

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

JOINT CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): JANUARY 31, 1997

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

1-5759
(Commission File Number)

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

DELAWARE
(State or other jurisdiction of incorporation
or organization)

100 S.E. SECOND STREET
MIAMI, FLORIDA 33131
(Address of principal executive offices including Zip Code)

305/579-8000
(Registrant's telephone number, including area code)

(NOT APPLICABLE)
(Former name or former address,
if changed since last report)

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

33-93576
(Commission File Number)

13-3593483
(I.R.S. Employer Identification No.)

DELAWARE
(State or other jurisdiction of incorporation
or organization)

100 S.E. SECOND STREET
MIAMI, FLORIDA 33131
(Address of principal executive offices including Zip Code)

305/579-8000
(Registrant's telephone number, including area code)

(NOT APPLICABLE)
(Former name or former address,
if changed since last report)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On January 31, 1997, Brooke (Overseas) Ltd. ("BOL"), a wholly-owned subsidiary of BGLS Inc. ("BGLS"), which is wholly-owned by Brooke Group Ltd. ("Brooke"), entered into a stock purchase agreement (the "Purchase Agreement") with New Valley Corporation (the "Purchaser"), pursuant to which BOL sold 10,483 shares of the common stock of BrookeMil Ltd. ("BML") to the Purchaser, comprising 99.1% of the outstanding shares of BML (the "Shares").

The Purchaser paid to BOL for the Shares a purchase price of \$55 million, consisting of \$21.5 million in cash and a \$33.5 million 9% promissory note of the Purchaser (the "Note"). The Note is secured by the Shares and is payable \$21.5 million on June 30, 1997 and \$12 million on December 31, 1997. The transaction was approved by the independent members of the Board of Directors of Brooke. Brooke retained independent legal counsel in connection with the evaluation and negotiation of the transaction.

Brooke indirectly controls the Purchaser through its indirect ownership of an approximate 42% voting interest therein. Bennett S. LeBow, Chairman of the Board, President and Chief Executive Officer of Brooke and BGLS and the controlling stockholder of Brooke, serves as Chairman of the Board and Chief Executive Officer of the Purchaser. Howard M. Lorber, a consultant to Brooke and BGLS and a stockholder of Brooke, serves as President and Chief Operating Officer and is a director of the Purchaser. Richard J. Lampen, Executive Vice President of Brooke and BGLS, serves as Executive Vice President and is a director of the Purchaser. Richard S. Ressler, a greater than 5% stockholder of Brooke and a former consultant to Brooke and its subsidiaries, serves as a director of the purchaser.

The foregoing summary of the acquisition is qualified in its entirety by reference to the text of the Purchase Agreement, which is incorporated by reference as Exhibit 2.1 to this report and is incorporated herein by reference, and Brooke's Press Release dated January 31, 1997, which is attached hereto as Exhibit 99.1, and is incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(b) Pro Forma Financial Information.

In January 1997, Brooke Group Ltd. ("BGL") and BGLS Inc. ("BGLS") consummated the sale of certain of their real estate assets constituting their indirect subsidiary, BrookeMil Ltd. ("BrookeMil") in Russia. The Unaudited Pro Forma Consolidated Statements of Operations for the year ended December 31, 1995 and for the nine months ended September 30, 1996 present the results of operations of BGL assuming the sale of BrookeMil had been consummated as of the beginning of the periods presented. Results of operations of BGLS do not differ materially from those results presented.

The Unaudited Pro Forma Consolidated Balance Sheet as of September 30, 1996 reflects the assets, liabilities and capitalization of BGL after giving effect to the elimination of the disposed assets and liabilities of BrookeMil, the receipt of the sale proceeds and the cancellation of intercompany debt. A portion of the gain on sale has been deferred to the extent of the retained interest in the property sold through ownership interest in the Purchaser and the Purchaser's put right on a portion of the property. The Balance Sheet for BGLS does not differ materially from the balance sheet presented.

The pro forma information does not purport to be indicative of the results of operations or the financial position which would have actually been obtained if the disposition transactions had been consummated as of the beginning of the periods presented or at September 30, 1996. In addition, the pro forma financial information does not purport to be indicative of results of operations or financial position which may be obtained in the future.

The pro forma financial information should be read in conjunction with BGL's and BGLS' historical Consolidated Financial Statements and Notes thereto contained in the 1995 Annual Report on Form 10-K and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996, June 30, 1996 and September 30, 1996.

BROOKE GROUP LTD. AND SUBSIDIARY
 PRO FORMA CONSOLIDATED BALANCE SHEET
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

| | As of September 30, 1996 | | |
|---|--------------------------|---------------------------|------------|
| | Historical | Pro Forma Adjustments | Pro Forma |
| ASSETS: | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 2,103 | \$ 21,500 (A) (12) (C) | \$ 23,591 |
| Accounts receivable - trade..... | 18,526 | | 18,526 |
| Other receivables..... | 1,788 | | 1,788 |
| Receivables from affiliates..... | 22 | 33,500 (B) | 33,522 |
| Inventories..... | 54,370 | | 54,370 |
| Other current assets..... | 4,624 | (125) (C) | 4,499 |
| | 81,433 | 54,863 | 136,296 |
| Total current assets..... | | | |
| Property, plant and equipment, net..... | 68,269 | (40,140) (C) | 28,129 |
| Intangible assets, net..... | 4,181 | | 4,181 |
| Investment in affiliate..... | 0 | | 0 |
| Other assets..... | 9,779 | (3,178) (C) | 6,601 |
| | \$ 163,662 | \$ 11,545 | \$ 175,207 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT): | | | |
| Current liabilities: | | | |
| Notes payable and current portion of long-term debt..... | \$ 52,373 | \$(12,360) (C) | \$ 40,013 |
| Accounts payable..... | 27,969 | (1,651) (C) | 26,318 |
| Accrued promotional expenses..... | 28,684 | | 28,684 |
| Accrued taxes payable..... | 19,900 | 870 | 20,770 |
| Accrued interest..... | 10,101 | | 10,101 |
| Other accrued liabilities..... | 27,196 | (4,276) (C) | 22,920 |
| | 166,223 | (17,417) | 148,806 |
| Total current liabilities..... | | | |
| Notes payable, long-term debt and other obligations, less current portion... | 387,880 | (10,349) (C) | 377,531 |
| Noncurrent employee benefits..... | 30,283 | | 30,283 |
| Other liabilities..... | 13,367 | (3,300) (C) | 32,398 |
| | | 22,331 (D) | |
| Commitments and contingencies..... | | | |
| Stockholders' equity (deficit): | | | |
| Common stock, par value \$0.10 per share, authorized 40,000,000 shares, issued 24,998,043 shares, outstanding 18,497,096 shares..... | 1,850 | | 1,850 |
| Additional paid-in capital..... | 90,806 | | 90,806 |
| Deficit..... | (470,359) | 20,280 (E) | (450,079) |
| Other..... | (24,049) | | (24,049) |
| Less: 6,500,947 shares of common stock in treasury, at cost..... | (32,339) | | (32,339) |
| | (434,091) | 20,280 | (413,811) |
| Total stockholders' equity (deficit)..... | | | |
| Total liabilities and stockholders' equity (deficit)..... | \$ 163,662 | \$ 11,545 | \$ 175,207 |
| | ===== | ===== | ===== |

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- (A) To record cash received at sale of BrookeMil
 (B) To record promissory note received
 (C) To record sale of BML
 (D) To record deferred gain on sale
 (E) Represents gain realized on the sale of BrookeMil, net of tax effect

BROOKE GROUP LTD. AND SUBSIDIARY
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

| | Nine Months Ended September 30, 1996 | | |
|--|--------------------------------------|--------------------------|------------|
| | Historical | Pro Forma Adjustments | Pro Forma |
| Revenues..... | \$ 330,364 | \$ (2,006) (A) | \$ 328,358 |
| Cost of goods sold..... | 168,931 | | 168,931 |
| | 161,433 | (2,006) | 159,427 |
| Gross profit..... | | | |
| Operating, selling, general and administrative expenses... | 158,482 | (1,527) (A) | 156,955 |
| | 2,951 | (479) | 2,472 |
| Operating income..... | | | |
| Other income (expenses): | | | |
| Interest income..... | 203 | | 203 |
| Interest expense..... | (45,488) | (634) (A) | (46,122) |
| Equity in (loss) of affiliate..... | (7,152) | | (7,152) |
| Sale of assets..... | 6,745 | | 6,745 |
| Other, net..... | 1,846 | | 1,846 |
| | (40,895) | (1,113) | (42,008) |
| (Loss) from continuing operations..... | | | |
| Provision for income taxes..... | 1,291 | | 1,291 |
| | (42,186) | (1,113) | (43,299) |
| (Loss) from continuing operations..... | | | |
| Proportionate share of New Valley capital transactions.... | 1,782 | | 1,782 |
| | \$ (40,404) | \$ (1,113) | \$ 41,517 |
| Net (loss) income applicable to common shares..... | | | |
| Per common share(B): | \$ (2.18) | \$ (0.06) | \$ (2.24) |

(A) To eliminate the operations of BrookeMil

(B) Weighted average number of shares used in computing loss per common share was 18,497,096.

BROOKE GROUP LTD. AND SUBSIDIARY
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

| | Year Ended December 31, 1995 | | |
|--|------------------------------|--------------------------|------------|
| | Historical | Pro Forma Adjustments | Pro Forma |
| Revenues..... | \$ 461,459 | | \$ 461,459 |
| Cost of goods sold..... | 216,187 | | 216,187 |
| | 245,272 | ----- | 245,272 |
| Gross profit..... | | | |
| Operating, selling, administrative and general expenses... | 237,212 | (4,139) (A) | 233,073 |
| | 8,060 | 4,139 | 12,199 |
| Operating income (loss)..... | | | |
| Other income (expenses): | | | |
| Interest income..... | 989 | | 989 |
| Interest expense..... | (57,505) | | (57,505) |
| Equity in earnings of affiliate..... | 678 | | 678 |
| Other, net..... | 2,776 | (2,675) (A) | 101 |
| | (45,002) | 1,464 | (43,538) |
| (Loss) gain from continuing operations..... | | | |
| Provision (benefit) for income taxes..... | 342 | | 342 |
| | (45,344) | 1,464 | (43,880) |
| (Loss) gain from continuing operations..... | | | |
| Proportionate share of New Valley capital transaction..... | 16,802 | | 16,802 |
| | \$ (28,542) | 1,464 | (27,078) |
| Net (loss) income applicable to common shares..... | | | |
| Per common share(B): | \$ (1.56) | \$ 0.08 | \$ (1.48) |

 (A) To eliminate operations of BrookeMil

(B) Weighted average number of shares used in computing loss per common share was 18,301,186.

(c) Exhibits.

The following Exhibits are provided in accordance with the provisions of Item 601 of Regulation S-K and are filed herewith unless otherwise noted.

EXHIBIT INDEX

- 2.1 Stock Purchase Agreement dated as of January 31, 1997 among BrookeMil Ltd. ("BML"), Brooke (Overseas) Ltd. ("BOL"), BGLS Inc. and New Valley Corporation ("New Valley") (incorporated by reference to Exhibit 2.1 in New Valley's Current Report on Form 8-K dated January 31, 1997 (the "New Valley Form 8-K")).
- 10.1 Promissory Note of New Valley dated January 31, 1997 in favor of BOL (incorporated by reference to Exhibit 10.1 in the New Valley Form 8-K).
- 10.2 Pledge Agreement dated as of January 31, 1997 entered into by and between BOL and New Valley (incorporated by reference to Exhibit 10.2 in the New Valley Form 8-K).
- 10.3 Use Agreement dated as of January 31, 1997, entered into by and between BML and Liggett-Ducat Joint Stock Company (incorporated by reference to Exhibit 10.3 in the New Valley Form 8-K).
- 99.1 Press Release of Brooke Group Ltd. dated January 31, 1997.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BROOKE GROUP LTD.

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: January 31, 1997

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BGLS INC.

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: January 31, 1997

INDEX TO EXHIBITS

| Exhibit No. | Exhibit |
|-------------|---|
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| 99.1 | Press Release of Brooke Group Ltd. dated January 31, 1997. |

EXHIBIT 99.1

FOR INCLUSION IN BROOKE GROUP LTD.'S AND
BGLS INC.'S JOINT CURRENT REPORT ON FORM 8-K
DATED JANUARY 31, 1997

CONTACT: GEORGE SARD/ANNA CORDASCO/PAUL CAMINITI
SARD VERBINNEN & CO.
212/687-8080

BROOKE GROUP DIVESTS RUSSIAN REAL ESTATE COMPANY TO FOCUS ON TOBACCO

MIAMI, FL, JANUARY 31, 1997 -- Brooke Group Ltd. (NYSE: BGL) today announced it has sold its Russian real estate development business, BrookeMil Ltd., to New Valley Corporation (OTC: NVYL) for \$55 million, enabling Brooke to focus on its tobacco operations.

Brooke Group received \$21.5 million in cash and \$33.5 million in a 9% promissory note for BrookeMil, due within one year. The transaction was approved by the independent members of the Board of Directors of Brooke Group.

"The sale of Brooke's Russian real estate will allow us to devote full attention to revitalizing our tobacco business," said Bennett S. LeBow, Chairman, President and CEO of Brooke Group. "Ron Fulford is making good progress restructuring Liggett, our U.S. tobacco company, and we are working to expand our Russian tobacco business through Liggett-Ducat. Brooke shareholders will continue to share in the success of the Russian real estate development projects through their 42% ownership of New Valley, which also has other real estate in its portfolio."

BrookeMil is developing a three-phase complex on 2.2 acres of land in downtown Moscow, for which it has a 98-year lease. In 1993, the first phase of the project, Ducat Place I, a 46,500 sq. ft. Class-A office building, was successfully built and leased. Tenants include Citicorp, the G-7 Group of Nations and the European Bank for Reconstruction and Development. In 1995, BrookeMil began construction of Ducat Place II, a premier 150,000 sq. ft. office building. Ducat Place II has already been pre-leased to a number of leading international companies including Motorola, Lukoil-Arco and Morgan Stanley. The third phase, Ducat Place III, is planned as a 400,000 sq. ft. mixed-use complex, with construction set to begin in 1998.

Brooke Group is a holding company which owns Liggett Group Inc. and controlling interests in Liggett-Ducat and New Valley Corporation.

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