

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 SEPTEMBER 30, 1999

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

1-5759
Commission File Number

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

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

33-93576
Commission File Number

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

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

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

At November 12, 1999 Brooke Group Ltd. had 21,989,782 shares of common stock outstanding, and BGLS Inc. had 100 shares of common stock outstanding, all of which are held by Brooke Group Ltd.

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)

	September 30, 1999	December 31, 1998
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 6,314	\$ 7,396
Receivables from clearing brokers	10,705	
Investment securities available for sale	41,378	
Trading securities owned	9,779	
Accounts receivable - trade	11,138	15,160
Other receivables	2,172	924
Inventories	49,054	36,316
Restricted assets	1,113	
Deferred income taxes	98,470	59,613
Other current assets	3,108	3,151
	-----	-----
Total current assets	233,231	122,560
Property, plant and equipment, net	137,195	93,504
Investment in real estate, net	52,842	
Long-term investments, net	7,431	
Investment in joint venture	51,206	
Restricted assets	8,919	
Other assets	18,490	12,918
	-----	-----
Total assets	\$ 509,314	\$ 228,982
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 36,071	\$ 21,176
Margin loan payable	955	
Accounts payable	26,880	13,880
Cash overdraft	173	77
Securities sold, not yet purchased	2,696	
Accrued promotional expenses	20,368	23,760
Accrued taxes payable	49,584	14,854
Accrued interest	3,776	17,189
Proceeds received for options		150,000
Other accrued liabilities	57,680	32,505
	-----	-----
Total current liabilities	198,183	273,441
Notes payable, long-term debt and other obligations, less current portion ..	156,691	262,665
Noncurrent employee benefits	19,696	21,701
Deferred income taxes	140,122	
Other liabilities	73,739	65,350
Minority interests	45,622	
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, par value \$1.00 per share, authorized 10,000,000 shares .		
Common stock, par value \$0.10 per share, authorized 100,000,000		
shares, issued 27,822,779 shares, outstanding 21,989,782 shares	2,199	2,094
Additional paid-in capital	216,382	124,120
Deficit	(308,391)	(512,182)
Accumulated other comprehensive income (loss)	(3,279)	24,774
Other	(4,177)	(5,508)
Less: 5,832,997 shares of common stock in treasury, at cost	(27,473)	(27,473)
	-----	-----
Total stockholders' deficit	(124,739)	(394,175)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 509,314	\$ 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)

	September 30, 1999	December 31, 1998
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 6,314	\$ 7,396
Receivables from clearing brokers	10,705	
Investment securities available for sale	41,378	
Trading securities owned	9,779	
Accounts receivable - trade	11,138	15,160
Other receivables	2,109	755
Inventories	49,054	36,316
Restricted assets	1,113	
Deferred income taxes	98,470	59,613
Other current assets	2,776	2,946
	-----	-----
Total current assets	232,836	122,186
Property, plant and equipment, net	137,180	93,481
Investment in real estate, net	52,842	
Long-term investments, net	7,431	
Investment in joint venture	51,206	
Restricted assets	8,919	
Other assets	17,329	11,729
	-----	-----
Total assets	\$ 507,743	\$ 227,396
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 35,729	\$ 20,955
Margin loan payable	955	
Accounts payable	26,755	13,746
Cash overdraft	69	63
Securities sold, not yet purchased	2,696	
Due to parent		32,394
Accrued promotional expenses	20,368	23,760
Accrued taxes payable	49,584	14,854
Accrued interest	3,776	17,188
Proceeds received from options		150,000
Other accrued liabilities	53,221	31,556
	-----	-----
Total current liabilities	193,153	304,516
Notes payable, long-term debt and other obligations, less current portion	156,691	262,665
Noncurrent employee benefits	19,696	21,701
Deferred income taxes	140,122	
Other liabilities	76,474	69,216
Minority interests	45,622	
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value \$0.01 per share; 100 shares authorized, issued and outstanding		69,297
Additional paid-in capital	175,988	
Deficit	(296,724)	(524,773)
Accumulated other comprehensive income	(3,279)	24,774
	-----	-----
Total stockholder's deficit	(124,015)	(430,702)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 507,743	\$ 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		Nine Months Ended	
	Sept. 30, 1999	Sept. 30, 1998	Sept. 30, 1999	Sept. 30, 1998
	-----	-----	-----	-----
Revenues:				
Tobacco*	\$ 135,932	\$ 108,179	\$ 353,594	\$ 304,207
Broker-dealer transactions	12,711		18,587	
Real estate leasing	1,576		2,330	
	-----	-----	-----	-----
Total revenues	\$ 150,219	\$ 108,179	\$ 374,511	\$ 304,207
Expenses:				
Cost of goods sold*	47,473	47,086	128,998	140,422
Operating, selling, administrative and general expenses ..	83,384	48,115	190,395	130,241
	-----	-----	-----	-----
Operating income	19,362	12,978	55,118	33,544
Other income (expenses):				
Interest and dividend income	507	75	1,239	325
Interest expense	(16,114)	(20,138)	(43,200)	(60,561)
Equity in loss of affiliate	(908)	(8,935)	(10,106)	(20,383)
Recognition of deferred gain on sale of assets			7,050	
Gain in joint venture	1,740		950	
Gain on sale of investments, net	151		478	
Sale of assets	3,844	707	7,969	2,025
Gain on brand transaction	(189)		294,098	
Other, net	(427)	256	2,494	(705)
	-----	-----	-----	-----
Income (loss) from continuing operations before provision (benefit) for income taxes and minority interests	7,966	(15,057)	316,090	(45,755)
Provision (benefit) for income taxes	2,782	(2,447)	86,156	(1,135)
Minority interests	1,046		(336)	
	-----	-----	-----	-----
Income (loss) from continuing operations	6,230	(12,610)	229,598	(44,620)
Gain on discontinued operations in equity investee, net of taxes.....			1,249	
Gain on disposal of discontinued operations		3,208		3,208
Loss on extraordinary items, net of taxes	(354)		(1,410)	
	-----	-----	-----	-----
Net income (loss)	\$ 5,876	\$ (9,402)	\$ 229,437	\$ (41,412)
	=====	=====	=====	=====
Per basic common share:				
Income (loss) from continuing operations	\$ 0.28	\$ (0.58)	\$ 10.44	\$ (2.10)
	=====	=====	=====	=====
Income from discontinued operations		\$ 0.15	\$ 0.06	\$ 0.15
		=====	=====	=====
Loss from extraordinary items	\$ (0.02)		\$ (0.06)	
	=====		=====	
Net income (loss) applicable to common shares	\$ 0.26	\$ (0.43)	\$ 10.44	\$ (1.95)
	=====	=====	=====	=====
Basic weighted average common shares outstanding	21,990,917	21,867,543	21,990,917	21,262,709
	=====	=====	=====	=====
Per diluted common share:				
Income (loss) from continuing operations	\$ 0.21	\$ (0.58)	\$ 7.68	\$ (2.10)
	=====	=====	=====	=====
Income from discontinued operations		\$ 0.15	\$ 0.04	\$ 0.15
		=====	=====	=====
Loss from extraordinary items	\$ (0.01)		\$ (0.05)	
	=====		=====	
Net income (loss) applicable to common shares	\$ 0.20	\$ (0.43)	\$ 7.67	\$ (1.95)
	=====	=====	=====	=====
Diluted weighted average common shares outstanding	29,864,048	21,867,543	29,902,071	21,262,709
	=====	=====	=====	=====

* Tobacco revenues and Cost of goods sold include excise taxes of \$17,374, \$20,244, \$46,129 and \$60,589, 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		Nine Months Ended	
	Sept. 30, 1999	Sept. 30, 1998	Sept. 30, 1999	Sept. 30, 1998
Revenues:				
Tobacco*	\$ 135,932	\$ 108,179	\$ 353,594	\$ 304,207
Broker dealer transactions	12,711		18,587	
Real estate leasing	1,576		2,330	
	-----	-----	-----	-----
Total revenues	\$ 150,219	\$ 108,179	\$ 374,511	\$ 304,207
Expenses:				
Cost of goods sold*	47,473	47,086	128,998	140,422
Operating, selling, administrative and general expenses	82,961	46,838	189,421	127,635
	-----	-----	-----	-----
Operating income	19,785	14,255	56,092	36,150
Other income (expenses):				
Interest and dividend income	506	65	1,236	184
Interest expense	(17,060)	(21,270)	(46,735)	(63,832)
Equity in loss of affiliate	(908)	(8,935)	(10,106)	(20,383)
Recognition of deferred gain on sale of assets			8,264	
Gain in joint venture	1,740		950	
Gain on sale of investments, net	151		478	
Sale of assets	3,844		7,969	1,318
Gain on brand transaction	(189)		294,098	
Other, net	(435)	94	2,456	(870)
	-----	-----	-----	-----
Income (loss) from continuing operations before provision (benefit) for income taxes and minority interests ...	7,434	(15,791)	314,702	(47,433)
Provision (benefit) for income taxes	2,782	(2,447)	86,156	(1,135)
Minority interests	1,046		(336)	
	-----	-----	-----	-----
Income (loss) from continuing operations	5,698	(13,344)	228,210	(46,298)
Gain on discontinued operations in equity investee, net of taxes			1,249	
Gain on disposal of discontinued operations		3,208		3,208
Loss on extraordinary items, net of taxes	(354)		(1,410)	
	-----	-----	-----	-----
Net income (loss)	\$ 5,344	\$ (10,136)	\$ 228,049	\$ (43,090)
	=====	=====	=====	=====

* Tobacco revenues and cost of goods sold include excise taxes of \$17,374, \$20,244, \$46,129 and \$60,589, respectively.

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

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

	Common Stock		Additional Paid-In Capital	Deficit	Treasury Stock	Other	Accumulated Other Comprehensive Income (Loss)		Total
	Shares	Amount							
Balance, December 31, 1998	20,943,730	\$2,094	\$ 124,120	\$(512,182)	\$(27,473)	\$(5,508)	\$ 24,774	\$(394,175)	
Net income				229,437				229,437	
Unrealized loss on investment securities							(3,501)	(3,501)	
Effect of New Valley recapitalization on other comprehensive loss							(24,647)	(24,647)	
Other New Valley capital transactions							95	95	
Total other comprehensive loss								(28,053)	
Total comprehensive income								201,384	
Effect of stock dividend	1,046,052	105	25,541	(25,646)					
Recapitalization of New Valley			72,926					72,926	
New Valley purchase of preferred stock in subsidiary			850					850	
Distributions on common stock			(8,340)					(8,340)	
Amortization of deferred compensation			1,285			1,331		2,616	
Balance, September 30, 1999	<u>21,989,782</u>	<u>\$2,199</u>	<u>\$ 216,382</u>	<u>\$(308,391)</u>	<u>\$(27,473)</u>	<u>\$(4,177)</u>	<u>\$ (3,279)</u>	<u>\$(124,739)</u>	

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Common Stock		Additional Paid-In Capital	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, December 31, 1998	100	\$	\$ 69,297	\$(524,773)	\$ 24,774	\$(430,702)
Net income				228,049		228,049
Unrealized loss on investment securities					(3,501)	(3,501)
Other New Valley capital transactions					95	95
Effect of New Valley recapitalization on other comprehensive loss					(24,647)	(24,647)
Total other comprehensive loss						(28,053)
Total comprehensive income						199,996
Capital contribution			31,260			31,260
Recapitalization of New Valley			72,926			72,926
New Valley purchase of preferred stock in subsidiary			850			850
Amortization of deferred compensation			1,655			1,655
Balance, September 30, 1999	100	\$	\$175,988	\$(296,724)	\$ (3,279)	\$(124,015)

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)

	Nine Months Ended	
	Sept. 30, 1999	Sept. 30, 1998
Net cash provided by (used in) operating activities.....	\$ 30,750	\$ (17,847)
Cash flows from investing activities:		
Proceeds from sale of businesses and assets, net.....	932	2,377
Proceeds from brand transaction.....	145,000	
Sale or maturity of investment securities.....	3,234	
Purchase of investment securities.....	(6,737)	
Purchase of long-term investments.....	(2,902)	
Proceeds from sale or purchase of real estate, net.....	47,550	
Payment of prepetition claims.....	(67)	
Capital expenditures.....	(44,372)	(17,289)
Net cash provided by (used in) investing activities.....	142,638	(14,912)
Cash flows from financing activities:		
Proceeds from debt.....	4,976	4,425
Repayments of debt.....	(187,582)	(1,520)
Borrowings under revolver.....	262,084	208,434
Repayments on revolver.....	(247,196)	(210,050)
Purchase of preferred stock in subsidiary.....	(1,509)	
Effect of New Valley recapitalization.....	9,055	
Decrease in margin loan payable.....	(5,046)	
Increase in cash overdraft.....	95	460
Distributions on common stock.....	(8,446)	(3,055)
Proceeds from participating loan.....		25,000
Issuance of common stock.....		10,144
Net cash (used in) provided by financing activities.....	(173,569)	33,838
Effect of exchange rate changes on cash and cash equivalents.....	(901)	557
Net (decrease) increase in cash and cash equivalents.....	(1,082)	1,636
Cash and cash equivalents, beginning of period.....	7,396	4,754
Cash and cash equivalents, end of period.....	\$ 6,314	\$ 6,390
Supplemental non-cash investing and financing activities:		
Issuance of stock to Liggett bondholders.....		4,105
Issuance of stock to consultants.....		3,705
Issuance of warrants.....		22,421
Issuance of stock dividends.....	25,646	

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

Item 1. Consolidated Financial Statements - (Continued)

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

	Nine Months Ended	
	Sept. 30, 1999	Sept. 30, 1998
Net cash provided by (used in) operating activities	\$ 22,513	\$ (9,783)
Cash flows from investing activities:		
Proceeds from sale of businesses and assets, net	932	1,670
Proceeds from brand transaction	145,000	
Sale or maturity of investment securities	3,234	
Purchase of investment securities	(6,737)	
Purchase of long-term investments	(2,902)	
Proceeds from sale or purchase of real estate, net	47,550	
Payment of prepetition claims	(67)	
Capital expenditures	(44,372)	(17,289)
Net cash provided by (used in) investing activities	142,638	(15,619)
Cash flows from financing activities:		
Proceeds from debt	4,500	3,950
Repayments of debt	(187,226)	(1,433)
Borrowings under revolver	262,084	208,434
Repayments on revolver	(247,196)	(210,050)
Purchase of preferred stock in subsidiary	(1,509)	
Effect of New Valley recapitalization	9,055	
Increase in margin loan payable	(5,046)	
Increase in cash overdraft	6	514
Proceeds from participating loan		25,000
Net cash (used in) provided by financing activities	(165,332)	26,415
Effect of exchange rate changes on cash and cash equivalents	(901)	557
Net (decrease) increase in cash and cash equivalents	(1,082)	1,570
Cash and cash equivalents, beginning of period	7,396	4,754
Cash and cash equivalents, end of period	\$ 6,314	\$ 6,324
Supplemental non-cash investing and financing activities:		
Issuance of stock to Liggett bondholders		4,105
Issuance of stock to consultants		3,705
Issuance of warrants		22,421

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 primarily in the investment banking and brokerage business through its ownership of Ladenburg Thalmann & Co. Inc., in the real estate development business in Russia and in investment in Internet-related businesses.

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

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.

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

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:

Information concerning the Company's common stock has been adjusted to give effect to the 5% stock dividend paid to Company stockholders on September 30, 1999. The dividend was charged to retained earnings in the net amount of \$25,646, which was based on the fair value of the Company's common stock. In connection with the 5% dividend, the Company increased the number of warrants and stock options by 5% and reduced the exercise prices accordingly. All share amounts have been presented as if the stock dividend had occurred on January 1, 1998.

For the three and nine months ended September 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 nine months ended September 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 nine months ended September 30, 1999, total comprehensive income was \$201,384. For the nine months ended September 30, 1998, the total comprehensive loss was \$22,225.

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

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 11.)

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 guaranty). 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.

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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".

Summarized financial information for New Valley for the periods ended May 31, 1999 and September 30, 1998 when the Company was an equity investor follows:

	Five Months Ended May 31, 1999	Nine Months Ended Sept. 30, 1998

Revenues	\$ 39,452	\$ 78,552
Costs and expenses.....	50,659	95,633
Loss from continuing operations.....	(10,668)	(15,458)
Gain from discontinued operations.....	4,100	7,740
Net loss applicable to common shares(A).....	(44,327)	(67,051)

(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:

- o 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 exercisable for five years,
- o each Class B Preferred Share was reclassified into 1/3 of a Common Share and five Warrants, and
- o 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

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Company's ownership of the outstanding Common Shares of New Valley increased from 42.3% to 55.1%, and its total voting power increased 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.

On August 30, 1999, New Valley completed the sale of five of its shopping centers for an aggregate purchase price of \$46,125 (before closing adjustments and expenses) including the assumption of \$35,023 of mortgage financing. In connection with the transaction, New Valley recorded a gain of \$3,849 for the three and nine months ended September 30, 1999.

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, New Valley's recapitalization and the sale of New Valley's office buildings, shopping centers and the Thinking Machines assets 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	Nine Months Ended Sept. 30, 1999
	-----	-----
Revenues.....	\$462,235 =====	\$389,187 =====
Operating income.....	\$ 24,135 =====	\$ 39,358 =====
Income from continuing operations.....	\$ 7,447 =====	\$ 13,853 =====
Net income.....	\$ 11,712 =====	\$ 14,516 =====
Net income per common share:		
Basic.....	\$0.55 =====	\$0.66 =====
Diluted.....	\$0.45 =====	\$0.49 =====

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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 \$65,875, 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 \$39,581 had been funded through September 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 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 September 30, 1999 for Western Realty Ducat follows:

September 30, 1999

Current assets	\$ 5,174
Participating loan receivable	36,470
Real estate, net	85,519
Furniture and fixtures, net .	335
Other noncurrent assets	371
Goodwill, net	5,778
Notes payable-current	6,192
Other current liabilities ...	6,939
Notes payable - long-term ...	9,915
Other long-term liabilities .	753
Members' equity	109,848

Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in, 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 11 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

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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. In addition, Western Realty Ducat is entitled to receive a 15% annual rate of return on amounts advanced as the loan under certain circumstances in the event of a sale or refinancing of Western Tobacco or the new factory. Any rights of repayment on the loan are subordinate to the rights of all other creditors of BML. Western Tobacco has recognized net interest expense of \$4,218 and \$4,479 for the three and nine months ended September 30, 1999, which represents a 15% cumulative adjustment to realizable value on the loan plus 30% of any net expense applicable to common interests in Western Tobacco. The loan is classified in other long-term liabilities on the consolidated balance sheet at September 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 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 September 30, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of \$25,875 together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment of \$10,525, together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin is managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through September 30, 1999, Western Realty Repin has advanced \$29,298, of which \$18,773 was funded by Apollo under the Western Realty Repin loan. Apollo funded an additional advance of \$7,125 under the Repin loan on October 1, 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, including the \$7,125 advance in October 1999, 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 September 30, 1999, BML had invested \$31,651 in the Kremlin sites and held \$1,999 in cash and \$1,392 in receivables from Western Realty Ducat, both of which were 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 \$22,000 by May 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.

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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 \$41,378 at September 30, 1999 is comprised of marketable equity securities and warrants of \$39,298 and notes receivable of \$2,080.

7. INVENTORIES

Inventories consist of:

	September 30, 1999	December 31, 1998
	-----	-----
Leaf tobacco.....	\$14,714	\$13,882
Other raw materials.....	9,074	4,629
Work-in-process.....	2,758	2,001
Finished goods.....	21,615	15,446
Replacement parts and supplies.....	4,786	4,130
	-----	-----
Inventories at current cost.....	52,947	40,088
LIFO adjustments.....	(3,893)	(3,772)
	-----	-----
	\$49,054	\$36,316
	=====	=====

At September 30, 1999, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately \$4,019 and \$30,770, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	September 30, 1999	December 31, 1998
	-----	-----
Land and improvements	\$ 415	\$ 412
Buildings	51,167	5,823
Machinery and equipment	122,567	54,144
Construction-in-progress	5,049	66,981
	-----	-----
	179,198	127,360
Less accumulated depreciation	(42,003)	(33,856)
	-----	-----
	\$ 137,195	\$ 93,504
	=====	=====

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In May 1999, Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow and began production in June 1999. At September 30, 1999, the remaining liability under the construction contracts is \$1,980 and the remaining liability under equipment purchase agreements is \$23,428.

9. LADENBURG, THALMANN & CO. INC.

On September 14, 1999, New Valley agreed to sell for \$10,200 a 19.9% interest in its subsidiary Ladenburg, Thalmann & Co., Inc. ("Ladenburg") to Berliner Effektengesellschaft AG ("BEAG"). Pursuant to the agreement, BEAG will also acquire a three-year option to purchase additional interests in Ladenburg subject to certain conditions. Consummation of the transaction is subject to the approval of the New York Stock Exchange and other closing conditions.

10. LONG-TERM INVESTMENTS

At September 30, 1999, long-term investments consisted primarily of investments in limited partnerships of \$7,649. The Company believes the fair value of the limited partnerships exceeds their carrying amount by approximately \$4,413 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 \$4,516 at September 30, 1999. New Valley owns a 33.33% interest in AtomicPop, an online music company, and smaller interests in other Internet companies.

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

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

	September 30, 1999	December 31, 1998
	-----	-----
BGLS:		
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of \$7,027 and \$17,374	\$ 86,043	\$215,490
Deferred interest on 15.75% Series B Senior Secured Notes due 2001	27,863	24,985
New Valley:		
Notes payable	19,881	
Liggett:		
Revolving credit facility	3,818	2,538
Note payable	4,288	
BOL:		
Foreign credit facilities	24,464	11,600
Notes payable	23,428	28,057
Other	2,977	1,171
	-----	-----
Total notes payable, long-term debt and other obligations	192,762	283,841
Less:		
Current maturities	36,071	21,176
	-----	-----
Amount due after one year	\$156,691	\$262,665
	=====	=====

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

Through September 30, 1999, BGLS had repurchased \$139,794 principal amount of its 15.75% Senior Secured Notes due 2001 (the "Notes"), together with accrued interest thereon. The purchases were funded primarily with proceeds from the Philip Morris brand transaction which closed on May 24, 1999. The Company recognized an extraordinary loss on early extinguishment of debt primarily due to the unamortized imputed interest associated with the related Notes. At September 30, 1999, the principal amount of Notes outstanding was \$93,070. Of this amount, \$60,600 principal amount of the Notes are held by the holders who have agreed to defer payment of interest as discussed below.

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

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In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued to the Apollo Holders a five-year warrant to purchase 2,100,000 shares of the Company's common stock at a price of \$4.76 per share. The Apollo Holders were also issued a second warrant expiring October 31, 2004 to purchase an additional 2,257,500 shares of the Company's common stock at a price of \$0.095 per share. The second warrant became exercisable on October 31, 1999.

Based on the fair value of the equity instruments given to the holders of the debt, 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:

On August 30, 1999, New Valley completed the sale of five of its shopping centers for an aggregate purchase price of \$46,125 before closing adjustments and expenses. The shopping centers were subject to approximately \$35,023 of mortgage financing, which was assumed by the purchasers at closing.

During the third quarter 1999, New Valley refinanced the notes payable for \$19,898, in the aggregate, on its two remaining shopping centers in Florida and West Virginia. Interest rates range from 7.5% to 9.03% per annum. The four notes are due between 2002 and 2024. Two, for \$8,510, are subject to call in 2001 under certain conditions.

Revolving Credit Facility - Liggett:

Liggett has a revolving credit facility (the "Facility") for \$40,000 with a syndicate of commercial lenders which is collateralized by all inventories and receivables of Liggett. At September 30, 1999, \$14,755 was available under the Facility based on eligible collateral. Borrowings

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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 9.75% at September 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 \$30,707 at September 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 \$24,670 at September 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 Credit Facilities - Liggett-Ducat:

At September 30, 1999, Liggett-Ducat had various credit facilities under which approximately \$24,464 was outstanding. Facilities denominated in dollars amount to \$17,000, of which \$14,500 has been utilized, bear interest at rates of 20% to 25% and expire within the next twelve months. The remaining facilities, denominated in rubles (approximately \$9,964 at the September 30, 1999 exchange rate), have terms of six to twelve months with interest rates of 50% to 63%. The facilities are collateralized by factory equipment and tobacco inventory.

On November 1, 1999, Liggett-Ducat entered into an agreement with a Russian bank for a revolving credit facility for \$14,500 denominated in dollars and collateralized by the new factory building bearing interest of 13% and \$3,000 denominated in rubles and collateralized by certain equipment bearing interest of 40%. The credit facility will be used to repay existing credit lines.

Notes Payable - BOL:

Western Tobacco has 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 \$22,046 at September 30, 1999. BOL also has issued a promissory note for approximately \$1,382 covering deposits for equipment being purchased for the new factory. The note is due March 31, 2000.

12. EQUITY

On November 4, 1999, the Company adopted its 1999 Long-Term Incentive Plan (the "Plan") subject to approval by the stockholders of the Company at next year's annual meeting. The Plan authorizes the granting of up to 5,000,000 shares of the Company's common stock through awards of stock

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options (which may include incentive stock options and/or nonqualified stock options), stock appreciation rights and shares of restricted Company common stock. All officers, employees and consultants of the Company and its subsidiaries are eligible to receive awards under the Plan.

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

13. 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 Brooke Group Holding, the Company's predecessor and a wholly-owned subsidiary of BGLS, or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs ("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 nine months ended September 30, 1999, Liggett incurred counsel fees and costs totaling approximately \$4,210, compared to \$3,713 for the comparable prior year period.

Individual Actions. As of September 30, 1999, there were approximately 280 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, 82 were pending in Florida, 91 in New York, 30 in Massachusetts and 17 in Texas. The balance of the individual cases were pending in 22 states. There are six individual cases pending where Liggett is the only named defendant.

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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, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, indemnity and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO"), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including, treble/multiple damages, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

In February 1999, a 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 September 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. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the Castano case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

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

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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, Broin and Engle, were certified in state court in Florida prior to the Fifth Circuit's decision. 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. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. In July 1998, Phase I of the trial in this action commenced. On July 7, 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court has decided that Phase II of the trial, which commenced November 1, 1999, will be a causation and damages trial for three 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. (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 one case against Liggett in Florida and one in Maryland. A number of class certification decisions are on appeal.

Governmental Actions. As of September 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, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

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On or about September 22, 1999, the United States of America commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover healthcare costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other tobacco-related illnesses caused by the fraudulent and tortious conduct of defendants, and to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The action is allegedly brought under the Medical Care Recovery Act and the Medicare secondary payer provisions of the Social Security Act and RICO.

Third-Party Payor Actions. As of September 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, Brooke Group Holding and Liggett entered into an agreement, subject to court approval, to settle the Castano class action tobacco litigation. The Castano class was subsequently decertified by the court.

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

In November 1998, Philip Morris, Brown & Williamson Tobacco Corporation, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states,

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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, Brooke Group Holding 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 45 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

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

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

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

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled *Fletcher, et al. v. Brooke Group Ltd., et al.*, Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, Brooke Group Holding and plaintiffs filed an amended class action settlement agreement in *Fletcher* which agreement was preliminarily approved by the court in December 1998. On July 22, 1999, the court denied approval of the *Fletcher* class action settlement. The parties' motion for reconsideration is still pending.

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 Brooke Group Holding or Liggett scheduled for the remainder of 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 (April), two asbestos company contribution lawsuits in Mississippi and New York (February), one Class Action in Maryland (February) and a Third-Party Payor Action brought by unions in New York (June). Also, two Individual Actions 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. 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.

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The Company is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. 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 Brooke Group Holding or Liggett, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

It is possible that the Company's consolidated financial position, results of operations or cash 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.

SUBSEQUENT EVENTS:

In connection with the Engle case, on October 20, 1999, the Third District Court of Appeal denied the defendants' motion to order the trial court to assess punitive damages on an individual basis. On October 29, 1999, the defendants petitioned the Florida Supreme Court for relief. On November 3, 1999, the Florida Supreme Court requested briefing from the plaintiffs.

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

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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. Oral argument has been scheduled for December 1999. 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

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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 legislative and 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. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation.

OTHER MATTERS:

In March 1997, a shareholder derivative suit was filed against New Valley, as a nominal defendant, its directors and Brooke Group Holding 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. Brooke Group Holding's and New Valley's time to respond to the complaint has not yet expired. Brooke Group Holding and New Valley believe that the allegations are without merit. Although there can be no assurances, the Company is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On July 2, 1999, a purported class action was commenced on behalf of New Valley's former Class B preferred shareholders against New Valley, Brooke Group Holding and certain directors and officers of New Valley in Delaware Chancery Court. The complaint alleges that the recapitalization, approved by a majority of each class of New Valley's stockholders in May 1999, was fundamentally unfair to the Class B preferred shareholders, the proxy statement relating to the recapitalization was materially deficient and the defendants breached their fiduciary duties to the Class B preferred shareholders in approving the transaction. The plaintiffs seek class certification of the action and an award of unspecified compensatory damages as well as all costs and fees. Brooke Group Holding and New Valley believe that the allegations are without merit. Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On October 18, 1999, an action was commenced against a subsidiary of Brooke Group Holding in the Supreme Court of the State of New York, County of New York. The Complaint alleges that under the terms of a 1993 Put Agreement, Brooke Group Holding's subsidiary was obligated to purchase certain shares of plaintiff's stock for \$7.5 million. In addition, the Complaint seeks prejudgment interest in the amount of approximately \$3 million. The Company believes, and has been so advised by counsel, that it has a number of valid defenses to this matter.

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14. SEGMENT INFORMATION

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

	United States Tobacco -----	Russia Tobacco -----	Broker- Dealer* -----	Real Estate* -----	Corporate and Other* -----	Total -----
Three Months Ended Sept. 30, 1999:						
Net revenues.....	\$108,676	\$ 27,256	\$12,711	\$ 1,576	\$	\$150,219
Operating income (loss).....	19,689	4,262	(2,424)	1,683	(3,848)	19,362
Depreciation and amortization.....	747	1,649	244	450	12	3,102
Capital expenditures.....	1,112	5,350			46	6,508
Three Months Ended Sept. 30, 1998:						
Net revenues.....	85,630	22,549				108,179
Operating income (loss).....	8,685	2,177			2,116	12,978
Depreciation and amortization.....	1,738	253			60	2,051
Capital expenditures.....	488	9,663				10,151
Nine Months Ended Sept. 30, 1999:						
Net revenues.....	288,649	64,945	18,587	2,330		374,511
Operating income (loss).....	55,904	4,830	(2,531)	1,312	(4,397)	55,118
Identifiable assets.....	107,785	135,268	39,841	59,872	166,548	509,314
Depreciation and amortization.....	2,567	2,921	144	863	8	6,503
Capital expenditures.....	8,084	35,915			373	44,372
Nine Months Ended Sept. 30, 1998:						
Net revenues.....	234,654	69,553				304,207
Operating income (loss).....	23,830	9,651			63	33,544
Identifiable assets.....	61,678	69,031			10,621	141,330
Depreciation and amortization.....	5,031	412			228	5,671
Capital expenditures.....	1,182	16,107				17,289

*Broker-Dealer, Real Estate and New Valley's portion of Corporate and Other are included for the three and four months ended September 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, real estate operations in Russia and investment in Internet-related businesses 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. In August 1999, Philip Morris increased list prices by \$1.80 per carton. Other major manufacturers, including Liggett, followed suit.

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. On August 30, 1999, New Valley completed the sale of five of its shopping centers for an aggregate purchase price of \$46,125 (before closing adjustments and expenses) including the assumption of \$35,023 of mortgage financing. In connection with the transaction, New Valley recorded a gain of \$3,849 on the sale.

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 September 30, 1999, there were approximately 280 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. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. 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 13 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 13 to the Company's Consolidated Financial Statements.

RESULTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	----- (Dollars in Thousands) -----			
Net revenues:				
Liggett.....	\$108,676	\$ 85,630	\$288,649	\$234,654
Liggett-Ducat.....	27,256	22,549	64,945	69,553
	-----	-----	-----	-----
Total tobacco.....	135,932	108,179	353,594	304,207
*Broker-dealer.....	12,711		18,587	
*Real estate.....	1,576		2,330	
	-----	-----	-----	-----
Total revenues.....	150,219	108,179	374,511	304,207
Operating income:				
Liggett.....	19,689	8,685	55,904	23,830
Liggett-Ducat.....	4,262	2,177	4,830	9,651
	-----	-----	-----	-----
Total tobacco.....	23,951	10,862	60,734	33,481
*Broker-dealer.....	(2,424)		(2,531)	
*Real estate.....	1,683		1,312	
Corporate and other.....	(3,848)	2,116	(4,397)	63
	-----	-----	-----	-----
Total operating income....	\$ 19,362	\$ 12,978	\$ 55,118	\$ 33,544
	=====	=====	=====	=====

*New Valley became a consolidated subsidiary on June 1, 1999. Results of operations for New Valley are included for the three and four months ended September 30, 1999.

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

Revenues. Total revenues were \$150,219 for the three months ended September 30, 1999 compared to \$108,179 for the three months ended September 30, 1998. This 38.9% increase in revenues was due to a \$23,046 or 26.9% increase in revenues at Liggett, an increase of \$4,707 or 20.9% in revenues at Liggett-Ducat and the addition of three months' revenues from New Valley of \$14,287.

Tobacco Revenues. Total tobacco revenues were \$135,932 for the three months ended September 30, 1999 compared to \$108,179 for the three months ended September 30, 1998. This 25.7% increase in revenues was primarily due to an increase in tobacco revenues at Liggett and at Liggett-Ducat discussed above. Revenues at Liggett increased in both the premium and discount segments combined by 26.9% (\$23,046) due to price increases of \$33,224 (see "Recent Developments-Cigarette Pricing Activity"), partially offset by a 7.0% decline in unit sales volume (approximately 99.5 million units), accounting for \$5,971 in volume variance and an unfavorable product mix of \$4,207. The decline in Liggett's unit sales volume was due primarily to the closing of the Philip Morris brand transaction on May 24, 1999 as well as an overall decline in industry volume, certain competitors continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers.

Premium sales at Liggett for the third quarter of 1999 amounted to \$15,114 and represented 13.9% of Liggett's total sales, compared to \$26,986 and 31.5% of total sales in the third quarter of 1998. Premium revenues declined by 44.0% (\$11,872) for the three months ended September 30, 1999, compared to the prior year period, due primarily 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 \$15,693 reflecting a 58.2% decline in unit sales volume (approximately 221.8 million units), which was partially offset by price increases of \$3,821. As adjusted for the contribution of the three brands, the decline in Liggett's premium segment compared to the prior year period was 13.5% (approximately 25.2 million units). This compares to an overall industry decline in the premium segment of approximately 10.4% in the third quarter of 1999 compared to prior year period.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for the three months ended September 30, 1999 amounted to \$93,562 and represented 86.1% of Liggett's total sales, compared to \$58,644 and 68.5% of total sales for the three months ended September 30, 1998. In the discount segment, revenues grew by 59.5% (\$34,918) for the three months ended September 30, 1999 compared to the prior year period, due to price increases of \$29,403, along with an 11.7% increase in unit sales volume (approximately 122.3 million units), accounting for \$6,860 in volume variance partially offset by an unfavorable product mix among the discount brand categories of \$1,345.

For the three months ended September 30, 1999, fixed manufacturing costs at Liggett were \$1,541 lower than in the same period in 1998, with a decrease in costs per thousand units of \$1.25 per thousand due primarily to a reduction in the fixed portion of indirect labor costs.

Net tobacco revenues at Liggett-Ducat for the three months ended September 30, 1999 increased 20.8% over the same period in 1998 due to a 36.5% increase in unit sales volume (\$8,236) (approximately 1,809 million units) and a small favorable product mix of \$317 offset by a 17.1% decrease in prices (\$3,846).

Tobacco Gross Profit. Tobacco consolidated gross profit was \$88,459 for the three months ended September 30, 1999 compared to \$61,093 for the three months ended September 30, 1998, an increase of \$27,366 or 44.8% when compared to the same period last year, reflecting an increase in gross profit at Liggett of \$25,916 and at Liggett-Ducat of \$1,450 for the three months ended September 30, 1999 compared to the same period in the prior year. For the three months ended September 30, 1999, Liggett's premium brands contributed 13.0% and discount brands contributed 77.8% to the Company's gross tobacco profit. Liggett-Ducat contributed 9.2%. Over the same period in 1998, Liggett's premium brands contributed 30.0%, Liggett's discount brands contributed 59.0% and Liggett-Ducat contributed 11% to the Company's gross profit.

Gross profit at Liggett of \$80,163 for the three months ended September 30, 1999 increased \$25,916 from gross profit of \$54,247 for the third quarter of 1998, due primarily to the price increases discussed above. (See "Recent Developments-Cigarette Pricing Activity".) As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 85.6% for the three months ended September 30, 1999 compared to 78.9% for the same period in 1998, with gross profit for the premium segment at 86.7% in the 1999 period compared to 80.8% in the 1998 period. Gross profit for the discount segment was 85.8% for the three months ended September 30, 1999 and 78.0% for the three months ended September 30, 1998. This increase is primarily the result of the 1998 list price increases, followed by the August 1999 increase.

As a percent of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat decreased 2.6% to 32.4% for the three months ended September 30, 1999 compared to 35.0% in the same period in 1998, primarily due to lower prices offset by higher sales volumes.

Broker-Dealer and Real Estate Revenues. For the three months ended September 30, 1999, Ladenburg's revenues were \$12,711 and real estate revenues were \$1,576.

Expenses. Operating, selling, general and administrative expenses were \$83,384 for the three months ended September 30, 1999 compared to \$48,115 for the same period last year, an increase of \$35,269 due to increased expenses at Liggett of \$14,912 and an increase of \$19,482 caused by consolidation of New Valley, which was not a consolidated subsidiary during the prior year slightly offset by a decrease of \$464 at Liggett-Ducat. The increase in operating expenses at Liggett was due primarily to higher spending for promotional and marketing programs and increased administrative costs partially offset by a reduction in legal expense and in amortization charges. At Liggett-Ducat, other selling, general and administrative expenses were reduced over the prior year period offset by increased depreciation due to the opening of the new factory in June 1999 and increased marketing and advertising expense due primarily to the introduction of western style cigarettes.

Other Income (Expenses). For the three months ended September 30, 1999, other expense was \$11,396 compared to expense of \$28,035 for the prior year period.

Interest expense was \$16,114 for the three months ended September 30, 1999 compared to \$20,138 for the same period last year. This decrease of \$4,024 was primarily due to a savings of \$6,979 at Liggett because of the redemption by Liggett of its Senior Secured Notes on December 28, 1998 and lower interest expense of approximately \$5,706 at corporate due to the repurchase of a portion of BGLS' 15.75% Senior Secured Notes beginning in May 1999. This was offset by the addition of \$2,209 in interest expense of New Valley and higher interest expense at Western Tobacco Investment LLC ("Western Tobacco") of \$6,211 primarily due to increased interest rates on credit facilities in Russia and non-cash interest expense under the participating loan agreement.

New Valley contributed gains of \$1,740 from its joint venture, \$151 from sale of investments, and \$3,849 from the sale of five of its U. S. shopping centers.

Equity in earnings of affiliate was a loss of \$908 for the three months ended September 30, 1999 compared to a loss of \$8,935 for the three months ended September 30, 1998. The 1999 loss relates to New Valley's minority interests in its equity investees while the 1998 loss for the period relates to New Valley's net loss applicable to common shares of \$22,622 when the Company accounted for its interest in New Valley on the equity method.

Income tax expense for the third quarter of 1999 was \$2,782 compared to a tax benefit of \$2,447 for the third quarter of 1998. The effective tax rates for the three months ended September 30, 1999 and 1998 do 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.

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

Revenues. Total revenues were \$374,511 for the nine months ended September 30, 1999 compared to \$304,207 for the nine months ended September 30, 1998. This 23.1% increase in revenues was due to a \$53,995 or 23.0% increase in revenues at Liggett and the addition of revenues from New Valley of \$20,917 offset by a decrease in revenues of \$4,608 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 \$94,328 (see "Recent Developments-Cigarette Pricing Activity") partially offset by a 14.6% (\$34,290) decline in unit sales volume (approximately 609.6 million units) and \$6,043 in unfavorable sales mix. The decline in Liggett's unit sales volume was due to an overall decline in industry volume, the closing of the Philip Morris brand transaction, certain competitors continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers. The decrease in tobacco revenues at Liggett-Ducat is attributable to decreased prices of \$15,366 offset by a positive volume variance of \$9,011 and a favorable product mix of \$1,747 compared to the prior year period. Although volume increased by approximately 1,791 million units in the nine months ended September 30, 1999, Liggett-Ducat's sales volume was adversely affected by the move to the new factory and price declines in Russia.

Premium sales at Liggett for the nine months ended September 30, 1999 amounted to \$63,777 and represented 22.1% of total Liggett sales, compared to \$76,898 and 32.8% of total sales for the same period in 1998. In the premium segment, revenues declined by 17.1% over the nine months ended September 30, 1999, compared to the same period in 1998, due to an unfavorable volume variance of \$31,728, reflecting a 41.3% decline in unit sales volume (approximately 471.4 million units), primarily due to the closing of the Philip Morris brand transaction on May 24, 1999, which was partially offset by price increases of \$18,607. As adjusted for the contribution of the three brands in the Philip Morris brand transaction, the decline in Liggett's premium segment from the prior year period was 21.5% (approximately 184.4 million units). Although this decline compares unfavorably to an overall industry decline in the premium segment of approximately 9.7% during the nine months of 1999, Liggett's management believes that the percentage decline is consistent with other, smaller premium brands.

Liggett's discount sales over the nine month period amounted to \$224,872 and represented 77.9% of total Liggett sales, compared to \$157,756 and 67.2% of total Liggett sales for the same period in 1998. In the discount segment, revenues grew by 42.5% (\$67,116) over the nine months ended September 30, 1999 compared to the same period in 1998, due to price increases of \$75,721, partially offset by a 4.6% decline in unit sales volume (approximately 138.2 million units) accounting for \$7,197 in volume variance and an unfavorable product mix of \$1,408.

For the nine months ended September 30, 1999, fixed manufacturing costs on a basis comparable to the same period in 1998 were \$604 lower, with an increase in costs per thousand units of \$0.04 per thousand against a 6.0% decline in production volume from the previous year.

Tobacco Gross Profit. Tobacco consolidated gross profit was \$224,596 for the nine months ended September 30, 1999 compared to \$163,785 for the nine months ended September 30, 1998, an increase of \$60,811 or 37.1% 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 21.2% to the Company's gross profit, the discount segment contributed 72.2% and Liggett-Ducat contributed 6.6% for the nine months ended September 30, 1999. Over the same period in 1998, Liggett's premium brands contributed 31%, the discount segment contributed 57% and Liggett-Ducat contributed 12%.

Liggett's gross profit of \$209,507 for the nine months ended September 30, 1999 increased \$66,139 from gross profit of \$143,368 for the same period in 1998, due primarily to the price increases discussed above. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 84.5% for the nine months ended September 30, 1999 compared to 77.4% for the same period in 1998, with gross profit for the premium segment at 85.5% and 79.8% in the nine months ended September 30 of 1999 and 1998, respectively, and gross profit for the discount segment at 84.7% and 76.1% in 1999 and 1998, respectively. This increase is primarily the result of the 1998 list price increases and, to a lesser degree, list price increases in August 1999.

As a percentage of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat increased to 49.5% for the nine months ended September 30, 1999 compared to 33.3% in the same period in 1998, due to larger volume and better product mix.

Broker-Dealer and Real Estate Revenues. New Valley's broker-dealer revenues were \$18,587 and real estate revenues were \$2,330 for the four months ended September 30, 1999.

Expenses. Operating, selling, general and administrative expenses were \$190,395 for the nine months ended September 30, 1999 compared to \$130,241 for the prior year period. The increase of \$60,154 is due primarily to a \$33,277 increase at Liggett and additional expenses of \$26,849 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 partially offset by a reduction in amortization charges and legal expenses.

Other Income (Expenses). For the nine months ended September 30, 1999, Liggett recognized a gain of \$294,098 in connection with the closing of the Philip Morris brand transaction. In addition, New Valley recognized a gain of \$7,877 primarily on the sale of substantially all of Thinking Machines' assets and the sale of five U. S. shopping centers. The Company also recognized in March 1999 a deferred gain of \$7,050 relating to the expiration of the put obligation on Ducat Place III (the site of the old cigarette factory in Russia) in connection with the 1997 sale of the BrookeMil Ltd. common shares.

Interest expense was \$43,200 for the nine months ended September 30, 1999 compared to \$60,561 for the same period in the prior year. The decrease of \$17,361 is largely due to a savings of \$20,297 because of the redemption by Liggett of its Senior Secured Notes on December 28, 1998, and a savings of \$8,207 at BGLS due to the repurchase of a portion of BGLS' Senior Secured Notes. This was offset by additional interest expense at Western Tobacco of \$8,174 and interest at New Valley of \$3,018.

Equity in earnings of affiliate was a loss of \$10,106 and includes the Company's loss in New Valley which was accounted for on the equity method for the five months ended May 31, 1999 as well as losses at New Valley on its equity method investees compared to a loss of \$20,383 for the nine months ended September 30, 1998 which relates to New Valley's net loss applicable to common shares of \$67,051 also accounted for on the equity method.

Income tax expense for the nine months ended September 30, 1999 was \$86,156 compared to a benefit of \$1,135 for the nine months ended September 30, 1998. The effective tax rates do 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 decreased \$1,082 for the nine months ended September 30, 1999 and increased \$1,636 for the nine months ended September 30, 1998. Net cash provided by operations for the nine months ended September 30, 1999 was \$30,750 compared to net cash used in operations of \$17,847 for the comparable period of 1998. The increase of \$48,597 in net cash provided by operating activities in the 1999 period 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 at BGLS and an increase in accrued liabilities. In the 1998 period, cash payments included interest payments by BGLS and Liggett of approximately \$50,000. In addition, increases in inventories were partially offset by decreases in receivables and in payables and in other long-term liabilities.

Cash provided by investing activities of \$142,638 compares to cash used of \$14,912 for the periods ended September 30, 1999 and 1998, respectively. For the nine months ended September 30, 1999, the majority of the proceeds were from the purchase of the Class A option by Philip Morris in May 1999, loan proceeds which Trademarks borrowed and distributed to Eve and the sale of real estate. In the 1999 period, these proceeds were partially offset by capital expenditures primarily for machinery and equipment at Liggett of \$8,084 and equipment and construction costs for the new factory of \$35,915 at Liggett-Ducat. Other payments made principally pertained to broker-dealer transactions and the sale of assets at New Valley. In the 1998 period, capital expenditures at Liggett of \$1,182 and \$16,107 at Liggett-Ducat were partially offset by proceeds from the sale of equipment.

Cash used in financing activities was \$173,569 for the nine months ended September 30, 1999 as compared with cash provided of \$33,838 for the nine months ended September 30, 1998. Cash was used in the 1999 period to retire the BGLS Senior Secured Notes in the amount of \$149,735 and retire \$35,023 of New Valley mortgage financing relating to the five shopping centers sold in August 1999. Cash was also used in the 1999 period to decrease the margin loan at New Valley, to purchase preferred stock in a New Valley subsidiary and for distributions on the Company's common stock. Net borrowings under the revolving credit facilities were \$14,888, of which \$1,380 is attributable to Liggett and \$13,508 is attributable to Liggett-Ducat. Proceeds included \$4,976 of equipment financing and the effect of the New Valley recapitalization (\$9,055). Proceeds in the 1998 period included \$25,000 from a participating loan made by Western Realty Ducat, \$10,144 from the issuance of stock and net proceeds from debt of \$2,905. These proceeds were offset primarily by distributions on common stock of \$3,055 and repayments under revolving credit facilities of \$1,616.

Liggett. On December 28, 1998, Liggett redeemed the entire outstanding \$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 \$3,818 was outstanding at September 30, 1999. Availability under the facility was approximately \$14,755 based on eligible collateral at September 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% through June 30, 1999, 9.50% for the months of July and August 1999 and 9.75% at September 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 September 30, 1999, Liggett was in compliance with all covenants under the facility; Liggett's adjusted net worth was \$30,707 and adjusted net working capital was \$24,670, 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. The loan, which is collateralized by the equipment, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550.

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's predecessor, Brooke Group Holding) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke (environmental tobacco smoke) from cigarettes. The Company believes, and has been so advised by counsel handling the respective cases, that Brooke Group Holding and Liggett have a number of valid defenses to claims asserted against them. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. 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 13 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 Brooke Group Holding or 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. Through September 30, 1999, BGLS repurchased \$139,794 principal amount of its 15.75% Senior Secured Notes due 2001 (the "Notes"), together with accrued interest thereon for a discounted purchase price of \$157,288. The purchases were made using primarily the proceeds of the Philip Morris brand transaction which closed on May 24, 1999.

At September 30, 1999, BGLS had outstanding \$93,070 principal amount of the BGLS Notes which mature on January 31, 2001. Of this amount, \$60,600 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 \$27,863 of deferred interest outstanding as of September 30, 1999.

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, produces American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Ducat has made a \$30,000 participating loan to Western Tobacco which holds BOL's interest in Liggett-Ducat and the new factory. In addition, BOL has entered into promissory notes for equipment purchases which have a liability of approximately \$23,428 at September 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 \$14,500 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 \$150,000 due in the years 1999 through 2001. The Company believes that it will continue to meet its liquidity requirements through 1999, although the BGLS Notes Indenture limits the amount of restricted payments BGLS is permitted to make to the Company during the calendar year. At September 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 \$14,864. Corporate expenditures (exclusive of Liggett, BOL and New Valley) over the next twelve months for current operations include cash interest expense of approximately \$5,114, dividends on the Company's shares (currently at an annual rate of approximately \$21,990) 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 September 30, 1999 with fair values of \$9,779 in long positions and \$2,697 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 September 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 \$41,378 at September 30, 1999. Approximately 38% 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 completed in August 1999. Enhancements to Liggett's warehouse management finished goods inventory tracking systems were completed in October 1999. Y2K testing is currently underway on manufacturing's database/applications software (in addition to all other related software and hardware used in production operations). This project timetable calls for the completion of all tests, along with resolution of any issues encountered, by December 11, 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 investigations and litigation. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida, and there could be further adverse developments in the Engle case or in other cases. 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 13, 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 Brooke Group Holding, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of the Company and its subsidiaries without charge upon written request to the Company at its principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn. Investor Relations.

Item 2. Changes in Securities and Use of Proceeds

No securities of the Company which were not registered under the Securities Act of 1933, as amended, have been issued or sold by the Company during the three months ended September 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 5. Other Information

On October 1, 1999, pursuant to Section 251(g) of the Delaware General Corporation Law and the Agreement and Plan of Merger, dated as of September 30, 1999, by and among Brooke Group Holding, the predecessor of the Company (the "Predecessor"), the Company and BGL Merger Inc., an indirect wholly-owned Delaware subsidiary of the Company ("BGL Merger"), BGL Merger merged (the "Merger") with and into the Predecessor, which was the surviving corporation in the Merger, and BGL Merger ceased to exist. Pursuant to the Merger, (i) each share of common stock, par value \$.01 per share, of BGL Merger issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time"), was converted into one share of common stock, par value \$.10 per share, of the Predecessor, (ii) each share of common stock, par value \$.10 per share, of the Predecessor issued and outstanding or held in its treasury immediately prior to the Effective Time was converted into one share of common stock, par value \$.10 per share, of the Company (the "Company Common Stock"), and (iii) each share of the Company Common Stock issued and outstanding immediately prior to the Effective Time was canceled.

In connection with the Merger, BGLS Inc. ("BGLS"), a subsidiary of the Predecessor, sold the stock of all of its direct wholly-owned subsidiaries, other than Liggett Group Inc., to BGLS Holding Inc. ("BGLS Holding"), a Delaware corporation which is a direct wholly-owned subsidiary of the Company. In consideration for such shares, BGLS transferred and assigned to BGLS Holding, and BGLS Holding assumed and agreed to perform and discharge, pursuant to a supplemental indenture, all of BGLS' obligations under the Indenture dated as of January 1, 1996 between BGLS and State Street Bank and Trust Company, as Trustee, pursuant to which BGLS had issued its 15.75% Series B Senior Secured Notes due 2001. In addition, BGLS Holding assumed all of BGLS' liability as plan sponsor of three pension plans. Following these transactions, BGLS merged into the Predecessor and the name of BGLS Holding was changed to "BGLS Inc."

As a result of the Merger, all the business and operations previously conducted by the Predecessor and its direct and indirect subsidiaries are now conducted by the Company and its direct and indirect subsidiaries. The assets and liabilities of the Company and its direct and indirect subsidiaries on a consolidated basis are the same as the assets and liabilities of the Predecessor and its direct and indirect subsidiaries immediately before the Merger. The Certificate of Incorporation and the Bylaws of the Company immediately after the Merger were identical to the Restated Certificate of Incorporation, as amended, and the Amended and Restated Bylaws of the Predecessor as in effect immediately prior to the Merger. The capital stock of the Company has the same designations, rights and preferences as the capital stock of the Predecessor immediately prior to the Merger. In addition, the persons who held offices as directors and officers of the Predecessor prior to the Merger hold the same offices in the Company after the Merger. The Company Common Stock is listed for trading on the NYSE under the symbol "BGL", as was the common stock of the Predecessor. Stockholders of the Predecessor do not recognize gain or loss for U.S. Federal income tax purposes as a result of the Merger.

The conversion of shares in the Merger occurred without an exchange of certificates. Accordingly, certificates formerly representing shares of common stock of the Predecessor are deemed to represent shares of Company Common Stock.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- *2.1 Agreement and Plan of Merger, dated as of September 30, 1999, by and among Brooke Group Ltd., BGL Successor Inc. and BGL Merger Inc. (incorporated by reference to Exhibit 2.1 in the Company's Report on Form 8-K dated October 1, 1999, Commission File No. 1-5759).
- 3.1 Amended and Restated Certificate of Incorporation of Brooke Group Ltd.
- 3.2 By-Laws of Brooke Group Ltd.
- 3.3 Certificate of Incorporation of BGLS Inc.
- 3.4 By-Laws of BGLS Inc.
- *4.1 First Supplemental Indenture, dated as of September 30, 1999, to the Indenture, dated as of January 1, 1996, between BGLS Inc., BGLS Holding Inc. and State Street Bank and Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 in the Company's Report on Form 8-K dated October 1, 1999, Commission File No. 1-5759).

- *4.2 Amendment No. 1, dated as of September 30, 1999, to the Pledge and Security Agreement, dated as of January 1, 1996, between BGLS Holding Inc., Brooke Group Holding Inc., BGLS Inc. and State Street Bank and Trust Company, as Trustee (incorporated by reference to Exhibit 4.2 in the Company's Report on Form 8-K dated October 1, 1999, Commission File No. 1-5759).
- *10.1 Purchase Agreement, dated as of September 30, 1999, between BGLS Inc. and BGLS Holding Inc. (incorporated by reference to Exhibit 10.1 in the Company's Report on Form 8-K dated October 1, 1999, Commission File No. 1-5759).
- 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 September 30, 1999 and 1998.
- *99.3 New Valley Corporation's Interim Consolidated Financial Statements for the quarterly periods ended September 30, 1999 and 1998 (incorporated by reference to New Valley's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, Commission File No. 1-2493).
- 99.4 Brooke (Overseas) Ltd.'s Interim Consolidated Financial Statements for the quarterly periods ended September 30, 1999 and 1998.

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 *Incorporated by reference

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

SIGNATURES

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

BROOKE GROUP LTD.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: November 15, 1999

BGLS INC.
(REGISTRANT)

By: /s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen
Vice President and Chief
Financial Officer

Date: November 15, 1999

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
BROOKE GROUP LTD.

FIRST. The name of the Corporation is Brooke Group Ltd.

SECOND. The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH. The total number of shares of capital stock which the Corporation shall have authority to issue is 100,000,000 shares of Common Stock, par value \$0.10 per share (the "Common Stock"), and 10,000,000 share of Preferred Stock, par value \$1.00 per share.

The powers, preferences and rights of the shares of Preferred Stock and the shares of Common Stock, and the qualifications, limitations or restrictions thereof are as follows:

A. Preferred Stock

1. Issuance in Series. The shares of Preferred Stock may be dividend into and issued in one or more series, and each series shall be so designated as to distinguish the shares thereof from the shares of all other series. All shares of Preferred Stock shall be of equal rank and identical except to the extent that variations in the relative preferences and rights enumerated in subparagraphs (a) through (g), inclusive, of Section 2 of Paragraph A of this Article Fourth may be fixed and determined by the Board of Directors between series hereafter established; and each share of a series shall be identical in all respects with the other shares of such series.

2. Authority of the Board with Respect to Series. Authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Article Fourth, to divide the shares of Preferred Stock into one or more series, and with respect to each such series, to fix and determine by resolution or resolutions providing for the issue of such series the following relative preferences and rights as to which there may be variations between the series so established:

(a) The distinctive designation of such series and the number of shares which shall constitute such series which number may be increased (except as otherwise provided by the

Board of Directors in the resolution or resolutions creating such series) or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors;

(b) The annual rate of dividends payable on shares of such series, the conditions, if any, upon which and the dates when such dividends shall be redeemable;

(c) The time or times when and the price or prices at which shares of such series shall be redeemable;

(d) The amount payable on shares of such series in the event of any liquidation, dissolution or winding-up of the affairs of the Corporation;

(e) If the shares of such series are to be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of shares of such series, the amount of the fund and the manner of its application, including the price or prices at which the shares may be redeemed or purchased through the application of the fund;

(f) If the shares of such series are to be convertible into or exchangeable for shares of Common Stock or shares of any other series of Preferred Stock, the conversion price or prices or the rate or rates of exchange and the terms and conditions of such conversion or exchange;

(g) The voting rights, if any, of such series, in addition to the voting rights provided in Section 6 of this Paragraph A; and

(h) Such other powers, preferences and rights of shares of such series and the qualifications, limitations or restrictions thereof as the Board of Directors may deem advisable and as are not inconsistent with the provisions of the Certificate of Incorporation.

3. Dividends. The holders of shares of Preferred Stock of each series shall be entitled to receive, out of the assets of the Corporation which are by law available for the payment of dividends, cash dividends in such amounts and payable at such time or times as shall be fixed and determined by the Board of Directors in any resolution providing for the issuance of any such series, before any dividends on any class of capital stock of the Corporation ranking junior to the Preferred Stock (other than dividends payable in shares of any class of capital stock of the Corporation ranking junior to the Preferred Stock) may be declared or paid or set apart for payment. The term "class of capital stock of the Corporation ranking junior to the Preferred Stock" shall mean the Common Stock and any other class of stock of the Corporation hereafter authorized which ranks junior to the Preferred Stock as to payment of dividends or the distribution of assets upon dissolution, liquidation, or winding-up.

4. Redemption. The shares of Preferred Stock of any series then outstanding shall be redeemable, in whole or in part, at the option of the Corporation, by resolution of its Board of Directors at such price or prices

and at such time or times as may be fixed and determined by the Board of Directors in accordance with any resolution providing for the issuance of any such series of Preferred Stock. In case of redemption of a part only of the shares of Preferred Stock of any series at the time outstanding, the redemption may be either pro rata or by lot, as determined by the Board of Directors. Subject to the foregoing the Board of Directors shall have full authority and power to prescribe the manner in which the drawing by lot or the pro rata redemption shall be conducted and the terms and conditions upon which the shares of Preferred Stock shall be redeemed from time to time.

Notice of every redemption of shares of Preferred Stock shall be given by mailing such notice, postage prepaid, not less than 10 nor more than 20 days prior to the date fixed for such redemption to each holder of record of shares so to be redeemed at his address as the same shall appear on the books of the Corporation. Each such notice shall specify the date fixed for redemption and the place where payment of the redemption price is to be made upon surrender for cancellation of the certificates representing shares called for redemption. Any notice which was mailed in the manner herein provided shall be conclusively presumed to be duly given whether or not the holder receives the notice.

If notice of redemption shall have been duly given as hereinabove provided, on and after the date fixed for redemption (unless the Corporation shall default in making payment of the redemption price), all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares, including, but not limited to, the right to receive dividends thereon, shall cease and terminate, notwithstanding that any certificate for such shares so called for redemption shall not have been surrendered for cancellation, and the holders of such shares so called for redemption shall cease to be shareholders and shall have no interest in or claim against the Corporation except the right to receive the redemption price upon surrender of their certificates for cancellation.

5. Reacquired Shares. Shares of any series of Preferred Stock which have been acquired by the Corporation, whether by purchase or redemption or by their having been converted into or exchanged for other shares of the Corporation shall upon their acquisition and without any other action by the Corporation resume the status of authorized but unissued shares of Preferred Stock and may be reissued as shares of the series of which they were originally a part or may be issued as shares of a new series or as shares of any other series.

6. Voting Rights. Except as otherwise fixed and determined by the Board of Directors in any resolution providing for the issuance of any series of Preferred Stock or as required by law, the holders of shares of Preferred Stock of any such series shall not be entitled to vote at any annual or special meeting of stockholders of the Corporation, provided, however, that so long as any shares of Preferred Stock of any series shall be outstanding the Corporation shall not, without the affirmative vote or written consent of the holders of record of two-thirds of the aggregate number of shares of Preferred Stock of all series then outstanding, voting as a class, (i) increase the total number of authorized shares of Preferred Stock, (ii) create or issue any shares of any class of capital stock ranking, either as to payment of dividends or distribution of assets upon dissolution, liquidation or winding-up prior to or on a parity with the Preferred Stock, or (iii) alter or change the designation or the powers, preferences or rights of the Preferred Stock as a class or the

qualifications, limitations, or restrictions thereof; and provided further that nothing herein contained shall require the class vote or consent of the holders of shares of Preferred Stock for or in respect of (i) any increase in the total number of authorized shares of Common Stock or (ii) the fixing of any of the relative rights and preferences of any series of Preferred Stock that may be fixed and determined by the Board of Directors as provided in Section 2 of Paragraph A of this Article Fourth.

7. Dissolution, Liquidation or Winding-Up. In the event of any dissolution, liquidation or winding-up of the affairs of the Corporation, after payment or provision for payment of the debts or other liabilities of the Corporation, the holders of all then outstanding shares of Preferred Stock shall be entitled to receive, out of the net assets of the Corporation, an amount in cash for each share equal to the amount fixed and determined by the Board of Directors in any resolution providing for the issuance of any such series of Preferred Stock before any distribution is made to the holders of any class of capital stock of the Corporation ranking junior to the Preferred Stock. If upon any dissolution, liquidation or winding-up of the affairs of the Corporation, the net assets available for distribution shall be insufficient to pay the holders of all outstanding shares of Preferred Stock in full amounts to which they respectively shall be entitled, the holders of all outstanding shares of Preferred Stock of all series shall share ratably in any distribution of assets in accordance with the sums which would be payable upon such distribution if all sums payable were paid in full. Neither the merger nor the consolidation of the Corporation, nor the sale, lease or conveyance of all or a part of its assets, shall be deemed to be a liquidation or winding-up of the affairs of the Corporation within the meaning of this Article Fourth.

B. Common Stock

1. Dividends. Subject to the preferential rights of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property, or in shares of Common Stock.

2. Voting Rights. At every annual or special meeting of stockholders of the Corporation, every holder of Common Stock shall be entitled to one vote, in person or by proxy, for each share of Common Stock standing in his name on the books of the Corporation.

3. Dissolution, Liquidation or Winding-Up. In the event of any dissolution, liquidation or winding-up of the affairs of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation, and of the amounts to which the holders of all outstanding shares of Preferred Stock shall be entitled, the holders of all outstanding shares of Common Stock shall be entitled to share ratably in the remaining net assets of the Corporation.

FIFTH. The Board of Directors is expressly authorized to adopt, amend or repeal the By-laws of the Corporation.

SIXTH. Elections of directors need not be by written ballot except and to the extent provided in the by-laws of the Corporation.

SEVENTH. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of shares at the time entitled to vote at any election of directors, whether or not the Board of Directors is classified as provided in subsection (d) of Section 141 of Title 8 of the Delaware Code.

EIGHTH. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided, however, that the foregoing shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended after the date hereof to further limit the personal liability of directors to the Corporation or its stockholders, the liability of directors will be limited or eliminated to the maximum extent permitted by law as so amended.

NINTH. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such a manner as the said courts directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which said application has been made, be binding on all the creditors or class of creditors, and/or on all of the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

TENTH. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

BY-LAWS
OF
BROOKE GROUP LTD.
EFFECTIVE OCTOBER 1, 1999
(A Delaware Corporation)

ARTICLE I

Offices

SECTION 1. Registered Office. The registered office of the Corporation within the State of Delaware shall be in the City of Wilmington, County of New Castle.

SECTION 2. Other Offices. The Corporation may also have an office or offices other than said registered office at such place or places, either within or without the State of Delaware, as the Board of Directors shall from time to time determine or the business of the Corporation may require.

ARTICLE II

Meetings of Stockholders

SECTION 1. Place of Meetings. All meetings of the stockholders for the election of directors or for any other purpose shall be held at any such place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver thereof.

SECTION 2. Annual Meeting. The annual meeting of stockholders shall be held at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver thereof. At such annual meeting, the stockholders shall elect, by a plurality vote, a Board of Directors and transact such other business as may properly be brought before the meeting.

SECTION 3. Special Meetings. Special meetings of stockholders, unless otherwise prescribed by statute, may be called at any time by the Board of Directors or the Chairman of the Board, if one shall have been elected, or the President and shall be called by the Secretary upon the request in writing of a stockholder or stockholders holding of record at least 25 percent of the voting power of the issued and outstanding shares of stock of the Corporation entitled to vote at such meeting.

SECTION 4. Notice of Meetings. Except as otherwise expressly required by statute, written notice of each annual and special meeting of stockholders stating the date, place and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder of record entitled to vote thereat not less than ten nor more than sixty days before the date of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice. Notice shall be given personally or by mail and, if by mail, shall be sent in a postage prepaid envelope, addressed to the stockholder at his address as it appears on the records of the Corporation. Notice by mail shall be deemed given at the time when the same shall be deposited in the United States mail, postage prepaid. Notice of any meeting shall not be required to be given to any person who attends such meeting, except when such person attends the meeting in person or by proxy for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, or who, either before or after the meeting, shall submit a signed written waiver of notice, in person or by proxy. Neither the business to be transacted at, nor the purpose of, an annual or special meeting of stockholders need be specified in any written waiver of notice.

SECTION 5. List of Stockholders. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city, town or village where the meeting is to be held, which place shall be specified in the notice of meeting, or, if not specified, at the place where the meeting is to be held. The list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 6. Quorum, Adjournments. The holders of a majority of the voting power of the issued and outstanding stock of the Corporation entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of stockholders, except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented by proxy at any meeting of stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented by proxy. At such adjourned meeting at which a quorum shall be present or represented by proxy, any business may be transacted which might have been transacted at the meeting as originally called. If the adjournment is for more than thirty days, or, if after adjournment a new record date is set, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 7. Organization. At each meeting of stockholders, the Chairman of the Board, if one shall have been elected, or, in his absence or if one shall not have been elected, the President shall act as chairman of the meeting. The Secretary or, in his absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting shall act as secretary of the meeting and keep the minutes thereof.

SECTION 8. Order of Business. The order of business at all meetings of the stockholders shall be as determined by the chairman of the meeting.

SECTION 9. Voting. Except as otherwise provided by statute or the Certificate of Incorporation, each stockholder of the Corporation shall be entitled at each meeting of stockholders to one vote for each share of capital stock of the Corporation standing in his name on the record of stockholders of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 7 of Article V of these By-Laws as the record date for the determination of the stockholders who shall be entitled to notice of and to vote at such meeting; or

(b) if no such record date shall have been so fixed, then at the close of business on the day next preceding the day on which notice thereof shall be given, or, if notice is waived, at the close of business on the date next preceding the day on which the meeting is held.

Each stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for him by a proxy signed by such stockholder or his attorney-in-fact, but no proxy shall be voted after three years from its date, unless the proxy provides for a longer period. Any such proxy shall be delivered to the secretary of the meeting prior to the time designated in the order of business for so delivering such proxies. When a quorum is present at any meeting, the vote of the holders of a majority of the voting power of the issued and outstanding stock of the Corporation entitled to vote thereon, present in person or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which by express provision of statute or of the Certificate of Incorporation or of these By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Unless required by statute, or determined by the chairman of the meeting to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if by such proxy, and shall state the number of shares voted.

SECTION 10. Inspectors. The Board of Directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the

Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

SECTION 11. Action by Consent. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken for or in connection with any corporate action, by any provision of statute or of the Certificate of Incorporation or of these By-Laws, the meeting and vote of stockholders may be dispensed with, and the action taken without such meeting and vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of stock of the Corporation entitled to vote thereon were present and voted.

ARTICLE III

Board of Directors

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board of Directors may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by statute or the Certificate of Incorporation directed or required to be exercised or done by the stockholders.

SECTION 2. Number, Qualifications, Election and Term of Office. The number of directors may be fixed, from time to time, by the affirmative vote of a majority of the entire Board of Directors or by action of the stockholders of the Corporation. Any decrease in the number of directors shall be effective at the time of the next succeeding annual meeting of stockholders unless there shall be vacancies in the Board of Directors, in which case such decrease may become effective at any time prior to the next succeeding annual meeting to the extent of the number of such vacancies. Directors need not be stockholders. Except as otherwise provided by statute or these By-Laws, the directors shall be elected at the annual meeting of stockholders. Each director shall hold office until his successor shall have been elected and qualified, or until his death, or until he shall have resigned, or have been removed, as hereinafter provided in these By-Laws.

SECTION 3. Place of Meetings. Meetings of the Board of Directors shall be held at such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine or as shall be specified in the notice of any such meeting.

SECTION 4. Annual Meeting. The Board of Directors shall meet for the purpose of the election of officers and the transaction of other business, as soon as practicable after each annual meeting of stockholders, on the same day and at the same place where such annual meeting shall be held. Notice of such meeting need not be given. In the event such annual meeting is not so held, the annual meeting of the Board of Directors may be held at such other time or place (within or without the State of Delaware) as shall be specified in a notice thereof given as hereinafter provided in Section 7 of this Article III.

SECTION 5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may fix. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by statute or these By-Laws.

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, if one shall have been elected, or by two or more directors of the Corporation or by the President.

SECTION 7. Notice of Meetings. Notice of each special meeting of the Board of Directors (and of each regular meeting for which notice shall be required) shall be given by the Secretary as hereinafter provided in this Section 7, in which notice shall be stated the time and place of the meeting. Except as otherwise required by these By-Laws, such notice need not state the purposes of such meeting. Notice of each such meeting shall be mailed, postage prepaid, to each director, addressed to him at his residence or usual place of business, by first class mail, at least two days before the day on which such meeting is to be held, or shall be sent addressed to him at such place by telegraph, cable, telex, telecopier or other similar means, or be delivered to him personally or be given to him by telephone or other similar means, at least twenty-four hours before the time at which such meeting is to be held. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting, except when he shall attend for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 8. Quorum and Manner of Acting. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors and, except as otherwise expressly required by statute or the Certificate of Incorporation or these By-Laws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn such meeting to another time and place. Notice of the time and place of any such adjourned meeting shall be given to all of the directors unless such time and place were announced at the meeting at which the adjournment was taken, in which case such notice shall only be given to the directors who were not present thereat. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been

transacted at the meeting as originally called. The directors shall act only as a Board and the individual directors shall have no power as such.

SECTION 9. Organization. At each meeting of the Board of Directors, the Chairman of the Board, if one shall have been elected, or, in the absence of the Chairman of the Board or if one shall not have been elected, the President (or, in his absence, another director chosen by a majority of the directors present) shall act as chairman of the meeting and preside thereat. The Secretary or, in his absence, any person appointed by the Chairman of the Board shall act as secretary of the meeting and keep the minutes thereof.

SECTION 10. Resignations. Any director of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 11. Vacancies. Any vacancy in the Board of Directors, whether arising from death, resignation, removal (with or without cause), an increase in the number of directors or any other cause, may be filled by the vote of a majority of the directors then in office, though less than a quorum, or by the sole remaining director or by the stockholders at the next annual meeting thereof or at a special meeting thereof. Each director so elected shall hold office until his successor shall have been elected and qualified.

SECTION 12. Removal of Directors. Any director may be removed, either with or without cause, at any time, by the holders of a majority of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote at an election of directors.

SECTION 13. Compensation. The Board of Directors shall have authority to fix the compensation, including fees and reimbursement of expenses, of directors for services to the Corporation in any capacity.

SECTION 14. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, including an executive committee, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In addition, in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Except to the extent restricted by statute or the Certificate of Incorporation, each such committee, to the extent provided in the resolution creating it, shall have and may exercise all the powers and authority of the Board of Directors and may authorize the seal of the Corporation to be affixed to all papers which require it. Each such committee shall serve at the pleasure of the Board of Directors and have such

name as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors.

SECTION 15. Action by Consent. Unless restricted by the Certificate of Incorporation, any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be.

SECTION 16. Telephonic Meeting. Unless restricted by the Certificate of Incorporation, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV

Officers

SECTION 1. Number and Qualifications. The officers of the Corporation shall be elected by the Board of Directors and shall include the President, one or more Vice-Presidents, the Secretary and the Treasurer. If the Board of Directors wishes, it may also elect as an officer of the Corporation a Chairman of the Board and may elect other officers (including one or more Assistant Treasurers and one or more Assistant Secretaries) as may be necessary or desirable for the business of the Corporation. Any two or more offices may be held by the same person, and no officer except the Chairman of the Board need be a director. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall have resigned or have been removed, as hereinafter provided in these By-Laws.

SECTION 2. Resignations. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon receipt. Unless otherwise specified therein, the acceptance of any such resignation shall not be necessary to make it effective.

SECTION 3. Removal. Any officer of the Corporation may be removed, either with or without cause, at any time, by the Board of Directors at any meeting thereof.

SECTION 4. Chairman of the Board. The Chairman of the Board, if one shall have been elected, shall be a member of the Board, an officer of the Corporation and, if present, shall preside at each meeting of the Board of Directors or the stockholders. He shall advise and counsel with the President

and in his absence with other executives of the Corporation, and shall perform such other duties as may from time to time be assigned to him by the Board of Directors.

SECTION 5. The President. The President shall be the chief executive officer of the Corporation. He shall, in the absence of the Chairman of the Board or if a Chairman of the Board shall not have been elected, preside at each meeting of the Board of Directors or the stockholders. He shall perform all duties incident to the office of President and chief executive officer and such other duties as may from time to time be assigned to him by the Board of Directors.

SECTION 6. Vice-President. Each Vice-President shall perform all such duties as from time to time may be assigned to him by the Board of Directors or the President. At the request of the President or in his absence or in the event of his inability or refusal to act, the Vice-President, or if there shall be more than one, the Vice-Presidents in the order determined by the Board of Directors (or if there be no such determination, then the Vice-Presidents in the order of their election), shall perform the duties of the President, and, when so acting, shall have the powers of and be subject to the restrictions placed upon the President in respect of the performance of such duties.

SECTION 7. Treasurer. The Treasurer shall

(a) have charge and custody of, and be responsible for, all the funds and securities of the Corporation;

(b) keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation;

(c) deposit all moneys and other valuables to the credit of the Corporation in such depositories as may be designated by the Board of Directors or pursuant to its direction;

(d) receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever;

(e) disburse the funds of the Corporation and supervise the investments of its funds, taking proper vouchers therefor;

(f) render to the Board of Directors, whenever the Board of Directors may require, an account of the financial condition of the Corporation; and

(g) in general, perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 8. Secretary. The Secretary shall

(a) keep or cause to be kept in one or more books provided for the purpose, the minutes of all meetings of the Board of Directors, the committees of the Board of Directors and the stockholders;

(b) see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law;

(c) be custodian of the records and the seal of the Corporation and affix and attest the seal to all certificates for shares of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal;

(d) see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and

(e) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 9. The Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as from time to time may be assigned by the Board of Directors.

SECTION 10. The Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties as from time to time may be assigned by the Board of Directors.

SECTION 11. Officers' Bonds or Other Security. If required by the Board of Directors, any officer of the Corporation shall give a bond or other security for the faithful performance of his duties, in such amount and with such surety as the Board of Directors may require.

SECTION 12. Compensation. The compensation of the officers of the Corporation for their services as such officers, shall be fixed from time to time by the Board of Directors. An officer of the Corporation shall not be

prevented from receiving compensation by reason of the fact that he is also a director of the Corporation.

ARTICLE V

Stock Certificates and Their Transfer

SECTION 1. Stock Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chairman of the Board or the President or a Vice-President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restriction of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of the State of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

SECTION 2. Facsimile Signatures. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 3. Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as it may direct sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 4. Transfers of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its records; provided, however, that the Corporation shall be

entitled to recognize and enforce any lawful restriction on transfer. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of transfer if, when the certificates are presented to the Corporation for transfer, both the transferor and the transferee request the Corporation to do so.

SECTION 5. Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

SECTION 6. Regulations. The Board of Directors may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 7. Fixing the Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 8. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of stock to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments a person registered on its records as the owner of shares of stock, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VI

Indemnification of Directors and Officers

SECTION 1. General. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or by reason of any action alleged to have been taken or omitted in such capacity, against costs, charges, expenses (including

attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Derivative Actions. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason or any action alleged to have been taken or omitted in such capacity, against costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection with the defense or settlement of such action or suit and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such costs, charges and expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. Indemnification in Certain Cases. Notwithstanding the other provisions of this Article VI, to the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise, including without limitation, the dismissal of an action without prejudice, in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article VI, or in defense of any claim, issue or matter therein, he shall be indemnified against all costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection therewith.

SECTION 4. Procedure. Any indemnification under Sections 1 and 2 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in such Sections 1 and 2. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding (the "Continuing Directors"), or (b)

if such a quorum of disinterested Continuing Directors is not obtainable, or, even if obtainable a quorum of disinterested Continuing Directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders.

SECTION 5. Advances for Expenses. Costs, charges and expenses (including attorneys' fees) incurred by a person referred to in Sections 1 and 2 of this Article VI in defending a civil or criminal action, suit or proceeding shall be paid the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay all amounts so advanced in the event that it shall ultimately be determined that such director, officer, employee or agent is not entitled to be indemnified by the Corporation as authorized in this Article VI. Such costs, charges and expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the majority of the Continuing Directors deems appropriate. The majority of the Continuing Directors may, in the manner set forth above, and upon approval of such director, officer, employer, employee or agent of the Corporation, authorize the Corporation's counsel to represent such person, in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

SECTION 6. Procedure for Indemnification. Any indemnification under Sections 1, 2 and 3, or advance of costs, charges and expenses under Section 5 of this Article VI, shall be made promptly, and in any event within 60 days upon the written request of the director, officer, employee or agent. The right to indemnification or advances as granted by this Article VI shall be enforceable by the director, officer, employee or agent in any court of competent jurisdiction, if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within 60 days. Such person's costs and expenses incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charge and expenses under Section 5 of this Article VI where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in Sections 1 or 2 of this Article VI, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VI, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met such applicable standard of conduct.

SECTION 7. Other Rights; Continuation of Right to Indemnification. The indemnification and advancement of expenses provided by this Article VI shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), by-law, agreement, vote of stockholders, or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Corporation, and shall continue as to a

person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. If the Delaware General Corporation Law is hereafter amended to permit the Corporation to indemnify directors and officers to a greater extent than otherwise permitted by this Article VI, the Corporation shall indemnify directors and officers to such greater extent. All rights to indemnification under this Article VI shall be deemed to be a contract between the Corporation and each director, officer, employee or agent of the Corporation who serves or served in such capacity at any time while this Article VI is in effect. Any repeal or modification of this Article VI or any repeal or modification of relevant provisions of Delaware General Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification of such director, officer, employee or agent of the Corporation who serves or served in such capacity at any time while this Article VI is in effect. Any repeal or modification of this Article VI or any repeal or modification of relevant provisions of Delaware General Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification of such director, officer, employee or agent or the obligations of the Corporation arising hereunder with respect to any action, suit or proceeding arising out of, or relating to, any actions, transactions or facts occurring prior to the final adoption of such modification or repeal. For the purposes of this Article VI, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation, so that any person who is or was a director, officer, employee or agent of such a constituent corporation or is or as serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article VI, with respect to the resulting or surviving corporation, as he would if he had served the resulting or surviving corporation in the same capacity.

SECTION 8. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the Provisions of this Article VI; provided, however, that such insurance is available on acceptable terms, which determination shall, be made by a vote of a majority of the Continuing Directors.

SECTION 9. Savings Clause. If this Article VI or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article VI that shall not have been invalidated and to the full extent permitted by applicable law.

ARTICLE VII

General Provisions

SECTION 1. Dividends. Subject to the provisions of statute and the Certificate of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of stock of the Corporation, unless otherwise provided by statute or the Certificate of Incorporation.

SECTION 2. Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may, from time to time, in its absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors may think conducive to the interests of the Corporation. The Board of Directors may modify or abolish any such reserves in the manner in which it was created.

SECTION 3. Seal. The seal of the Corporation shall be in such form as shall be approved by the Board of Directors.

SECTION 4. Fiscal Year. The fiscal year of the Corporation shall be fixed, and once fixed, may thereafter be changed, by resolution of the Board of Directors.

SECTION 5. Checks, Notes, Drafts, Etc. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

SECTION 6. Execution of Contracts, Deeds, Etc. The Board of Directors may authorize any officer or officers, agent or agents, in the name and on behalf of the Corporation to enter into or execute and deliver any and all deeds, bonds, mortgages, contracts and other obligations or instruments, and such authority may be general or confined to specific instances.

SECTION 7. Voting of Stock in Other Corporations. Unless otherwise provided by resolution of the Board of Directors, the Chairman of the Board or the President, from time to time, may (or may appoint one or more attorneys or agents to) cast the votes which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of the shares or other securities of such other corporation. In the event one or more attorneys or agents are appointed, the Chairman of the Board or the President may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent. The Chairman of the Board or the President may, or may instruct the attorneys or agents appointed, to execute or cause to

be executed in the name and on behalf of the Corporation and under its seal or otherwise, such written proxies, consents, waivers or other instruments as may be necessary or proper in the circumstances.

ARTICLE VIII

Amendments

These By-Laws may be amended or repealed or new by-laws adopted (a) by action of the stockholders entitled to vote thereon at any annual or special meeting of stockholders or (b) if the Certificate of Incorporation so provides, by action of the Board of Directors at a regular or special meeting thereof. Any by-law made by the Board of Directors may be amended or repealed by action of the stockholders at any annual or special meeting of stockholders.

/s/ Marc N. Bell

Marc N. Bell
Secretary

CORPORATE SEAL

CERTIFICATE OF INCORPORATION
OF
BGLS INC.

FIRST: The name of the corporation is BGLS Inc. (the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is the Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is one hundred (100) shares of common stock, with a par value of one cent (\$.01) each.

FIFTH: The name and mailing address of the incorporator is Richard J. Lampen, 100 S. E. Second Street, 32nd Floor, Miami, Florida 33131.

SIXTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of

loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived any improper personal benefit. If the DGCL is amended after the date of the filing of this Certificate to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. No repeal or modification of this Article SIXTH shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such repeal or modification.

SEVENTH: The directors shall have power to make, alter or repeal by-laws, except as may otherwise be provided in the by-laws.

EIGHTH: Elections of directors need not be written ballot, except as may otherwise be provided in the by-laws.

BY-LAWS
OF
BGLS INC.
EFFECTIVE OCTOBER 4, 1999
(A Delaware Corporation)

ARTICLE I

Offices

SECTION 1. REGISTERED OFFICE. The registered office of the Corporation within the State of Delaware shall be in the City of Wilmington, County of New Castle.

SECTION 2. OTHER OFFICES. The Corporation may also have an office or offices other than said registered office at such place or places, either within or without the State of Delaware, as the Board of Directors shall from time to time determine or the business of the Corporation may require.

ARTICLE II

Meetings of Stockholders

SECTION 1. PLACE OF MEETINGS. All meetings of the stockholders for the election of directors or for any other purpose shall be held at any such place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver thereof.

SECTION 2. ANNUAL MEETING. The annual meeting of stockholders shall be held at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver thereof. At such annual meeting, the stockholders shall elect, by a plurality vote, a Board of Directors and transact such other business as may properly be brought before the meeting.

SECTION 3. SPECIAL MEETINGS. Special meetings of stockholders, unless otherwise prescribed by statute, may be called at any time by the Board of Directors or the Chairman of the Board, if one shall have been elected, or the President and shall be called by the Secretary upon the request in writing of a stockholder or stockholders holding of record at least 25 percent of the voting power of the issued and outstanding shares of stock of the Corporation entitled to vote at such meeting.

SECTION 4. NOTICE OF MEETINGS. Except as otherwise expressly required by statute, written notice of each annual and special meeting of stockholders stating the date, place and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder of record entitled to vote thereat not less than ten nor more than sixty days before the date of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice. Notice shall be given personally or by mail and, if by mail, shall be sent in a postage prepaid envelope, addressed to the stockholder at his address as it appears on the records of the Corporation. Notice by mail shall be deemed given at the time when the same shall be deposited in the United States mail, postage prepaid. Notice of any meeting shall not be required to be given to any person who attends such meeting, except when such person attends the meeting in person or by proxy for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, or who, either before or after the meeting, shall submit a signed written waiver of notice, in person or by proxy. Neither the business to be transacted at, nor the purpose of, an annual or special meeting of stockholders need be specified in any written waiver of notice.

SECTION 5. LIST OF STOCKHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city, town or village where the meeting is to be held, which place shall be specified in the notice of meeting, or, if not specified, at the place where the meeting is to be held. The list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 6. QUORUM, ADJOURNMENTS. The holders of a majority of the voting power of the issued and outstanding stock of the Corporation entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of stockholders, except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented by proxy at any meeting of stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented by proxy. At such adjourned meeting at which a quorum shall be present or represented by proxy, any business may be transacted which might have been transacted at the meeting as originally called. If the adjournment is for more than thirty days, or, if after adjournment a new record date is set, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 7. ORGANIZATION. At each meeting of stockholders, the Chairman of the Board, if one shall have been elected, or, in his absence or if one shall not have been elected, the President shall act as chairman of the meeting. The Secretary or, in his absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting shall act as secretary of the meeting and keep the minutes thereof.

SECTION 8. ORDER OF BUSINESS. The order of business at all meetings of the stockholders shall be as determined by the chairman of the meeting.

SECTION 9. VOTING. Except as otherwise provided by statute or the Certificate of Incorporation, each stockholder of the Corporation shall be entitled at each meeting of stockholders to one vote for each share of capital stock of the Corporation standing in his name on the record of stockholders of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 7 of Article V of these By-Laws as the record date for the determination of the stockholders who shall be entitled to notice of and to vote at such meeting; or

(b) if no such record date shall have been so fixed, then at the close of business on the day next preceding the day on which notice thereof shall be given, or, if notice is waived, at the close of business on the date next preceding the day on which the meeting is held.

Each stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for him by a proxy signed by such stockholder or his attorney-in-fact, but no proxy shall be voted after three years from its date, unless the proxy provides for a longer period. Any such proxy shall be delivered to the secretary of the meeting prior to the time designated in the order of business for so delivering such proxies. When a quorum is present at any meeting, the vote of the holders of a majority of the voting power of the issued and outstanding stock of the Corporation entitled to vote thereon, present in person or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which by express provision of statute or of the Certificate of Incorporation or of these By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Unless required by statute, or determined by the chairman of the meeting to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if by such proxy, and shall state the number of shares voted.

SECTION 10. INSPECTORS. The Board of Directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number

of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

SECTION 11. ACTION BY CONSENT. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken for or in connection with any corporate action, by any provision of statute or of the Certificate of Incorporation or of these By-Laws, the meeting and vote of stockholders may be dispensed with, and the action taken without such meeting and vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of stock of the Corporation entitled to vote thereon were present and voted.

ARTICLE III

Board of Directors

SECTION 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The Board of Directors may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by statute or the Certificate of Incorporation directed or required to be exercised or done by the stockholders.

SECTION 2. NUMBER, QUALIFICATIONS, ELECTION AND TERM OF OFFICE. The number of directors may be fixed, from time to time, by the affirmative vote of a majority of the entire Board of Directors or by action of the stockholders of the Corporation. Any decrease in the number of directors shall be effective at the time of the next succeeding annual meeting of stockholders unless there shall be vacancies in the Board of Directors, in which case such decrease may become effective at any time prior to the next succeeding annual meeting to the extent of the number of such vacancies. Directors need not be stockholders. Except as otherwise provided by statute or these By-Laws, the directors shall be elected at the annual meeting of stockholders. Each director shall hold office until his successor shall have been elected and qualified, or until his death, or until he shall have resigned, or have been removed, as hereinafter provided in these By-Laws.

SECTION 3. PLACE OF MEETINGS. Meetings of the Board of Directors shall be held at such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine or as shall be specified in the notice of any such meeting.

SECTION 4. ANNUAL MEETING. The Board of Directors shall meet for the purpose of the election of officers and the transaction of other business, as soon as practicable after each annual meeting of stockholders, on the same day and at the same place where such annual meeting shall be held. Notice of such meeting need not be given. In the event such annual meeting is not so held, the annual meeting of the Board of Directors may be held at such other time or place (within or without the State of Delaware) as shall be specified in a notice thereof given as hereinafter provided in Section 7 of this Article III.

SECTION 5. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may fix. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by statute or these By-Laws.

SECTION 6. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the Chairman of the Board, if one shall have been elected, or by two or more directors of the Corporation or by the President.

SECTION 7. NOTICE OF MEETINGS. Notice of each special meeting of the Board of Directors (and of each regular meeting for which notice shall be required) shall be given by the Secretary as hereinafter provided in this Section 7, in which notice shall be stated the time and place of the meeting. Except as otherwise required by these By-Laws, such notice need not state the purposes of such meeting. Notice of each such meeting shall be mailed, postage prepaid, to each director, addressed to him at his residence or usual place of business, by first class mail, at least two days before the day on which such meeting is to be held, or shall be sent addressed to him at such place by telegraph, cable, telex, telecopier or other similar means, or be delivered to him personally or be given to him by telephone or other similar means, at least twenty-four hours before the time at which such meeting is to be held. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting, except when he shall attend for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 8. QUORUM AND MANNER OF ACTING. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors and, except as otherwise expressly required by statute or the Certificate of Incorporation or these By-Laws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn such meeting to another time and place. Notice of the time and place of any such adjourned meeting shall be given to all of the directors unless such time and place were announced at the meeting at which the adjournment was taken, in which case such notice shall only be given to the directors who were not present thereat. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the

meeting as originally called. The directors shall act only as a Board and the individual directors shall have no power as such.

SECTION 9. ORGANIZATION. At each meeting of the Board of Directors, the Chairman of the Board, if one shall have been elected, or, in the absence of the Chairman of the Board or if one shall not have been elected, the President (or, in his absence, another director chosen by a majority of the directors present) shall act as chairman of the meeting and preside thereat. The Secretary or, in his absence, any person appointed by the Chairman of the Board shall act as secretary of the meeting and keep the minutes thereof.

SECTION 10. RESIGNATIONS. Any director of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 11. VACANCIES. Any vacancy in the Board of Directors, whether arising from death, resignation, removal (with or without cause), an increase in the number of directors or any other cause, may be filled by the vote of a majority of the directors then in office, though less than a quorum, or by the sole remaining director or by the stockholders at the next annual meeting thereof or at a special meeting thereof. Each director so elected shall hold office until his successor shall have been elected and qualified.

SECTION 12. REMOVAL OF DIRECTORS. Any director may be removed, either with or without cause, at any time, by the holders of a majority of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote at an election of directors.

SECTION 13. COMPENSATION. The Board of Directors shall have authority to fix the compensation, including fees and reimbursement of expenses, of directors for services to the Corporation in any capacity.

SECTION 14. COMMITTEES. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, including an executive committee, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In addition, in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Except to the extent restricted by statute or the Certificate of Incorporation, each such committee, to the extent provided in the resolution creating it, shall have and may exercise all the powers and authority of the Board of Directors and may authorize the seal of the Corporation to be affixed to all papers which require it. Each such committee shall serve at the pleasure of the Board of Directors and have such name as may be determined from time to time by resolution adopted by the

Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors.

SECTION 15. ACTION BY CONSENT. Unless restricted by the Certificate of Incorporation, any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be.

SECTION 16. TELEPHONIC MEETING. Unless restricted by the Certificate of Incorporation, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV

Officers

SECTION 1. NUMBER AND QUALIFICATIONS. The officers of the Corporation shall be elected by the Board of Directors and shall include the President, one or more Vice-Presidents, the Secretary and the Treasurer. If the Board of Directors wishes, it may also elect as an officer of the Corporation a Chairman of the Board and may elect other officers (including one or more Assistant Treasurers and one or more Assistant Secretaries) as may be necessary or desirable for the business of the Corporation. Any two or more offices may be held by the same person, and no officer except the Chairman of the Board need be a director. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall have resigned or have been removed, as hereinafter provided in these By-Laws.

SECTION 2. RESIGNATIONS. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon receipt. Unless otherwise specified therein, the acceptance of any such resignation shall not be necessary to make it effective.

SECTION 3. REMOVAL. Any officer of the Corporation may be removed, either with or without cause, at any time, by the Board of Directors at any meeting thereof.

SECTION 4. CHAIRMAN OF THE BOARD. The Chairman of the Board, if one shall have been elected, shall be a member of the Board, an officer of the Corporation and, if present, shall preside at each meeting of the Board of Directors or the stockholders. He shall advise and

counsel with the President and in his absence with other executives of the Corporation, and shall perform such other duties as may from time to time be assigned to him by the Board of Directors.

SECTION 5. THE PRESIDENT. The President shall be the chief executive officer of the Corporation. He shall, in the absence of the Chairman of the Board or if a Chairman of the Board shall not have been elected, preside at each meeting of the Board of Directors or the stockholders. He shall perform all duties incident to the office of President and chief executive officer and such other duties as may from time to time be assigned to him by the Board of Directors.

SECTION 6. VICE-PRESIDENT. Each Vice-President shall perform all such duties as from time to time may be assigned to him by the Board of Directors or the President. At the request of the President or in his absence or in the event of his inability or refusal to act, the Vice-President, or if there shall be more than one, the Vice-Presidents in the order determined by the Board of Directors (or if there be no such determination, then the Vice-Presidents in the order of their election), shall perform the duties of the President, and, when so acting, shall have the powers of and be subject to the restrictions placed upon the President in respect of the performance of such duties.

SECTION 7. TREASURER. The Treasurer shall

(a) have charge and custody of, and be responsible for, all the funds and securities of the Corporation;

(b) keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation;

(c) deposit all moneys and other valuables to the credit of the Corporation in such depositories as may be designated by the Board of Directors or pursuant to its direction;

(d) receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever;

(e) disburse the funds of the Corporation and supervise the investments of its funds, taking proper vouchers therefor;

(f) render to the Board of Directors, whenever the Board of Directors may require, an account of the financial condition of the Corporation; and

(g) in general, perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 8. SECRETARY. The Secretary shall

(a) keep or cause to be kept in one or more books provided for the purpose, the minutes of all meetings of the Board of Directors, the committees of the Board of Directors and the stockholders;

(b) see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law;

(c) be custodian of the records and the seal of the Corporation and affix and attest the seal to all certificates for shares of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal;

(d) see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and

(e) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 9. THE ASSISTANT TREASURER. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as from time to time may be assigned by the Board of Directors.

SECTION 10. THE ASSISTANT SECRETARY. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties as from time to time may be assigned by the Board of Directors.

SECTION 11. OFFICERS' BONDS OR OTHER SECURITY. If required by the Board of Directors, any officer of the Corporation shall give a bond or other security for the faithful performance of his duties, in such amount and with such surety as the Board of Directors may require.

SECTION 12. COMPENSATION. The compensation of the officers of the Corporation for their services as such officers, shall be fixed from time to time by the Board of Directors. An

officer of the Corporation shall not be prevented from receiving compensation by reason of the fact that he is also a director of the Corporation.

ARTICLE V

Stock Certificates and Their Transfer

SECTION 1. STOCK CERTIFICATES. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the Chairman of the Board or the President or a Vice-President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restriction of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of the State of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

SECTION 2. FACSIMILE SIGNATURES. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 3. LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as it may direct sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 4. TRANSFERS OF STOCK. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its records; provided, however, that the Corporation shall be

entitled to recognize and enforce any lawful restriction on transfer. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of transfer if, when the certificates are presented to the Corporation for transfer, both the transferor and the transferee request the Corporation to do so.

SECTION 5. TRANSFER AGENTS AND REGISTRARS. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

SECTION 6. REGULATIONS. The Board of Directors may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 7. FIXING THE RECORD DATE. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 8. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of stock to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments a person registered on its records as the owner of shares of stock, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VI

Indemnification of Directors and Officers

SECTION 1. GENERAL. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or by reason of any action alleged to have been taken or omitted in such capacity, against costs, charges, expenses (including

attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of NOLO CONTENDERE or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. DERIVATIVE ACTIONS. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection with the defense or settlement of such action or suit and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such costs, charges and expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. INDEMNIFICATION IN CERTAIN CASES. Notwithstanding the other provisions of this Article VI, to the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise, including without limitation, the dismissal of an action without prejudice, in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article VI, or in defense of any claim, issue or matter therein, he shall be indemnified against all costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection therewith.

SECTION 4. PROCEDURE. Any indemnification under Sections 1 and 2 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in such Sections 1 and 2. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding (the "Continuing Directors"), or (b) if such a quorum of disinterested Continuing

Directors is not obtainable, or, even if obtainable a quorum of disinterested Continuing Directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders.

SECTION 5. ADVANCES FOR EXPENSES. Costs, charges and expenses (including attorneys' fees) incurred by a person referred to in Sections 1 and 2 of this Article VI in defending a civil or criminal action, suit or proceeding shall be paid the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay all amounts so advanced in the event that it shall ultimately be determined that such director, officer, employee or agent is not entitled to be indemnified by the Corporation as authorized in this Article VI. Such costs, charges and expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the majority of the Continuing Directors deems appropriate. The majority of the Continuing Directors may, in the manner set forth above, and upon approval of such director, officer, employer, employee or agent of the Corporation, authorize the Corporation's counsel to represent such person, in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

SECTION 6. PROCEDURE FOR INDEMNIFICATION. Any indemnification under Sections 1, 2 and 3, or advance of costs, charges and expenses under Section 5 of this Article VI, shall be made promptly, and in any event within 60 days upon the written request of the director, officer, employee or agent. The right to indemnification or advances as granted by this Article VI shall be enforceable by the director, officer, employee or agent in any court of competent jurisdiction, if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within 60 days. Such person's costs and expenses incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charge and expenses under Section 5 of this Article VI where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in Sections 1 or 2 of this Article VI, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VI, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met such applicable standard of conduct.

SECTION 7. OTHER RIGHTS; CONTINUATION OF RIGHT TO INDEMNIFICATION. The indemnification and advancement of expenses provided by this Article VI shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), by-law, agreement, vote of stockholders, or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office or while employed by or acting as agent for

the Corporation, and shall continue as to a person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. If the Delaware General Corporation Law is hereafter amended to permit the Corporation to indemnify directors and officers to a greater extent than otherwise permitted by this Article VI, the Corporation shall indemnify directors and officers to such greater extent. All rights to indemnification under this Article VI shall be deemed to be a contract between the Corporation and each director, officer, employee or agent of the Corporation who serves or served in such capacity at any time while this Article VI is in effect. Any repeal or modification of this Article VI or any repeal or modification of relevant provisions of Delaware General Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification of such director, officer, employee or agent of the Corporation who serves or served in such capacity at any time while this Article VI is in effect. Any repeal or modification of this Article VI or any repeal or modification of relevant provisions of Delaware General Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification of such director, officer, employee or agent or the obligations of the Corporation arising hereunder with respect to any action, suit or proceeding arising out of, or relating to, any actions, transactions or facts occurring prior to the final adoption of such modification or repeal. For the purposes of this Article VI, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation, so that any person who is or was a director, officer, employee or agent of such a constituent corporation or is or as serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article VI, with respect to the resulting or surviving corporation, as he would if he had served the resulting or surviving corporation in the same capacity.

SECTION 8. INSURANCE. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the Provisions of this Article VI; provided, however, that such insurance is available on acceptable terms, which determination shall, be made by a vote of a majority of the Continuing Directors.

SECTION 9. SAVINGS CLAUSE. If this Article VI or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article VI that shall not have been invalidated and to the full extent permitted by applicable law.

ARTICLE VII

General Provisions

SECTION 1. DIVIDENDS. Subject to the provisions of statute and the Certificate of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of stock of the Corporation, unless otherwise provided by statute or the Certificate of Incorporation.

SECTION 2. RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may, from time to time, in its absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors may think conducive to the interests of the Corporation. The Board of Directors may modify or abolish any such reserves in the manner in which it was created.

SECTION 3. SEAL. The seal of the Corporation shall be in such form as shall be approved by the Board of Directors.

SECTION 4. FISCAL YEAR. The fiscal year of the Corporation shall be fixed, and once fixed, may thereafter be changed, by resolution of the Board of Directors.

SECTION 5. CHECKS, NOTES, DRAFTS, ETC. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

SECTION 6. EXECUTION OF CONTRACTS, DEEDS, ETC. The Board of Directors may authorize any officer or officers, agent or agents, in the name and on behalf of the Corporation to enter into or execute and deliver any and all deeds, bonds, mortgages, contracts and other obligations or instruments, and such authority may be general or confined to specific instances.

SECTION 7. VOTING OF STOCK IN OTHER CORPORATIONS. Unless otherwise provided by resolution of the Board of Directors, the Chairman of the Board or the President, from time to time, may (or may appoint one or more attorneys or agents to) cast the votes which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of the shares or other securities of such other corporation. In the event one or more attorneys or agents are appointed, the Chairman of the Board or the President may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent. The Chairman of the Board or the President may, or may instruct the attorneys or agents appointed, to execute or cause to be executed in the name and on behalf of the Corporation and under its seal or

otherwise, such written proxies, consents, waivers or other instruments as may be necessary or proper in the circumstances.

ARTICLE VIII

Amendments

These By-Laws may be amended or repealed or new by-laws adopted (a) by action of the stockholders entitled to vote thereon at any annual or special meeting of stockholders or (b) if the Certificate of Incorporation so provides, by action of the Board of Directors at a regular or special meeting thereof. Any by-law made by the Board of Directors may be amended or repealed by action of the stockholders at any annual or special meeting of stockholders.

CORPORATE SEAL

/s/ Marc N. Bell

Marc N. Bell
Secretary

9-MOS

	DEC-31-1999	
	JAN-01-1999	
	SEP-30-1999	6,314
		51,157
		24,015
		0
		49,054
	233,231	137,195
		0
	509,314	
198,183		156,691
	0	0
		2,199
		(126,938)
509,314		353,594
	374,511	128,998
		128,998
		113,777
		0
	(43,200)	
	316,090	
		86,156
229,598		
	1,249	
	(1,410)	
		0
	229,437	
		10.44
		7.67

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0000927388
BGLS INC.
1,000

9-MOS

	DEC-31-1999	
	JAN-01-1999	
	SEP-30-1999	6,314
		51,157
		23,952
		0
		49,054
	232,836	137,180
		0
	507,743	
193,153		156,691
	0	0
		0
		(124,015)
507,743		353,594
	374,511	128,998
		128,998
		115,924
		0
	(46,735)	
	314,702	
		86,156
228,210		
	1,249	
	(1,410)	
		0
	228,049	
		0
		0

I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

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

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

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

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

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

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

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of tobacco products manufactured by defendants.

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

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.

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

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

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

Republic of Bolivia v. Philip Morris Companies, Inc., et al., Case No. 6949*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

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compensatory and injunctive relief for damages incurred by the Kingdom in paying for the medicaid expenses of indigent smokers.

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

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).

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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.

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

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

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

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

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

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

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

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

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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.

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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

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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

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

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

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

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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. In September 1999, all objections to the settlement were resolved with finality.

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 three of the class representatives and a punitive

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damages trial as to the class, commenced on November 1, 1999. An appeal regarding the feasibility of a class-wide punitive damages trial presently is pending before the Florida Supreme Court.

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 Aaddiction-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

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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.

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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

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who have smoked defendant's cigarettes and who presently have a claim for personal injuries or damages, or wrongful death, arising from the smoking of defendants' cigarettes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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. A motion for reconsideration of that order presently is pending.

IV. INDIVIDUAL SMOKER CASES

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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

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

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

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

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

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

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

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

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

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

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

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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, State 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.

Exhibit 99.1

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.

Kenyon 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.

Exhibit 99.1

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.

Estate of Etta Nysko, et al. v. R.J. Reynolds Tobacco Company, et al., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. Three individual suing.

Exhibit 99.1

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

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

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.

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

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

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

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

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.

Exhibit 99.1

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.

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

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

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.

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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.

Exhibit 99.1

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 99.1

Rico, et al. v. The American Tobacco Company, 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.

Rubinowitz, 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.

Exhibit 99.1

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.

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

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

Exhibit 99.1

Tantum v. American Tobacco Co., et al., Case No. 3762, Court of Common Pleas, 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.

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

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

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

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

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

Exhibit 99.1

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

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

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

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

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

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

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

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

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

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

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

Exhibit 99.1

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

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

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

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

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

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

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

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

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

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

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

LIGGETT GROUP INC.
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

LIGGETT GROUP INC.

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LIGGETT GROUP INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 1999	December 31, 1998
	-----	-----
ASSETS		
Current assets:		
Accounts receivable:		
Trade, less allowances of \$1,096 and \$1,686, respectively	\$ 7,911	\$14,510
Other	1,591	821
Inventories	28,748	25,974
Deferred tax assets	9,340	10,178
Other current assets	29,903	383
	-----	-----
Total current assets	77,493	51,866
Property, plant and equipment, at cost, less accumulated depreciation of \$33,367 and \$30,893, respectively	20,876	16,195
Intangible assets, at cost, less accumulated amortization of \$20,561 and \$20,550, respectively	160	171
Other assets	9,256	6,491
	-----	-----
Total assets	\$107,785	\$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)

	September 30, 1999	December 31, 1998
	-----	-----
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Current maturity of note payable	\$ 350	\$ --
Cash overdraft	69	63
Accounts payable, principally trade	4,501	3,206
Accrued expenses:		
Promotional	20,368	23,760
Income taxes	5,950	115
Other taxes, principally excise taxes	930	3,397
Estimated allowance for sales returns	5,851	7,100
Settlement accruals	1,867	1,120
Proceeds received for options	--	150,000
Other	17,180	10,709
	-----	-----
Total current liabilities	57,066	199,470
Credit facility and note payable, less current maturities	7,756	2,538
Non-current employee benefits	10,958	10,902
Other long-term liabilities	5,191	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	58,844	57,380
Accumulated deficit	(32,030)	(202,566)
	-----	-----
Total stockholder's equity (deficit)	26,814	(145,186)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 107,785	\$ 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 September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Net sales*	\$ 108,676	\$ 85,630	\$ 288,649	\$ 234,654
Cost of sales*	28,513	31,383	79,142	91,286
Gross profit	80,163	54,247	209,507	143,368
Selling, general and administrative expenses	59,985	45,562	150,934	117,657
Settlement charges	--	--	104	1,881
Non-cash compensation expense	489	--	1,465	--
Restructuring	--	--	1,100	--
Operating income	19,689	8,685	55,904	23,830
Other income (expense):				
Interest expense	(291)	(7,270)	(1,407)	(21,704)
Sale of assets	(5)	(16)	207	820
Gain on brand transaction	(189)	--	294,098	--
Income before income taxes	19,204	1,399	348,802	2,946
Income tax provision	7,171	--	134,566	--
Net income	\$ 12,033	\$ 1,399	\$ 214,236	\$ 2,946

* Net sales and cost of sales include federal excise taxes of \$15,245, \$16,889, \$41,405 and \$49,365, 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	--	214,236	214,236
Accretion of capital contribution	1,464	--	1,464
Distributions and other payments	--	(43,700)	(43,700)
	-----	-----	-----
Balance at September 30,1999	\$58,844 =====	\$ (32,030) =====	\$ 26,814 =====

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

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

	Nine Months Ended September 30,	
	1999	1998
Cash flows from operating activities	\$ (99,793)	\$ 5,733
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	903	1,155
Proceeds from brand transaction	145,000	--
Capital expenditures	(8,084)	(1,182)
Net cash provided by (used in) investing activities	137,819	(27)
Cash flows from financing activities:		
Repayments of note payable	(212)	(28)
Issuance of note payable	4,500	--
Borrowings under revolving credit facility	239,860	196,188
Repayments under revolving credit facility	(238,580)	(201,941)
Deferred finance charges	100	(439)
Distributions and other payments	(43,700)	--
Increase in cash overdraft	6	514
Net cash used in financing activities	(38,026)	(5,706)
Net increase in cash and cash equivalents	--	--
Cash and cash equivalents:		
Beginning of period	--	--
End of period	\$ -0-	\$ -0-

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

LIGGETT GROUP INC.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

1. THE COMPANY

Liggett Group Inc. ("Liggett" or the "Company") is a wholly-owned subsidiary of Brooke Group Holding Inc. ("Brooke Group Holding"), 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 Brooke Group Holding. Accordingly, earnings and dividends per share data are not presented in these consolidated financial statements.

2. ESTIMATES AND ASSUMPTIONS

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

3. PHILIP MORRIS BRAND 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 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. This gain was reduced by \$189 in additional legal expenses incurred in July.

4. INVENTORIES

Inventories consist of the following:

	September 30, 1999	December 31, 1998
	-----	-----
Leaf tobacco	\$ 8,942	\$ 10,796
Other raw materials	1,894	1,741
Work-in-process	2,514	1,828
Finished goods	16,130	12,231
Replacement parts and supplies	3,161	3,150
	-----	-----
Inventories at current cost	32,641	29,746
LIFO adjustment	(3,893)	(3,772)
	-----	-----
Inventories at LIFO cost	\$ 28,748	\$ 25,974
	=====	=====

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. Liggett had leaf tobacco purchase commitments of approximately \$4,019 at September 30, 1999.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	September 30, 1999	December 31, 1998
	-----	-----
Land and improvements	\$ 415	\$ 412
Buildings	5,852	5,823
Machinery and equipment	47,976	40,853
	-----	-----
Property, plant and equipment	54,243	47,088
Less accumulated depreciation	(33,367)	(30,893)
	-----	-----
Property, plant and equipment, net	\$ 20,876	\$ 16,195
	=====	=====

6. CREDIT FACILITY AND NOTE PAYABLE

	September 30, 1999	December 31, 1998
	-----	-----
Borrowings outstanding under revolving credit facility	\$ 3,818	\$2,538
Note payable	4,288	--
	-----	-----
	8,106	2,538
Current portion	(350)	--
	-----	-----
Amount due after one year	\$ 7,756	\$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 \$14,755 based upon eligible collateral at September 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 9.50%, which changed to 9.75% on September 1, 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 \$30,707 at September 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 \$24,670 at September 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 Brooke Group Holding, BGL's predecessor, or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs ("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 nine months ended September 30, 1999, Liggett incurred counsel fees and costs totaling approximately \$4,210, compared to \$3,713 for the comparable prior year period.

INDIVIDUAL ACTIONS. As of September 30, 1999, there were approximately 280 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, 82 were pending in Florida, 91 in New York, 30 in Massachusetts and 17 in Texas. The balance of the individual cases were pending in 22 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, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, indemnity and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO"), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including, treble/multiple damages, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

In February 1999, a 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 September 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. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the CASTANO case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

In March 1994, an action entitled CASTANO, ET AL. V. THE AMERICAN TOBACCO COMPANY INC., ET AL., United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint sought relief for a nationwide class of smokers based on their alleged addiction to nicotine. In February 1995, the District Court granted plaintiffs' motion for class certification (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, BROIN AND ENGLE, were certified in state court in Florida prior to the Fifth Circuit's decision. 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. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. In July 1998, Phase I of the trial in this action commenced. On July 7, 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court has decided that Phase II of the trial, which commenced November 1, 1999, will be a causation and damages trial for three 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. (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 one case against Liggett in Florida and one in Maryland. A number of class certification decisions are on appeal.

GOVERNMENTAL ACTIONS. As of September 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, breach of special duty, fraud, negligent

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

On or about September 22, 1999, the United States of America commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover healthcare costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other tobacco-related illnesses caused by the fraudulent and tortious conduct of defendants, and to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The action is allegedly brought under the Medical Care Recovery Act and the Medicare secondary payer provisions of the Social Security Act and RICO.

THIRD-PARTY PAYOR ACTIONS. As of September 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, Brooke Group Holding and Liggett entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. The CASTANO class was subsequently decertified by the court.

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

In November 1998, Philip Morris, Brown & Williamson Tobacco Corporation, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. As described below, Brooke Group Holding 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 45 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 Brooke Group Holding and Liggett, the payments due these states by Liggett (with certain possible exceptions) have been eliminated. With respect to all non-economic obligations under the previous settlements, both Brooke Group Holding and Liggett are entitled to the most favorable provisions as between the MSA and each state's respective settlement with

the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, Brooke Group Holding and plaintiffs filed an amended class action settlement agreement in FLETCHER which agreement was preliminarily approved by the court in December 1998. On July 22, 1999, the court denied approval of the FLETCHER class action settlement. The parties' motion for reconsideration is still pending.

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 Brooke Group Holding or Liggett scheduled for the remainder of 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 (April), two asbestos company contribution lawsuits in Mississippi and New York (February), one Class Action in Maryland (February) and a Third-Party Payor Action brought by unions in New York (June). Also, two Individual Actions 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. 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.

The Company is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. 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 Brooke Group Holding or Liggett, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

It is possible that the Company's consolidated financial position, results of operations or cash 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.

SUBSEQUENT EVENTS:

In connection with the ENGLE case, on October 20, 1999, the Third District Court of Appeal denied the defendants' motion to order the trial court to assess punitive damages on an individual basis. On October 29, 1999, the defendants petitioned the Florida Supreme Court for relief. On November 3, 1999, the Florida Supreme Court requested briefing from the plaintiffs.

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. Oral argument has been scheduled for December 1999. 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 legislative and 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. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation.

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 re-engineering 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 in August. Enhancements to the Company's warehouse management/finished goods inventory tracking systems (WMS/FITS) were completed in October 1999. Y2K testing is currently underway on manufacturing's Oracle Database/Applications software (in addition to all other related software and hardware used in production operations), with no serious issues having arisen. This project timetable calls for the completion of all tests, along with resolution of any issues encountered, by no later than December 11. 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 \$2,744 in the first nine months of 1999 and \$1,377 in the first nine months of 1998.

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

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 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)

	September 30, 1999	December 31, 1998
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,297	\$ 2,722
Accounts receivable - trade.....	2,351	650
Inventories.....	20,306	10,342
Other current assets.....	483	2,928
	-----	-----
Total current assets.....	24,437	16,642
Property, plant and equipment, at cost, less accumulated depreciation of \$4,982 and \$2,959.....	107,747	77,286
Other	3,084	5,782
	-----	-----
Total assets.....	\$135,268	\$ 99,710
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Credit facilities and current portion of notes payable.....	\$ 32,744	\$ 20,005
Accounts payable - trade.....	20,769	10,415
Due to affiliates.....	394	51,533
Accrued taxes.....	2,758	7,658
Accrued interest.....	525	228
Other accrued liabilities.....	2,325	3,628
	-----	-----
Total current liabilities.....	59,515	93,467
Long-term portion of notes payable.....	15,148	19,652
Deferred gain.....	5,133	20,392
Participating loan.....	36,470	31,991
Other liabilities.....	950	4,252
Commitments and contingencies.....		
Stockholder's equity (deficit):		
Common stock, par value \$1 per share, 701,000 shares authorized, issued and outstanding.....	701	701
Additional paid-in-capital.....	103,097	17,104
Deficit.....	(85,746)	(87,849)
	-----	-----
Total stockholder's equity (deficit).....	18,052	(70,044)
	-----	-----
Total liabilities and stockholder's equity (deficit).....	\$135,268	\$ 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		Nine Months Ended	
	Sept. 30, 1999	Sept. 30, 1998	Sept. 30, 1999	Sept. 30, 1998
Net sales*	\$27,255	\$22,549	\$64,944	\$69,553
Cost of sales*	19,433	15,854	50,304	50,186
Gross profit	7,822	6,695	14,640	19,367
Operating, selling, administrative and general expenses	4,054	4,518	10,169	9,716
Operating income	3,768	2,177	4,471	9,651
Other income (expense):				
Interest expense	(8,745)	(2,824)	(15,596)	(8,912)
Recognition of deferred gain on sale of assets			8,478	
(Loss) gain on foreign currency exchange	(868)	243	1,743	328
Amortization of goodwill				(1,054)
Other, net	77		(112)	4
(Loss) income before income taxes	(5,768)	(404)	(1,016)	17
Benefit for income taxes	(4,529)	(2,447)	(3,119)	(1,136)
Net (loss) income	<u>\$ (1,239)</u>	<u>\$ 2,043</u>	<u>\$ 2,103</u>	<u>\$ 1,153</u>

* Net sales and cost of sales include excise taxes of \$2,128, \$3,355, \$4,724 and \$11,224, 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.....				2,103	2,103
Capital contribution.....			74,080		74,080
Effect of New Valley recapitalization.....			11,913		11,913
Balance, September 30, 1999.....	701,000	\$701	\$103,097	\$(85,746)	\$ 18,052

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)

=====

	Nine Months Ended	
	September 30, 1999	September 30, 1998
Net cash provided by operating activities	\$ 23,971	\$ 8,666
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(35,915)	(16,107)
	-----	-----
Net cash used in investing activities	(35,915)	(16,107)
	-----	-----
Cash flows from financing activities:		
Proceeds from debt		17,612
Repayments of debt	(2,088)	(10,715)
Borrowings under credit facility	22,224	
Repayments under credit facility	(8,716)	
Proceeds from participating loan		25,000
Capital contributions		9,000
Repayment of intercompany debt		(30,218)
Distributions paid to parent		(1,275)
	-----	-----
Net cash provided by financing activities	11,420	9,404
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(901)	557
	-----	-----
Net (decrease) increase in cash and cash equivalents	(1,425)	2,520
Cash and cash equivalents, beginning of period	2,722	968
	-----	-----
Cash and cash equivalents, end of period	\$ 1,297	\$ 3,488
	=====	=====

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 September 30, 1999, the Company had net capital of \$18,052 and a working capital deficiency of \$35,078. Factory management is currently using credit facilities totaling approximately \$26,964. Availability under these facilities is \$2,500. In connection with the move to the new factory in June 1999, Liggett-Ducat began the manufacture and marketing of western style cigarettes. On August 31, 1999, Brooke and BGLS cancelled notes and interest thereon which amounted to \$74,080. This amount is recorded as a capital contribution in the consolidated statement of stockholder's equity. 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:

	September 30, 1999	December 31, 1998
	-----	-----
Leaf tobacco.....	\$ 5,772	\$ 3,086
Other raw materials.....	7,180	2,888
Work-in-process.....	244	173
Finished goods.....	5,485	3,215
Replacement parts and supplies.....	1,625	980
	-----	-----
	\$20,306	\$10,342
	=====	=====

At December 31, 1998, replacement parts and supplies are shown net of a provision for obsolescence of \$545.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

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

During the nine months ended September 30, 1999, Liggett-Ducat exchanged \$2,120 of cigarettes for the equivalent value in tobacco, other materials and services as compared to \$2,859 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 September 30, 1999, the Company had leaf tobacco purchase commitments of approximately \$30,770.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of:

	September 30, 1999	December 31, 1998
Buildings.....	\$ 45,288	
Factory machinery and equipment.....	58,053	\$10,589
Computers and software.....	736	466
Office furniture and equipment.....	797	470
Vehicles.....	2,806	1,767
Construction-in-progress.....	5,049	66,953
	-----	-----
	112,729	80,245
Less accumulated depreciation.....	(4,982)	(2,959)
	-----	-----
	\$107,747	\$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 September 30, 1999, the remaining liability under the construction contracts is \$1,980 and the remaining liability under equipment purchase agreements is \$23,428.

6. NOTES PAYABLE, CREDIT FACILITIES AND PARTICIPATING LOAN

Notes payable and credit facilities consist of the following:

	September 30, 1999	December 31, 1998
Notes payable.....	\$23,428	\$28,057
Credit facilities.....	24,464	11,600
	-----	-----
Total notes payable and credit facilities.....	47,892	39,657
Less:		
Current maturities.....	32,744	20,005
	-----	-----
Amount due after one year.....	\$15,148	\$19,652
	=====	=====

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

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

At September 30, 1999, Liggett-Ducat had various credit facilities under which approximately \$24,464 was outstanding. Facilities denominated in dollars amount to \$17,000, of which \$14,500 has been utilized, bear interest at rates of 20% to 25% and expire within the next twelve months. The remaining facilities, denominated in rubles (approximately \$9,964 at the September 30, 1999 exchange rate), have terms of six to twelve months with interest rates of 50% to 63%. The facilities are collateralized by factory equipment and tobacco inventory.

On November 1, 1999, Liggett-Ducat entered into an agreement with a Russian bank for a revolving credit facility, for \$14,500 denominated in dollars bearing interest at 13% collateralized by the new factory building and \$3,000 denominated in rubles bearing interest at 40% collateralized by certain new equipment. The credit facility will be used to repay existing credit lines.

Western Tobacco has 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 \$22,046 at September 30, 1999. The Company also has issued a promissory note for \$1,382 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 September 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. In addition, Western Realty Ducat is entitled to receive a 15% cumulative annual rate of return on amounts advanced under the participating loan agreement under certain circumstances in the event of sale or refinancing of Western Tobacco or the new factory. For the three and nine months ended September 30, 1999, the net effect of these preference requirements is recorded as interest expense of \$4,218 and \$4,479.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

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

7. INCOME TAXES

For the nine months ended September 30, 1999 and 1998, the tax (benefit) provision of \$(3,119) and \$(1,136), respectively, consisted of income tax expense (benefit) pursuant to Russian statutory requirements of \$702 and \$(1,136), respectively, and U.S. income tax benefit of \$3,821 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).