authorized in Section 14.4 hereof.

Section 14.6 Insurance. The Company may purchase and maintain insurance, to the extent and in such amounts as the Manager shall deem reasonable or appropriate, on behalf of Covered Persons and such other Persons as the Manager shall determine, against any liability that may be asserted against or expenses that may be incurred by any such Person in connection with the activities of the Company or such indemnities, regardless of whether the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement. The Members and the Company may enter into indemnity contracts with Covered Persons and such other Persons as the Manager shall determine and adopt written procedures pursuant to which arrangements are made for the advancement of expenses and the funding of obligations under Section 10.5 hereof and containing such other procedures regarding indemnification as are appropriate.

Section 14.7 Outside Businesses. Any Member (including any Member that is the Manager) or Affiliate thereof may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Company, and the Company and the Members shall have no rights by virtue of this Agreement in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Company, shall not be deemed wrongful or improper. No Member or Affiliate thereof shall be obligated to present any particular investment opportunity to the Company even if such opportunity is of a character that, if presented to the Company, could be taken by the Company, and any Member or Affiliate thereof shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment opportunity. The Members acknowledge and agree that the Manager, and the Officers, employees and agents of the Company may be Affiliates of a Member, or employees of a Member or its Affiliates, and the Members hereby waive, with respect only to their interest in the Company, any claims against such Persons in respect of "corporate opportunities" or similar doctrines. The provisions of this Section 14.7 shall not in any way limit, modify or amend the terms of any noncompetition,

license or employment agreement that may be entered into between the Company and any Member, which terms shall be binding on the parties thereto.

Section 14.8 Third-Party Beneficiaries. There shall be no third-party beneficiaries of this Agreement, except that the Indemnified Parties shall be third-party beneficiaries of the provisions of Section 2.9 and Covered Persons shall be third-party beneficiaries of this Article XIV.

ARTICLE XV

ADDITIONAL MEMBERS

Section 15.1 Admission. Except as provided in Section 2.7, Article VII, Section 9.7 or Section 9.8, the Company may not admit any new Members and may issue no new Class A Shares or Class B Shares.

ARTICLE XVI

ASSIGNMENTS

Section 16.1 Recognition of Assignment by the Company. No Assignment of Shares in violation of this Agreement or the Class A Option or Class B Option shall be valid or effective, and neither the Company nor the Members shall recognize the same for the purpose of making allocations or Distributions. Neither the Company nor the Members shall incur any liability as a result of refusing to make any such allocations or Distributions with respect to Assigned Shares in violation of this Article.

Section 16.2 Effect of Assignment. No Assignment by any Party of its rights under this Agreement or of any interest in the Company shall relieve such Party of its obligations hereunder.

ARTICLE XVII

DISSOLUTION, LIQUIDATION AND TERMINATION

Section 17.1 No Dissolution. The death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event that terminates the continued membership of a Member in the Company shall not, in and of itself, cause the dissolution of the Company. In such event, the business of the Company shall be continued by the remaining Members.

Section 17.2 Liquidation. Upon dissolution of the Company, unless the Members continue the Company in accordance with the Delaware Act, the Person or Persons approved by the Class A Members to carry out the winding up of the Company shall immediately commence to wind up the Company's affairs; provided, however, that a reasonable

time shall be allowed for the orderly liquidation of the assets of the Company and the satisfaction of liabilities to creditors so as to enable the Members to minimize the normal losses attendant upon a liquidation. The Members shall continue to share income, Profits and Losses during liquidation as specified in Article X hereof. The proceeds of liquidation shall be distributed in the following order and priority:

(a) to secured creditors of the Company whether or not they are Members and to unsecured creditors that are not Members, to the extent otherwise permitted by law, in satisfaction of the liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof);

(b) to unsecured creditors of the Company that are Members, to the extent otherwise permitted by law, in satisfaction of the liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof);

(c) to the holders of the Class B Shares on a pro rata basis in accordance with their respective Capital Accounts;

(d) to the holders of the Class A Shares on a pro rata basis in accordance with their respective Capital Accounts; and

(e) to the holders of the Class A shares on a pro rata basis in accordance with their respective ownership of Class A Shares.

Section 17.3 Termination. The Company shall terminate when all of the assets of the Company, after payment, or due provision for all debts, liabilities and obligations, of the Company shall have been distributed to the Members in the manner provided for in this Article XVII and the Certificate shall have been canceled in the manner required by the Delaware Act.

Section 17.4 Claims of the Members. The Members and former Members shall look solely to the Company's assets for the return of their Capital Contributions, and if the assets of the Company remaining after payment of or due provision for all debts, liabilities and obligations of the Company are insufficient to return such Capital Contributions, the Members and former Members shall have no recourse against the Company or any other Member.

ARTICLE XVIII

MISCELLANEOUS

Section 18.1 Notices. All notices provided for in this Agreement shall be in writing, duly signed by the party giving such notice, and shall be hand delivered, faxed or mailed by registered or certified mail or overnight courier service, as follows:

(a) if given to the Company:

Trademarks LLC
c/o Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

(b) if given to any Member:

(i) to PM or its designee:

Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Facsimile: (212) 403-2000
Attention: Elliott V. Stein;

(ii) to the Liggett Parties:

c/o Brooke Group Ltd.
100 S.E. Second Street, 32nd floor
Miami, FL 33131
Facsimile: (305) 579-8009
Attention: Richard J. Lampen
Executive Vice President

with a copy to:

Milbank, Tweed, Hadley & McCloy
One Chase Manhattan Plaza
New York, NY 10005
Facsimile: (212) 530-5219
Attention: Michael W. Goroff and Simon Friedman

All such notices shall be deemed to have been given when received. The address for receipt of notice may be changed by providing written notice to the Company.

Section 18.2 Formation Expenses. Each party shall pay its own expenses incurred in connection with the formation of the Company.

Section 18.3 Failure to Pursue Remedies. The failure of any party to seek redress for violation of, or to insist upon the strict performance of, any provision of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

Section 18.4 Cumulative Remedies. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive its right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

Section 18.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of all of the parties and, to the extent permitted by this Agreement, their successors, legal representatives and assigns.

Section 18.6 Interpretation. All references herein to "Articles," "Sections" and "Paragraphs" shall refer to corresponding provisions of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent in writing and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns.

Section 18.7 Severability. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.

Section 18.8 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All counterparts shall be construed together and shall constitute one instrument.

Section 18.9 Integration. There are no oral agreements, understandings, representations or warranties between the Parties with respect to the subject matter hereof.

Section 18.10 Governing Law. This Agreement and the rights of the parties hereunder shall be interpreted in accordance with the laws of the State of New York (other than with respect to matters relating to the organization and internal affairs of the Company, including

the liabilities, obligations, rights, powers and restrictions of the Company and the Members, which shall be interpreted in accordance with laws of the State of Delaware), and all rights and remedies shall be governed by such laws without regard to principles of conflict of laws.

Section 18.11 Consent to Jurisdiction. Each of the Parties (i) consents to submit itself to the personal jurisdiction of any Federal or state court located in the State of New York in the event that any dispute arises out of this Agreement or any of the transactions contemplated hereby, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (iii) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a Federal or state court sitting in the State of New York.

Section 18.12 Confidentiality. Each Member expressly acknowledges that such Member will receive confidential and proprietary information relating to the Company, including, without limitation, information relating to the Company's financial condition and business plans, and that the disclosure of such confidential information to a third party would cause irreparable injury to the Company. Except with the prior written consent of the Company or as required by law, no Member shall disclose any such information to a third party (other than on a "need to know" basis to any Affiliate or any employee, agent or representative of such Member or its Affiliates (each of whom shall agree to maintain the confidentiality of such information)), and each Member shall use reasonable efforts to preserve the confidentiality of such information.

Section 18.13 Governmental Notices. A Member shall, within 10 days of receipt of any notice from a Governmental Entity, including but not limited to, the Department of Justice, the Federal Trade Commission or the Internal Revenue Service, relating to the formation, operation or treatment of the Company or to the transactions contemplated by the Transaction Agreements, mail a copy of such notice to each Member.

Section 18.14 Prior Agreement. The letter agreement of November 20, 1998 among Brooke, LMI, Liggett and PM regarding a prior conditional settlement of certain litigation is unaffected by this Agreement and remains in full force and effect.

ARTICLE XIX

AMENDMENTS

Section 19.1 Amendments. Any amendment to this Agreement shall be adopted and be effective as an amendment hereto if approved by the affirmative vote of a majority of the Total Voting Power, except that any amendment which would adversely affect the rights or obligations of any Member (or of the Class B Shares) shall also be approved by such Member (or by the holders of a majority of the Class B Shares).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above stated.

BROOKE GROUP LTD.

By: /s/ Richard J. Lampen

Name: Richard J. Lampen
Title: Executive Vice President

LIGGETT & MYERS INC.

By: /s/ Richard J. Lampen

Name: Richard J. Lampen
Title: Vice President

EVE HOLDINGS INC.

By: /s/Joselynn D. Van Siclen

Name: Joselynn D. Van Siclen
Title: Vice President

LIGGETT GROUP INC.

By: /s/ Marc N. Bell
Name: Marc N. Bell
Title: General Counsel and Secretary

PHILIP MORRIS INCORPORATED

By: /s/ Norma Suter

Name: Norma Suter
Title: Vice President

Schedule A

Members

Name	Agreed Value of Initial Capital Contribution	Number of Shares
Eve Holdings Inc.	Lark, Chesterfield and L&M trademarks and associated goodwill- $15,100,000	100 Class A
Eve Holdings Inc.	Lark, Chesterfield and L&M trademarks and associated goodwill- $284,900,000	100 Class B
	Total- $300,000,000	

EXHIBIT A

TRADEMARK LICENSE AGREEMENT

TRADEMARK LICENSE AGREEMENT (the "Agreement") dated as of May 24, 1999, by and between Trademarks LLC, a Delaware limited liability company ("Licensor"), and Philip Morris Incorporated, a Virginia corporation ("Licensee").

WHEREAS, an Affiliate of Licensee acquired in 1978 the entire business of Liggett Group Inc. in the International Territory;

WHEREAS, Licensor owns and has the right to license the Trademarks in the United States (as defined herein) and desires to grant the Licensee such rights in accordance with the terms of this Agreement; and

WHEREAS, upon execution of this Agreement, Licensee will have the exclusive right (including with respect to Licensor) to use the Trademarks in the United States (as defined herein).

NOW, THEREFORE, in consideration of the foregoing recitals, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Licensor and Licensee agree as follows:

Section 1.1 Affiliates: shall mean, with respect to any Person, any direct or indirect subsidiary of such Person, any other Person that directly or through one or more intermediaries, is controlled by, or is under common control with, the specified Person, and, if such a Person is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person who is controlled by any such member or trust. As used in this definition, the term "control" (including with correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise. Notwithstanding the foregoing, for the purposes of this Agreement, (i) Licensor and Licensee shall not be deemed to be Affiliates and (ii) Licensor shall not be deemed to be an Affiliate of Eve Holdings Inc., a Delaware corporation ("Eve"), or of any Affiliate of Eve.

Section 1.2 Brands: shall mean "Lark," "Chesterfield" and "L&M."

Section 1.3 Confidential Information: shall mean all proprietary information relating to the business and operations of Licensor or any of Licensor's Affiliates, other than information that (i) is in the possession of Licensee prior to the execution of this Agreement, (ii) becomes available to the public other than as a result of a disclosure by Licensee or its officers, employees or advisors, or (iii) is not acquired from Licensor or persons known by Licensee to be in breach of an obligation of secrecy to Licensor.

Section 1.4 International Territory: means (i) any place in the world outside the United States, (ii) ships and aircraft, purchasing duty-free, located within or outside the United States, (iii) duty-free shops, embassies, legations and others enjoying duty-free privileges (in each case to the extent they enjoy such privileges from time to time) located within or outside the United States and (iv) embassies, legations and other presences of the government of the United States of America enjoying duty-free privileges (in each case to the extent they enjoy such privileges from time to time) located outside the United States, but excluding sales to the United States Military wherever situated.

Section 1.5 Inventory: shall mean Licensee's inventory of Licensed Products and of related work in progress then on hand as reflected in Licensee's books and records.

Section 1.6 Licensed Products: shall mean the cigarettes sold in the United States under any of the Trademarks, conforming to the Quality Standards and Specifications.

Section 1.7 LLC Agreement: shall mean that certain Formation and Limited Liability Company Agreement dated as of January 12, 1999 between the Liggett Parties (as defined therein) and Licensee.

Section 1.8 NonTobacco Materials: shall mean all components and ingredients, other than tobacco, used in manufacturing the Licensed Products, including casings and flavorings, tow and additives, cigarette paper, tipping paper and packaging.

Section 1.9 Person: shall include any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company or other legal entity or organization.

Section 1.10 Quality Standards and Specifications: shall mean such specifications, standards and directions of Licensor, as Licensor shall provide to Licensee from time to time.

Section 1.11 Taxes: shall mean any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties, or other liabilities with respect thereto, excluding income taxes and franchise taxes measured by the income of Licensor.

Section 1.12 Trademarks: shall mean all of the interest of the Licensor in all trademarks, trade names, trade dress, service marks, registrations and applications for registrations therefor, in each case relating to "Lark," "Chesterfield" and "L&M" brands, including any variation or product line extension thereof and any derivative pertaining thereto, as set forth in Schedule A hereto.

Section 1.13 United States: means the present fifty states of the United States of America and the District of Columbia and shall exclude (a) its territories, possessions and the Commonwealth of Puerto Rico, all as presently constituted, and (b) all of the International Territory. When used herein, "sales in the United States" include sales to the United States Military, wherever situated.

Section 1.14 United States Military: shall mean appropriated and non- appropriated fund activities of the United States Department of Defense, Departments of the Army, Navy, Air Force, United States Marine Corps and United States Coast Guard.

Section 2.1 Licensor hereby grants to Licensee, upon the terms and subject to the conditions and restrictions of this Agreement, the exclusive right to use the Trademarks upon and in connection with the manufacture, marketing distribution and sale of the Licensed Products in the United States.

Section 2.2 Licensor acknowledges and agrees that the license granted hereunder is exclusive as to Licensee, and Licensor agrees that it shall not use the Trademarks in any manner whatsoever.

Section 2.3 Licensee agrees that, subject to the rights granted in this Agreement, Licensor owns all right, title and interest in the United States to the Trademarks in the United States. No rights to the Trademarks in the United States are granted herein other than those expressly enumerated.

Section 3.1 Licensee shall do everything in its power to protect the Trademarks. To that end, Licensee shall fully comply with all the laws and regulations in the United States which are applicable to the manufacture, sale or purchase of cigarettes or to the use of trademarks for cigarettes; shall give prompt notice in writing to Licensor of any infringement or possible infringement of the Trademarks which may come to its attention; shall not at any time claim any right, title or interest in or to the Trademarks, other than the right to use the same under all the terms and conditions hereof; shall not at any time use or register any trademark or trade name identical or confusingly similar to any of the Trademarks; and shall, without charge, assign to Licensor, upon the request of Licensor, all such registrations and applications therefor and any right it may acquire through use or otherwise (except the right to use the same under all the terms and conditions hereof) in or to the Trademarks. When and if requested by Licensor so to do, Licensee shall, at its cost and expense, take such action as may be necessary or advisable to stop any infringement of the Trademarks and to recover profits, damages and costs. If any sum in excess of the costs and expenses incurred by Licensee in connection therewith is recovered in any such suit, Licensor shall have the exclusive right thereto.

Section 3.2 Licensee may in its discretion, either in its own name or the name of Licensor or in both names, take such action (including the initiation of proceedings and participation in proceedings initiated by Licensor and the defense of proceedings brought against Licensor) as it may deem necessary or desirable, at law or in equity or otherwise, either in the United States or elsewhere, to stop any infringement of the Trademarks or to defend the use of the Trademarks and, in the event any sum in excess of the costs and expenses incurred by Licensee in connection therewith is recovered, Licensor shall have the exclusive right thereto. In the event that Licensee decides to take any action in the name of Licensor pursuant to this Section 3(b), it shall first obtain the consent of Licensor and such consent shall not be unreasonably withheld; provided, however, that nothing herein shall prevent Licensee from taking any action in its own name at any time in its absolute discretion.

Licensee shall manufacture cigarettes for sale under the Trademarks in accordance with Licensor's Quality Standards and Specifications, and shall not sell under the Trademarks any cigarettes that do not meet or exceed the Quality Standards and Specifications. Licensee represents and warrants that the Licensed Products will be manufactured, sold and distributed in strict compliance with the terms and conditions of this Agreement and all applicable laws, regulations and standards in force at any time in any place in the United States. Licensee will take all steps required with respect to the Licensed Products, their advertising, marketing and distribution to ensure compliance with such laws, regulations and standards.

Section 7.1 In consideration of the right and license granted to Licensee to use the Trademarks pursuant to this Agreement, Licensee shall pay to Licensor a royalty at the rate of four and one-half percent (4.5%) of the Licensee's Net Sales Value of Licensed Products during each Royalty Month (as defined below) or portion thereof that this Agreement is in effect, but in no event shall such royalty for any such Royalty Month (or portion thereof) in which this Agreement is in effect be less than the Minimum Royalty. For purposes of this paragraph, the term "Net Sales Value" shall mean the gross sales price from Licensee's factories of the Licensed Products, less any federal excise tax that is included in such price. For purposes of this paragraph, the term "Minimum Royalty" in any period shall mean the greater of (i) the product of $10,500,000 times a fraction, the numerator of which is the number of days in such period, and the denominator of which is 360, and (ii) the sum of (x) the amount of the debt service obligation of Licensor (which shall include all obligations of the Licensor under the Loan Agreement (as defined in the LLC Agreement)) for such period and (y) the product of $1,000,000 times a fraction, the numerator of which is the number of days in such period and the denominator of which is 360.

Section 7.2 On the day of the execution of this Agreement, the Licensee will pay royalty payments (pro-rated in accordance with subsection (a) above) for the remaining portion of the calendar month of execution and for the immediately succeeding calendar month. For each succeeding calendar month thereafter, beginning with July 1999 (each such calendar month as well as the period described in the immediately preceding sentence hereinafter referred to as a "Royalty Month"), no later than the fifth Business Day thereof, the Licensee shall pay the royalty payments for such Royalty Month. With respect to any such royalty payment that is made on the basis of the Licensee's Net Sales Value of Licensed Products, the Licensee shall be entitled to estimate the Net Sales Value of Licensed Products for the period to which the royalty payment relates; provided that, the royalty payment for any Royalty Month that immediately succeeds a Royalty Month in which the royalty payment was made on the basis of such an estimate shall include any corresponding upward or downward adjustment necessary to reconcile the difference between the estimated Net Sales Value of Licensed Product and actual Net Sales Value of Licensed Product for the immediately preceding Royalty Month. Any day that is not a day of the year on which banks are not required or authorized by law to close in New York is a "Business Day" for purposes of this Agreement. Any payment date that falls on a day that is not a Business Day shall be made on the next succeeding Business Day.

Section 7.3 Licensee shall keep proper and accurate accounts and records of all cigarettes manufactured and of all cigarettes sold under this agreement and shall, within 30 days after the end of each calendar quarter and within thirty days after the expiration or termination of

this Agreement for any reason, render to Licensor a written statement setting forth separately the quantities of cigarettes manufactured, the quantities sold under the Trademarks and the Net Sales Value of Licensed Products sold in the most recently completed calendar quarter or in the period between the end of the preceding calendar quarter and the effective date of expiration or termination, as the case may be, such statement to be signed by an officer of Licensee. As used in this paragraph, the term "cigarettes sold" in any period shall mean the physical volume of cigarettes sold during such period less the physical volume of cigarettes accepted during such period by Licensee as returned merchandise. It shall in no event include cigarettes distributed by Licensee without charge.

Section 7.4 Licensor, by its duly authorized representatives, shall have the right, at reasonable intervals and times, to enter Licensee's premises and examine those books and records of Licensee which are relevant to the manufacture and sale of cigarettes hereunder, and to take excerpts therefrom.

Any and all payments made by Licensee in connection with this Agreement shall be made free and clear of and without deduction for any and all Taxes. If Licensee shall be required by law to deduct and withhold from the payments to be made to Licensor any Taxes, (i) the sum payable shall be increased as may be necessary so that after making all required deductions for Taxes Licensor receives an amount equal to the sum it would have received had no such deductions been made, (ii) Licensee shall make such deductions and pay the full amount deducted to the relevant taxing or other authority in accordance with applicable law, and (iii) Licensee shall mail to Licensor due evidence thereof in the form specified by Licensor which shall include in all instances the original tax receipts related to such royalty payments. Licensee shall reimburse Licensor for the amount of any tax credits that Licensor is unable to obtain due to the failure of Licensee to provide Licensor with the tax receipts as required by this Section. In the event such taxes are not paid when due, all resulting penalties and interest shall be borne by Licensee.

Section 9.1 Effective Date; Term. This Agreement shall continue in effect through May 24, 2010, unless earlier terminated pursuant to the provisions of this Agreement; provided that, this Agreement will renew automatically for successive one year periods unless one party hereto gives written notice of its desire to terminate at least 60 days prior to the date on which the Agreement would otherwise be renewed.

Section 9.2 Early Termination for Cause.

(a) By Licensor. Licensor may terminate this Agreement immediately in the event that:

(i) Licensee fails to perform in any material respect any of the terms of this Agreement or otherwise breaches in any material respect any part of this Agreement, including, without limitation, if Licensee fails to make any payment to Licensor in accordance with the terms of this Agreement for any reason, and such default or breach shall continue uncured for a period of thirty (30) days after Licensor gives Licensee written notice of such default or breach; or

(ii) any part of this Agreement is not considered to be, or ceases to be, in conformity with the laws, regulations, consistent jurisprudence or court or administrative decisions (relevant to this Agreement) of the United States and, as a result thereof, any provision herein reasonably deemed by Licensor to be material to this Agreement cannot be legally performed or enforced or if, as a consequence thereof, any of the Licensed Products cannot be manufactured or sold in accordance with the Quality Standards and Specifications.

(b) By Licensee. Licensee may terminate this Agreement immediately in the event that (i) Licensor fails to perform any of the terms of this Agreement or otherwise breaches any part of this Agreement and such default or breach shall continue uncured for a period of ten (10) days after Licensee gives Licensor written notice of such default or breach or (ii) there shall have occurred a Material Breach by the Liggett Parties as defined in the Class A Option Agreement dated as of January 12, 1999 among Licensee, Eve, Brooke Group Ltd., Liggett & Myers Inc. and Liggett Group Inc.

(c) By Mutual Consent: Licensor and Licensee may agree in writing at any time to terminate this Agreement.

Section 9.3 Effect of Termination. Upon the expiration or termination of this Agreement for any reason:

(a) All of the rights of Licensee granted hereunder shall terminate forthwith and shall revert immediately to Licensor, provided that Licensee's obligations under Sections 6 and 8 of this Agreement shall survive. All royalties on previously made sales shall become immediately due and payable, and Licensee shall (a) discontinue forthwith all manufacture, sale and distribution of the Licensed Products and all use of the Trademarks in the United States; (b) no longer have the right to use the Trademarks in the United States or any variation or simulation thereof; (c) promptly transfer to Licensor, free of charge, all related documentary evidence of the validity of the Trademarks in the United States and Licensee's rights as a licensee which Licensee may have possessed at any time; (d) remove and erase forthwith all reference to the Trademarks from the printed material and advertising used in the United States or maintained by Licensee; and (e) cease to utilize, and thereafter not utilize, any Confidential Information disclosed to it by Licensor hereunder, and return to Licensor or its designee, at no charge, all Confidential Information received by Licensee from Licensor or any of its Affiliates before or during the term of this Agreement, and all copies of any documents containing, reflecting, or relating to the foregoing; and not thereafter hold forth in any manner whatsoever that Licensee has any connection with the Licensed Products

(b) If this Agreement expires or is terminated for reasons other than Licensee's default or bankruptcy or insolvency, Licensee shall be entitled, for an additional period of three (3) months only, on a nonexclusive basis, to sell the Inventory. After Licensee exercises its rights, if any, pursuant to this Subsection, Licensee shall promptly deliver to Licensor a complete and accurate schedule of the Inventory. Such schedule shall be prepared as of a date as close to the date of such expiration or termination (following exercise of Licensee's rights, if any, pursuant to this Subsection) as is reasonably feasible given Licensee's usual and customary

accounting practices, but in no event later than fifteen (15) days after the end of Licensee's fiscal month during which the termination or expiration occurs, and shall reflect Licensee's cost of each item of Inventory. Licensor thereupon shall have the option, exercisable by notice in writing delivered to Licensee within thirty (30) days after its receipt of the complete Inventory schedule, to purchase any or all of the Inventory at such cost of each item of the Inventory being purchased. In the event such notice is sent by Licensor, Licensee shall deliver to Licensor or its designee all the Inventory referred to therein as promptly as practicable after Licensor's said notice, and Licensor shall pay Licensee for such Inventory as is in salable condition, and also shall pay for applicable shipping and handling charges, within thirty (30) days after its receipt thereof, provided in the event Licensor is unable to meet Licensee's customary and usual credit clearance standards, such merchandise shall be sold on a cash on delivery basis. Licensee shall have no obligation to pay royalties on Inventory purchased by Licensor pursuant to this paragraph. To the extent that Licensor does not elect to purchase Inventory, Licensee shall promptly destroy such Inventory.

(c) The expiration or termination of this Agreement for any reason shall not release either party hereto from any liability which, at the time of expiration or termination, had already accrued to the other party or which may accrue in respect of any act or omission prior to such expiration or termination; provided that Licensee shall in no event be entitled, based on such expiration or termination, to any compensation, damages or payment for goodwill that may have been established with respect to the Licensed Products during the term of this Agreement and that Licensee hereby irrevocably waives and renounces any claim, based on such expiration or termination, for any such compensation, damages, or other legal or equitable relief which it may hereafter be entitled to assert against Licensor. Notwithstanding any termination in accordance with this Section, Licensor shall have and hereby reserves all rights and remedies which it has, or which are granted to it by operation of law, including, but not limited to, the right to be compensated for damages for breach of this Agreement and to enjoin the unlawful or unauthorized use of the Trademarks and to collect royalties and fees payable by Licensee hereunder through the date of termination.

If to Licensor:

Trademarks LLC
c/o Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

If to Licensee:

Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Facsimile: (917) 663-5399
Attention: General Counsel, PM USA

This Agreement shall be subject to such United States government approvals and consents as may from time to time be necessary or desirable in connection with this Agreement. If any such approval or consent is not obtained or if obtaining such consent or approval would materially diminish the value of this Agreement to Licensor, Licensor may terminate this Agreement in accordance with its termination provisions.

In addition to their other representations, warranties, and covenants elsewhere herein contained, the parties represent, each to the other, as follows:

Section 13.1 Licensor. Licensor represents and warrants that it has full right, power and authority to enter into this Agreement and to perform all of its obligations hereunder. Licensor further represents , that it has granted no other existing license to use the Trademarks in the United States as provided for in this Agreement, and that it shall grant no such other license during the term of this Agreement.

Section 13.2 Licensee. Licensee represents and warrants that it has full right, power, and authority to enter into this Agreement and to perform all of its obligations hereunder. Licensee shall not assert as a defense in any action brought under this Agreement any claim that this Agreement is unenforceable or invalidated by any applicable law.

This Agreement shall not be modified or amended except by an agreement in writing signed by the parties hereto.

Section 15.1 This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective heirs, successors and assigns. Licensor shall not assign its interest in this Agreement without the consent of Licensee, except to secure indebtedness of Licensor. It is expressly understood and agreed that Licensee shall have the right to sell, assign or sublicense its rights under this Agreement; provided that any such purchaser, assignee or sublicensee agrees in writing to be subject to and bound by the terms and conditions of this Agreement as if it were a party hereto.

Section 15.2 The Agent (as defined below) under the Assignment, Pledge and Security Agreement dated May 24, 1999 between the Licensor and Citibank, N.A., as agent (the "Agent") for the lenders identified therein (the "Pledge Agreement"), shall be entitled in accordance with the terms and conditions of the Pledge Agreement to exercise all rights of the Licensor under this Agreement.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of such counterparts shall constitute but one and the same agreement.

Except as specifically contemplated herein, this Agreement shall not be deemed to confer any rights or benefits on any person not a party to this Agreement.

If one or more provisions of this Agreement shall be invalid, illegal, or unenforceable in any respect in any jurisdiction or with respect to any party, such invalidity, illegality, or unenforceability in such jurisdiction or with respect to such party shall not, to the fullest extent permitted by applicable law, invalidate or render illegal or unenforceable such provision in any other jurisdiction or with respect to any other party, or any other provision of this Agreement. To the fullest extent it may effectively do so under applicable law, each of the parties hereto waives any provision of law which renders any provision hereof invalid or illegal in any respect.

No delay or omission or failure to exercise, or any abandonment or discontinuance of steps to enforce, any right or remedy provided for herein shall be deemed to be a waiver thereof or acquiescence in the event giving rise to such right or remedy, but every such right and remedy may be exercised from time to time and so often as may be deemed expedient by the party exercising such right or remedy. The rights and remedies provided herein are cumulative and not exclusive of any remedies provided by law.

Nothing contained herein shall be construed to create a partnership, joint venture, or agency relationship between Licensee and Licensor, and neither Licensee nor Licensor shall become bound by any representation, act or omission of the other.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be signed and their corporate seals to be hereunto affixed as of the day and year first above written.

TRADEMARKS LLC

By: PHILIP MORRIS INCORPORATED,
as Manager of Trademarks LLC

By:

Name:
Title:

PHILIP MORRIS INCORPORATED

By:

Name:
Title:

EXHIBIT B

Form of Assignment

This Assignment is made the 24th day of May, 1999.

BETWEEN Eve Holdings Inc., a Delaware corporation ("Eve"), 100 S.E. Second Street, Miami, Florida 33131,

AND Trademarks LLC, a Delaware limited liability company ("Trademarks LLC"), 120 Park Avenue, New York, New York 10017.

WHEREAS, Eve is the owner of the trademarks referred to in the attached Schedule A which are registered in the United States Patent and Trademark Office.

WHEREAS, Trademarks LLC desires to acquire all right, title and interest in and to the aforesaid trademarks and the registrations therefor, and that part of the goodwill of the business connected with the use of and symbolized by said trademarks;

NOW, THEREFORE, for and in consideration for the sum of Ten Dollars ($10.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, Eve hereby sells, transfers, conveys and assigns unto Trademarks LLC, all right, title and interest in and to the aforesaid trademarks and the registrations therefor, together with that part of the goodwill of the business connected with the use of and symbolized by said trademarks.

IN WITNESS WHEREOF, Eve has caused this Assignment to be executed with full effect from the day and year first above written.

EVE HOLDINGS INC.

By:

Name:
Title:

SCHEDULE A: TRADEMARKS

TRADEMARK	REGISTRATION NO.	EXPIRATION DATE
CHESTER	753,972	August 6, 2003
CHESTERFIELD	128,430	January 6, 2000
CHESTERFIELD & Design	218,263	September 21, 2006
CHESTERFIELD & Design	695,189	March 29, 2000
CHESTERFIELD & Design	912,381	June 8, 2001
CHESTERFIELD & Design	1,781,667	July 13, 2003
LARK	142,676	May 17, 2001
LARK & Design	1,776,709	June 15, 2003
LARK II	1,098,307	August 1, 2008
L&M	582,520	November 17, 2003
L&M	594,798	September 7, 2004
L&M & Design	840,308	December 12, 2007
L&M & Design	1,062,893	April 5, 2007
L&M & Design	1,062,895	April 5, 2007
L&M FLAVOR LIGHTS	1,071,588	August 16, 2007

EXHIBIT 10.5

PLEDGE AGREEMENT

Dated as of May 24, 1999

From

EVE HOLDINGS INC.

as Grantor

in favor of

CITIBANK, N.A.

as Agent

T A B L E O F C O N T E N T S

PLEDGE AGREEMENT

PLEDGE AGREEMENT dated as of May 24, 1999 made by Eve Holdings Inc., a Delaware corporation, (the "Grantor"), to Citibank, N.A. (as agent, the "Agent") for the Lenders (as defined below).

PRELIMINARY STATEMENTS:

(1) The Grantor and the Agent have entered into a Credit Agreement dated as of May 24, 1999 (said Agreement, as it may hereafter be amended or otherwise modified from time to time, being the "Credit Agreement", the terms defined therein and not otherwise defined herein being used herein as therein defined) with Trademarks LLC, a Delaware limited liability company, as Borrower and the banks, financial institutions and other institutional lenders party thereto (the "Lenders"). Pursuant to Section 8.01 of the Credit Agreement, the Grantor has guaranteed all of the Obligations of the Borrower now or hereafter existing under the Loan Documents.

(2) The Grantor is the owner of the shares of capital stock of the Borrower described in Schedule I hereto (the "Pledged Shares").

(3) It is a condition precedent to the making of Advances by the Lenders under the Credit Agreement that the Grantor shall have granted the assignment and security interest and made the pledge and assignment contemplated by this Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Lenders to make Advances under the Credit Agreement, the Grantor hereby agrees with the Agent for the ratable benefit of itself and the Lenders as follows:

SECTION 1. Grant of Security. The Grantor hereby assigns and pledges to the Agent for the ratable benefit of itself and the Lenders, and hereby grants to the Agent for the ratable benefit of itself and the Lenders, a security interest in the following (collectively, the "Collateral"):

(i) the Pledged Shares and the certificates representing the Pledged Shares, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Shares other than the Initial Distribution to be made on Closing and distributions of up to $500,000 per annum to be made thereafter;

(ii) all additional shares of stock of the issuer of the Pledged Shares from time to time acquired by the Grantor in any manner, and the certificates representing such additional shares, and, except as provided in Section 1(i), all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares; and

(iii) except as provided in Section 1(i) all proceeds of any and all of the foregoing Collateral (including, without limitation, proceeds that constitute property of the types described in this Section 1).

SECTION 2. Security for Obligations. The pledge and assignment of, and the grant of a security interest in, the Collateral by the Grantor under this Agreement secures the payment of all the Obligations of the Borrower and the Grantor now or hereafter existing under the Loan Documents, whether for principal, interest, fees, expenses or otherwise (all such Obligations being the "Secured Obligations"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts that constitute part of the Secured Obligations and would be owed by the Borrower or the Grantor to the Agent or the Lenders under the Loan Documents but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower or the Grantor.

SECTION 3. Delivery of Collateral. All certificates or instruments representing or evidencing Collateral shall be delivered to and held by or on behalf of the Agent pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Agent. The Agent shall have the right, at any time after the occurrence and during the continuance of an Event of Default, in its discretion and without notice to the Grantor, to transfer to or to register in the name of the Agent or any of its nominees any or all of the Collateral, subject only to the revocable rights specified in Section 7(a). In addition, the Agent shall have the right at any time to exchange certificates or instruments representing or evidencing Collateral for certificates or instruments of smaller or larger denominations.

SECTION 4. Representations and Warranties. The Grantor represents and warrants as follows:

(a) The chief place of business and chief executive office of the Grantor and the office where the Grantor keeps its records concerning the Collateral are located at the address set forth below its name on the signature page hereof.

(b) The Grantor is the legal and beneficial owner of the Collateral free and clear of any Lien, except for the security interest created by this Agreement and Liens permitted under the Loan Documents (including, without limitation, the Class B Option). No effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Agent relating to this Agreement or as permitted under the Loan Documents. The Grantor has no trade names.

(c) The Pledged Shares have been duly authorized and validly issued and are fully paid and non-assessable.

(d) The Pledged Shares constitute the percentage of the issued and outstanding units of limited liability interest of the issuer thereof indicated on Schedule I.

(e) This Agreement and the pledge of the Collateral pursuant hereto create a valid and perfected security interest in the Collateral, prior to all other Liens except Liens permitted by the Loan Documents (including, without limitation, the Class B Option) and all filings and other actions necessary or desirable to perfect and protect such security interests have been duly taken.

(f) No consent of any other Person and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other third-party is required either (i) for the grant by the Grantor of the assignment and security interest granted hereby, for the pledge by the Grantor of the Collateral pursuant hereto or for the execution, delivery or performance of this Agreement by the Grantor, (ii) for the perfection or maintenance of the pledge, assignment and security interest created hereby (including the priority of such pledge, assignment or security interest referred to in Section (4)(e) above), except for the retention by the Agent of possession of the certificates and instruments referred to in Section 3, or (iii) for the exercise by the Agent of its voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with the disposition of any portion of the Collateral by laws affecting the offering and sale of securities generally.

SECTION 5. Further Assurances. (a) The Grantor agrees that from time to time, at the expense of the Grantor, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Agent may reasonably request, in order to perfect any pledge, assignment or security interest granted or purported to be granted hereby or to enable the Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, the Grantor will execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Agent may request, in order to perfect and preserve the pledge, assignment and security interest granted or purported to be granted hereby.

(b) The Grantor hereby authorizes the Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of the Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) The Grantor will furnish to the Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Agent may reasonably request, all in reasonable detail.

SECTION 6. Place of Perfection; Records. The Grantor shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Collateral at the location therefor specified in Section 4(a) or, upon 30 days' prior written notice to the Agent, at such other locations in a jurisdiction where all actions required by Section 5 shall have been taken with respect to the Collateral. The Grantor will hold and preserve such records and will permit representatives of the Agent at any time during normal business hours to inspect and make abstracts from such records provided that the Agent shall not disclose any confidential information of the Grantor to which it has been permitted access except (i) as contemplated by Section 9.11 of the Credit Agreement; or (ii) with the consent of the Grantor.

SECTION 7. Voting Rights; Dividends; Etc. (a) So long as no Event of Default shall have occurred and be continuing:

(i) The Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the other Loan Documents; provided, however, that the Grantor shall not exercise or refrain from exercising any such right if, in the Agent's reasonable judgment, such action would have a material adverse effect on the value of the Collateral or any part thereof.

(ii) The Agent shall execute and deliver (or cause to be executed and delivered) to the Grantor all such proxies and other instruments as the Grantor may reasonably request for the purpose of enabling the Grantor to exercise the voting and other rights that it is entitled to exercise pursuant to paragraph (i) above.

(b) Any and all

(i) dividends and other distributions paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Collateral,

(ii) dividends and other distributions paid or payable in cash in respect of any Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus, and

(iii) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any Collateral,

other than the Initial Distribution to be made on Closing and distributions of up to $500,000 per annum made thereafter, shall be, and shall be forthwith delivered to the Agent to hold as, Collateral and shall, if received by the Grantor, be received in trust for the benefit of the Agent, be segregated from the other property or funds of the Grantor and be forthwith delivered to the Agent as Collateral in the same form as so received (with any necessary indorsement).

(c) Upon notice to the Grantor by the Agent following the occurrence and during the continuance of an Event of Default, all rights of the Grantor to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 7(a)(i) shall cease, and all such rights shall thereupon become vested in the Agent, which shall, as long as any Event of Default shall be continuing, have the sole right to exercise or refrain from exercising such voting and other consensual rights.

SECTION 8. Transfers and Other Liens; Additional Shares. (a) The Grantor shall not, other than in accordance with the terms of the Credit Agreement or the Class B Option, (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option (other than the Class B Option) with respect to, any of the Collateral, or (ii) create or suffer to exist any Lien upon or with respect to any of the Collateral except for the pledge, assignment and security interest created by this Agreement.

(b) The Grantor shall pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or other securities of the issuer of the Pledged Shares.

SECTION 9. Agent Appointed Attorney-in-Fact. The Grantor hereby irrevocably appoints the Agent the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time in the Agent's discretion following the occurrence and during the continuance of an Event of Default, to take any action and to execute any instrument that the Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(b) to receive, indorse and collect any drafts or other instruments and documents in connection with clause (a) above, and

(c) to file any claims or take any action or institute any proceedings that the Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Agent with respect to any of the Collateral.

SECTION 10. Agent May Perform. If the Grantor fails to perform any agreement contained herein, the Agent may itself perform, or cause performance of, such agreement, and the expenses of the Agent incurred in connection therewith shall be payable by the Grantor under Section 13(b).

SECTION 11. The Agent's Duties. The powers conferred on the Agent hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Agent shall have no duty as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Agent or any Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Agent accords its own property.

SECTION 12. Remedies. If any Event of Default shall have occurred and be continuing:

(a) The Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party upon default under the Uniform Commercial Code in effect in the State of New York at such time (the "N.Y. Uniform Commercial Code") (whether or not the N.Y. Uniform Commercial Code applies to the affected Collateral) and also may (i) require the Grantor to, and the Grantor hereby agrees that it will at its expense and upon request of the Agent forthwith, assemble all or part of the Collateral as directed by the Agent and make it available to the Agent at a place to be designated by the Agent that is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may deem commercially reasonable.

The Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Grantor (with a copy to each of Philip Morris and PM Companies) of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All cash proceeds received by the Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Agent, be held by the Agent as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Agent pursuant to Section 13) in whole or in part by the Agent for the ratable benefit of the Lenders against, all or any part of the Secured Obligations in such order as the Agent shall elect. Any surplus of such cash or cash proceeds held by the Agent and remaining after payment in full of all the Secured Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.

(c) The Agent may exercise any and all rights and remedies of the Grantor in respect of the Collateral.

(d) All payments received by the Grantor under or in connection with, or in respect of, the Collateral shall be received in trust for the benefit of the Agent, shall be segregated from other funds of the Grantor and shall be forthwith paid over to the Agent in the same form as so received (with any necessary indorsement).

SECTION 13. Indemnity and Expenses. (a) The Grantor agrees to indemnify the Agent from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Agent's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction.

(b) The Grantor will upon demand pay to the Agent the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that the Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Agent or the Lenders hereunder or (iv) the failure by the Grantor to perform or observe any of the provisions hereof.

SECTION 14. Amendments; Waivers; Etc. No amendment or waiver of any provision of this Agreement, and no consent to any departure by the Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by the Grantor and the Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Agent to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 15. Addresses for Notices. All notices and other communications provided for hereunder shall be given, and shall be effective, as provided in Section 9.02 of the Credit Agreement.

SECTION 16. Continuing Security Interest; Assignments Under the Credit Agreement. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the earlier of (i) the later of the payment in full in cash of the Secured Obligations and the Termination Date and (ii) the exercise by Philip Morris of the Class B Option, (b) be binding upon the Grantor, its successors and assigns and (c) inure, together with the rights and remedies of the Agent hereunder, to the benefit of the Agent, the Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement (including, without limitation, all or any portion of its Commitment, the Advances owing to it and the Term Note or Notes held by it) to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise, in each case only as provided in Section 9.07 of the Credit Agreement.

SECTION 17. Termination. Upon the earlier of (i) the exercise by Philip Morris of the Class B Option and (ii) the later of the payment in full in cash of the Secured Obligations and the Termination Date, the pledge, assignment and security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Grantor or, if the Class B Option has been exercised, to Philip Morris, as the case may be. Upon any such termination, the Agent will, at the Grantor's or Philip Morris? expense, as the case may be, execute and deliver to the Grantor or Philip Morris such documents as the Grantor or Philip Morris shall reasonably request to evidence such termination.

SECTION 18. Governing Law; Terms. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of New York. Unless otherwise defined herein or in the Credit Agreement, terms used in Article 9 of the N.Y. Uniform Commercial Code are used herein as therein defined.

IN WITNESS WHEREOF, the Grantor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

EVE HOLDINGS INC.

By: /s/ Joselynn D. Van Siclen

Title: Vice President

Address:

SCHEDULE I

PLEDGED SHARES

Class of Stock	Stock Certificate No(s).	Number of Shares	Percentage of Outstanding Units of Class B LLC Interests
Class B	B1	100	100%

EXHIBIT 10.6

GUARANTY

Dated as of June 10, 1999

From

EVE HOLDINGS INC.

as Guarantor

in favor of

THE AGENT AND LENDERS REFERRED TO IN
THE CREDIT AGREEMENT REFERRED TO HEREIN

T A B L E O F C O N T E N T S

GUARANTY

GUARANTY dated as of June 10, 1999 made by Eve Holdings Inc., a Delaware corporation (the "GUARANTOR"), in favor of the Secured Parties (as defined below).

PRELIMINARY STATEMENTS:

(1) Trademarks, LLC, a limited liability company (the "BORROWER"), is party to the 5-Year Non-Amortizing Drawn Term Loan Agreement dated as of May 24, 1999 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"; the capitalized terms defined therein and not otherwise defined herein being used herein as therein defined) with the Guarantor, certain Lender Parties party thereto and Citibank, N.A., as Collateral Agent for such Lender Parties (the Agent and such Lender Parties, collectively, the "SECURED PARTIES").

(2) The Guarantor, the holder of all of the Class B Shares of the Borrower, has guaranteed the obligations of the Borrower under Article VIII of the Credit Agreement.

(3) The Borrower and the Guarantor have requested that the Secured Parties enter into an amendment dated the date hereof (the AMENDMENT) to terminate the Guarantor's obligations under Article VIII of the Credit Agreement upon the execution by the Guarantor of a separate equivalent instrument of guaranty. The Lenders and the Agent have indicated their willingness to enter into the Amendment on the terms and conditions set forth therein.

(4) It is a condition precedent to the effectiveness of the Amendment that the Guarantor shall have executed and delivered this Guaranty to the Secured Parties.

(5) The Guarantor has received, directly or indirectly, all of the proceeds of the Advances under the Credit Agreement and will continue to derive substantial direct and indirect benefits from the transactions contemplated by the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Secured Parties to enter into the Amendment, the Guarantor hereby agrees as follows:

Section 1. Guaranty. Subject to Section 5, the Guarantor hereby unconditionally and irrevocably guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower now or hereafter existing under or in respect of the Credit Agreement (including, without limitation, any extensions, modifications, substitutions, amendments or renewals of any or all of the foregoing obligations) whether for principal, interest, expenses or otherwise (such obligations being the "GUARANTEED OBLIGATIONS"), and any and all expenses (including, without limitation, fees and expenses of counsel) incurred by the Agent or any other Secured Party in enforcing any rights under this Guaranty.

Section 2. Guaranty Absolute. The Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Credit Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the

rights of any Secured Party with respect thereto. Subject to Section 5, the liability of the Guarantor under this Guaranty shall be irrevocable, absolute and unconditional irrespective of:

(a) any lack of validity, enforceability or genuineness of any provision of the Credit Agreement, any Loan Document or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations or any other amendment or waiver of or any consent to departure from the Credit Agreement or any other Loan Document;

(c) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of, or consent to departure from, any other guaranty, for all or any of the Guaranteed Obligations; or

(d) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower, the Guarantor or any other guarantor or surety.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Secured Party or any other Person upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

Section 3. Waivers and Acknowledgments. (a) The Guarantor hereby unconditionally and irrevocably waives promptness, diligence, notice of acceptance, presentment, demand for performance, notice of nonperformance, default, acceleration, protest or dishonor and any other notice with respect to any of the Guaranteed Obligations and this Guaranty and any requirement that any Secured Party protect, secure, perfect or insure any lien or any property subject thereto or exhaust any right or take any action against the Borrower or any other Person or any collateral.

(b) The Guarantor hereby irrevocably waives any claims or other rights that it may now or hereafter acquire against the Borrower that arise from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or any Lender against the Borrower or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from such Borrower, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Guarantor in violation of the preceding sentence at any time prior to the later of the cash payment in full of the Guaranteed Obligations and all other amounts payable under this Guaranty and the Termination Date, such amount shall be held in trust for the benefit of the Agent and the Lenders and shall forthwith be paid to the Agent to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of the Credit Agreement and this Guaranty, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Guaranty thereafter arising.

(c) The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Credit Agreement and this Guaranty and that the waivers set forth in Section 2 and this Section 3 are knowingly made in contemplation of such benefits.

Section 4. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telegraphic, telecopy or telex communication) and mailed, telegraphed, telecopied, telexed or delivered to it, if to the Guarantor at its address c/o Brooke Group Ltd., 100 S.E. Street, 32nd Floor, Miami, Florida 33131, Attention: Richard J. Lampen, Executive Vice-President, if to the Agent or any Lender, at its address specified in Section 9.02 of the Credit Agreement, or, as to any party, at such other address as shall be designated by such party in a written notice to each other party. All such notices and other communications shall, when mailed, telegraphed, telecopied or telexed, be effective when deposited in the mails, delivered to the telegraph company, transmitted by telecopier or confirmed by telex answerback, respectively. Delivery by telecopier of an executed counterpart of a signature page to any amendment or waiver of any provision of this Guaranty shall be effective as delivery of an original executed counterpart thereof.

Section 5. Continuing Guaranty. Subject to the proviso to this Section 5, this Guaranty is a continuing guaranty and shall (a) remain in full force and effect until the later of the cash payment in full of the Guaranteed Obligations and all other amounts payable under this Guaranty and the Termination Date, (b) be binding upon the Guarantor, its successors and assigns, and (c) inure to the benefit of and be enforceable by the Lenders, the Agent and their respective successors, transferees and assigns provided, however, that, anything to the contrary notwithstanding, this Guaranty shall terminate and the Guarantor shall, without the requirement of any further action by any of the parties to any Loan Document, be released from any further liability hereunder upon the exercise by Philip Morris of the Class B Option.

Section 6. Execution in Counterparts. This Guaranty and each amendment, waiver and consent with respect hereto may be executed in any number of counterparts and by different parties thereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Guaranty by telecopier shall be effective as delivery of an original executed counterpart of this Guaranty.

Section 7. Governing Law; Jurisdiction. (a) This Guaranty shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) The Guarantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Guaranty or any of the other Loan Documents to which it is or is to be a party, or for recognition or enforcement of any judgment, and the Guarantor hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. The Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Guaranty or any other Loan Document shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Guaranty or any other Loan Document in the courts of any jurisdiction.

(c) The Guarantor irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Guaranty or any of the other Loan Documents to which it is or is to be a party in any New York State or federal court. The Guarantor hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such suit, action or proceeding in any such court.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

EVE HOLDINGS INC.

By: /s/ Joselynn D. Van Siclen

Name: Joselynn D. Van Siclen
Title: Vice President

Exhibit 10.8

AGREEMENT

Agreement made as of the 1st day of August, 1999, by and between Brooke Group Ltd., a corporation incorporated under the laws of the State of Delaware, with its principal place of business at 100 Southeast Second Street, Miami, Florida 33131 (the "Company"), and Joselynn D. Van Siclen, residing at 1643 Brickell Avenue, Apt. #2405, Miami, Florida 33129 (the "Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive as its Vice President, Treasurer and Chief Financial Officer and Executive is willing to serve in such capacities;

WHEREAS, the Company and Executive desire to set forth the terms and conditions of such employment.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the Company and Executive agree as follows:

1. EMPLOYMENT.

The Company hereby agrees to employ Executive, and Executive agrees to be employed by the Company, on the terms and conditions herein contained as its Vice President, Treasurer and Chief Financial Officer and in such other executive capacities with the Company and its affiliated entities as assigned from time to time by more senior executives of the Company. The Executive shall devote substantially all of her business time, energy, skill and efforts to the performance of her duties hereunder and shall faithfully and diligently serve the Company. The foregoing shall not prevent Executive from participating in not-for-profit activities or from managing her passive personal investments provided that these activities do not materially interfere with Executive's obligations hereunder.

2. TERM OF EMPLOYMENT.

Executive's employment under this Agreement shall be for a term commencing on August 1, 1999 (the "Effective Date") and, subject to earlier termination as provided in Section 7 below, terminating on August 1, 2000 (the "Initial Term"). The Initial Term shall be extended for successive one-year periods (the "Additional Terms") unless terminated at the end of the Initial Term or any Additional Term by either party upon ninety (90) days prior written notice given to the other party (the Initial Term and any Additional Terms shall be referred to as the "Employment Term"). Notwithstanding anything else herein, the provisions of Section 8 hereof shall survive and remain in effect notwithstanding the termination of the Employment Term or a breach by the Company of this Agreement or any of its terms.

3. COMPENSATION.

(a) As compensation for her services under this Agreement, the Company shall pay Executive a salary at the rate of One Hundred and Fifty-five Thousand Dollars ($155,000) per year (the "Base Salary"), payable in equal installments (not less frequently than monthly) and subject to withholding in accordance with the Company's normal payroll practices. The Executive's Base Salary shall be reviewed annually by the Company and may be increased, but not decreased, in the Company's sole discretion.

(b) In addition to the Base Salary, the Company may, in its sole discretion, pay Executive bonuses from time to time.

4. BENEFITS AND FRINGES.

During the Employment Term, Executive shall be entitled to such benefits and fringes, if any, as are generally provided from time to time by the Company to its executive employees of a comparable level, including any life or medical insurance plans and pension and other similar plans, provided that the Executive shall be provided with life insurance at least equal to her Base Salary (provided she is insurable at standard rates).

5. EXPENSES.

The Company shall reimburse Executive in accordance with its expense reimbursement policy as in effect from time to time for all reasonable expenses including at least 40 hours of continuing professional education per annum incurred by Executive in connection with the performance of her duties under this Agreement upon the presentation by Executive of an itemized account of such expenses and appropriate receipts.

6. VACATION.

During the Employment Term, Executive shall be entitled to vacation in accordance with the Company's practices, provided that Executive shall not be entitled to less than four weeks paid vacation in each full contract year.

7. EARLIER TERMINATION.

(a) Executive's employment under this Agreement and the Employment Term shall terminate prior to August 1, 2000 as follows:

(i) automatically on the date of Executive's death.

(ii) Upon written notice given by the Company to the Executive if Executive is unable to perform her material duties hereunder for 180 days (whether or not continuous) during any period of 360 consecutive days by reason of physical or mental disability.

(iii) Upon written notice by the Company to the Executive for Cause. Cause shall mean (A) the Executive's conviction (treating a nolo contendere plea as a conviction) of a felony (whether or not any right of appeal has been or may be exercised); (B) willful refusal to attempt to properly perform her obligations under this Agreement, or follow the direction of the Board of Directors of the Company (the "Board") or a more senior executive of the Company, which in either case is not remedied promptly after receipt by the Executive of written notice from the Company specifying the details thereof, provided the refusal to follow a direction shall not be Cause if the Executive in good faith believes that such

direction is not legal or ethical and promptly notifies the Company in writing of such belief; (C) the Executive's gross negligence or willful misconduct with regard to the Company or its affiliated entities, their business, assets or employees; (D) the Executive's breach of fiduciary duty owed to the Company or any subsidiary thereof, including, without limitation the obligations set forth in Section 8 hereof; or (E) any other breach by the Executive of a material provision of this Agreement that remains uncured for ten (10) days after written notice thereof is given to the Executive. Upon a termination for Cause, the Executive (and her representative) shall be given the opportunity to appear before the Board to explain why the Executive believes that Cause did not occur. Such appearance shall be scheduled on no less than twenty (20) and no more than forty (40) days notice to Executive. In the event the Board agrees with the Executive, which shall be a determination made in its sole discretion, the Executive shall be retroactively reinstated in her position.

(iv) Upon written notice by the Company without Cause.

(v) Upon the voluntary resignation of the Executive without Good Reason upon sixty (60) days prior written notice to the Company (which the Company may in its sole discretion make effective earlier).

(b) Upon such earlier termination of the Employment Term the Executive shall be entitled to receive any unpaid salary and accrued vacation through her date of termination and any benefits under any benefit plan in accordance with the terms of said plan. In addition, if the termination is pursuant to (a)(iv) above or non-renewal of the Employment Term by the Company pursuant to Section 2 above, the Executive shall receive, provided she signs a release of all claims arising out of her employment with the Company or termination thereof (other than her right to indemnification, which shall survive) in such form as reasonably requested by the Company, severance pay in a lump sum equal to the amount of Base Salary she would have received if she was employed until one year after termination of the Employment Term. Such lump sum severance shall be paid within ten (10) business days after the Executive's execution of the aforesaid release. In the event termination is pursuant to (a)(ii) alone, the Executive shall receive in monthly payments for one (1) year thereafter her Base Salary reduced by any disability benefits or worker's compensation salary replacement she receives from any program sponsored or made available by the Company or a

governmental entity. In addition, until the earlier of (i) Executive commencing other full-time employment or (ii) 12 months after the end of the Employment Term, to the extent the Executive or her dependents are eligible for COBRA coverage, the Company shall pay for such coverage. The Company and its affiliated entities shall have no other obligations to the Executive.

8. CONFIDENTIAL INFORMATION AND NON-COMPETITION.

(a) Executive acknowledges that as a result of her employment by the Company, Executive will obtain secret and confidential information as to the Company and its affiliated entities, that the Company and its affiliated entities will suffer substantial damage, which would be difficult to ascertain, if Executive shall enter into Competition, as defined below, with the Company or any affiliated entity and that because of the nature of the information that will be known to Executive it is necessary for the Company to be protected by the prohibition against Competition set forth herein, as well as the Confidentiality restrictions set forth herein. Executive acknowledges that the provisions of this Agreement are reasonable and necessary for the protection of the business of the Company and its affiliated entities and that part of the compensation paid under this Agreement is in consideration for the agreements in this Section 8.

(b) Competition shall mean:

(i) participating, directly or indirectly, as an individual proprietor, partner, stockholder, officer, employee, director, joint venturer, investor, lender, consultant or in any capacity whatsoever (within the United States of America, Canada, or in any country where the Company or its affiliates do business) in a business in competition with any operating business conducted by the Company or its affiliated entities; with regard to which Executive worked or otherwise had responsibilities or had access to material Confidential Information while employed by the Company or its affiliated entities or an investment opportunity within the provisions of subpart (E) below; provided, however, that such participation shall not include: (A) the mere ownership of not more than one percent (1%) of the total outstanding stock of a publicly held company; (B) the performance of services for any enterprise to the extent such services are not performed, directly or indirectly, for a

business in the aforesaid Competition; (C) any activity engaged in with the prior written approval of the Chief Executive Officer of the Company; (D) the practicing of accounting in an accounting firm that represents such competing business provided that Executive does not personally represent such competing business; or (E) investment banking activities (including without limitation with an investment entity for its own account or a fund operated by it) provided such activities do not involve any investment opportunity that the Company or any affiliated entity is considering or advising on at the time of termination of the Employment Term either for its own account, any fund managed by it or for any customer or potential customer of the Company or such entity.

(ii) recruiting, soliciting or inducing, of any nonclerical employee or employees of the Company or its affiliated entities to terminate their employment with, or otherwise cease their relationship with, the Company or its affiliated entities or hiring or assisting another person or entity to hire any nonclerical employee of the Company or its affiliated entities or any person who within six (6) months before had been a nonclerical employee of the Company or any of its affiliated entities. Notwithstanding the foregoing, if requested by an entity with which Executive is not affiliated, Executive may serve as a reference for any person who at the time of the request is not an employee of the Company or any of its affiliated entities.

(iii) If any restriction set forth with regard to Competition is found by any court of competent jurisdiction, or an arbitrator, to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend over the maximum period of time, range of activities or geographic area as to which it may be enforceable.

(c) During and after the Employment Term, Executive shall hold in a fiduciary capacity for the benefit of the Company and its affiliated entities all secret or confidential information, knowledge or data relating to the Company and its affiliates, and their respective businesses, including any confidential information as to customers of the Company or its affiliated entities, (i) obtained by Executive during her employment by the Company or its affiliated entities and (ii) not otherwise public knowledge or known within the Company's or affiliated entity's industry. Executive shall not, without prior written consent of

the Company, unless compelled pursuant to the order of a court or other governmental or legal body having jurisdiction over such matter, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In the event Executive is compelled by order of a court or other governmental or legal body to communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it, Executive shall promptly notify the Company of any such order and shall cooperate fully with the Company in protecting such information to the extent possible under applicable law.

(d) Upon termination of Executive's employment with the Company and its affiliated entities, or at any other time as the Company may request, Executive will promptly deliver to the Company all documents (whether prepared by the Company, an affiliated entity, Executive or a third party) relating to the Company or an affiliated entity or any of their businesses or property which Executive may possess or have under her direction or control.

(e) During the Employment Term and for one (1) year thereafter, Executive will not enter into Competition with the Company or its affiliated entities.

(f) In the event of a breach or potential breach of this Section 8, Executive acknowledges that the Company and its affiliated entities will be caused irreparable injury and that money damages may not be an adequate remedy and agree that the Company and its affiliated entities shall be entitled to injunctive relief (in addition to its other remedies at law) to have the provisions of this Section 8 enforced.

9. EXECUTIVE REPRESENTATION

Executive represents and warrants that she is under no contractual or other limitation from entering into this Agreement and performing her obligations hereunder.

10. INDEMNIFICATION

The Executive shall be entitled to be indemnified by the Company for her actions as an officer, director, employee, agent or fiduciary of the Company or its affiliated

entities to the fullest extent permitted by applicable law and shall have legal fees and other expenses paid to her in advance of final disposition of a proceeding provided she executes an undertaking to repay such amounts if, and to the extent, required to do so by applicable law. The Company shall cover the Executive under any directors and officers liability insurance policy to the same extent as its other senior officers.

11. ENTIRE AGREEMENT; MODIFICATION.

This Agreement constitutes the full and complete understanding of the parties hereto and will supersede all prior agreements and understandings, oral or written, with respect to the subject matter hereof. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by either party, or anyone acting on behalf of either party, which are not embodied herein and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended except by an instrument in writing signed by the party against whom or which enforcement may be sought.

12. SEVERABILITY.

Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms of provisions of this Agreement in any other jurisdiction.

13. WAIVER OF BREACH.

The waiver by any party of a breach of any provisions of this Agreement, which waiver must be in writing to be effective, shall not operate as or be construed as a waiver of any subsequent breach.

14. NOTICES

All notices hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand, or one day after sending by express mail or other "overnight mail service," or three days after sending by certified or registered mail, postage prepaid, return receipt requested. Notice shall be sent as follows: if to Executive, to the address as listed in the Company's records; and if to the Company, to the Company at its office or set forth at the head of this Agreement, to the attention of the Chairman. Either party may change the notice address by notice given as aforesaid.

15. ASSIGNABILITY; BINDING EFFECT.

This Agreement shall be binding upon and inure to the benefit of Executive and Executive's legal representatives, heirs and distributees, and shall be binding upon and inure to the benefit of the Company, its successors and assigns. This Agreement may not be assigned by the Executive. This Agreement may not be assigned by the Company except in connection with a merger or a sale by the Company of all or substantially all of its assets and then only provided the assignee specifically assumes in writing all of the Company's obligations hereunder.

16. GOVERNING LAW.

(a) All issues pertaining to the validity, construction, execution and performance of this Agreement shall be construed and governed in accordance with the laws of the State of Florida, without giving effect to the conflict or choice of law provisions thereof.

(b) Any dispute or controversy with regard to this Agreement, other then injunctive relief pursuant to Section 8, shall be settled by arbitration in Miami, Florida before the American Arbitration Association ("AAA") in accordance with the rules of Commercial Arbitration of the AAA. The decision of the arbitrators shall be final and binding upon the parties hereto and may be entered in any court having jurisdiction. The parties shall each bear fifty (50) percent of the cost of the AAA and the arbitrators, but each party shall bear its or her own legal expenses.

17. HEADINGS.

The headings in this Agreement are intended solely for convenience or reference and shall be given no effect in the construction or interpretation of this Agreement.

18. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed and Executive has hereunto set her hand as of the date first set forth above.

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Name: Bennett S. LeBow
Title: Chairman, President and
Chief Executive Officer

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen

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Exhibit 99.1

I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. THIRD-PARTY PAYOR ACTIONS

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 benefaciaries suffering from smoking-related illnesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Harris, et al. v. Bill Owens, et al., Case No. 99-S-953, USDC, District of Colorado (case filed 5/19/99). This action is brought on behalf of all persons, including the estates of those deceased persons who received medical assistance paid for by Medicaid in Colorado for a smoking-related disease or illness whose claim for past and future medical expenses were assigned to the State of Colorado and whose claims were released by the State of Colorado in the Master Settlement Agreement entered between the State of Colorado and the Tobacco Company Defendants.

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

Broin, et al. v. Philip Morris, et al., Case No. 91-49738 CA 22, Circuit Court, State of Florida, Dade County (case filed 10/31/91). This action brought on behalf of all flight attendants that have allegedly been injured by exposure to environmental tobacco smoke was certified as a class action on December 12, 1994. This case was settled with respect to all defendants on October 10, 1997, which settlement was finally approved by the court on February 2, 1998 and affirmed by the Third District Court of Appeal in March 1999. A request for discretionary review presently is before the Florida Supreme Court.

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. In July 1999, the jury returned a verdict with respect to Phase I of the trial finding the companies liable on various tort, warranty and conspiracy theories, and determined a possible cause for punitive damages. Phase II of the trial, which is to include a compensatory damages trial as to two of the class representatives and a punitive damages trial as to the class, is set to begin on September 7, 1999.

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

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

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

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

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

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

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

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

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

Baker, et al. v. The American Tobacco Company, et al., Case No.97-703444-NP, Circuit Court of Michigan, Wayne County (case filed 2/4/97). This personal injury putative class action is brought on behalf of plaintiff and all similarly situated allegedly injured adult smokers resident in Michigan.

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

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

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

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

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

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

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

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

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

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

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

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

Sturgeon, 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 have 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.

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

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

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

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 Medicaire expenses made by the United States government.

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

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

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

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

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

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

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

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

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

IV. INDIVIDUAL SMOKER CASES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gatlin v. The American Tobacco Co., et al., Case No. 982-10021, Circuit Court, State of Missouri, City of St. Louis (case filed 1/19/99). One individual suing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mishk, et al. v. The American Tobacco Co., et al., Case No. 108036/97, Supreme Court of New York, New York County (case filed 5/1/97). 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.

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

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

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

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

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

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

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

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

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

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

Bush, et al. v. Philip Morris, et al., Case No. 597CV180, USDC, Eastern District of Texas (case filed 9/22/97). Two individuals suing.

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, Distrit 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.

EXHIBIT 99.2

LIGGETT GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1999

LIGGETT GROUP INC.

Index to
Financial Statements

LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	June 30, 1999	December 31, 1998
ASSETS		
Current assets:		
Accounts receivable:		
Trade, less allowances of $1,120 and $1,686, respectively	$ 9,767	$14,510
Other	1,563	821
Inventories	29,014	25,974
Deferred tax assets	9,340	10,178
Other current assets	30,811	383
Total current assets	80,495	51,866
Property, plant and equipment, at cost, less accumulated depreciation of $32,450 and $30,893, respectively	20,720	16,195
Intangible assets, at cost, less accumulated amortization of $20,560 and $20,550, respectively	161	171
Other assets	8,426	6,491
Total assets	$109,802	$74,723

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

LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands, except per share amounts)

	June 30, 1999	December 31, 1998
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Current maturity of note payable	$ 341	$ --
Cash overdraft	1,243	63
Accounts payable, principally trade	3,357	3,206
Accrued expenses:		
Promotional	18,750	23,760
Income taxes	11,660	115
Other taxes, principally excise taxes	2,651	3,397
Estimated allowance for sales returns	7,100	7,100
Settlement accruals	1,867	1,120
Proceeds received for options	--	150,000
Other	4,046	10,709
Total current liabilities	51,015	199,470
Credit facility and note payable, less current maturities	7,011	2,538
Non-current employee benefits	10,966	10,902
Other long-term liabilities	5,515	6,999
Commitments and contingencies (Note 7)		
Stockholder's equity (deficit):		
Redeemable preferred stock (par value $1.00 per share; authorized 1,000 shares; no shares issued and outstanding)		
Common stock (par value $0.10 per share; authorized 2,000 shares; issued and outstanding 1,000 shares) and contributed capital	58,358	57,380
Accumulated deficit	(23,063)	(202,566)
Total stockholder's equity (deficit)	35,295	(145,186)
Total liabilities and stockholder's equity (deficit)	$109,802	$ 74,723

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

LIGGETT GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Net sales*	$ 93,926	$83,398	$179,973	$149,024
Cost of sales*	27,464	33,082	50,629	59,270
Gross profit	66,462	50,316	129,344	89,754
Selling, general and administrative expenses	48,739	40,022	90,949	72,728
Settlement charges	(11)	1,399	104	1,881
Non-cash compensation expense	488	--	976	--
Restructuring	1,100	--	1,100	--
Operating income	16,146	8,895	36,215	15,145
Other income (expense):				
Interest expense	(409)	(7,352)	(1,116)	(14,434)
Sale of assets	259	468	212	836
Gain on brand transaction	294,287	--	294,287	--
Income before income taxes	310,283	2,011	329,598	1,547
Income tax provision	119,763	--	127,395	--
Net income	$190,520	$ 2,011	$202,203	$ 1,547

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* Net sales and cost of sales include federal excise taxes of $13,607, $17,666, $26,160 and $32,476, respectively.

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

LIGGETT GROUP INC.

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

(Dollars in thousands)

	Common Stock and Contributed Capital	Deficit	Total Stockholder's Equity
Balance at December 31, 1998	$57,380	$(202,566)	$(145,186)
Net income	--	202,203	202,203
Accretion of capital contribution	978	--	978
Distributions and other payments	--	(22,700)	(22,700)
Balance at June 30,1999	$58,358	$ (23,063)	$ 35,295

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

LIGGETT GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six Months Ended June 30,	
	1999	1998
Cash flows from operating activities	$(122,221)	$ 2,213
Cash flows from investing activities:		
Proceeds from brand transaction	145,000	--
Proceeds from sale of property, plant and equipment	899	1,171
Capital expenditures	(6,972)	(694)
Net cash provided by investing activities	138,927	477
Cash flows from financing activities:		
Repayments of note	(106)	(28)
Issuance of note payable	4,500	--
Borrowings under revolving credit facility	153,019	124,042
Repayments under revolving credit facility	(152,599)	(124,792)
Deferred finance charges	--	(439)
Distributions and other payments	(22,700)	--
Increase (decrease) in cash overdraft	1,180	(891)
Net cash used in financing activities	(16,706)	(2,108)
Net increase in cash and cash equivalents	--	582
Cash and cash equivalents:		
Beginning of period	--	--
End of period	$ -0-	$ 582

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

LIGGETT GROUP INC.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

1. THE COMPANY

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

The interim consolidated financial statements included herein are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's consolidated financial position, results of operations and cash flows. The December 31, 1998 balance sheet has been derived from audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included as Exhibit 99.2 in Brooke's and BGLS' Annual Report on Form 10-K, as amended, for the year ended December 31, 1998, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

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

2. ESTIMATES AND ASSUMPTIONS

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

3. PHILIP MORRIS BRAND TRANSACTIONS

On November 20, 1998, Liggett and BGL 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 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. On December 2, 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. Liggett used the payments to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

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.

The $150,000 in proceeds received from the sale of the Class A and B options was presented as a liability on the consolidated balance sheet until the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999. Upon closing, Philip Morris obtained control of Trademarks and the Company recognized a pre-tax gain of $294,287 in its consolidated financial statements to the extent of the total cash proceeds received from the payment of the option fees, the exercise of the Class A option and the distribution of the loan proceeds.

4. INVENTORIES

Inventories consist of the following:

	June 30, 1999	December 31, 1998
Leaf tobacco	$10,734	$10,796
Other raw materials	1,963	1,741
Work-in-process	2,943	1,828
Finished goods	15,201	12,231
Replacement parts and supplies	3,178	3,150
Inventories at current cost	34,019	29,746
LIFO adjustment	(5,005)	(3,772)
Inventories at LIFO cost	$29,014	$25,974

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. Liggett had leaf tobacco purchase commitments of approximately $5,123 at June 30, 1999.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	June 30, 1999	December 31, 1998
Land and improvements	$ 416	$ 412
Buildings	5,852	5,823
Machinery and equipment	46,902	40,853
Property, plant and equipment	53,170	47,088
Less accumulated depreciation	(32,450)	(30,893)
Property, plant and equipment, net	$ 20,720	$ 16,195

6. CREDIT FACILITY AND NOTE PAYABLE

	June 30, 1999	December 31, 1998
Borrowings outstanding under revolving credit facility	$2,958	$2,538
Note payable	4,394	--
	7,352	2,538
Current portion	(341)	--
Amount due after one year	$7,011	$2,538

Revolving Credit Facility:

On March 8, 1994, Liggett entered into a revolving credit facility (the "Facility") under which it can borrow up to $40,000 (depending on the amount of eligible inventory and receivables as determined by the lenders) from a syndicate of commercial lenders. The Facility is collateralized by all inventories and receivables of the Company. Availability under the Facility was approximately $15,634 based upon eligible collateral at June 30, 1999. Borrowings under the Facility whose interest is calculated at a rate equal to 1.5% above Philadelphia National Bank's prime rate bore a rate of 9.25% at June 30, 1999. The Facility requires Liggett's compliance with certain financial and other covenants including restrictions on the payment of cash dividends and distributions by Liggett. In addition, the Facility, as amended April 8, 1998, imposes requirements with respect to Liggett's permitted maximum adjusted net worth (not to fall below a deficit of $195,000 as computed in accordance with the agreement, this computation was $40,300 at June 30, 1999) and net working capital (not to fall below a deficit of $17,000 as computed in accordance with the agreement, this computation was $34,826 at June 30, 1999). The Facility expires on March 8, 2000 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.

Note Payable:

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

7. COMMITMENTS AND CONTINGENCIES

TOBACCO-RELATED LITIGATION:

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

class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. For the six months ended June 30, 1999, Liggett incurred counsel fees and costs totaling approximately $3,001, compared to $2,562 for the comparable prior year period.

INDIVIDUAL ACTIONS. As of June 30, 1999, there were approximately 275 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to ETS and seek compensatory and, in some cases, punitive damages. Of these, 80 were pending in Florida, 91 in New York, 31 in Massachusetts and 22 in Texas. The balance of the individual cases were pending in 21 states. There are six individual cases pending where Liggett is the only named defendant.

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

In February 1999, a state court jury in San Francisco awarded $51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by 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, a state court jury in Portland awarded $80,311 in damages to the family of a deceased smoker who smoked Marlboro made by Philip Morris. The award includes $79,500 in punitive damages. The court subsequently reduced the punitive damages award to $32,000. A Notice of Appeal has been filed by Philip Morris.

CLASS ACTIONS. As of June 30, 1999, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant.

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

In May 1996, the Court of Appeals for the Fifth Circuit reversed the Class Certification Order and instructed the District Court to dismiss the class complaint. The Fifth Circuit ruled that the District Court erred in its analysis of the class certification issues by failing to consider how variations in state law affect predominance of common questions and the superiority of the class action mechanism. The appeals panel also held that the District Court's predominance inquiry did not include consideration of how a trial on the merits in Castano would be conducted. The Fifth Circuit further ruled that the "addiction-as-injury" tort is immature and, accordingly, the

District Court could not know whether common issues would be a "significant" portion of the individual trials. According to the Fifth Circuit's decision, any savings in judicial resources that class certification may bring about were speculative and would likely be overwhelmed by the procedural problems certification brings. Finally, the Fifth Circuit held that in order to make the class action manageable, the District Court would be forced to bifurcate issues in violation of the Seventh Amendment.

The extent of the impact of the Castano decision on tobacco-related class action litigation is still uncertain, although the decertification of the Castano class by the Fifth Circuit may preclude other federal courts from certifying a nationwide class action for trial purposes with respect to tobacco-related claims. The Castano decision has had to date, however, only limited effect with respect to courts' decisions regarding narrower tobacco-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, courts in 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 class actions were certified in state court in Florida prior to the Fifth Circuit's decision, Broin and Engle. The Castano decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

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. This case was brought by plaintiffs, on behalf of all individuals in the State of Florida, who allegedly have been injured as a result of smoking cigarettes. In July 1998, Phase I of the trial in this action commenced. (See "Subsequent Events".)

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

GOVERMENTAL ACTIONS. As of June 30, 1999, there were approximately 20 Governmental Actions pending against Liggett. In these proceedings, the governmental entities seek reimbursement for Medicaid and other health care expenditures allegedly caused by use of tobacco products. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

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

THIRD-PARTY PAYOR ACTIONS. As of June 30, 1999, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross and Blue Shield Plans in more than 35 states, filed federal lawsuits against the industry seeking payment of health-care costs allegedly incurred as a result of cigarette smoking and ETS. The lawsuits were filed in Federal District Courts in New York, Chicago, and Seattle and seek billions of dollars in damages. The lawsuits allege conspiracy, fraud, misrepresentation and violation of federal

racketeering and antitrust laws as well as other claims. In January 1999, a federal judge in Seattle dismissed the Third-Party Payor Action brought by seven Blue Cross/Blue Shield Plans. The court ruled that the insurance providers did not have standing to bring the lawsuit. However, in February 1999, a federal judge in the Eastern District of New York denied pleas by the industry to dismiss the Third-Party Payor Action brought by 24 Blue Cross/Blue Shield Plans. Similarly, in March 1999, a federal judge in the Northern District of Illinois denied the industry's motion to dismiss.

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

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

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

On November 23, 1998, 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. As described below, Liggett and BGL had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

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

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

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

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share") or 1.67% of total cigarettes sold in the United States. In the year following any year in which Liggett's market share does exceed the Base Share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMs pursuant to the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Pursuant to the annual and strategic contribution payment provisions of the MSA, the OPMs (and Liggett to the extent its market share exceeds the Base Share) will pay the following annual amounts (subject to certain adjustments):

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

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

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

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nation" protection for both Liggett and BGL,

the payments due these states by Liggett (with certain possible exceptions) have been eliminated. With respect to all non-economic obligations under the previous settlements, both Liggett and BGL are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In March 1997, Liggett, BGL and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled Fletcher, et al. v. Brooke Group Ltd., et al., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, BGL and plaintiffs filed an amended class action settlement agreement in Fletcher which agreement was preliminarily approved by the court in December 1998. (See "Subsequent Events".)

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

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

TRIALS. There are no trials involving the Company or BGL scheduled for 1999, other than the Engle case. Cases currently scheduled for trial during the first six months of 2000 include a lawsuit brought by several Blue Cross/Blue Shield plans in federal court in New York (January), two asbestos company contribution lawsuits in Mississippi and New York (February), one class action in Maryland (February) and two third-party payor actions brought by unions in West Virginia (March) and New York (April). Also, three individual cases and an adequacy of warning case are currently scheduled for trial during the first six months of 2000. Trial dates, however, are subject to change.

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

In March 1996, and in each of March, July, October and December 1997, Liggett and/or BGL received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of: the health consequences of smoking cigarettes; the targeting of children by the industry; and the addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas The Company understands that the Eastern District Investigation and the DOJ Investigation essentially have been consolidated into one investigation conducted by the DOJ. In April 1998, BGL announced that Liggett had reached an agreement with the DOJ to cooperate in both the Eastern District Investigation and the DOJ Investigation. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation. Liggett and BGL are unable, at this time, to predict the outcome of this investigation.

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

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

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

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

There are several other proceedings, lawsuits and claims pending against BGL 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 Liggett's financial position, results of operations or cash flows.

SUBSEQUENT EVENTS. On July 7, 1999, the jury in the Engle matter returned a verdict in Phase I of the trial finding that smoking causes various diseases and is addictive and finding the defendants liable on various tort and warranty claims. Additionally, the jury found that the class may be entitled to punitive damages from the defendants. It is expected that the defendants will appeal the Phase I liability verdict. The court has decided that Phase II of the trial will commence September 7, 1999, with a causation and damages trial for two of the class representatives and a punitive damages trial on a class-wide basis. 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. On August 2, 1999, the companies filed a motion to disqualify the trial judge. On August 5, 1999, the trial judge denied the motion.

On July 22, 1999, the Circuit Court of Mobile County, Alabama denied approval of the Fletcher class action settlement.

LEGISLATION AND REGULATION:

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

1998, the court ruled that the EPA made procedural and scientific mistakes when it declared in its 1993 report that secondhand smoke caused as many as 3,000 cancer deaths a year among nonsmokers. On June 6, 1999, the Fourth Circuit Court of Appeals heard oral argument in the appeal taken by the EPA from the district court order invalidating the EPA report.

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

In August 1996, the FDA filed in the Federal Register a Final Rule (the "FDA Rule") classifying tobacco as a drug, asserting jurisdiction by the FDA over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The Fourth Circuit reversed the district court on appeal and in August 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. In April 1999, the Supreme Court granted certiorari to review the Fourth Circuit's decision that the FDA does not have the authority to regulate access to, and labeling of, tobacco products. Liggett and BGL support the FDA Rule and have begun to phase in compliance with certain of the proposed interim FDA regulations. See discussions of the Castano and Governmental Actions settlements above.

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

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

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

YEAR 2000 COSTS:

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

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

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

8. RELATED PARTY TRANSACTIONS

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

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

In addition, Liggett has entered into an annually renewable Corporate Services Agreement with BGLS wherein BGLS agreed to provide corporate services to the Company at an annual fee paid in monthly installments. Corporate services provided by BGLS under this agreement include the provision of administrative services related to Liggett's participation in its parent company's multi-employer benefit plan, external publication of financial results, preparation of consolidated financial statements and tax returns and such other administrative and managerial services as may be reasonably requested by Liggett. The charges for services rendered under the agreement amounted to $1,829 in the first six months of 1999 and $918 in the first six months of 1998.

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

Exhibit 99.4

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1999

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)

	June 30, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,142	$ 2,722
Accounts receivable - trade	1,200	650
Inventories	17,407	10,342
Other current assets	6,511	2,928
Total current assets	26,260	16,642
Property, plant and equipment, at cost, less accumulated depreciation of $4,231 and $2,959	103,102	77,286
Other	3,719	5,782
Total assets	$133,081	$ 99,710
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Credit facilities and current portion of notes payable	$ 30,816	$ 20,005
Accounts payable - trade	20,967	10,415
Due to affiliates	68,749	51,533
Accrued taxes	5,603	7,658
Accrued interest	741	228
Other accrued liabilities	5,023	3,628
Total current liabilities	131,899	93,467
Long-term portion of notes payable	15,222	19,652
Deferred gain	4,004	20,392
Participating loan	32,253	31,991
Other liabilities	1,200	4,252
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value $1 per share, 701,000 shares authorized, authorized, issued and outstanding	701	701
Additional paid-in-capital	29,017	17,104
Deficit	(81,215)	(87,849)
Total stockholder's equity (deficit)	(51,497)	(70,044)
Total liabilities and stockholder's equity (deficit)	$133,081	$ 99,710

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

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

	Three Months Ended		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
Net sales*	$15,339	$27,865	$37,689	$47,042
Cost of sales*	12,784	18,749	31,198	34,333
Gross profit	2,555	9,116	6,491	12,709
Operating, selling, administrative and general expenses	3,468	3,057	6,114	5,198
Operating income	(913)	6,059	377	7,511
Other income (expense):				
Interest expense	(3,005)	(2,645)	(6,971)	(6,088)
Recognition of deferred gain on sale of assets			8,478	
Gain on foreign currency exchange	341	5	2,611	84
Amortization of goodwill		(1,023)		(1,054)
Other, net	169	7	259	(32)
(Loss) income before income taxes	(3,408)	2,403	4,754	421
(Benefit) provision for income taxes	(164)	1,546	(1,880)	1,311
Net (loss) income	$ (3,244)	$ 857	$ 6,634	$ (890)

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* Net sales and cost of sales include excise taxes of $1,111, $4,761, $2,596 and $7,869, respectively.

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

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

	Common Stock		Additional Paid-in Capital	Deficit	Total
	Shares	Amount			
Balance, December 31, 1998.....	701,000	$701	$17,104	$(87,849)	$(70,044)
Net income.....				6,634	6,634
Effect of New Valley recapitalization.....			11,913		11,913
Balance, June 30, 1999.....	701,000	$701	$29,017	$(81,215)	$(51,497)

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)

	Six Months Ended	
	June 30, 1999	June 30, 1998
Net cash provided by operating activities	$ 18,812	$ 3,634
Cash flows from investing activities:		
Capital expenditures	(30,565)	(6,444)
Net cash used in investing activities	(30,565)	(6,444)
Cash flows from financing activities:		
Proceeds from debt		11,995
Repayments of debt	(155)	(7,000)
Borrowings under credit facility	10,959	
Proceeds from participating loan		20,000
Capital contributions		9,000
Repayment of intercompany debt		(27,080)
Distributions paid to parent		(1,275)
Net cash provided by financing activities	10,804	5,640
Effect of exchange rate changes on cash and cash equivalents	(631)	84
Net (decrease) increase in cash and cash equivalents	(1,580)	2,914
Cash and cash equivalents, beginning of period	2,722	968
Cash and cash equivalents, end of period	$ 1,142	$ 3,882

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. PRINCIPLES OF REPORTING

Brooke (Overseas) Ltd. ("the Company"), a Delaware corporation, is a wholly-owned subsidiary of BGLS Inc. ("BGLS") and an indirect subsidiary of Brooke Group Ltd. ("Brooke"). The consolidated financial statements of the Company include Western Tobacco Investments LLC ("Western Tobacco"), a Delaware limited liability company. Western Tobacco holds the Company's interest in Liggett-Ducat Ltd. ("Liggett-Ducat"), a Russian closed joint stock company engaged in the manufacture and sale of cigarettes in Russia, and Liggett-Ducat Tobacco ("LDT"), a wholly-owned subsidiary of Liggett-Ducat 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 consolidated financial statements and the notes thereto included as Exhibit 99.4 in Brooke's and BGLS' Annual Report on Form 10-K, as amended, for the year ended December 31, 1998, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

RISKS AND UNCERTAINTIES:

During 1998, the Russian Federation entered a period of economic instability which has continued in 1999. The impact includes, but is not limited to, a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates on government and corporate borrowings. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the control of companies operating in the Russian Federation. The Company's operations may be significantly affected by these factors for the foreseeable future.

USE OF ESTIMATES:

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

RECLASSIFICATIONS:

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)
(UNAUDITED)

2. LIQUIDITY

At June 30, 1999, the Company had net capital and working capital deficiencies of $51,497 and $105,639, respectively. Factory management is currently using credit facilities totaling $22,285. Availability under these facilities is $2,500. In addition, the Company has obtained funding from BGLS of approximately $12,900 to complete the factory. In connection with the move to the new factory in June 1999, Liggett-Ducat began the manufacture and marketing of western style cigarettes. Management believes that such activities will result in improved operations and cash flow, but there can be no assurances in this regard.

3. SALE OF BROOKEMIL

In connection with the sale by the Company of the common shares of BrookeMil Ltd. ("BML") to New Valley Corporation ("New Valley") in 1997, a portion of the gain was deferred in recognition of the fact that the Company's parent, BGLS, retained an interest in BML 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 BML, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, $8,478, in March 1999.

As of June 1, 1999, New Valley became a consolidated subsidiary of Brooke. The deferred gain remaining related to the sale of BML, $11,913, was reclassified as a contribution to capital.

4. INVENTORIES

Inventories consist of:

	June 30, 1999	December 31, 1998
Leaf tobacco	$ 5,405	$ 3,086
Other raw materials	8,908	2,888
Work-in-process	372	173
Finished goods	1,343	3,215
Replacement parts and supplies	1,379	980
	$17,407	$10,342

Replacement parts and supplies are shown net of a provision for obsolescence of $408 and $545 at June 30, 1999 and December 31, 1998, respectively.

During the six months ended June 30, 1999, Liggett-Ducat exchanged $251 of cigarettes for the equivalent value in tobacco, other

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

materials and services as compared to $2,510 for the same period in 1998. Sales and purchases were priced at what management believes are normal sales prices for cigarettes and the normal market price for tobacco, other materials and services.

At June 30, 1999, the Company had leaf tobacco purchase commitments of approximately $34,870.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of:

	June 30, 1999	December 31, 1998
Factory machinery and equipment.....	$ 54,922	$10,589
Computers and software.....	737	466
Office furniture and equipment.....	622	470
Vehicles.....	2,527	1,767
Construction-in-progress.....	48,526	66,953
	107,334	80,245
Less accumulated depreciation.....	(4,232)	(2,959)
	$103,102	$77,286

Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow and began production in June 1999. Production at Liggett-Ducat's old factory ceased in March 1999. At June 30, 1999, the remaining liability under the construction contracts is $4,045 and the remaining liability under equipment purchase agreements is $21,795.

6. NOTES PAYABLE, CREDIT FACILITIES AND PARTICIPATING LOAN

Notes payable and credit facilities consist of the following:

	June 30, 1999	December 31, 1998
Notes payable.....	$23,753	$28,057
Credit facilities.....	22,285	11,600
Total notes payable and credit facilities.....	46,038	39,657
Less:		
Current maturities.....	30,816	20,005
Amount due after one year.....	$15,222	$19,652

At June 30, 1999, Liggett-Ducat had various credit facilities under which approximately $22,285 was outstanding. One facility for $10,000, which is fully utilized and bears interest at 25%, expires in May

2000. Another facility for $5,000, of which $2,500 is utilized and bears interest at 20%, expires in December 1999. The remaining facilities, denominated in rubles (approximately $9,800 at the June 30, 1999 exchange rate), have terms of six - twelve months with interest rates of 52% - 63%. The facilities are collateralized by factory equipment and tobacco inventory.

In 1997, Western Tobacco entered into several contracts for the purchase of cigarette manufacturing equipment. Approximately 85% of the contracts are being financed with promissory notes generally over a period of 5 years. The outstanding balance on these notes, which are denominated in various European currencies, is $20,386 at June 30, 1999. The Company also has issued a promissory note for $1,339 due March 31, 2000 covering deposits for equipment being purchased for the factory.

On July 29, 1998, the Company borrowed $3,000, subsequently reduced to $2,034, from an unaffiliated third party with interest at 14% per annum. The remaining principal of the note and accrued interest on the loan of $1,950 was paid on August 2, 1999.

In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. organized Western Realty Development LLC ("Western Realty Ducat") to make real estate and other investments in Russia. Through June 30, 1999, Western Realty Ducat had made a $30,000 participating loan to Western Tobacco with the proceeds used by the Company to reduce intercompany debt to BGLS and for payments on the new factory construction contracts. The loan bears no fixed interest and is payable only out of 30% of distributions made by Western Tobacco to the Company. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to the Company will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of the Company. For the three and six months ended June 30, 1999, a preference requirement equal to 30% of Western Tobacco's net (loss) income of $(741) and $261 has been charged to interest expense.

7. INCOME TAXES

For the six months ended June 30, 1999 and 1998, the tax (benefit) provision of $(1,880) and $1,311, respectively, consisted of income tax (benefit) expense pursuant to Russian statutory requirements of $(171) and $1,311, respectively, and U.S. income tax benefit of $2,051 and $0 in accordance with the Company's tax sharing agreement with Brooke.

8. CONTINGENCIES

BGLS has pledged its ownership interest in the Company's common stock as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes due 2001 ("BGLS Notes").

On March 2, 1998, BGLS entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account

(together, the "Apollo Holders"), who held approximately 41.8% of the BGLS Notes then outstanding. The Apollo Holders (and any transferees) agreed to defer the payment of interest on the BGLS Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the BGLS Notes on January 31, 2001 or upon an event of default under the Indenture for the BGLS Notes. In connection with the agreement, the Company pledged 50.1% of Western Tobacco to collateralize the BGLS Notes held by the Apollo Holders (and any transferees).