

Registration No. 333-46055

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST-EFFECTIVE
AMENDMENT NO. 1
ON FORM S-1 TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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BROOKE GROUP LTD.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware 51-0255124
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

100 S.E. Second Street
Miami, Florida 33131
(305) 579-8000

(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

Marc N. Bell
Vice President and General Counsel
Brooke Group Ltd.
100 S.E. Second Street
Miami, Florida 33131
(305) 579-8000

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copy to:
Mark L. Weissler, Esq.
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, New York 10005
(212) 530-5000

Approximate date of commencement of proposed sale to the public: From time to
time following the effective date of the Registration Statement.

If the only securities being registered on this form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box. [ ]

If any of the securities being registered on this form are to be
offered on a delayed or continuous basis pursuant to Rule 415 under the
Securities Act of 1933, other than securities offered only in connection with
dividend or interest reinvestment plans, check the following box. [X]

If this form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the following box
and list the Securities Act registration statement number of the earlier
effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule
462(c) under the Securities Act, check the following box and list the Securities
Act registration statement number of the earlier effective registration
statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule
434, please check the following box. [ ]

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Pursuant to Rule 429, the prospectus included in this Post-Effective
Amendment No. 1 on Form S-1 to Form S-3 Registration Statement No. 333-46055
also constitutes the prospectus for: (i) Form S-3 Registration Statement No.
33-38869; (ii) Form S-3 Registration Statement No. 33-63119; (iii) Form S-3
Registration Statement No. 333-45377; and (iv) Form S-1 Registration Statement
No. 333-56873.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THIS PROSPECTUS IS NOT AN OFFER TO SELL THE SECURITIES, AND IT IS NOT SOLICITING AN OFFER TO BUY THE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, APRIL 27, 1999

PROSPECTUS

16,726,310 SHARES

BROOKE GROUP LTD.

COMMON STOCK

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These shares may be sold by the selling stockholders listed beginning on page 58. Brooke will not receive any proceeds from the sale of these shares.

Brooke's common stock is listed on The New York Stock Exchange under the symbol "BGL". The last reported sale price of the common stock on The New York Stock Exchange on April \_\_, 1999 was \$\_\_\_\_\_ per share.

The common stock may be sold in transactions on the New York Stock Exchange at market prices then prevailing, in negotiated transactions or otherwise. See "Plan of Distribution."

THIS OFFERING INVOLVES MATERIAL RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 4.

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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATOR HAS APPROVED THE SECURITIES TO BE ISSUED UNDER THIS PROSPECTUS OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR ADEQUATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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APRIL \_\_\_\_, 1999

## WHERE YOU CAN FIND MORE INFORMATION

Brooke is subject to the informational requirements of the Securities Exchange Act of 1934 and files reports, proxy statements and other information with the Securities and Exchange Commission. You can inspect and copy all of this information at the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site that contains reports, proxy statements and other information regarding issuers, like Brooke, that file electronically with the SEC. The address of this web site is <http://www.sec.gov>.

This prospectus, which constitutes a part of a registration statement filed by Brooke with the SEC under the Securities Act of 1933, omits some information contained in the registration statement. Accordingly, you should refer to the registration statement and its exhibits for further information with respect to Brooke and its common stock. Copies of the registration statement and its exhibits are on file at the offices of the SEC. Since statements contained in this prospectus concerning any document filed as an exhibit may be incomplete, you should always refer to the copy of the document filed as an exhibit. You should rely only on the information or representations provided in this prospectus and the registration statement. Brooke has not authorized anyone to provide you with different information.

## SUMMARY

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION FROM THIS DOCUMENT AND MAY NOT CONTAIN ALL THE INFORMATION THAT IS IMPORTANT TO YOU. FOR A MORE COMPLETE UNDERSTANDING OF THE MATTERS TO BE CONSIDERED BEFORE INVESTING IN THE SHARES, YOU SHOULD READ THE ENTIRE DOCUMENT CAREFULLY.

## BROOKE GROUP LTD.

Brooke is a holding company for a number of businesses. Brooke holds these businesses through its wholly-owned subsidiary, BGLS Inc. Brooke is principally engaged:

- \* through its subsidiary Liggett Group Inc. in the manufacture and sale of cigarettes in the United States;
- \* through its subsidiary Brooke (Overseas) Ltd. in the manufacture and sale of cigarettes in Russia; and
- \* through its investment in New Valley Corporation in the investment banking and brokerage business, in real estate development in Russia, in the ownership and management of commercial real estate in the United States and in the acquisition of operating companies.

Brooke is controlled by Bennett S. LeBow, the Chairman and Chief Executive Officer of Brooke, BGLS and New Valley, who beneficially owns approximately 43% of the Brooke's common stock. The mailing address of the principal executive offices of Brooke is 100 S.E. Second Street, Miami, Florida 33131, and its telephone number at that address is (305) 579-8000.

## THE OFFERING

Securities offered by the selling stockholders.....	16,726,310 shares of Common Stock, of which 5,650,000 shares are issuable on exercise of options and warrants.
Common Stock outstanding.....	20,943,730 shares of Common Stock
NYSE symbol.....	BGL

## USE OF PROCEEDS

Brooke will not receive any part of the proceeds from the sale of shares by the selling stockholders.

## RISK FACTORS

You should carefully consider the risks described below before deciding to invest in Brooke's common stock. These risk factors could materially harm its business, financial condition and results of future operations.

**BROOKE IS HIGHLY LEVERAGED, HAS NEGATIVE NET WORTH AND HAS SUFFERED SIGNIFICANT LOSSES**

At December 31, 1998, Brooke had total outstanding indebtedness of \$283,841,000 and a net worth deficiency of \$394,175,000. Brooke has substantial debt service requirements on a consolidated basis, and has experienced significant losses from continuing operations before income taxes every year since 1991 except 1998. In addition, Liggett, Brooke's principal operating subsidiary, had a net worth deficiency and a working capital deficiency at December 31, 1998. There is a risk that Brooke will not be able to generate enough funds to repay its debts. If Brooke cannot service its fixed charges, it would significantly harm Brooke and the value of its common stock.

**BROOKE IS A HOLDING COMPANY AND DEPENDS ON CASH FROM SUBSIDIARIES**

Brooke is a holding company and has no operations of its own. Brooke's ability to pay dividends on its common stock depends on the ability of New Valley, in which Brooke indirectly holds an approximately 42% voting interest, Liggett and Brooke's other subsidiaries to generate cash and make it available to Brooke. Covenants in Liggett's debt instruments restrict Liggett's ability to pay dividends or make other payments to Brooke. The indenture governing BGLS' 15.75% Senior Secured Notes due 2001 restricts the ability of BGLS to pay dividends and other restricted payments and prohibits BGLS from disposing of collateral for the BGLS Notes, including the stock of Liggett, Brooke (Overseas), New Valley and New Valley Holdings, Inc.

New Valley's First Amended Joint Chapter 11 Plan of Reorganization and the BGLS indenture restrict transactions with Brooke and its affiliates, including payments to Brooke from New Valley other than pro rata distributions to stockholders. Moreover, as a significant New Valley stockholder, Brooke must deal fairly with New Valley, which may limit its ability to enter into transactions with New Valley that result in the receipt of cash from New Valley and to influence New Valley's dividend policy.

In addition, Brooke currently holds a minority of New Valley's voting power and may be unable to control New Valley's dividend policy. Since Brooke owns a minority of each class of New Valley capital stock other than the Class A Preferred Shares, a majority of any cash and other assets distributed by New Valley with respect to these classes will be received by persons other than Brooke and its subsidiaries.

Brooke's receipt of income from its principal subsidiaries is an important source of its liquidity and capital resources. As described above, its ability to receive this income is subject to a number of risks. If Brooke generates too little cash flow from continuing operations to repay its debts, it must obtain additional funds from other sources. There is a risk that Brooke will not be able to obtain additional funds at all or on terms acceptable to Brooke. Brooke's inability to service these obligations would significantly harm Brooke and the value of its common stock.

## LIGGETT AND THE TOBACCO INDUSTRY ARE SUBJECT TO RISK

The tobacco industry is subject to problems, and Liggett faces intense competition in the industry. Liggett has suffered a substantial decline in unit sales volume and has a significant working capital deficiency. This results from its highly leveraged capital structure until December 1998, as well as adverse developments in the tobacco industry, intense competition and changes in consumer preferences. Liggett is considerably smaller and has fewer resources than all its major competitors and has a more limited ability to respond to market developments. Three firms control approximately 90% of the United States market and it is very difficult for new competitors to enter the market. Philip Morris Companies Inc. is the largest and most profitable manufacturer in the market, and its profits are derived principally from its sale of lucrative premium cigarettes. According to published industry sources, Liggett's management believes that Philip Morris had more than 58% of the premium segment and more than 49% of the total domestic market during 1998. Philip Morris and R.J. Reynolds Tobacco Co., the two largest cigarette manufacturers, have historically, because of their dominant market share, been able to determine cigarette prices for the various pricing tiers within the industry. The other cigarette manufacturers historically have brought their prices into line with the levels established by the two major manufacturers. Liggett depends more on sales in the discount segment of the market, relative to the full-price premium segment, than its competitors. Since at least 1993, Liggett's management believes that Philip Morris' market strategy has been to minimize the actual price spread between discount and premium products and to curtail the sales made by the makers of discount products. In part, Philip Morris sought to minimize that spread by dropping its premium prices in early 1993. In addition, that strategy has also been carried out through wholesale and retail trade programs.

Based on published industry sources, Liggett's management believes that Liggett's overall market share during 1998 was 1.3%, unchanged from 1997, but down from 1.9% for 1996. Based on published industry sources, Liggett's management believes that Liggett's share of the premium segment during 1998 and 1997 was .5%, and .7% for 1996, and its share of the discount segment during 1998 and 1997 was 3.5%, down from 4.8% for 1996.

Industry-wide shipments of cigarettes in the United States have been steadily declining for a number of years. Published industry sources estimate that domestic industry-wide shipments decreased by approximately 4.5% in 1998. Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking, legislative limitations on smoking in public places and federal and state excise tax increases which have augmented large cigarette price increases.

Legislation, regulation and litigation will continue to harm the tobacco industry. The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and the other cigarette manufacturers. At December 31, 1998, there were approximately 270 individual suits, 50 purported class actions and 85 governmental and other third-party payor health care cost reimbursement actions pending in the United States in which Liggett is a named defendant. As new cases are commenced, the costs associated with defending them and the risks resulting from the inherent unpredictability of litigation continue to increase. Recently, there have been a number of restrictive regulatory actions by various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political and legal 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. Brooke cannot evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but Brooke's consolidated financial position, results of operations or cash flows could be materially adversely affected by an ultimate unfavorable outcome in any of this pending litigation. Note 16

to the Consolidated Financial Statements of Brooke for the year ended December 31, 1998 included elsewhere in this Prospectus describes this legislation, regulation and litigation.

Tax increases may adversely affect sales. 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 for a 50 cents per pack tax on cigarettes sold in that state. A substantial federal excise or state tax increase could accelerate the trend away from smoking and could have an unfavorable effect on Liggett's sales.

#### BROOKE ENGAGES IN VARIOUS AFFILIATE TRANSACTIONS

Affiliates of Brooke have entered into various transactions with Brooke and other Brooke affiliates. Existing contracts with these companies include services agreements under which Liggett receives financial and administrative services from Brooke, tax-sharing agreements between various subsidiaries of Brooke including Liggett, and expense sharing arrangements between New Valley and Brooke. In addition, Brooke has entered into arrangements with individuals who serve as officers or directors of companies affiliated with Brooke, portions of the cost of which have been charged by Brooke to the affiliated companies.

The BGLS indenture and Liggett's revolving credit facility restrict on the ability of Brooke and Liggett to enter into additional transactions with affiliates. The Joint Plan restricts the ability of New Valley to enter into transactions with affiliates. Brooke, as a controlling stockholder of New Valley, must deal fairly with New Valley, and this obligation may limit Brooke's ability to enter into certain transactions with New Valley or to influence New Valley's dividend policy. The restrictions described in this paragraph are subject to important limitations and qualifications.

#### NEW VALLEY'S POTENTIAL ACQUISITIONS AND INVESTMENTS MAY NOT SUCCEED

New Valley currently holds a significant amount of marketable securities and cash not committed to any specific investments. This subjects investors to increased risk and uncertainty because they cannot evaluate how this cash will be invested and the economic merits of particular investments. There may be substantial delay in locating suitable investment opportunities. In addition, New Valley may lack relevant management experience in the areas in which New Valley may invest. There is a risk that New Valley will fail in targeting, consummating or managing any of these investments.

#### OPERATIONS IN RUSSIA ARE SUBJECT TO UNCERTAINTIES

Brooke has significant investments in its cigarette manufacturing operations in Russia and, through its investment in New Valley, in real estate development operations in Russia. These operations are subject to a high level of risk. In its on-going transition from a centrally-controlled economy under communist rule, Russia has experienced dramatic political, social and economic upheaval. There is a risk that further reforms necessary to complete this transition will not occur. The Russian economy suffers from significant inflation, declining industrial production, rising unemployment and under employment, and an unstable currency. In addition, Brooke and New Valley may be harmed by:

- o political or diplomatic developments;
- o regional tensions;
- o currency repatriation restrictions;

- o foreign exchange fluctuations;
- o an undeveloped system of commercial laws, including laws on real estate titles and mortgages, and a relatively untested judicial system;
- o an evolving taxation system subject to constant changes which may be applied retroactively; and
- o other legal developments and, in particular, the risks of expropriation, nationalization and confiscation of assets and changes in legislation relating to foreign ownership.

There is a risk investments in Russia will harm Brooke's profitability (if any) or liquidity and cash flow.

#### BROOKE DEPENDS ON ITS MANAGEMENT

Brooke depends upon the services of Bennett S. LeBow (the "Chairman"), Chairman of the Board, President and Chief Executive Officer of both Brooke and BGLS. The loss to Brooke of the Chairman could have a material adverse effect on Brooke. If the Chairman ceased to control Brooke other than because of death or incapacity, each holder of the BGLS Notes would have the option to require BGLS to repurchase its holdings of such debt securities. As defined in the Indenture, "control" of a company means the power to direct the management and policies of Brooke, directly or indirectly, whether through the ownership of voting securities, by contract, or otherwise. There could be uncertainty as to whether particular factual circumstances constituted a change of control.

#### BROOKE HAS MANY POTENTIALLY DILUTIVE SECURITIES OUTSTANDING

In March 1998, in connection with agreements to amend the terms of the BGLS Notes, Brooke issued five-year warrants to purchase 4,150,000 shares of Brooke's common stock. Of these warrants, 2,000,000 can be exercised immediately, at a price of \$5.00 per share, and 2,150,000 will be exercisable October 31, 1999, at a price of \$.10 per share. In 1998, Brooke granted options for 1,250,000 shares of Brooke's common stock, at a price of \$6.00 per share, to a law firm that represents Brooke and Liggett, all of which became exercisable in December 1998. At December 31, 1998, Brooke had outstanding options granted to employees and a consultant to purchase 4,620,868 shares of its common stock, at prices ranging from \$1.00 to \$9.75, of which 1,577,533 are exercisable during 1999. The issuance of these shares will cause dilution which may adversely affect the market price of Brooke's common stock. The availability for sale of significant quantities of Brooke's common stock could adversely affect the prevailing market price of the stock.

#### BROOKE'S STOCK PRICE HAS BEEN VOLATILE

The trading price of Brooke's common stock has fluctuated widely, ranging between \$3 13/16 and \$24 3/4 per share over the past 52 weeks. The overall market and the price of its common stock may continue to fluctuate greatly. The trading price of its common stock may be significantly affected by various factors, including:

- o the depth and liquidity of the trading market for Brooke's common stock;
- o quarterly variations in its actual or anticipated operating results;



- o changes in investors' and analysts' perceptions of the business and legal risks facing Brooke and the tobacco industry;
- o changes in estimates of its earnings by investors and analysts; and
- o announcements or activities by its competitors.

#### FAILURE TO OBTAIN YEAR 2000 COMPLIANCE MAY HAVE ADVERSE EFFECTS

The failure of Brooke or its significant suppliers and customers to adequately address the "Year 2000" issue could result in misstatement of reported financial information, or could adversely affect our business, financial condition and results of operations. For more information about its Year 2000 compliance efforts, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments Year 2000 Costs."

#### USE OF PROCEEDS

The net proceeds from the sale of the shares will be received by the selling stockholders. None of the proceeds from any sales by the selling stockholders will be received by Brooke.

#### DIVIDEND POLICY

During 1998 and 1997, Brooke declared and paid regular quarterly cash dividends of \$.075 per share on its common stock. The declaration of future cash dividends is within the discretion of the Board of Directors of Brooke and is subject to a variety of contingencies such as market conditions, earnings and the financial condition of Brooke as well as the availability of cash. The payment of dividends and other distributions to Brooke by BGLS are subject to the Indenture for the BGLS Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity".

#### MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Brooke's common stock, \$.10 par value per share, is listed and traded on the New York Stock Exchange under the symbol "BGL". The high and low sale prices for a share of its common stock on the NYSE, as reported by the NYSE, for each fiscal quarter of 1998 and 1997 were as follows:

Year ----	High ----	Low ---
1998:		
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Fourth Quarter	\$ 24 3/4	\$ 4 11/16
Third Quarter	11 3/4	3 13/16
Second Quarter	16 5/8	8 1/2
First Quarter	17 1/4	8 11/16
1997:		
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Fourth Quarter	11 1/8	5 5/8
Third Quarter	6 3/4	3 1/16
Second Quarter	5 1/4	3 1/2
First Quarter	5 3/8	4

On April \_\_\_\_, 1999, the last reported sale price of Brooke's common stock on the NYSE was \$\_\_\_\_\_ per share. At March 26, 1999, there were 428 holders of record of Brooke's common stock.

#### THE COMPANY

##### GENERAL

Brooke Group Ltd. ("Brooke" or the "Company"), a Delaware corporation founded in 1980, is a holding company for a number of businesses. The Company is principally engaged, through its subsidiary Liggett Group Inc. ("Liggett"), in the manufacture and sale of cigarettes in the United States; through its subsidiary Brooke (Overseas) Ltd. ("BOL"), in the manufacture and sale of cigarettes in Russia; and through its investment in New Valley Corporation ("New Valley"), in the investment banking and brokerage business, in real estate development in Russia, in the ownership and management of commercial real estate in the United States and in the acquisition of operating companies. The Company holds such businesses through its wholly-owned subsidiary, BGLS Inc. ("BGLS"), a Delaware corporation organized in 1990.

The Company is controlled by Bennett S. LeBow, the Chairman and Chief Executive Officer of the Company, BGLS and New Valley, who beneficially owns approximately 43% of the Company's common stock.

##### LIGGETT GROUP INC.

GENERAL. The Company's tobacco business in the United States is conducted through its indirect wholly-owned subsidiary Liggett, which is the operating successor to the Liggett & Myers Tobacco Company. Substantially all of Liggett's manufacturing facilities are located in or near Durham, North Carolina.

Liggett is engaged in the manufacture and sale of cigarettes, primarily in the United States. Liggett's management believes, based on published industry sources, that Liggett's domestic shipments of approximately 5.91 billion cigarettes during 1998 accounted for 1.3% of the total cigarettes shipped in the United States during such year. This market share percentage is unchanged from 1997, but represents a decline of 0.5% from 1996. Liggett produces both premium cigarettes as well as discount cigarettes (which include among others, control label, branded discount and generic cigarettes). Premium cigarettes are generally marketed under well-recognized brand names at full retail prices to adult smokers with strong preference for branded products, whereas discount cigarettes are marketed at lower retail prices to adult smokers who are more cost conscious. Liggett's cigarettes are produced in approximately 270 combinations of length, style and packaging.

Liggett produces four premium cigarette brands: L&M, CHESTERFIELD, LARK and EVE. Liggett's premium cigarettes represented approximately 30%, 33% and 31% of net sales (excluding federal excise taxes) in 1998, 1997 and 1996, respectively. Liggett's management believes, based on published industry sources, that Liggett's share of the premium market segment was approximately 0.5% for 1998, compared to 0.5% and 0.7% for 1997 and 1996, respectively. See "Philip Morris Brand Transaction" for information concerning a transaction involving the L&M, CHESTERFIELD and LARK brands, which represented approximately 16.1%, 18.1% and 17.5% of net sales (excluding federal excise taxes) in 1998, 1997 and 1996, respectively.

In 1980, Liggett was the first major domestic cigarette manufacturer to successfully introduce discount cigarettes as an alternative to premium cigarettes. In 1989, Liggett established a new price point within the discount market segment by introducing PYRAMID, a branded discount product which, at that time, sold for less than most other discount cigarettes. Liggett's management believes, based on published industry sources, that Liggett held a share of approximately 3.5% of the discount market segment for 1998 and 1997, compared to 4.8% for 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations" for additional information concerning Liggett's premium and discount product sales.

At the present time, Liggett has no foreign operations. Liggett does not own the international rights to its premium cigarette brands, which are actively marketed by other companies in foreign markets, thereby adversely affecting Liggett's ability to penetrate such markets. Liggett does, however, export other cigarette brands primarily to Eastern Europe and the Middle East. Export sales of approximately 57 million units accounted for approximately 1% of Liggett's 1998 total unit sales volume. Revenues from export sales were \$0.6 million for 1998, compared to \$0.8 million and \$3.3 million for 1997 and 1996, respectively. Operating loss attributable to export sales in 1998 amounted to approximately \$0.07 million compared to operating losses of \$0.1 million and \$1.8 million in 1997 and 1996, respectively.

**BUSINESS STRATEGY.** Liggett's near-term business strategy is to further reduce certain operating and selling costs in order to increase the profitability of both its premium and discount products, and to reduce its investment in working capital. As part of this strategy, in 1996, Liggett continued its efforts, initiated in 1994, to reduce costs by, among other things, offering voluntary retirement programs to eligible employees and reducing headcount by an additional 38 positions.

In January 1997, Liggett underwent a major restructuring from a centralized organization to a decentralized enterprise with four Strategic Business Units, each a profit center, and a corporate headquarters. This restructuring is intended to more closely align sales and marketing strategies with the unique requirements of regional markets as well as reduce working capital by improved production planning and inventory control. As a result of this reorganization, Liggett further reduced its salaried, hourly and part-time headcount by a total of 108 positions (18%) over the succeeding twelve months.

Following the contribution in June 1999 of the LARK, L & M AND CHESTERFIELD trademarks to a newly-formed limited liability company, discussed below under the caption "Philip Morris Brand Transaction," Liggett's long-term business strategy in the premium segment of the market will be to focus resources on its remaining premium brand, EVE, by maintaining or improving profit margins in the face of declining unit sales and market share through improved operating efficiencies and targeted promotional strategies. Liggett's long-term business strategy in the discount segment of the market is to grow its market share by consistently providing high-quality products and services at prices and on terms comparable to those available elsewhere in the market.

**SALES, MARKETING AND DISTRIBUTION.** Liggett's products are distributed from a central distribution center in Durham, North Carolina to 26 public warehouses located throughout the United States. These warehouses serve as local distribution centers for Liggett's customers. Liggett's products are transported from the central distribution center to the warehouses via third-party trucking companies to meet pre-existing contractual obligations to its customers.

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Liggett offers its customers discount payment terms, traditional rebates and promotional incentives. Customers typically pay for purchased goods within two weeks following delivery from Liggett. Liggett's largest single customer, Speedway SuperAmerica LLC, accounted for approximately 26.9% of net sales in 1998, approximately 19.4% of net sales in 1997, and

approximately 13.9% of net sales in 1996. Sales to this customer were primarily in the private label discount segment and constituted approximately 32.8%, 29.1% and 20.3% of Liggett's discount segment sales in 1998, 1997 and 1996, respectively.

Following the January 1997 restructuring, Liggett's marketing and sales functions were performed by approximately 110 direct sales representatives calling on national and regional customer accounts, together with approximately 90 part-time retail sales consultants who service retail outlets. In addition, Liggett employs food broker groups in certain geographic locations to perform these marketing and sales functions.

**TRADEMARKS.** All of the major trademarks used by Liggett are federally registered or are in the process of being registered in the United States and other markets where Liggett's products are sold. Trademarks registrations typically have a duration of ten years and can be renewed at Liggett's option prior to their expiration date. In view of the significance of cigarette brand awareness among consumers, management believes that the protection afforded by these trademarks is material to the conduct of its business. All of Liggett's trademarks are owned by its wholly-owned subsidiaries, Eve Holdings Inc. ("Eve") and Cigarette Exporting Company of America, Ltd. ("CECOA"). Liggett does not own the international rights to its premium cigarette brands.

**MANUFACTURING.** Liggett purchases and maintains leaf tobacco inventory to support its cigarette manufacturing requirements. Liggett believes that there is a sufficient supply of tobacco within the worldwide tobacco market to satisfy its current production requirements. Liggett stores its leaf tobacco inventory in warehouses in North Carolina and Virginia. There are several different types of tobacco, including flue-cured leaf, burley leaf, Maryland leaf, oriental leaf, cut stems and reconstituted sheet. Leaf components of cigarettes are generally the flue-cured and burley tobaccos. While premium and discount brands use many of the same tobacco products, input ratios of tobacco products account for the differences between premium and discount products. Domestically grown tobacco is an agricultural commodity subject to United States government production controls and price supports which can substantially affect its market price. Foreign flue-cured and burley tobaccos, some of which are used in the manufacture of Liggett's cigarettes, are generally 10% to 15% less expensive than comparable domestic tobaccos. Liggett normally purchases all of its tobacco requirements from domestic and foreign leaf tobacco dealers, much of it under long-term purchase commitments. As of December 31, 1998, approximately 62% of Liggett's commitments were for the purchase of foreign tobacco. Increasing tobacco costs due to reduced worldwide supply of tobacco and a reduction in the average discount available to Liggett from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments will have an unfavorable impact on Liggett's operations during 1999.

Liggett's cigarette manufacturing facilities are designed for the execution of short production runs in a cost-effective manner, which enables Liggett to manufacture and market a wide variety of cigarette brand styles. Liggett's cigarettes are produced in approximately 270 different brand styles under Eve's and CECOA's trademarks and brand names as well as private labels for other companies, typically retail or wholesale distributors who supply supermarkets and convenience stores. Liggett believes that its existing facilities are sufficient to accommodate a substantial increase in production.

While Liggett pursues product development, its total expenditures for research and development on new products have not been financially material over the past three years.

**COMPETITION.** Liggett is the smallest of the five major manufacturers of cigarettes in the United States. The four largest manufacturers of cigarettes are Philip Morris Incorporated ("PM"), R.J. Reynolds Tobacco Company ("RJR"), Brown & Williamson Tobacco Corporation ("B&W"), and Lorillard Tobacco Company, Inc. ("Lorillard").

There are substantial barriers to entry into the cigarette business, including extensive distribution organizations, large capital outlays for sophisticated production equipment, substantial inventory investment, costly promotional spending, regulated advertising and strong brand loyalty. In this industry, the major cigarette manufacturers compete among themselves for market share on the basis of brand loyalty, advertising and promotional activities and trade rebates and incentives. Liggett's four major competitors all have substantially greater financial resources and most of these competitors' brands have greater sales and consumer recognition than Liggett's brands.

Liggett's management believes, based on published industry sources, that PM's and RJR's sales together accounted for approximately 73.4% of the domestic cigarette market in 1998. Liggett's domestic shipments of approximately 5.91 billion cigarettes during 1998 accounted for 1.3% of the approximately 460.9 billion cigarettes shipped in the United States during such year, compared to 6.45 billion cigarettes (1.3%) and 8.95 billion cigarettes (1.9%) during 1997 and 1996, respectively.

Industry-wide shipments of cigarettes in the United States have been declining for a number of years. Consistent with published industry sources that domestic industry-wide shipments declined by approximately 4.5% in 1998, Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors, including health considerations, diminishing social acceptance of smoking, legislative limitations on smoking in public places and federal and state excise tax increases which have augmented cigarette price increases.

Historically, because of their dominant market share, PM and RJR have been able to determine cigarette prices for the various pricing tiers within the industry and the other cigarette manufacturers have brought their prices into line with the levels established by the two industry leaders. Off-list price discounting by manufacturers, however, has substantially affected the average price differential at retail, which can be significantly greater than the manufacturers' list price gap.

PHILIP MORRIS BRAND TRANSACTION. On November 20, 1998, the Company and Liggett entered into a definitive agreement with PM which provides for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK (the "Marks"), held by Liggett's subsidiary, Eve. As contemplated by the agreement, Liggett and PM entered into additional agreements (collectively, the "PM Agreements") on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC ("LLC"), a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Voting Interest (the "Class A Interest") and the Class B Redeemable Nonvoting Interest (the "Class B Interest"). PM acquired two options to purchase such interests (the "Class A Option" and the "Class B Option"). On December 2, 1998, PM paid Eve a total of \$150 million for such options, \$5 million for the Class A Option and \$145 million for the Class B Option. The payments were used to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity."

The Class A Option entitles PM to purchase the Class A Interest for \$10.1 million. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for June 10, 1999, subject to customary closing conditions.

The Class B Option will entitle PM to purchase the Class B Interest for \$139.9 million. The Class B Option will be exercisable during the 90-day period beginning on December 2, 2008, with PM

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 the LLC for \$139.9 million during the same period the Class B Option may be exercised.

The LLC will seek to borrow \$134.9 million (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's 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, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure Eve's release from its guaranty. The Class B Interest will be entitled to a guaranteed payment of \$.500 million each year with the Class A Interest allocated all remaining LLC income or loss.

The LLC will grant PM an exclusive license of the Marks for an 11 year term at an annual royalty based on sales of cigarettes under the Marks, subject to a minimum annual royalty payment equal to the annual debt service obligation on the Loan plus \$1 million.

If PM fails to exercise the Class B Option, Eve will have an option to put its Class B Interest to PM, or PM's designees (the "Eve Put Option"), at a put price that is \$5 million less than the exercise price of the Class B Option (and includes PM's procuring 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, the LLC's 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% LLC interest.

**LEGISLATION, REGULATION AND LITIGATION.** Reports with respect to the alleged harmful physical effects of cigarette smoking have been publicized for many years and, in the opinion of Liggett's management, have had and may continue to have an adverse effect on cigarette sales. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports which claim that cigarette smoking is a causative factor with respect to a variety of health hazards, including cancer, heart disease and lung disease, and have recommended various government actions to reduce the incidence of smoking. In 1997, Liggett publicly acknowledged that, as the Surgeon General and respected medical researchers have found, smoking causes health problems, including lung cancer, heart vascular disease and emphysema.

Since 1966, federal law has required that cigarettes manufactured, packaged or imported for sale or distribution in the United States include specific health warnings on their packaging. Since 1972, Liggett and the other cigarette manufacturers have included the federally required warning statements in print advertising, on billboards and on certain categories of point-of-sale display materials relating to cigarettes. The Comprehensive Smoking Education Act ("csea"), which became effective in October 1985, requires that packages of cigarettes distributed in the United States and cigarette advertisements (other than billboard advertisements) in the United States bear one of the following four warning statements on a quarterly rotating basis: "SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, and May Complicate Pregnancy"; "SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health"; "SURGEON GENERAL'S WARNING: Smoking by Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight"; and "SURGEON GENERAL'S WARNING: Cigarette Smoke Contains Carbon Monoxide". Shortened versions of these statements are also required, on a rotating basis, on billboard

advertisements. By a limited eligibility amendment to the csea, for which Liggett qualifies, Liggett is allowed to display all four required package warnings for the majority of its brand packages on a simultaneous basis (such that the packages at any time may carry any one of the four required warnings), although it rotates the required warnings for advertising on a quarterly basis in the same manner as do the other major cigarette manufacturers. The law also requires that each person who manufactures, packages or imports cigarettes annually provide to the Secretary of Health and Human Services a list of ingredients added to tobacco in the manufacture of cigarettes. Annual reports to the United States Congress are also required from the Secretary of Health and Human Services as to current information on the health consequences of smoking and from the Federal Trade Commission on the effectiveness of cigarette labeling and current practices and methods of cigarette advertising and promotion. Both federal agencies are also required annually to make such recommendations as they deem appropriate with regard to further legislation. In addition, since 1997, Liggett has included the warning: "Smoking is Addictive" on its cigarette packages.

In August 1996, the Food and Drug Administration ("FDA") filed in the Federal Register a Final Rule classifying tobacco as a "drug" or "medical device", asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation has been 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 other four major cigarette manufacturers and the FDA have filed notices of appeal.

In August 1996, the Commonwealth of Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect on the grounds that it is preempted by federal law; however, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. The enactment of this legislation has encouraged efforts to enact similar legislation in other states.

In 1993, the United States Congress amended the Agricultural Adjustment Act of 1938 to require each United States cigarette manufacturer to use at least 75% domestic tobacco in the aggregate of the cigarettes manufactured by it in the United States, effective January 1994, on an annualized basis or pay a domestic marketing assessment ("DMA") based upon price differentials between foreign and domestic tobacco and, under certain circumstances, make purchases of domestic tobacco from the tobacco stabilization cooperatives organized by the United States government. After an audit, the United States Department of Agriculture ("USDA") informed Liggett that it did not satisfy the 75% domestic tobacco usage requirement in 1994 and was subject to a DMA of approximately \$5.5 million. Liggett agreed to pay this assessment in quarterly installments, with interest, over a five-year period. Since the levels of domestic tobacco inventories on hand at the tobacco stabilization organizations are below reserve stock levels, Liggett was not obligated to make purchases of domestic tobacco from the tobacco stabilization cooperatives.

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 on the basis of domestic market share. Such an approach, if adopted, could have a material adverse effect on Liggett.

In January 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of environmental tobacco smoke ("ETS") which concluded 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 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.

The Company understands that a grand jury investigation is being conducted by the office of the United States Attorney for the Eastern District of New York (the "Eastern District Investigation") regarding possible fraud by the tobacco industry relating to smoking and health research undertaken or administered by The Council for Tobacco Research - USA, Inc. (the "CTR"). Liggett was a sponsor of the CTR at one time. In May 1996, Liggett received a subpoena from a Federal grand jury sitting in the Eastern District of New York, to which Liggett has responded.

In March 1996, and in each of March, July, October and December 1997, the Company and/or Liggett received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of the health consequences of smoking cigarettes; the targeting of children by the industry; and the addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas. The Company understands that the Eastern District Investigation and the DOJ Investigation have, for all intents and purposes, been consolidated into one investigation being conducted by the Department of Justice. The Company and Liggett are unable, at this time, to predict the outcome of this investigation.

In April 1998, the Company announced that Liggett had reached an agreement with the United States Department of Justice (the "DOJ") to cooperate with its ongoing criminal investigation of the tobacco industry. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation.

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.

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.

There are various other legislative efforts pending on the federal and state level which seek, among other things, to restrict or prohibit smoking in public buildings and other areas, increase excise taxes, require additional warnings on cigarette packaging and advertising, ban vending machine sales,



curtail affirmative defenses of tobacco companies in product liability litigation, place cigarettes under the regulatory jurisdiction of the FDA and require that cigarettes meet certain fire safety standards. If adopted, at least certain of the foregoing legislative proposals could have a material adverse impact on Liggett's operations.

While attitudes toward cigarette smoking vary around the world, a number of foreign countries have also taken steps to discourage cigarette smoking, to restrict or prohibit cigarette advertising and promotion and to increase taxes on cigarettes. Such restrictions are, in some cases, more onerous than restrictions imposed in the United States. Due to Liggett's lack of foreign operations, and minimal export sales to foreign countries, the risks of foreign limitations or restrictions on the sale of cigarettes are limited to entry barriers into additional foreign markets and the inability to grow the existing markets.

The cigarette industry continues to be challenged on numerous fronts. The industry is facing increased pressure from anti-smoking groups and an extraordinary increase in smoking and health litigation, including private class action litigation and health care cost recovery actions brought by governmental entities and other third parties, the effects of which, at this time, the Company is unable to evaluate. As of December 31, 1998, there were approximately 270 individual suits, approximately 50 purported class actions or actions where class certification has been sought and approximately 85 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett is a named defendant. The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, special duty, voluntary undertaking, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, indemnity, market share liability, and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO") and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statutes of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

In April 1998, a group known as the "Coalition for Tobacco Responsibility", which represents Blue Cross/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. Recently, the Seattle action was dismissed by the court; however, the industry's request for dismissal was denied by the court in New York. The lawsuits allege conspiracy, fraud, misrepresentation, violation of federal racketeering and antitrust laws as well as other claims.

The claims asserted in the health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

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

March 1997, the Company and Liggett entered into a comprehensive settlement, subject to court approval, of tobacco litigation with a nationwide class of individuals and entities that allege smoking-related claims. Additionally, in 1996, 1997 and 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. On November 23, 1998, Liggett, along with the other major tobacco companies, 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. Upon final judicial approval, the MSA replace Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota.

Liggett has been involved in certain environmental and other proceedings, none of which, either individually or in the aggregate, rise to the level of materiality. Liggett's current operations are conducted in accordance 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, have not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

Management believes that Liggett is in compliance in all material respects with the laws regulating cigarette manufacturers.

See "Legal Proceedings", "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments in the Cigarette Industry - Legislation, Regulation and Litigation" and Note 16 to the Company's Consolidated Financial Statements for a description of legislation, regulation and litigation and of the MSA and the Company's and Liggett's other settlements.

## BROOKE (OVERSEAS) LTD.

LIGGETT-DUCAT LTD. BOL, a wholly-owned subsidiary of BGLS, is engaged in the manufacture and sale of cigarettes in Russia through Liggett-Ducat Ltd. ("Liggett-Ducat"), a Russian joint stock company. BOL owns a 99.9% equity interest in Liggett-Ducat.

Liggett-Ducat, one of Russia's leading cigarette producers since 1892, manufactured and marketed 20.3 billion cigarettes in 1998. Liggett-Ducat produces or has rights to produce 26 different brands of cigarettes, including Russian brands such as PEGAS, PRIMA, NOVOSTI and BALOMORKANAL.

Liggett-Ducat manufactures three types of cigarettes: filter, non-filter and papirossi. Papirossi is a traditional type of Russian cigarette featuring a long paper filter comprising two-thirds of the cigarette with tobacco filling up the balance. In 1998, Liggett-Ducat sold 6.5 billion filter cigarettes (32%), 9.9 billion non-filter cigarettes (49%) and 3.9 billion papirossi (19%).

The long-term strategy of Liggett-Ducat is to upgrade the quality of its traditional Russian cigarette brands to international standards and to expand the range of cigarettes it offers to include the higher-margin American blend and international blend cigarettes. The new types of cigarettes should appeal to the growing segment of the market that prefers American blend cigarettes over traditional Russian blended cigarettes. Russian blend cigarettes have a very strong flavored oriental tobacco blend with a heavy pungent odor, while the American blend is a lighter flavored Virginia tobacco blend. The international blend will be a mix between Russian and American blends. As markets have developed in Eastern Europe, consumer preferences have typically shifted toward international and American blend cigarettes.

Liggett-Ducat has produced its cigarettes in a 150,000 square foot factory complex located on Gasheka Street in downtown Moscow and operates a 150,000 square foot warehouse outside of the city. Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow on land it has leased for a term of 49 years. The new factory, which will utilize Western cigarette making technology and have a capacity in excess of 30 billion units per year, will produce American and international blend cigarettes, as well as traditional Russian cigarettes. The existing factory closed at the end of March 1999 with production scheduled to start in the new factory in mid-1999.

Liggett-Ducat manufactured its cigarettes on 27 production lines at the old factory, comprised of both Russian-made and imported machinery. In recent years, Liggett-Ducat had upgraded the equipment at the old factory to improve its operations and all upgraded equipment will be utilized at the new factory. In 1997, Liggett-Ducat completed installation of an upgraded primary processing complex manufactured by GBE Tobacco. The upgraded primary equipment will be moved to, and expanded in the new factory, allowing Liggett-Ducat to produce American blend, international blend and traditional Russian cigarettes. In addition, Liggett-Ducat acquired a new filter-making complex from Hoechst Celanese which allows Liggett-Ducat to produce Western quality filters, previously purchased from outside vendors, and installed a new rejected cigarette tobacco reclamation machine to reduce waste. Liggett-Ducat has acquired 10 new high-speed tobacco lines which will be utilized at the new factory.

The Russian cigarette market is one of the largest and fastest growing cigarette markets in the world. Annual consumption of cigarettes is estimated at 300 billion units in Russia (1998 estimate), making the market the fourth largest in the world after the United States, China and India. The potential size of the market is estimated by management at up to 400 billion units per year. Approximately 61% of Russian men and 17% of Russian women are estimated to smoke cigarettes. The market has been

growing rapidly over the past several years (particularly the female market) as imported cigarettes have become available to satisfy increasing demand.

While growth in consumption had been restrained historically by static domestic cigarette making capacity, recent increases in domestic production capacity resulted in an estimated 20% increase in domestic production to approximately 170 billion cigarettes (57% of the market) in 1997. Excess demand and demand for Western style cigarettes were satisfied by approximately 130 billion units of imported cigarettes (43% of the market) in 1997. This trend continued during the first half of 1998; however, imports declined significantly starting in August 1998 with the onset of the Russian financial crisis and the devaluation of the ruble. Initial industry estimates indicate that imports declined by approximately 30% in the September through December period of 1998 over the prior year period. The decline in imports has continued during the first quarter of 1999.

Russian customs legislation continues to support local producers. During 1996 and 1997, the Russian Government raised the duties on imported cigarettes several times to a current effective rate of 115% of cost. In the past, many imported cigarettes were sold illegally without payment of required duties. Recent efforts to improve enforcement of import duties have maintained the differential between the price of imported and domestic cigarettes. Imported cigarettes currently range in price at retail from approximately 8 to 23.5 rubles (\$.35 to \$1.03) per pack, as compared to domestically produced cigarettes which sell for approximately 1.8 to 7.5 rubles (\$.08 to \$.33) per pack.

Liggett-Ducat's brands currently compete primarily against those of other Russian cigarette makers. Liggett-Ducat as well as other Russian producers sell their cigarettes at the lowest price points in the market. Competition in this sector of the market is generally based on price and name recognition of the producing factory. There is very limited advertising of these products, typically only in trade publications and wholesale catalogs. Liggett-Ducat's brands also compete to a lesser extent against lower priced imported cigarettes from Eastern Europe and Asia.

In order to increase their presence in the Russian market and avoid import duties, several of the major international cigarette manufacturers have begun to produce American and international blend cigarettes domestically. Such activities by companies with well established, international brands will provide significant additional competition to Liggett-Ducat as it seeks to increase its sales of such higher margin products upon completion of the new factory.

In January 1997, the Company recognized a gain of \$4,125,000 in settlement of an arbitration proceeding relating to an expropriation and forced abandonment insurance claim. The claim arose from the actions of the Moscow City government in January 1993 repealing a January 1992 decree which had authorized the City of Moscow to lease the land underlying the old Liggett-Ducat factory and the Ducat Place real estate development to BOL and sell the buildings on the land to a joint venture between BOL and Factory Ducat (the predecessor to Liggett-Ducat). Before expending substantial sums to develop the land, BOL obtained insurance coverage for political risks such as expropriation and forced abandonment. In January 1993, after the Moscow City government repealed those sections of the January 1992 decree which had authorized the lease of the land and the sale of the buildings, the local authorities and BOL negotiated a settlement proposal that was entered into effective October 1, 1993. As part of the settlement, the joint venture was transformed into a joint stock company owned 58% by BOL and 42% by its Russian employees, thereby triggering a loss to BOL of \$3.7 million (based on the loss of 42% of its investment in the project). As a result, BOL tendered formal notice of loss under its insurance policy and advised the insurer of the proposed resolution. The insurer denied the claim and, in July 1994, arbitration proceedings were commenced in the United Kingdom. In January 1997, shortly after a favorable decision by the arbitrators, the parties negotiated a settlement of \$4.1 million.

SALE OF BROOKEMIL LTD. Until January 31, 1997, BOL was also engaged in the real estate development business in Moscow through its subsidiary BrookeMil Ltd. ("BML"). On January 31, 1997, BOL entered into a stock purchase agreement (the "Purchase Agreement") with New Valley, pursuant to which BOL sold 10,483 shares of the common stock of BML to New Valley, comprising 99.1% of the outstanding shares of BML (the "BML Shares"). New Valley paid to BOL, for the BML Shares, a purchase price of \$55 million, consisting of \$21.5 million in cash and a \$33.5 million 9% promissory note of New Valley (the "Note"). The Note, which was collateralized by the BML Shares, was paid during 1997. The transaction was approved by the independent members of the Board of Directors of the Company. The Company retained independent legal counsel in connection with the evaluation and negotiation of the transaction. See Notes 5 and 16 to the Company's Consolidated Financial Statements for a discussion of the transaction and information regarding a pending lawsuit relating to New Valley's purchase of the BML Shares.

The site of the proposed third phase of the Ducat Place project being developed by BML was used until the end of March 1999 by Liggett-Ducat as the site for its cigarette factory. In connection with the sale of the BML Shares, Liggett-Ducat entered into a Use Agreement with BML whereby Liggett-Ducat was permitted to continue to utilize the site on the same basis as in the past. The Use Agreement is terminable by BML on 270 days' prior notice. In addition, New Valley had the right under the Purchase Agreement to require BOL and BGLS to repurchase this site for the then appraised fair market value, but in no event less than \$13.6 million, during the period Liggett-Ducat operated the factory on such site. Liggett-Ducat, which is constructing a new factory on the outskirts of Moscow which is currently scheduled to be operational by mid-1999, will vacate the site upon completion of the new factory.

#### NEW VALLEY CORPORATION

GENERAL. New Valley is engaged, through its ownership of Ladenburg Thalmann & Co. Inc. ("Ladenburg"), in the investment banking and brokerage business, through its ownership of BML, in the real estate development business in Russia, through its New Valley Realty division, in the ownership and management of commercial real estate in the United States, and in the acquisition of operating companies. New Valley is registered under the Securities Exchange Act of 1934 as amended ("the Exchange Act") and files periodic reports and other information with the Securities and Exchange Commission (the "SEC").

The Company indirectly holds, through BGLS and BGLS' wholly-owned subsidiary, New Valley Holdings, Inc. ("NV Holdings"), approximately 42% of the voting interest in New Valley. This approximate 42% interest consists, as of March 26, 1999, of (i) 19,748 shares of common stock (the "Common Shares") (approximately 0.2% of the class) and 250,885 shares of \$3.00 Class B Cumulative Convertible Shares (the "Class B Preferred Shares") (approximately 9.0% of the class) held directly by BGLS and (ii) 3,969,962 Common Shares (approximately 41.4% of the class) and 618,326 \$15.00 Class A Increasing Rate Cumulative Senior Preferred Shares (the "Class A Preferred Shares") (approximately 57.7% of the class) held by NV Holdings. See Note 3 to the Company's Consolidated Financial Statements.

Bennett S. LeBow, Chairman of the Board, President and Chief Executive Officer of the Company and of BGLS and the controlling stockholder of the Company, serves as Chairman of the Board and Chief Executive Officer of New Valley. Howard M. Lorber, a consultant to the Company and its subsidiaries and a stockholder of the Company, serves as President and Chief Operating Officer, and is a director, of New Valley. Richard J. Lampen, Executive Vice President of the Company and of BGLS, serves as Executive Vice President, and is a director, of New Valley. Marc N. Bell, Vice President,

General Counsel and Secretary of the Company and of BGLS, serves as Vice President, Associate General Counsel and Secretary of New Valley.

On January 18, 1995, New Valley emerged from bankruptcy reorganization proceedings and completed substantially all distributions to creditors under its First Amended Joint Chapter 11 Plan of Reorganization, as amended (the "Joint Plan"). The Joint Plan was confirmed by the United States Bankruptcy Court for the District of New Jersey, Newark Division on November 1, 1994, and pursuant thereto, New Valley effected certain related asset dispositions.

PROPOSED RECAPITALIZATION PLAN. New Valley has submitted for approval of its stockholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of \$12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ. Completion of the Recapitalization Plan is subject to, among other things, approval by the required holders of the various classes of New Valley's shares.

The Company has agreed to vote all of its shares in New Valley in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its warrants, the Company will increase its ownership of the outstanding Common Shares of New Valley from 42.3% to 55.1% and its total voting power from 42% to 55.1%.

LADENBURG THALMANN & CO. INC. On May 31, 1995, New Valley acquired all of the outstanding shares of common stock and other equity interests of Ladenburg for \$25.8 million, net of cash acquired, subject to adjustment. Ladenburg is a full service broker-dealer which has been a member of the New York Stock Exchange since 1876. Its specialties include investment banking, trading, research, market making, private client services, institutional sales and asset management.

Ladenburg's investment banking area maintains relationships with businesses and provides them with research, advisory and investor relations support. Services include merger and acquisition consulting, management of and participation in underwriting of equity and debt financing, private debt and equity financing, and rendering appraisals, financial evaluations and fairness opinions. Ladenburg's listed securities, fixed income and over-the-counter trading areas include trading a variety of financial instruments. Ladenburg's client services and institutional sales departments serve over 20,000 accounts worldwide and its asset management area provides investment management and financial planning services to numerous individuals and institutions.

Ladenburg is a wholly-owned subsidiary of Ladenburg Thalmann Group Inc. ("Ladenburg Group"), which has other subsidiaries specializing in merchant banking, venture capital and investment banking activities on an international level. Ladenburg Thalmann International ("LTI"), a wholly-owned subsidiary of Ladenburg Group, is engaged in corporate finance and capital markets activities in Russia and Ukraine, seeking, among other things, mandates to raise capital for local corporate issuers in the international capital markets. LTI, headquartered in New York City, has an office in Kiev, Ukraine.

In July 1997, LTI, together with Societe Generale, formed a fund with an initial capitalization of \$90.5 million for investment in public and private equity securities in Ukraine. LTI's Kiev office serves as investment advisor to the fund.

BROOKEMIL LTD. On January 31, 1997, New Valley acquired the BML Shares, representing 99.1% of the outstanding shares of BML, from BOL. New Valley paid to BOL a purchase price of \$55 million, consisting of \$21.5 million in cash and the \$33.5 million Note. The Note, which was collateralized by the BML Shares, was paid during 1997. The source of funds used by New Valley for the acquisition, including the payment of the Note, was general working capital including cash and cash equivalents and proceeds from the sale of investment securities available for sale. The amount of consideration paid by New Valley was determined based on a number of factors including current valuations of the assets, future development plans, local real estate market conditions and prevailing economic and political conditions in Russia.

New Valley retained independent legal counsel and financial advisors in connection with the evaluation and negotiation of the transaction, which was approved by a special committee of the independent directors of New Valley. In accordance with the terms of the Joint Plan, the transaction was approved by not less than two-thirds of the entire Board of Directors, including the approval of at least one of the directors elected by the holders of New Valley's preferred shares, and a fairness opinion from an investment banking firm was obtained. The shareholders of New Valley did not vote on the BML transaction (nor the acquisition of Ladenburg or the Office Buildings and Shopping Centers described below) as their approval was not required by applicable corporate law or New Valley's constituent documents.

BML is developing the three-phase Ducat Place complex on 2.2 acres of land in downtown Moscow, for which it has a 49-year lease. The first phase of the project, Ducat Place I, a 46,500 square foot Class-A office building, was successfully built and leased in 1993, and sold by BML to a tenant in April 1997. In 1997, BML completed construction of Ducat Place II, a premier 150,000 square foot office building. Ducat Place II has been leased to a number of leading international companies including Motorola, Conoco, Lukoil-Arco and Morgan Stanley. The third phase, Ducat Place III, is planned as a 350,000 square foot mixed-use complex, with construction anticipated to commence in 2000. For further information with respect to this transaction, see "Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd."

WESTERN REALTY DUCAT. 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. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to \$58.75 million, including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded \$32.4 million of its investment in Western Realty Ducat.

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 (\$40 million), together with a 15% annual rate of return, and New Valley will then be entitled to a return of \$20 million 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 will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Ducat will generally require the unanimous consent of the Board of Managers. Accordingly, New Valley will account for its non-controlling interest in Western

Realty Ducat on the equity method. See Note 4 to New Valley's Consolidated Financial Statements accompanying this report.

The Company, New Valley and their affiliates have other business relationships with affiliates of Apollo. In January 1996, New Valley acquired, from an affiliate of Apollo, the Shopping Centers for \$72.5 million. New Valley and pension plans sponsored by BGLS have invested in investment partnerships managed by an affiliate of Apollo. Affiliates of Apollo have owned a substantial amount of debt securities of BGLS and hold warrants to purchase common stock of the Company. See Note 9 to the Company's Consolidated Financial Statements.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a \$30 million participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interests in Liggett-Ducat and the new factory being constructed by Liggett-Ducat on the outskirts of Moscow.

WESTERN REALTY REPIN. In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a \$25 million participating loan to BML (the "Repin Loan"). The proceeds of the Repin Loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres located on the Sofiskaya Embankment of the Moscow River (the "Kremlin Sites"). The sites are directly across the river from the Kremlin and have views of the Kremlin walls, towers and nearby church domes. BML is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites. BML owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment (\$18.75 million), together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment (\$6.25 million), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced \$19.1 million (of which \$14.3 million was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if any, made to BML by the entities owning the Kremlin Sites. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds of the Repin Loan to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin 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 December 31, 1998, BML had invested \$18 million in the Kremlin Sites and held approximately \$252 million, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional \$6 million in 1999 and \$22 million in 2000 in the development of the property. BML funded \$4.8 million of this amount in the first quarter of 1999.

NEW VALLEY REALTY DIVISION. In January 1996, New Valley acquired four commercial office buildings (the "Office Buildings") and eight shopping centers (the "Shopping Centers"), respectively, for an aggregate purchase price of \$183.9 million, consisting of \$23.9 million in cash and \$160 million in non-recourse mortgage financing provided by the sellers. The Office Buildings and Shopping Centers are



being operated through New Valley's New Valley Realty division. As discussed below, on September 28, 1998, New Valley sold the Office Buildings.

The Office Buildings consisted of two adjacent commercial office buildings in Troy, Michigan and two adjacent commercial office buildings in Bernards Township, New Jersey. New Valley acquired the Office Buildings in Michigan from Bellemead of Michigan, Inc. ("Bellemead Michigan") and the Office Buildings in New Jersey from Jared Associates, L.P. (each, a "Seller"), for an aggregate purchase price of \$111.4 million. Each Seller was an affiliate of Bellemead Development Corporation, which was indirectly wholly-owned by The Chubb Corporation. The purchase price was paid for the Office Buildings as follows: (i) \$23.5 million for the 700 Tower Drive property, located in Troy, Michigan; (ii) \$28.1 million for the 800 Tower Drive property, located in Troy, Michigan; (iii) \$48.3 million for the Westgate I property, located in Bernards Township, New Jersey; and (iv) \$11.4 million for the Westgate II property, located in Bernards Township, New Jersey. The two Michigan buildings were constructed in 1987 and the two New Jersey buildings were constructed in 1991. The gross square footage of the Office Buildings ranged from approximately 50,300 square feet to approximately 244,000 square feet.

New Valley acquired a fee simple interest in each Office Building (subject to certain rights of existing tenants), together with a fee simple interest in the land underlying three of the Office Buildings and a 98-year ground lease (the "Ground Lease") underlying one of the Office Buildings. Under the Ground Lease, Bellemead Michigan, as lessor, is entitled to receive rental payments of a fixed monthly amount and a specified portion of the income received from the 700 Tower Drive property. Space in the Office Buildings is leased to commercial tenants and the Office Buildings were fully occupied at the time of sale.

In January 1996, New Valley acquired the Shopping Centers from various limited partnerships (the "Partnerships") affiliated with Apollo for an aggregate purchase price of \$72.5 million. The Shopping Centers are located in Marathon and Royal Palm Beach, Florida; Lincoln, Nebraska; Santa Fe, New Mexico; Milwaukee, Oregon; Richland and Marysville, Washington; and Charleston, West Virginia. New Valley acquired a fee simple interest in each Shopping Center and the underlying land for each property. Space in each Shopping Center is leased to a variety of commercial tenants and, as of December 31, 1998, the aggregate occupancy of the Shopping Centers was approximately 94%. The Shopping Centers were constructed at various times during the period 1963-1988. The gross square footage of the Shopping Centers ranges from approximately 108,500 square feet to approximately 222,500 square feet.

The purchase price paid for each Shopping Center was as follows: (i) \$3.9 million for the Marathon Shopping Center property, located in Marathon, Florida; (ii) \$9.8 million for the Village Royale Plaza Shopping Center property, located in Royal Palm Beach, Florida; (iii) \$6.0 million for the University Place property, located in Lincoln, Nebraska; (iv) \$9.6 million for the Coronado Shopping Center property, located in Santa Fe, New Mexico; (v) \$7.3 million for the Holly Farm Shopping Center property, located in Milwaukee, Oregon; (vi) \$10.6 million for the Washington Plaza property, located in Richland, Washington; (vii) \$12.4 million for the Marysville Towne Center property, located in Marysville, Washington; and (viii) \$12.9 million for the Kanawha Mall property, located in Charleston, West Virginia (the properties are subject to underlying mortgages in favor of senior lenders and second mortgages in favor of the Partnerships).

Concurrently with the acquisition of the Shopping Centers, New Valley engaged a property-management firm, whose principals were the former minority partners in the Partnerships, that had previously operated the Shopping Centers to act as the managing agent and leasing agent for the Shopping Centers. Effective December 1996, such firm's engagement was terminated, and Kravco Company was

engaged as managing agent and leasing agent for the Kanawha Mall and Insignia Commercial Group, Inc. as managing agent and leasing agent for the remaining Shopping Centers.

The acquisition of the Office Buildings was effected pursuant to a purchase agreement dated January 10, 1996. The acquisition of the Shopping Centers was effected pursuant to a purchase agreement dated January 11, 1996. For information concerning other business relationships with affiliates of Apollo, see "Western Realty Ducat".

In November 1997, New Valley sold its Marathon, Florida Shopping Center for \$5.4 million and recognized a gain of \$1.3 million on the sale.

On September 28, 1998, New Valley completed the sale to institutional investors of the Office Buildings for an aggregate purchase price of \$112.4 million and recognized a gain of \$4.7 million on the sale. New Valley received approximately \$13.4 million in cash from the transaction before closing adjustments and expenses. The Office Buildings were subject to approximately \$99 million of mortgage financing which was retired at closing.

New Valley sold the Office Buildings in Michigan to PW/MS OP Sub I, LLC, a Delaware limited liability company (the "Michigan Purchaser"), and the Office Buildings in New Jersey to OTR, an Ohio general partnership acting as the duly authorized nominee of The State Teachers Retirement System of Ohio (the "New Jersey Purchaser"). The sale of the Office Buildings was effected pursuant to a Sale-Purchase Agreement (the "Sale-Purchase Agreement"), dated as of September 2, 1998, by and between New Valley and the Michigan Purchaser. Prior to the closing of the sale, the Michigan Purchaser assigned and delegated to the New Jersey Purchaser its rights and obligations under the Sale-Purchase Agreement pertaining to the purchase of the Office Buildings in New Jersey. The sale was negotiated on an arm's-length basis between New Valley and the Michigan Purchaser.

THINKING MACHINES CORPORATION. Thinking Machines, New Valley's 73% owned subsidiary, designs, develops, markets and supports software offering prediction-based management solutions under the name LoyaltyStream™ for businesses such as financial services and telecommunications providers to help reduce customer attrition, control costs, more effectively cross-sell or bundle products or services and manage risks. Incorporated in LoyaltyStream is DarwinR, a data mining software tool set with which a customer can analyze vast amounts of its pre-existing data as well as external demographics data to predict behavior or outcomes, and then send this information through systems integration to those divisions of the customer which can use it to more effectively anticipate and solve business problems. To date, no material revenues have been recognized by Thinking Machines with respect to the sale or licensing of such software and services.

In February 1996, a subsidiary of New Valley made a \$10.6 million investment and acquired a controlling interest in Thinking Machines in connection with Thinking Machines' emergence from bankruptcy. In December 1997, New Valley acquired for \$3.15 million additional shares in Thinking Machines pursuant to a rights offering by Thinking Machines to its existing stockholders which increased New Valley's ownership to approximately 73% of the outstanding Thinking Machines shares. In September 1998, New Valley made a \$2 million loan due December 31, 1999 to Thinking Machines and acquired warrants to purchase additional shares pursuant to a rights offering by Thinking Machines to its existing stockholders. In the first quarter of 1999, New Valley lent Thinking Machines an additional \$1.25 million.

During the fourth quarter of 1996, Thinking Machines announced its intention to dispose of its parallel processing computer sales and service business. As a result, Thinking Machines wrote-down certain assets, principally inventory, related to these operations to their net realizable value by \$6.1

million. Thinking Machines sold its parallel processing software business on November 19, 1996 for \$4.3 million and sold its remaining parallel processing service business in April 1997 for \$2.4 million in cash and a percentage of certain future operating profits. During 1997 and 1998, Thinking Machines received profit participation payments totaling \$1.2 million and \$37,000, respectively.

MISCELLANEOUS INVESTMENTS. At December 31, 1998, New Valley owned approximately 48% of the outstanding shares of CDSI Holdings Inc. (formerly known as PC411, Inc.), a development stage company which completed an initial public offering with net proceeds of \$5.9 million in May 1997. CDSI is engaged in the marketing of an inventory control system for tobacco products through its subsidiary, Controlled Distribution Systems, Inc., and holds a minority interest in a business engaged in the delivery of an on-line electronic directory information service.

In addition, as of December 31, 1998, New Valley's long-term investments consisted primarily of investments in limited partnerships of \$9.2 million. See Note 8 to New Valley's Consolidated Financial Statements accompanying this report.

New Valley may acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or seek to acquire control of operating companies through one of such means. There can be no assurance that New Valley will be successful in targeting or consummating any such acquisitions.

JOINT PLAN PROVISIONS; DISPOSITIONS PURSUANT TO THE JOINT PLAN. The Joint Plan of New Valley places restrictions on and requires approvals for certain transactions with the Company and its affiliates to which New Valley or a subsidiary of, or entity controlled by, New Valley may be party, including the requirements, subject to certain exceptions for transactions involving less than \$1 million in a year or pro rata distributions on New Valley's capital stock, of approval by not less than two-thirds of the entire Board, including at least one of the directors elected by the holders of New Valley's preferred shares, and receipt of a fairness opinion from an investment banking firm. In addition, the Joint Plan requires that, whenever New Valley's Certificate of Incorporation provides for the vote of the holders of the Class A Senior Preferred Shares acting as a single class, such vote must, in addition to satisfying all other applicable requirements, reflect the affirmative vote of either (x) 80% of the outstanding shares of that class or (y) a simple majority of all shares of that class voting on the issue exclusive of shares beneficially owned by the Company. The foregoing provisions of the Joint Plan would terminate upon consummation of the proposed Recapitalization Plan.

Pursuant to the Joint Plan, in November 1994, New Valley sold the assets and operations with which it provided domestic and international money transfer services, bill payment services, telephone cards, money orders and bank card services (collectively, the "Money Transfer Business") which included the capital stock of its subsidiary, Western Union Financial Services, Inc. ("FSI") and certain related assets, to First Financial Management Corporation ("FFMC"), and, in January 1995, it sold to FFMC all of the trademarks and trade names used in the Money Transfer Business and constituting the Western Union name and trademark. The aggregate purchase price was approximately \$1.193 billion, including \$893 million in cash and \$300 million representing the assumption by FFMC of substantially all of New Valley's obligations under its pension plan. Pursuant to the Joint Plan, all of New Valley's debt and allowed claims were satisfied in full and all classes of equity and other equity interests were reinstated and retained all of their legal, equitable and contractual rights.

In October 1995, New Valley completed the sale of substantially all of the assets (exclusive of certain contracts) and conveyance of substantially all of the liabilities of Western Union Data Services Company, Inc. to FFMC for \$20 million, subject to certain adjustments.

## EMPLOYEES

At December 31, 1998, the Company and its subsidiaries had approximately 2,141 full-time employees, of whom approximately 466 were employed by Liggett, approximately 1,208 were employed by Liggett-Ducat and approximately 460 were employed by New Valley. Approximately 11% of the Company's (including its subsidiaries) employees are hourly employees and are represented by unions. The Company and its subsidiaries have not experienced any significant work stoppages since 1977, and the Company believes that relations with its employees and their unions are satisfactory.

## PROPERTIES

The Company's and BGLS' principal executive offices are located in Miami, Florida. The Company leases 12,356 square feet of office space from an unaffiliated company in an office building in Miami, which it shares with BGLS and New Valley and various of their subsidiaries. New Valley has entered into an expense-sharing arrangement for use of such office space. The lease expires in May 2003.

Substantially all of Liggett's tobacco manufacturing facilities, consisting principally of factories, distribution and storage facilities, are located in or near Durham, North Carolina. Such facilities are both owned and leased. As of December 31, 1998, the principal properties owned or leased by Liggett are as follows:

Type	Location	Owned or Leased	Approximate Total Square Footage
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Office and			
Manufacturing Complex	Durham, NC	Owned	932,000
Warehouse	Durham, NC	Owned	203,000
Storage Facilities	Danville, VA	Owned	578,000
Distribution Center	Durham, NC	Leased	260,000

Liggett's Durham, North Carolina complex consists of ten major structures over approximately 17 acres. Included are Liggett's manufacturing plant, research facility and corporate offices. Liggett's management believes its property, plant and equipment are well maintained and in good condition and that its existing facilities are sufficient to accommodate a substantial increase in production.

Liggett leases the Durham, North Carolina distribution center pursuant to a lease which expires in May 1999. Liggett has an option to purchase the leased property at any time during the term of the lease. Liggett utilizes approximately 40% of the distribution center. Liggett also leases excess space in its research facility to third parties.

Liggett-Ducat has a 49-year land lease on a site on the outskirts of Moscow, Russia where Liggett-Ducat is building a new cigarette factory. Liggett-Ducat utilized the site of its old cigarette factory in Moscow pursuant to a Use Agreement with BML. See "Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd."

## LEGAL PROCEEDINGS

Reference is made to Note 16, incorporated herein by reference, to the Company's Consolidated Financial Statements, 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, Material Legal Proceedings, incorporated herein by reference, for additional information regarding the pending material legal proceedings to which the Company, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of the Company and its subsidiaries without charge upon written request to the Company at its principal executive offices, 100 S.E. Second St., Miami, Florida 33131, Attn: Investor Relations.

## SELECTED FINANCIAL DATA

The selected financial data presented in the following table for and as of the end of each year in the five-year periods ended December 31, 1998, 1997, 1996, 1995 and 1994 have been derived from the financial statements of the Company. Balance Sheets at December 31, 1998 and 1997 and the related Statements of Operations and Statements of Cash Flows for each of the three fiscal years ended December 31, 1998, 1997 and 1996 and notes thereto appear elsewhere in this Prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands, except per share amounts)				
<b>STATEMENT OF OPERATIONS DATA:</b>					
Revenues(1).....	\$444,566	\$389,615	\$460,356	\$461,459	\$479,343
Income (loss) from continuing operations.	24,219	(51,421)	(65,515)	(45,344)	(17,991)
Income from discontinued operations(2)...	3,208	1,536	2,982	21,229	174,683
Loss from extraordinary items(4).....				(9,810)	(46,597)
Net income (loss).....	27,427	(49,885)	(62,533)	(33,925)	110,095
Per basic common share:					
Income (loss) from continuing operations(3).....	1.19	(2.83)	(3.44)	(1.56)	(1.02)
Income from discontinued operations....	0.16	0.09	0.16	1.16	9.92
Net loss from extraordinary items.....				(0.54)	(2.65)
Net income (loss) applicable to common shares.....	1.35	(2.74)	(3.28)	(0.94)	6.25
Per diluted common share:					
Income (loss) from continuing operations.....	0.98	(2.83)	(3.44)	(1.56)	(1.02)
Income from discontinued operations....	0.13	0.09	0.16	1.16	9.92
Net loss from extraordinary items.....				(0.54)	(2.65)
Net income (loss) applicable to common shares.....	1.11	(2.74)	(3.28)	(0.94)	6.25
Cash distributions declared per common share.....	0.30	0.30	0.30	0.30	
<b>BALANCE SHEET DATA:</b>					
Current assets.....	\$122,560	\$ 66,759	\$ 80,552	\$ 96,615	\$ 87,504
Total assets .....	228,982	125,234	177,677	225,620	229,425
Current liabilities.....	273,441	139,278	204,463	119,177	144,351
Notes payable, long-term debt and other obligations, less current portion	262,665	399,835	378,243	406,744	405,798
Noncurrent employee benefits, deferred credits and other long-term liabilities	87,051	74,518	49,960	55,803	54,128
Stockholders' equity (deficit).....	(394,175)	(488,397)	(454,989)	(356,104)	(374,852)

(1) Revenues include federal excise taxes of \$82,613, \$87,683, \$112,218, \$123,420 and \$131,877, respectively.

- (2) In 1998, 1997 and 1996, income from discontinued operations pertains to sale of Western Union Data Services Inc. and in 1994 and 1995 to the sale of Western Union, SkyBox International Inc. and the distribution of MAI Systems Corporation common stock.
- (3) Per share computations include the impact of New Valley's repurchase of Class A Preferred Shares in 1996 and 1995.
- (4) In 1995 and 1994, extraordinary items represent loss resulting from the early extinguishment of debt.

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 results of operations, capital resources and liquidity of the Company and should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto included elsewhere in this report. The consolidated financial statements include the accounts of BGLS, Liggett, BOL, NV Holdings, Liggett-Ducat and other less significant subsidiaries.

The Company holds an equity interest in New Valley. At December 31, 1998, the Company accounts for its share of earnings based on its ownership of New Valley Common Shares (42%), Class B Preferred Shares (9%) and Class A Preferred Shares (58%). The Common Shares are accounted for pursuant to the equity method; the Class A Preferred Shares and the Class B Preferred Shares are classified as available for sale and carried at fair value. See "Recent Developments - New Valley", below.

On January 31, 1997, BOL sold its interest in BML, a real estate development company doing business in Russia, to New Valley. See "Business - Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd." and Note 5 to the Company's Consolidated Financial Statements.

For purposes of this discussion and other consolidated financial reporting, the Company's significant business segment is tobacco sold in the United States and Russia for the years ended December 31, 1998 and 1997 and tobacco and real estate for the year ended December 31, 1996.

RECENT DEVELOPMENTS

THE COMPANY AND LIGGETT  
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PHILIP MORRIS BRAND TRANSACTION. On November 20, 1998, the Company and Liggett entered into a definitive agreement with PM which provided for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK, held by Liggett's subsidiary, Eve. As contemplated by the agreement, Liggett and PM entered into the PM Agreements on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC, a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Interest and the Class B Interest. PM acquired two options to purchase such interests, the Class A Option and the Class B Option. On December 2, 1998, PM paid Eve a total of \$150,000 for such options, \$5,000 for the Class A Option and \$145,000 for the Class B Option. The payments were used to fund the redemption of Liggett's 11.50% Series B Senior Secured Notes and Series C Variable Rate Notes (the "Liggett Notes"), together with accrued interest, on December 28, 1998. See "Business - Liggett Group Inc. - Philip Morris Brand Transaction" and "Capital Resources and Liquidity".

MASTER SETTLEMENT AGREEMENT. On November 23, 1998, the Company and Liggett signed the Master Settlement Agreement between the major cigarette manufacturers and the signatory states. See "Recent Developments in the Cigarette Industry", below.



BOL

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LIGGETT-DUCAT. Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow. Production at Liggett-Ducat's existing factory ceased at the end of March 1999, with production scheduled to start at the new factory in mid-1999.

NEW VALLEY

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WESTERN REALTY DUCAT. In February 1998, New Valley and Apollo organized Western Realty Ducat to make real estate and other investments in Russia. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML to Western Realty Ducat and Apollo agreed to contribute up to \$58,750, including the investment in Western Realty Repin. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in Western Tobacco which was organized by BOL to hold BOL's interests in Liggett-Ducat.

PROPOSED RECAPITALIZATION PLAN. New Valley intends to submit the proposed Recapitalization Plan to its stockholders at the 1999 annual meeting of stockholders. The Recapitalization Plan, if implemented, will have a significant effect on New Valley's and the Company's financial position and results of operations. See "Business - New Valley Corporation - Proposed Recapitalization Plan" and Note 3 to the Company's Consolidated Financial Statements.

YEAR 2000 COSTS

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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 BOL. The Company, New Valley and BOL 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 BOL 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 human resources and payroll systems are scheduled for completion in July 1999. Enhancements to Liggett's finished goods inventory system are expected to be completed in September 1999. It is anticipated that all factory, corporate, field sales and physical distribution systems will be completed in sufficient time to support Year 2000 compliance and verification.

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

**EXTERNAL SERVICE PROVIDERS.** While modifications for Year 2000 compliance by the Company, its subsidiaries and New Valley 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 the clearing agent for Ladenburg, a broker-dealer subsidiary of New Valley. 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.

#### NEW ACCOUNTING PRONOUNCEMENTS

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The Company implemented Statement on Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", in the first quarter of 1998. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general financial statements. For the Company, components of comprehensive income include such items as minimum pension liability adjustments and the Company's proportionate interest in New Valley's capital transactions. Earlier periods have been restated to conform to standards established by SFAS No. 130. There was no material impact on the consolidated financial statements.

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", specifies revised guidelines for determining an entity's operating segments and the type and level of financial information to be disclosed. The adoption of this pronouncement at December 31, 1998 did not have a material effect on the Company's financial statement disclosures.

Effective December 31, 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which does not change the measurement or recognition of those plans but revises required disclosures about pensions and postretirement benefit plans for all periods presented.

## RECENT DEVELOPMENTS IN THE CIGARETTE INDUSTRY

PRICING ACTIVITY. As of December 31, 1998, list price increases initiated by the industry during 1998 amounted to \$6.35 per carton. Liggett announced list price increases of \$.25 per carton in January, \$.50 per carton in April, \$.50 per carton in May, \$.60 per carton in August and \$4.50 per carton in December.

List price increases initiated by the industry in 1997 amounted to \$1.60 per carton. Liggett announced list price increases of \$.90 per carton in March and \$.70 per carton in September.

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 December 31, 1998, there were approximately 270 individual suits, 50 purported class actions and 85 governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. Recently, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency ("EPA") and the Food and Drug Administration ("FDA"), 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 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 of such tobacco-related litigation. See "Legal Proceedings" and Note 16 to the Company's Consolidated Financial Statements for a description of legislation, regulation and litigation.

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

The claims asserted in the third-party payor actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under the RICO.

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.

On November 23, 1998, PM, B&W, RJR and Lorillard (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. As described below, the Company and Liggett had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 40 states and territories.

Pursuant to the MSA, Liggett has no payment obligations unless its market share exceeds 125% of its 1997 market share (the "Base Share"). 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 agreements 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 nations" protection for both the Company and Liggett, the payments due these states by Liggett (other than to Minnesota and Mississippi) have been eliminated.

In March 1997, Liggett, the Company and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., Circuit Court of Mobile County, Alabama, where the court granted preliminary

approval and preliminary certification of the class. On July 2, 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement which was preliminarily approved by the court on December 8, 1998. A hearing on final approval of the settlement is scheduled for April 27, 1999. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of \$1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, the Company anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and the Company. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in FLETCHER encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution tobacco-related claims against Liggett and the Company.

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 MSA, \$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 16 to the Company's Consolidated Financial Statements.

#### RESULTS OF OPERATIONS

	Revenues			Operating Income		
	Year Ended December 31,			Year Ended December 31,		
	1998	1997	1996	1998	1997	1996
Liggett	\$347,129	\$312,268	\$401,062	\$54,422	\$ 3,688	\$ 6,753
Liggett-Ducat	97,350	77,115	54,160	13,234	8,642	(6,825)
Other	87	232	5,134	3,938	(4,301)	(3,855)
Total	\$444,566	\$389,615	\$460,356	\$71,594	\$ 8,029	\$(3,927)

#### 1998 COMPARED TO 1997

REVENUES. Consolidated revenues were \$444,566 for the year ended December 31, 1998 compared to \$389,615 for the year ended December 31, 1997, an increase of \$54,951 due to increases in tobacco revenues at Liggett of \$34,861 and at Liggett-Ducat of \$20,235.

Revenues at Liggett increased in both the premium and discount segments by 11.2% due to price increases of \$60,384 (see "Recent Developments in the Cigarette Industry - Pricing Activity") and a favorable product mix of \$1,214, partially offset by an 8.6% decline in unit sales volume (approximately

547 million units), which accounted for \$26,737 in volume variance. The decline in Liggett's sales volume was due to certain competitors' continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers.

Premium sales at Liggett for the 1998 year amounted to \$105,422 and represented 30.4% of Liggett's total revenues, compared to \$102,440 and 32.8% of total sales in 1997. In the premium segment, revenues grew by 2.9% (\$2,982) for the year ended December 31, 1998, compared to the prior year, due to price increases of \$14,604, which were partially offset by an 11.3% decline in unit sales volume (approximately 192.8 million units), accounting for \$11,622 in volume variance. The brands to be contributed to Brands LLC, L&M, CHESTERFIELD and LARK, represented 16.1%, 18.1% and 17.5% of Liggett's net sales (excluding federal excise taxes) in 1998, 1997 and 1996, respectively. See "Recent Developments - The Company and Liggett -Philip Morris Brand Transaction" above.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for the twelve months of 1998 amounted to \$241,707 and represented 69.6% of total revenues, compared to \$209,828 and 67.2% of total sales for the prior year. In the discount segment, revenues grew by 15.2% (\$31,879) for the year ended December 31, 1998 compared to the prior year, due to price increases of \$45,780 and a favorable product mix among the discount brand categories of \$1,949, which were partially offset by a 7.6% decline in unit sales volume (approximately 354.2 million units), accounting for \$15,850 in volume variance.

For the year ended December 31, 1998, fixed manufacturing costs on a basis comparable to 1997 were \$2,040 lower at Liggett, although costs per thousand units increased by \$0.12 per thousand.

Revenues at Liggett-Ducat increased 26.2% (\$20,235) due to a 5.8 billion increase in unit sales volume (\$30,991) offset by a decline in price (\$10,634) due to Russian currency fluctuation and slightly unfavorable product mix (\$122). For the year ended 1998, manufacturing costs increased by \$8,914, but costs per thousand units decreased by \$0.81 per thousand.

ROSS PROFIT. Consolidated gross profit of \$243,570 for the year ended December 31, 1998 increased \$56,076 (29.9%) from gross profit of \$187,494 for the year ended December 31, 1997 reflecting an increase in gross profit at Liggett of \$44,884 due primarily to price increases discussed above. Liggett-Ducat's gross profit increased \$11,600 (85.7%) primarily due to increased volume also discussed above. In 1998, Liggett's premium and discount brands contributed 28.8% and 60.6%, respectively, to the Company's gross margin and Liggett-Ducat contributed 10.3%. This is compared to 1997, when Liggett's premium and discount brands contributed 33.8% and 58.5%, respectively, while Liggett-Ducat contributed 7.2%.

As a percent of revenues (excluding federal excise taxes), Liggett's gross profit increased to 78.4% for the year ended December 31, 1998 compared to 73.0% for the same period in 1997, with gross profit for the premium segment at 80.2% and 77.1% in 1998 and 1997, respectively, and gross profit for the discount segment at 77.5% and 70.8% in 1998 and 1997, respectively. This increase is the result of Liggett's 1998 list price increases and improved production variances. These increases were partially offset by increased tobacco costs at Liggett due to a reduction in the average discount available to the Company from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments.

As a percent of revenues (excluding Russian excise taxes), Liggett-Ducat's gross profit increased to 29.9% for the year ended December 31, 1998 compared to 20.6% for the same period in 1997. The improved gross profit margin at Liggett-Ducat was due to higher volume and lower manufacturing costs (\$3.55 per thousand units in 1998 vs. \$4.36 per thousand units in 1997). The 40% growth in unit sales volume arose, in part, following a move to a four-shift, 24-hour production cycle in the Russian factory.

EXPENSES. Consolidated operating, selling, general and administrative expenses were \$186,904 for the year ended December 31, 1998 compared with \$162,938 for the year ended December 31, 1997. The increase in expenses of \$23,966 was largely the result of higher spending for promotional and marketing programs (\$20,106) and increased administrative expense (\$6,508) at Liggett. These costs were offset by lower pension expenses at Liggett and corporate and decreases in systems development costs at Liggett when compared with the prior year. At BOL, consolidated operating, selling, general and administrative expenses were \$11,894 for the year ended December 31, 1998 compared to \$9,293 for the year ended December 31, 1997, an increase of \$2,601 over the prior year primarily due to timing of employee compensation awards of \$2,014, an increase in employee benefits and in various Russian taxes of \$2,782 and increased depreciation expense of \$812. These costs were offset primarily by a decrease in consulting fees of approximately \$2,500.

In addition, \$14,928 of net charges for the Attorneys General settlements previously accrued in 1997 and in early 1998 were reversed in 1998 as a result of the MSA.

OTHER INCOME (EXPENSE). Consolidated other expense was \$106,988 for the twelve months ended December 31, 1998 compared to overall expense of \$58,327 in the prior year. In 1998, interest expense increased by \$17,926 due primarily to non-cash charges for debt restructuring of approximately \$10,560 at corporate and \$2,600 at Liggett as well as an increase of approximately \$3,200 at BOL caused by higher interest rates in Russia and the 30% preference requirement on the net income of Western Tobacco.

In 1998, sale of assets of \$5,975 included \$4,246, which represented a portion of the gain on the sale of the BML Shares which had been deferred due to the Company's 42% equity ownership of New Valley. With the contribution of the real estate assets of BML by New Valley to Western Realty Ducat, a joint venture between New Valley and Apollo, the Company recognized a portion of the deferred gain to the extent of Apollo's interest in Western Realty Ducat. In 1997, the sale of assets included recognition of \$21,300 or 58% of the gain on the sale of the BML Shares.

Equity in loss of affiliate in 1998 was \$28,717 compared to a loss of \$26,646 in 1997 and represents the Company's proportionate share of losses from continuing operations at New Valley and a portion of New Valley's dividend arrearages. This was partially offset by discontinued operations in which the Company reflected its portion of New Valley's income from discontinued operations of \$3,208 in 1998 and \$1,536 in 1997.

INCOME FROM CONTINUING OPERATIONS. The income from continuing operations for the year ended December 31, 1998 was \$24,219 compared with a loss of \$51,421 for the same period in the prior year. The Company recognized a tax benefit of \$59,613 in 1998 as compared to a provision of \$1,123 for 1997.

OTHER. At December 31, 1998, the Company and its consolidated group had net operating loss carryforwards for tax purposes of approximately \$157,000 which may be subject to certain restrictions and limitations and which will generally expire in the years 2006 to 2017. Refer to Note 12 to the Company's Consolidated Financial Statements.

## 1997 COMPARED TO 1996

REVENUES. Consolidated revenues were \$389,615 for the year ended December 31, 1997 compared to \$460,356 for the year ended December 31, 1996, a decrease of \$70,741 primarily due to a decline in sales of \$88,794 at Liggett offset by an increase in tobacco revenues at Liggett-Ducat of \$22,955. Revenues in 1996 also included real estate rental income of \$2,675 and sales of microfiche products of \$2,459.

Net sales at Liggett decreased in total by 22.1% (\$88,794) due primarily to a decline in unit sales volume of 30.9% (\$124,029) partially offset by price increases of \$23,237 and improved product mix of \$11,998 (see "Recent Developments in the Cigarette Industry - Pricing Activity"). The decline in Liggett's sales volume was due to certain competitors' continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers. In the premium segment, revenues declined in 1997 by 16.4% (\$20,158) to \$102,440 as a result of a 21.4% decline in unit sales volume of \$26,184 which was partially offset by price increases of \$6,026. In the discount segment, revenues declined in 1997 by 24.6% (\$68,636) to \$209,828 due to a 33.8% decline in unit sales volume of \$85,846 which was partially offset by price increases of \$17,210. In 1997, fixed manufacturing costs on a basis comparable to 1996 were \$1,428 lower although costs per thousand units increased \$0.56 per thousand due to higher fixed costs per unit.

Net sales at Liggett-Ducat increased 42.8% (\$22,955) to \$77,115 over 1996 due primarily to higher unit sales volume (\$13,211), price increases (\$5,087) and the effect of excise tax increases (\$4,667).

GROSS PROFIT. Consolidated gross profit of \$187,494 for the year ended December 31, 1997 decreased \$29,529 from gross profit of \$217,023 for the same period in 1996, reflecting a decrease in gross profit at Liggett of \$40,305 offset by an increase at Liggett-Ducat of \$11,720 for the year ended December 31, 1997 compared to the same period in the prior year. The 1997 decline in consolidated gross profit was due primarily to the decline in unit sales volume discussed above. In 1997, Liggett's premium and discount brands contributed 33.8% and 58.5%, respectively, to the Company's gross profit while Liggett-Ducat contributed 7.2%. The improved performance at Liggett-Ducat during 1997 is due to lower tobacco and material prices resulting from purchases in higher volume (\$6,600) and the effect of price increases (\$5,500). In 1996, Liggett's premium and discount brands contributed 34.4% and 63.9%, respectively, to the Company's gross margin and Liggett-Ducat and BML contributed .7%. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 73.0% for 1997 compared to 72.0% for 1996 with gross profit for the premium segment at 77.1% both in 1997 and 1996 and gross profit for the discount segment at 70.8% and 69.4% in 1997 and 1996, respectively. This increase is the result of the March and September 1997 list price increases and improved production variances. These increases were partially offset by increased tobacco costs at Liggett due to a reduction in the average discount available to Liggett from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments. Gross profit margin was further reduced by restructuring charges of \$407 in cost of sales in 1997. As a percent of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat increased to 17.0% for 1997 compared to 3.0% in 1996.

EXPENSES. Consolidated operating, selling, general and administrative expenses were \$179,465 for the year ended December 31, 1997 compared to \$220,950 for the same period for the prior year, a decrease of \$41,485. The decrease was due primarily to Liggett's decrease in unit sales volume with corresponding reductions in spending on promotional programs and marketing programs of \$43,657 as well as reductions in administrative costs of approximately \$7,000 over the prior year. Such reductions were somewhat offset by increases in legal expenses of \$19,368, which includes the legal settlement



discussed above of \$16,421 and also reflects, in part, the end of joint defense arrangements. Refer to Note 16 of Company's Consolidated Financial Statements. Expenses at BOL also declined approximately \$4,700 primarily due to workforce reductions at Liggett-Ducat in late 1996 and the sale of BML in January of 1997.

OTHER INCOME (EXPENSE). Consolidated interest expense was \$61,778 for the year ended December 31, 1997 compared to \$60,556 for the same period for the prior year. The increase of \$1,222 relates to additional interest expense incurred as a result of deferred payments during negotiations with BGLS Noteholders. Equity in loss of affiliate in 1997 and 1996 of \$26,646 and \$7,808, respectively, represents the Company's proportionate share of losses from continuing operations at New Valley and the decline in value of the New Valley Class A Preferred Shares. This is partially offset by discontinued operations in which the Company reflected its portion of New Valley's income from discontinued operations which was \$1,536 in 1997 and \$2,982 in 1996 reflecting the Company's proportionate interest in the sale of the messaging service business, sold in 1995. Other income also includes the sale of assets, primarily the sale of the BML shares by BOL to New Valley in 1997 and the sale of surplus realty at Liggett and the assets of COM Products Inc. in 1996.

LOSS FROM CONTINUING OPERATIONS. The loss from continuing operations for the year ended December 31, 1997 was \$51,810 compared with a loss of \$64,918 for the same period in the prior year. A tax provision of \$1,123 in 1997 and \$1,402 in 1996 relates to foreign income taxes at the subsidiary level.

#### CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents increased \$2,642 and \$2,813 and decreased \$1,429 for the twelve months ended December 31, 1998, 1997 and 1996, respectively.

Net cash used in operations in 1998 was \$3,289 compared to cash used in 1997 of \$25,063, a net change of \$21,774 primarily due to an increase in operating income over the prior year, a reduction in cash interest on the BGLS Notes of \$9,806, additional other non-cash interest of \$1,991 and non-cash stock based expense of \$9,394 which includes legal expenses of \$4,192, charges for treasury stock issued to the Liggett bondholders of \$3,648 and other non-cash compensation expenses of \$1,554. Other non-cash expenses in 1998 include a foreign currency translation loss of \$4,294. These non-cash expenses were offset by a decrease in deferred taxes, an increase in receivables and net liabilities which included increasing accruals for interest charges on the BGLS Notes.

Net cash used in 1997 of \$25,063 compared to cash used in 1996 of \$3,705 resulted from decreases in trade payables, promotional spending and taxes payable offset by decreasing trade receivables, decreasing inventories and increasing corporate accruals for interest charges on the BGLS Notes.

Net cash used in operations in 1996 of \$3,705 was primarily due to the declining sales volume at Liggett resulting in lower working capital requirements, decreasing trade receivables and increases in accrual of promotional expense.

Net cash provided by investing activities in 1998 of \$131,327 was due to the payment by PM of \$150,000 for options in an entity that will acquire the Liggett Marks offset by capital expenditures of \$21,006 primarily costs for construction and equipment for the new Liggett-Ducat cigarette factory in Russia. This is compared to cash provided by investing activities in 1997 of \$36,327 which was principally due to the sale of the BML Shares by BOL for \$55,000 on January 30, 1997 and the sale of

used equipment by Liggett offset by capital expenditures of \$20,142, principally for construction and equipment costs for the new Liggett-Ducat factory.

Net cash used in investing activities in 1996 of \$4,279 was principally due to capital expenditures for real estate development in Russia of \$29,800 by BML and expenditures at Liggett of \$4,300 for equipment modernization partially offset by dividends received from New Valley on the Class A Preferred Shares held by the Company and the proceeds from the sale of assets at both Liggett and the Company.

Net cash used in financing activities in 1998 of \$124,024 includes the redemption of the Liggett Notes of \$144,919, net repayments on revolving credit facilities of \$14,727 and distributions to the company's stockholders of \$6,123. These payments were offset by the \$30,000 participating loan from Western Realty Ducat and the issuance of common stock for \$9,970. In 1997, cash used in financing activities of \$8,532 was comprised of repurchase of \$7,500 principal amount of Liggett Notes, repayment of credit facilities in Russia, repayments of Liggett's revolving credit facility (the "Facility") and distributions on the Company's common stock partially offset by proceeds from credit facilities in Russia and proceeds from the Facility at Liggett.

Net cash provided by financing activities in 1996 was \$6,680, primarily due to bank loans for Russian real estate development, the sale of additional BGLS Notes and an increase in borrowings under Liggett's Facility. Cash provided was offset by redemption of BGLS' 16.125% Senior Subordinated Reset Notes Due 1997, a decrease in the cash overdraft and distributions to the Company's stockholders of \$4,162.

LIGGETT. On December 28, 1998, Liggett redeemed the \$144,891 principal amount of the Liggett Notes at 100% of the principal amount together with accrued interest. Proceeds of \$150,000 from the purchase by PM of two options to purchase the Class A Interest and the Class B Interest in the LLC were used to fund the redemption.

The closing of the exercise by PM of the Class A Option is scheduled for June 10, 1999. Upon closing, Liggett will receive approximately \$145,000 from the purchase of the Class A Interest and the distribution of the Loan proceeds by the LLC. See "Business - Liggett Group Inc. - Philip Morris Brand Transaction".

Liggett has the \$40,000 Facility expiring March 8, 2000, under which \$2,538 was outstanding at December 31, 1998. Availability under the Facility was approximately \$18,607 based on eligible collateral at December 31, 1998. 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, bear a rate of 9.25% at December 31, 1998. The Facility required 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 December 31, 1998, Liggett was in compliance with all covenants under the Facility; Liggett's adjusted net worth deficiency and net working capital, as computed in accordance with the agreement, were \$141,414 and \$6,168, respectively.

On May 14, 1996, Liggett sold certain surplus realty in Durham, North Carolina to the County of Durham for a sale price of \$4,300. A gain of approximately \$3,600 was recognized on this sale.

On March 11, 1997, Liggett sold certain surplus realty in Durham, North Carolina to Blue Devil Ventures, a North Carolina limited liability partnership, for a sale price of \$2,200. A gain of approximately \$1,600 was recognized on this sale.

Liggett (and, in certain cases, the Company) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to so-called secondary smoke (environmental tobacco smoke) from cigarettes.

The Company believes, and has been so advised by counsel handling the respective cases, that the Company and Liggett have a number of valid defenses to the claim or claims asserted against them. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Recently, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither the Company nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See "Recent Developments in the Cigarette Industry - Legislation, Regulation and Litigation" above and Note 16 to the Company's Consolidated Financial Statements.

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

BGLS. At December 31, 1998, BGLS had outstanding \$232,864 principal amount of the BGLS Notes which mature on January 31, 2001. On March 5, 1998, BGLS entered into the Standstill Agreement whereby 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 has deferred a total of \$24,985 of interest as of December 31, 1998.

On February 17, 1999, BGLS entered into an agreement with a third party to purchase, during the third quarter of 1999, approximately \$31,139 principal amount of the BGLS Notes, originally held by the Apollo Holders and subject to the Standstill Agreement. The purchase price is 95% of the principal amount of the notes and the accrued interest thereon. The purchase is contingent upon receipt by the Company of approximately an additional \$145,000 under the PM Agreements. BGLS will fund the purchase price with tax sharing payments from Liggett.

BOL. On January 31, 1997, BOL sold its 99.1% interest in BML to New Valley for \$55,000. The purchase price paid was \$21,500 in cash and a 9% promissory note of \$33,500, which was paid during 1997. See "Business - Brooke (Overseas) Ltd. - Sale of BrookeMil Ltd."

Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow which is currently scheduled to be operational in mid-1999. The new factory, which will utilize Western cigarette making technology and have a capacity of in excess of 30 billion units per year, will produce American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat and the new factory. (See "Recent Developments - New Valley".) In addition, BOL has entered into equipment purchases of approximately \$35,846, of which \$29,438 is being financed by the manufacturers. 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 will be financed by loans from Russian banks and approximately \$12,000 of loans from BOL to be 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 \$274,009 due in the years 1999 through 2001. Scheduled debt maturities of long-term debt for 1999, 2000 and 2001 are \$21,176, \$7,448 and \$245,385, respectively. 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 December 31, 1998, 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 \$17,086. Company expenditures (exclusive of Liggett and Liggett-Ducat) in 1999 for current operations include cash interest expense of approximately \$21,650 (excluding accrued interest due on the BGLS Notes discussed above that BGLS has contingently agreed to repurchase), dividends on the Company's shares (currently at an annual rate of approximately \$6,300) and corporate expenses. The Company anticipates funding its 1999 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 principally exposed to market risks 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.

EQUITY PRICE RISK. The Company holds investment securities available for sale with a fair market value of \$65,396 at December 31, 1998. These securities represent an investment in New Valley Class A Preferred Shares, Class B Preferred Shares and Common Shares which the Company carries on its balance sheet at zero. Refer to Note 3 of Company's Consolidated Financial Statements.

#### 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 and Western Tobacco's operations are conducted in Russia. During 1998, the economy of the Russian Federation entered a period of economic instability. 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 operations of Liggett-Ducat and Western Tobacco may be significantly affected by these factors for the foreseeable future.

Russian taxation is subject to varying interpretations and constant changes. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of Liggett-Ducat and Western Tobacco may not coincide with that of management. As a result, transactions may be challenged by tax authorities and Liggett-Ducat and Western Tobacco may be assessed additional taxes, penalties and interest, which can be significant. Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations and from time to time potential exposures are identified. At any point in time, a number of open matters may exist; however, management believes that adequate provision has been made for all material liabilities. Tax years remain open to review by the authorities for six years.

#### 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 shareholders, 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 ETS, legislation, including tax increases, governmental regulation, privately imposed smoking restrictions, governmental and grand jury investigations and litigation. Each of the Company's operating subsidiaries, namely Liggett and Liggett-Ducat, are subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Furthermore, the performance of Liggett-Ducat's 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 BGLS' Series B 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 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. See "Risk Factors."

## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

The following table, together with accompanying text, sets forth the name and age of all current directors and executive officers of the Company, all positions and offices with the Company held by such persons and the period served. The directors hold office until the next annual meeting of shareholders and until their respective successors are duly elected and qualified. Officers of the Company hold their offices at the pleasure of the Board of Directors of the Company.

NAME - - - - -	POSITION - - - - -	AGE - - -
Bennett S. LeBow	Chairman of the Board, President and Chief Executive Officer	61
Richard J. Lampen	Executive Vice President	45
Joselynn D. Van Siclen	Vice President, Chief Financial Officer and Treasurer	58
Marc N. Bell	Vice President, General Counsel and Secretary	38
Ronald S. Fulford	Chairman of the Board, President and Chief Executive Officer of Liggett	65
Robert J. Eide	Director	46
Jeffrey S. Podell	Director	58
Jean E. Sharpe	Director	52

There are no family relationships among the executive officers or directors of the Company.

BENNETT S. LEBOW has been the Chairman of the Board, President and Chief Executive Officer of the Company, a New York Stock Exchange-listed holding company, since June 1990, and has been a director of the Company since October 1986. Since November 1990, he has been Chairman of the Board, President and Chief Executive Officer of BGLS, which directly or indirectly holds the Company's equity interests in several private and public companies. Mr. LeBow has been a director of Liggett since June 1990.

Mr. LeBow has been Chairman of the Board of New Valley, in which the Company holds an indirect voting interest of approximately 42%, since January 1988, and Chief Executive Officer since November 1994. In November 1991, an involuntary petition seeking an order for relief under Chapter 11 of Title 11 of the United States Code was commenced against New Valley by certain of its bondholders. New Valley emerged from bankruptcy reorganization proceedings in January 1995. He has been Chairman of the Board, President and Chief Executive Officer of NV Holdings since September 1994.

RICHARD J. LAMPEN has served as the Executive Vice President of the Company and of BGLS since July 1996. Since October 1995, Mr. Lampen has been the Executive Vice President of New Valley. From May 1992 to September 1995, Mr. Lampen was a partner at Steel Hector & Davis, a law firm located in Miami, Florida. From January 1991 to April 1992, Mr. Lampen was a Managing Director at Salomon Brothers Inc, an investment bank, and was an employee at Salomon Brothers Inc from 1986 to April 1992. Mr. Lampen is a director of New Valley, Thinking Machines, CDSI Holdings Inc. and PANACO, Inc. Mr. Lampen has served as a director of a number of other companies, including U.S. Can Corporation and The International Bank of Miami, N.A. and Spec's Music, Inc., as well as a court-appointed independent director of Trump Plaza Funding, Inc.

JOSELYNN D. VAN SICLEN has been Vice President, Chief Financial Officer and Treasurer of the Company and of BGLS since May 1996, and currently holds various positions with certain of BGLS' subsidiaries, including Vice President and Treasurer of Eve Holdings, Inc., a wholly-owned subsidiary of Liggett, since April 1994 and May 1996, respectively. Prior to May 1996, Ms. Van Siclen served as Director of Finance of the Company and was employed in various accounting capacities for various subsidiaries of the Company since 1992. Since before 1990 to November 1992, Ms. Van Siclen was an audit manager for the accounting firm of Coopers & Lybrand L.L.P.

MARC N. BELL has been the Vice President of the Company and of BGLS since January 1998 and has served as General Counsel and Secretary of the Company and of BGLS since May 1994. Since November 1994, Mr. Bell has served as Associate General Counsel and Secretary of New Valley and since February 1998, as Vice President. Prior to May 1994, Mr. Bell was with the law firm of Zuckerman, Spaeder, Taylor & Evans, in Miami, Florida and from June 1991 to May 1993, with the law firm of Fischbein o Badillo o Wagner o Harding in New York, New York.

RONALD S. FULFORD has served as Chairman of the Board, President and Chief Executive Officer of Liggett since September 1996. Mr. Fulford has also served as a consultant to the Company from March 1996 to March 1997. From June, 1986 until February 1996, Mr. Fulford served as Executive Chairman of Imperial Tobacco ("Imperial"), the British tobacco unit of the British conglomerate Hanson PLC ("Hanson"). Before Imperial, Mr. Fulford was chief executive of three other Hanson companies: London Brick, British EverReady UK & South Africa and United Gas Industries UK & Europe.

ROBERT J. EIDE has been a director of the Company since November 1993. Mr. Eide has been a director of BGLS since November 1993, a director of NV Holdings since September 1994 and Chairman and Treasurer of Aegis Capital corp., a registered broker-dealer, since before 1988. Mr. Eide also serves as a director of Nathan's Famous, Inc. and Miami Subs Corporation, restaurant chains.

JEFFREY S. PODELL has been a director of the Company since November 1993. Mr. Podell has been a director of BGLS since November 1993, a director of NV Holdings since September 1994 and the Chairman of the Board and President of Newsote, Inc., a privately-held holding company, since 1989.

JEAN E. SHARPE has been a director of the Company since May 1998. Ms. Sharpe is a private investor and has engaged in various philanthropic activities since her retirement in September 1993 as Executive Vice President and Secretary of the Company and as an officer of various of its subsidiaries. Ms. Sharpe previously served as a director of the Company from July 1990 until September 1993.

#### EXECUTIVE COMPENSATION

The following table sets forth information concerning compensation awarded to, earned by or paid during the past three years to those persons who were, at December 31, 1998, the Company's Chief Executive

Officer, the other three executive officers of the Company and an executive officer of a subsidiary of the Company whose cash compensation exceeded \$100,000 (collectively, the "named executive officers"):

SUMMARY COMPENSATION TABLE (1)						
NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION	ALL OTHER COMPENSATION
		SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS	
		(\$)	(\$)	(\$)	(#)	(\$)
Bennett S. LeBow	1998	3,391,601(2)	834,960(3)	--	2,500,000(6)	25,192 (7)
Chairman of the Board,	1997	3,113,281(2)	667,969(3)	--	--	
President and Chief Executive Officer	1996	3,484,375(2)	890,626(3)	--	--	
Richard J. Lampen(4)	1998	750,000	750,000(5)	--	--	
Executive Vice President	1997	650,000	--	--	260,000(6)	
	1996	600,000	100,000	--	--	
Marc N. Bell(8)	1998	300,000	300,000	--	--	
Vice President, General Counsel and Secretary						
Joselynn D. Van Siclen	1998	155,000	155,000(5)	--	30,000(6)	
Vice President, Chief Financial Officer and Treasurer	1997	140,000	--	--	--	
	1996	131,667	10,000	--	--	
Ronald S. Fulford(9)	1998	425,000	425,000	83,112(10)	--	
Chairman of the Board,	1997	425,000	--	247,961(10) (11)	--	
President and Chief Executive Officer of Liggett	1996	157,530	--	552,832(11)	--	

(1) Unless otherwise stated, the aggregate value of perquisites and other personal benefits received by the named executive officers are not reflected because the amounts were below the reporting requirements established by the rules of the Securities and Exchange Commission (the "SEC").

(2) Includes salary paid by New Valley of \$2,000,000 per year.

(3) Includes payments equal to 10% of base salary (\$139,160, \$111,328 and \$148,438 during 1998, 1997 and 1996, respectively) in lieu of certain other executive benefits. See "Employment Agreements".

(4) The table reflects 100% of Mr. Lampen's salary and bonus, all of which are paid by New Valley, and includes his salary and bonus from New Valley and a bonus of \$500,000 awarded by the Company for 1998. 25% of Mr. Lampen's salary and bonus from New Valley (or \$250,000, \$162,500 and \$175,000 in 1998, 1997 and 1996, respectively) and all of the 1998 bonus from the Company have been or will be reimbursed to New Valley by the Company.

(5) Under the terms of these bonus awards, two-thirds of such amounts will be paid upon closing of the exercise of the Class A Option by PM and the Loan. See "Business - Liggett Group Inc.-Philip Morris Brand Transaction".



- (6) Represents options to purchase the Company's Common Stock. See "Stock Option Grants in 1998".
- (7) Represents premiums paid for 1998 by the Company under collateral assignment split-dollar insurance agreements covering the life of Mr. LeBow entered into by the Company commencing in December 1998. For a period of ten years, the Company will advance the amount of the annual premiums on the policies, less the maximum permitted borrowings under the policies. Upon surrender of the policies or payment of the death benefits, the Company is entitled to repayment of all premiums paid by it.
- (8) Effective January 10, 1998, Mr. Bell was appointed a Vice President of the Company. The table reflects 100% of Mr. Bell's salary and bonus, all of which are paid by the Company. \$200,000 of Mr. Bell's salary and bonus from the Company has been or will be reimbursed to the Company by New Valley.
- (9) Effective September 5, 1996, Mr. Fulford was appointed Chairman of the Board, President and Chief Executive Officer of Liggett.
- (10) Represents an automobile allowance, living allowance and group term life insurance provided to Mr. Fulford.
- (11) Includes payments (\$163,155 and \$552,832 in 1997 and 1996, respectively) made pursuant to a consulting agreement between Mr. Fulford and the Company, which payments were reimbursed to the Company by New Valley. See "Employment Agreements".

The following table sets forth all grants of stock options to the named executive officers during 1998.

STOCK OPTION GRANTS IN 1998

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1998	EXERCISE PRICE (\$/SHARE)	MARKET PRICE ON DATE OF GRANT (\$/SHARE)	EXPIRATION DATE	GRANT DATE PRESENT VALUE (\$)(2)
-----	-----	-----	-----	-----	-----	-----
Bennett S. LeBow	2,500,000(1)	98.3%	\$ 9.75	\$ 9.75	7/20/08	\$ 20,525,000
Joselynn D. Van Siclen	30,000(1)	1.2%	\$ 5.00	\$8.625	12/31/06	\$ 227,400

- (1) Represents options to purchase shares of the Company's Common Stock granted on July 20, 1998 to Mr. LeBow and on January 9, 1998 to Ms. Van Siclen. Subject to earlier vesting upon a change of control (as defined), Mr. LeBow's options vest and become exercisable in four equal installments commencing on the first anniversary of the date of grant and Ms. Van Siclen's options vest and become exercisable in six equal annual installments commencing on the date of the grant.
- (2) The estimated present value at the respective grant dates of options granted during 1998 has been calculated using the Black-Scholes option pricing model, based upon the following assumptions: volatility of 79.14% for Mr. LeBow and 76.56% for Ms. Van Siclen, a risk-free rate of 5.54% for Mr. LeBow and 5.74% for Ms. Van Siclen, an expected life of 10 years, and no expected dividends or forfeiture. The approach used in developing the assumptions upon which the Black-Scholes valuation was done is consistent with the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation".

The following table sets forth certain information concerning option exercises during 1998 by the named executive officers and the status of their options at December 31, 1998.

AGGREGATED OPTION EXERCISES DURING  
LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED UPON EXERCISE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Bennett S. LeBow	--	--	-0-	2,500,000	--	\$36,562,500
Richard J. Lampen	43,300	\$ 437,788	33	216,667	\$639	\$ 4,197,923
Marc N. Bell	33,332	\$ 359,682	-0-	66,668	--	\$ 1,291,693
Joselynn D. Van Siclen	5,000	\$ 43,499	-0-	25,000	--	\$484,375

\* Calculated using the closing price for the Company's Common Stock of \$24 3/8 per share on December 31, 1998 less the option exercise price.

COMPENSATION OF DIRECTORS

Outside directors of the Company each receive \$7,000 per annum as compensation for serving as a director, \$1,000 per annum for each Board committee membership, \$1,000 per meeting for each Board meeting attended, and \$500 per meeting for each committee meeting attended. In addition, each outside director of BGLS receives \$28,000 per annum as compensation for serving as a director, \$500 per annum for each Board committee membership, \$500 per meeting for each Board meeting attended, and \$500 for each committee meeting attended. Each outside director is reimbursed for reasonable out-of-pocket expenses incurred in serving on the Board of the Company and/or BGLS.

In the second quarter of 1998, each outside director of the Company received an award of 10,000 shares of Common Stock for services as a director. Subject to earlier vesting upon a change of control (as defined), the shares vest one-quarter on the date of grant and the remaining shares vest in three equal annual installments commencing on the first anniversary of the date of grant.

## EMPLOYMENT AGREEMENTS

THE COMPANY. Bennett S. LeBow is a party to an employment agreement with the Company dated February 21, 1992, as amended July 20, 1998. The agreement has a one-year term with automatic renewals for additional one-year terms unless notice of non-renewal is given by either party six months prior to the termination date. As of January 1, 1999, Mr. LeBow's annual base salary was \$1,739,501. He is also entitled to an annual bonus for 1999 of \$869,750 and an annual payment equal to 10% of his base salary in lieu of certain other executive benefits such as club memberships, company-paid automobiles and other similar perquisites. Following termination of his employment without cause (as defined), he would continue to receive his then current base salary and bonus for 24 months. Following termination of his employment within two years of a change of control (as defined) or in connection with similar events, he is entitled to receive a lump sum payment equal to 2.99 times his then current base salary and bonus. Under the terms of the Indenture governing the BGLS' Notes, Mr. LeBow's salary and bonus may not be increased from one year to the next by more than 10% per annum, except that his salary and bonus may be increased in the same percentage amount as any increase in the price of the Company's Common Stock during a calendar year, subject to a maximum increase of 25% per annum. His salary and bonus are subject to decrease if the price of the Common Stock decreases by more than 10% during a calendar year, up to a maximum decrease of 25% per annum, but in no event lower than compensation earned in 1994 (\$1,425,000).

Ronald S. Fulford, Chairman of the Board, President and Chief Executive Officer of Liggett, is a party to an employment agreement with Liggett, dated September 5, 1996. As of January 1, 1999, Mr. Fulford's annual salary was \$650,000. Bonus payments are at the sole discretion of the Board of Liggett. Liggett awarded Mr. Fulford a bonus of \$425,000 for 1998. Effective as of March 1, 1996, the Company entered into an agreement with Mr. Fulford. Pursuant to this agreement, Mr. Fulford agreed to provide various services in connection with the Company's investment in RJR Nabisco (including, without limitation, consulting services, attendance at and participation in meetings related to the Company's solicitation of proxies at RJR Nabisco's 1996 annual meeting and presentations to financial analysts and institutional investors). During the term of the agreement, which ended on March 31, 1997, Mr. Fulford received compensation equal to UK(pound)33,417 (or approximately \$54,000) per month and reimbursement for all reasonable business and travel expenses incurred in performing services under the agreement. The Company also agreed to reimburse Mr. Fulford for any reduction in pension benefits (currently estimated at approximately UK(pound)14,400 or approximately \$23,000 per annum) which resulted from his terminating his employment with Imperial Tobacco to enter into the agreement.

Marc N. Bell is a party to an employment agreement with the Company dated April 15, 1994. The agreement has an initial term of two years from April 15, 1994 with automatic renewals after the initial term for additional one-year terms unless notice of non-renewal is given by either party within the sixty-day period prior to the termination date. As of January 1, 1999, his annual base salary was \$300,000. In addition, the Board of Directors may award an annual bonus to Mr. Bell at its sole discretion. The Board awarded Mr. Bell a bonus of \$300,000 for 1998. The Board may review such base salary and increase (but not decrease) it from time to time, in its sole discretion. Following termination of his employment without cause (as defined therein), he shall receive severance pay in a lump sum equal to the amount of his base salary in the year in which such termination occurs.

There are no employment agreements between BGLS and the named executive officers.

NEW VALLEY. Mr. LeBow is a party to an employment agreement with New Valley dated as of June 1, 1995, as amended effective as of January 1, 1996. The agreement has an initial term of three years effective as of January 18, 1995 (the "Effective Date"), with an automatic one year extension on each anniversary of the Effective Date unless notice of non-extension is given by either party within the sixty-day period prior to such anniversary date. As of January 1, 1999, Mr. LeBow's annual base salary was

\$2,000,000. Following termination of his employment without cause (as defined therein), he would continue to receive his base salary for a period of 36 months commencing with the next anniversary of the Effective Date following the termination notice. Following termination of his employment within two years of a change of control (as defined therein), he is entitled to receive a lump sum payment equal to 2.99 times his then current base salary. The BGLS Indenture and New Valley's Joint Plan provide that the annual compensation paid to Mr. LeBow for services rendered in his capacity as an officer or director of New Valley shall not exceed \$2,000,000.

Richard J. Lampen is a party to an employment agreement with New Valley dated September 22, 1995. The agreement has an initial term of two and a quarter years from October 1, 1995 with automatic renewals after the initial term for additional one-year terms unless notice of non-renewal is given by either party within the ninety-day period prior to the termination date. As of January 1, 1999, his annual base salary was \$750,000. In addition, the New Valley Board of Directors may award an annual bonus to Mr. Lampen at its sole discretion. The New Valley Board awarded Mr. Lampen a bonus of \$250,000 for 1998, and the Company's Board awarded him a bonus of \$500,000 for 1998, payable upon exercise of the Class A Option by PM and the Loan. The New Valley Board shall review such base salary annually and may increase (but not decrease) it from time to time, in its sole discretion. Following termination of his employment without cause (as defined therein), he shall receive severance pay in a lump sum equal to the amount of his base salary he would have received if he was employed for one year after termination of his employment term.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 1998, Messrs. Eide, LeBow (until April 30, 1998) and Podell were members of the Company's compensation committee. Messrs. Eide and Podell serve as directors of BGLS and NV Holdings. Mr. Eide is a stockholder, and serves as the Chairman and Treasurer of Aegis Capital Corp. ("ACC"), a registered broker-dealer, that has performed services for the Company and/or its affiliates since before January 1, 1998. During 1996, 1997 and 1998, ACC received commissions and other income in the aggregate amount of approximately \$317,000, \$522,000 and \$128,000, respectively, from the Company and/or its affiliates. ACC, in the ordinary course of its business in 1998, engaged in brokerage activities with Ladenburg Thalmann & Co. Inc., a subsidiary of New Valley, on customary terms. In connection with the acquisition of the Office Buildings by New Valley on January 10, 1996, Mr. Eide received a commission of \$220,000 from the Seller.

Effective July 1, 1990, a former executive of the Company transferred his equity in the Company to Mr. LeBow and resigned from substantially all of his positions with the Company and its affiliates. In consideration for this transfer, a partnership controlled by Mr. LeBow, agreed, among other things, to make certain payments to the Company on account of the former executive's outstanding indebtedness of \$5,477,000. On March 7, 1997, the partnership satisfied its obligation with respect to the loan by transferring to the Company 400,000 shares of the Company's common stock, which shares had been pledged to secure the non-recourse obligation, except as to the pledged shares. See "Selling Stockholders."

Mr. LeBow is a director of Liggett. He is Chairman of the Board and Chief Executive Officer of New Valley, BGLS and NV Holdings. Mr. Lampen, an executive officer of the Company and BGLS, is an executive officer and director of New Valley.

#### DEFINED BENEFIT OR ACTUARIAL PLAN DISCLOSURE

BGLS sponsors the Retirement Plan For Salaried Non-Bargaining Unit Employees (the "Retirement Plan") of Liggett, which is a noncontributory, defined benefit plan. Each salaried employee of the participating companies becomes a participant on the first day of the month following one year of

employment with 1,000 hours of service and the attainment of age 21. A participant becomes vested as to benefits on the earlier of his attainment of age 65, or upon completion of five years of service. Benefits become payable on a participant's normal retirement date, age 65, or, at the participant's election, at his early retirement after he has attained age 55 and completed ten years of service. A participant's annual benefit at normal retirement date is equal to the sum of: (A) the product of: (1) the sum of: (a) 1.4% of the participant's average annual earnings during the five-year period from January 1, 1986 through December 31, 1990 not in excess of \$19,500 and (b) 1.7% of his average annual earnings during such five-year period in excess of \$19,500 and (2) the number of his years of credited service prior to January 1, 1991; (B) 1.55% of his annual earnings during each such year after December 31, 1990, not in excess of \$16,500; and (C) 1.85% of his annual earnings during such year in excess of \$16,500. The maximum years of credited service is 35. If hired prior to January 1, 1983, there is no reduction for early retirement. If hired on or after January 1, 1983, there is a reduction for early retirement equal to 3% per year for the number of years prior to age 65 (age 62 if the participant has at least 20 years of service) that the participant retires. The Retirement Plan also provides benefits to disabled participants and to surviving spouses of participants who die prior to retirement. Benefits are paid in the form of a single life annuity, with optional actuarially equivalent forms of annuity available. Payment of benefits is made beginning on the first day of the month immediately following retirement. As of December 31, 1993, the accrual of benefits under the plan for Liggett employees was frozen.

As of December 31, 1998, none of the named executive officers was eligible to receive any benefits under the Retirement Plan.

Under certain circumstances, the amount of retirement benefit payable under the Retirement Plan to certain employees may be limited by the federal tax laws. Any Retirement Plan benefit lost due to such a limitation will be made up by BGLS through a non-qualified supplemental retirement benefit plan. BGLS has accrued, but not funded, amounts to pay benefits under this supplemental plan.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On January 25, 1995, the Company entered into a Non-qualified Stock Option Agreement (the "1995 Option Agreement") with Howard M. Lorber, a consultant to the Company and a subsidiary who also serves as a director and President of New Valley. The 1995 Option Agreement granted such consultant non-qualified stock options to purchase 500,000 shares of the Company's common stock at an exercise price of \$2.00 per share. The options are exercisable over a ten-year period, with 20% vesting on the grant date and on each of the four anniversaries of the grant date. During 1998, the consultant exercised 250,000 of these options. On December 16, 1996, the Company entered into a Stock Option Agreement (the "1996 Option Agreement") with such consultant. The 1996 Option Agreement granted such consultant non-qualified stock options to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$1.00 per share. The options, which have a ten-year term, vest and become exercisable in six equal annual installments beginning on July 1, 1997. Pursuant to the 1995 Option Agreement and the 1996 Option Agreement, common stock dividend equivalents are paid on each vested and unexercised option. On July 20, 1998, the Company granted such consultant non-qualified stock options to purchase 500,000 shares of the Company's Common Stock at an exercise price of \$9.75 per share. The options, which have a ten-year term, vest and become exercisable in six equal annual installments beginning on July 20, 1999. Since January 1, 1996, the consultant has received consulting fees of \$40,000 per month from the Company and a subsidiary. In April 1999, the consultant received a consulting bonus of \$500,000. In January 1998, the consultant and the Company entered into an amendment to his consulting agreement whereby he is entitled on an annual basis to receive additional payments in an amount necessary to reimburse him, on an after-tax basis, for all applicable taxes incurred by him during the prior calendar year as a result of the grant to him, or vesting, of a 1994 award of 500,000 restricted shares of the Company's Common Stock, the award of 500,000 options under the 1995

Option Agreement and the award of 1,000,000 options under the 1996 Option Agreement. The consultant received an additional consulting payment of \$425,000 in January 1998, which the consultant and the Company have agreed will constitute full satisfaction of the Company's obligations under the amendment with respect to 1997. See "Selling Stockholders."

In 1995, the Company and New Valley entered into an expense sharing agreement pursuant to which certain lease, legal and administrative expenses are allocated to between the entities. The Company was reimbursed approximately \$462,000, \$375,000 and \$502,000 under this agreement for the years ended December 31, 1996, 1997 and 1998, respectively.

During 1996, Orchard Capital Corporation, an affiliate of Richard S. Ressler, the beneficial owner of more than 5% of the Company's Common Stock and a director of New Valley until September 1997, served as a consultant to the Company and its subsidiaries and received consulting fees of \$220,000.

Mr. Ressler is Chairman of the Board and the beneficial owner of 17.8% of the shares of MAI Systems Corporation ("MAI"), which in 1996 entered into certain arrangements with Ladenburg, whereby MAI sold computer and software products and provided related professional and support services to Ladenburg. During 1996 and 1997, Ladenburg paid MAI, in the aggregate, approximately \$100,000 and \$610,000, respectively, for such products and services. In addition, during 1996 and 1997, Ladenburg paid another company controlled by the former director approximately \$10,000 and \$143,000, respectively, for communication consulting services.

In March 1997, New Valley acquired a membership interest in Orchard/JFAX Investors, LLC, of which Mr. Ressler serves as a managing member, for \$1 million. The LLC holds a controlling interest in a provider of telecommunication services.

During 1996, the Company and BGLS entered into a court-approved Stipulation and Agreement (the "Settlement") with New Valley relating to the Company's and BGLS's application under the Federal Bankruptcy Code for reimbursement of legal fees and expenses incurred by them in connection with New Valley's bankruptcy reorganization proceedings. Pursuant to the Settlement, New Valley reimbursed the Company and BGLS \$655,217 for such legal fees and expenses. The terms of the Settlement were substantially similar to the terms of previous Settlements between New Valley and other applicants who had sought reimbursement of reorganization-related legal fees and expenses.

On December 18, 1996, New Valley loaned BGLS \$990,000 under a short-term promissory note due January 31, 1997 and bearing interest at 14% per annum. On January 2, 1997, New Valley loaned BGLS an additional \$975,000 under another short-term promissory note due January 31, 1997 and bearing interest at 14% per annum. Both loans, including interest, were repaid on January 31, 1997. In September 1998, New Valley made a one-year \$950,000 loan to BGLS which bears interest at 14%.

On January 31, 1997, BOL sold New Valley the BML Shares, representing 99.1% of the shares of the common stock of BML. New Valley paid a purchase price of \$55 million, consisting of \$21.5 million in cash and a \$33.5 million 9% promissory note of New Valley. The note has been paid in full. See "The Company - - Brooke (Overseas) Ltd. - - Sale of BrookeMil Ltd." as well as Notes 5 and 16 to the Company's Consolidated Financial Statements for information concerning the transaction and a pending lawsuit relating to New Valley's purchase of the BML Shares.

As of April 23, 1999, the Apollo Holders are the beneficial owners of 8.7% of the Company's Common Stock and affiliates. During 1998, the Apollo Holders held \$97,239,000 principal amount of the BGLS Notes. For information concerning the Standstill Agreement with the Apollo Holders and the

issuance of warrants to purchase shares of the Company's Common Stock to the Apollo Holders in connection with the Standstill Agreement, see Note 9 to the Company's Consolidated Financial Statements. The Company, New Valley and their affiliates have other business relationships with affiliates of the Apollo Holders. For additional information concerning such business relationships, see "Business - New Valley Corporation - Western Realty Ducat", "- Western Realty Repin" and "- New Valley Realty Division", as well as Note 3 to the Company's Consolidated Financial Statements. See "Selling Stockholders."

As of April 23, 1999, High River Limited Partnership ("High River") is the beneficial owner of 7.5% of the Company's Common Stock and an affiliate, Tortoise Corp., held \$97,551,000 principal amount of the BGLS Notes. On January 16, 1998, the Company entered into a Stock Purchase Agreement in which High River purchased 1,500,000 shares of the Company's Common Stock at \$6.00 per share for an aggregate purchase price of \$9,000,000. See "Selling Stockholders."

As of April 23, 1999, the law firm of Kasowitz, Benson, Torres & Friedman LLP ("KBTF") is the beneficial owner of 5.6% of the Company's Common Stock. On March 12, 1998, the Company entered into a Stock Option Agreement with KBTF whereby KBTF was granted an option to purchase 1,250,000 shares of Common Stock at \$17.50 per share. The option was exercisable for 250,000 shares commencing May 1, 1998 and for 1,000,000 shares commencing April 1, 1999, and expired on March 31, 2003. On October 12, 1998, the Company entered into an Amended and Restated Stock Option Agreement (the "Amended Agreement") with the KBTF. Pursuant to the Amended Agreement, the Company amended the option to reduce the exercise price from \$17.50 per share to \$6.00 per share and extended the initial exercise date on all 1,250,000 share to April 1, 2000. The option was subject to earlier exercise upon Change of Control (as defined) of the Company or upon the average closing price for a share Common Stock equaling \$17.50 or more for a 10 trading day period. Based on the average closing price of Common Stock for the 10 trading day period ended December 8, 1998, the option became exercisable in full on that date. KBTF, which represents the Company and various of its subsidiaries, including Liggett and New Valley, received legal fees of \$ 4,550,000 during 1998. See "Selling Stockholders."

For information concerning certain agreements and transactions between the Company, BGLS and New Valley relating to RJR Nabisco, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments - New Valley - Investment in RJR Nabisco" and Notes 3 and 17 to the Company's Consolidated Financial Statements.

See, also, "Executive Compensation - Compensation Committee Interlocks and Insider Participation".

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 23, 1999, the beneficial ownership of the Company's Common Stock (the only class of voting securities) by (i) each person known to the Company to own beneficially more than five percent of the Common Stock, (ii) each of the Company's directors and nominees, (iii) each of the Company's named executive officers and (iv) all directors and executive officers as a group. Unless otherwise indicated, each person possesses sole voting and investment power with respect to the shares indicated as beneficially owned, and the business address of each person is 100 S.E. Second Street, Miami, Florida 33131.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	NUMBER OF SHARES -----	PERCENT OF CLASS -----
Bennett S. LeBow (1) (6) (7)	9,015,008	43.0%
Richard S. Ressler (2) Orchard Capital Corporation 10960 Wilshire Boulevard Los Angeles, CA 90024	1,824,999	8.7%
AIF II, L.P. and Lion Advisors, L.P.(3) Two Manhattanville Road Purchase, NY 10577	2,000,000	8.7%
High River Limited Partnership (4) Riverdale LLC Carl C. Icahn 100 South Bedford Road Mt. Kisco, NY 10549	1,574,100	7.5%
Kasowitz, Benson, Torres & Friedman LLP (5) 1301 Avenue of the Americas New York, NY 10019	1,250,000	5.6%
Robert J. Eide (6) Aegis Capital Corp. 70 East Sunrise Highway Valley Stream, NY 11581	20,000	(*)
Jeffrey S. Podell (6) Newsote, Inc. 26 Jefferson Street Passaic, NJ 07055	20,000	(*)
Jean E. Sharpe (6) 462 Haines Road Mt. Kisco, NY 10549	10,000	(*)
Richard J. Lampen (7)	43,366 (8)	(*)
Marc N. Bell (7)	16,662 (8)	--
Joselynn D. Van Siclen (7)	5,000 (8)	--
Ronald S. Fulford (9) Liggett Group Inc. 700 West Main Street Durham, NC 27702	--	--
All directors and executive officers as a group (8 persons)	9,135,036	43.5%

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(\*) The percentage of shares beneficially owned does not exceed 1% of the Common Stock.



- (1) Includes 8,373,008 shares of Common Stock held by LeBow Limited Partnership, a Delaware limited partnership ("LLP"), and 642,000 shares of Common Stock held by The Bennett and Geraldine LeBow Foundation, Inc., a Florida not-for-profit corporation (the "Foundation"). Mr. LeBow indirectly exercises sole voting power and sole dispositive power over the shares of Common Stock held by LLP, 8,031,800 shares of which are pledged to U.S. Clearing Corp. to secure a margin loan to Mr. LeBow. Mr. LeBow is a director, officer and sole shareholder of LeBow Holdings, Inc., a Nevada corporation ("LHI"), the general partner of LLP. Mr. LeBow and family members serve as directors and executive officers of the Foundation, and Mr. LeBow possesses shared voting power and shared dispositive power with the other directors of the Foundation with respect to the Foundation's shares of Common Stock. The Foundation's principal business and office address is 1221 Brickell Avenue, 21st Floor, Miami, Florida 33131.
- (2) Based upon Amendment No. 6 to Schedule 13D dated April 15, 1998, filed by the named individual.
- (3) Based upon Schedule 13D dated March 26, 1998, filed by the named entities. These shares are issuable upon exercise of currently exercisable warrants to purchase Common Stock expiring March 3, 2003. See "Certain Relationships and Related Transactions".
- (4) Based upon Amendment No. 1 to Schedule 13D dated October 7, 1998, filed by the named entities. Riverdale LLC is the general partner of High River Limited Partnership and is wholly owned by Mr. Icahn. See "Certain Relationships and Related Transactions".
- (5) Based upon Schedule 13D dated December 8, 1998, filed by the named entities. These shares are issuable upon exercise of currently exercisable options to purchase Common Stock expiring March 31, 2003. See "Certain Relationships and Related Transactions."
- (6) The named individual is a director of the Company.
- (7) The named individual is an executive officer of the Company.
- (8) Represents shares issuable upon exercise of currently exercisable options to purchase Common Stock.
- (9) The named individual is an executive officer of the Company's subsidiary Liggett.

In addition, by virtue of his controlling interest in the Company, Mr. LeBow may be deemed to own beneficially the securities of the Company's subsidiaries, including BGLS and Liggett, and securities of New Valley, in which the Company holds an indirect voting interest of approximately 42%. The disclosure of this information shall not be construed as an admission that Mr. LeBow is the beneficial owner of any securities of the Company's subsidiaries or New Valley under Rule 13d-3 of the Exchange Act, or for any other purpose, and such beneficial ownership is expressly disclaimed. None of the Company's other directors or executive officers beneficially owns any equity securities of any of the Company's subsidiaries or New Valley.

#### DESCRIPTION OF CAPITAL STOCK

The Company's Restated Certificate of Incorporation, as amended (the "Restated Certificate"), authorizes the Company to issue 100,000,000 shares of common stock, par value \$.10 per share, and 10,000,000 shares of preferred stock, par value \$1.00 per share (the "Preferred Stock"). As of the date of this Prospectus, there are 20,943,730 shares of the Company's common stock, and no shares of Preferred Stock, issued and outstanding.

## COMMON STOCK

Holders of the Company's common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Subject to preferences that may be applicable to any then outstanding Preferred Stock, holders of the Company's common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, holders of the Company's common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding Preferred Stock. Holders of the Company's common stock have no right to convert their common stock into any other securities. The Company's common stock has no preemptive or other subscription rights. There are no redemption or sinking fund provisions applicable to the Company's common stock. All outstanding shares of the Company's common stock are duly authorized, validly issued, fully paid and nonassessable.

## PREFERRED STOCK

The Restated Certificate expressly authorizes the Board of Directors of the Company (the "Board") to issue up to 10,000,000 shares of Preferred Stock from time to time in one or more series and for such consideration as the Board may determine and subject to certain restrictions, with such designations, preferences and rights, and such qualifications, limitations or restrictions, as the Board may determine with respect thereto by duly adopted resolution or resolutions. The issuance of Preferred Stock may delay, defer or prevent a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of holders of the Company's common stock. As of the date hereof, no shares of Preferred Stock are issued and outstanding.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's common stock is American Stock Transfer & Trust Company, New York, New York.

## SELLING STOCKHOLDERS

The following table sets forth, as of April 23, 1999, certain information with respect to the ownership of Company's common stock by certain selling stockholders. The selling stockholders named herein, or such selling stockholders' pledgees, donees, transferees or other successors in interest, may offer all or part of the Company's common stock which they hold pursuant to the offering contemplated by this Prospectus.

SELLING STOCKHOLDER	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING	PERCENT OF CLASS (1)	SHARES OF COMMON STOCK BEING OFFERED	NO OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2)	PERCENT OF CLASS (1)
Abbott, Paul F., POA for Jane Abbott	67		67	0	
Adam, William B.	34		34	0	
AIF II, L.P. (4)	2,324,000 (3)	5.1	2,324,000	0	
Alliance Obstetrics Inc. Pension Plan	84		84	0	
Altman, Steven and Pamela Sporing	167		167	0	
Aman, Thomas and Tanya	134		134	0	
Antman, Avery	34		34	0	
APSC Partnership	83		83	0	
APSC Partnership	1		1	0	
Ariel Fund, Ltd.	13,117		13,117	0	
Arset, David B. and Beverly C.	50		50	0	
Bader, Robert, Howard Bader and Randi Bader Wise TTEES (Pearl Bader)	17		17	0	
Bambeck, Thomas H.	140		140	0	
Bantam Associates	50		50	0	
Barikmo, Marilyn E.	16		16	0	
Barikmo, Rodney P.	82		82	0	
Barnett, Jerald	1,332		1,332	0	
Barnett, Jerald M. Jr.	333		333	0	
Barnett, Mary E.	84		84	0	
Barrett, Bernard M. Jr. FBO Bernard M. Barrett Jr. MD Keogh	67		67	0	
Barrett, Bernard M. Jr. MD	34		34	0	
Barrett, Bernard M., Trustee FBO Plastic & Reconstructive Surgeons	34		34	0	
Barrett, Julia P.	100		100	0	
Bauer, William F.	66		66	0	

- (1) Based on shares which the selling stockholder has beneficial ownership as of April 23, 1999, pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended. Unless otherwise stated, the percentage of shares beneficially owned does not exceed 1% of the common stock.
- (2) The calculation of the number of shares of the Company's common stock owned after the offering assumes the sale of all shares offered hereby.
- (3) Includes shares issuable upon exercise of options or warrants as follows: AIF II, L.P. - 2,324,000 shares; Kasowitz, Benson, Torres & Friedman LLP - 1,250,000 shares; Lion Advisors, L.P. - 1,826,000 shares; and Howard M. Lorber - 583,332 shares.
- (4) See "Apollo Holders" below.

SELLING STOCKHOLDER	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING	PERCENT OF CLASS (1)	SHARES OF COMMON STOCK BEING OFFERED	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2)	PERCENT OF CLASS (1)
Beekman, Beverly	34		34	0	
Bennett and Geraldine LeBow Foundation Inc. (5)	642,000	3.0	642,000	0	
Berner, Mark F. C.	167		167	0	
Blecker, Joan	34		34	0	
Blen, Bertha M.	34		34	0	
Block, William and Gladys	50		50	0	
Bock, Marvin Harold	34		34	0	
Borowick, Joseph	167		167	0	
Bowden, Kim Duane	24		24	0	
Bowden, Randy L.	20		20	0	
Boyer, Mary H.	50		50	0	
Boylan, Hugh P.	167		167	0	
Brandes, Frieda c/f Samuel Tydings UGMA/NY	7		7	0	
Brenner, M.S. Pension Plan	34		34	0	
Broadmoor Plaza Shopping Center Inc.	1,099		1,099	0	
Brown, Lucia R.	84		84	0	
Brown, Mary Beth	17		17	0	
Burrus, Tom	17		17	0	
Bustad, Leo	251		251	0	
Buster, Donna B. FBO Mary D. Buster	50		50	0	
Buster, Donna B. FBO Scott B. Buster	100		100	0	
Buster, Edwin R. III	150		150	0	
Buster, Edwin R. IV, Mgmt Trust	34		34	0	
Caldwell, Overton J. and Teresa R.	167		167	0	
Cambron, Gerald S.	333		333	0	
Campbell, Frank J. (IRA)	17		17	0	
Campbell, Robert F.	84		84	0	
Canyon Value Realization Fund (Cayman)	5,778		5,778	0	
Carlton, Gary	24		24	0	
Carlton, Kathleen	24		24	0	
Carr, David M. Trust	84		84	0	
Castillo, Randolph	17		17	0	
Chamberlain, Marian	84		84	0	
Chandler, Scott C. and Susan S.	17		17	0	
Chazen, Geoffery (IRA)	17		17	0	
Clarkson, Evelyn M.	37		37	0	
Cohen, Bruce	67		67	0	
Cohen, Bruce	84		84	0	
Coller, Jerome (IRA)	50		50	0	
Coller, Susan and Jerome Coller	67		67	0	
Colombo, Amy Jo	17		17	0	
Colombo, Rudolph P. and Sandra R.	34		34	0	
Crist, Marylou	84		84	0	

(5) See "Bennett S. LeBow" below.

SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
Crown Family Trust, Louis E. Crown & Gloria Crown, Trustees	84		84	0	
D'Amico, Anthony and Patricia	700		700	0	
D'Amore, James	65,869		500	65,369	
D'Amore, James and Joan	50,319		590	49,729	
D'Angelo, Ben	666		666	0	
Davidson, Lester	34		34	0	
Davidson, Wallace R.	34		34	0	
Dean, John W.	333		333	0	
Delaware Charter Gty & Trust Co. FBO Martin R. Haig IRA	120		120	0	
Denherder, Judith A.	34		34	0	
DFG Corporation	6,411		6,411	0	
Diepold, John H.	66,914		1,916	64,998	
DLS Capital Partners	527		527	0	
Donaldson, Lufkin & Jenrette, Inc.	337		337	0	
Doolittle, Agnes A. Rev. Trust	34		34	0	
Dorflinger, Neil	254		254	0	
Drechsler, Carol	34		34	0	
Edwards, Charles W., Jr.	34		34	0	
Ege, Harold D. and Carol F.	34		34	0	
Eisen Family Trust	167		167	0	
Elias, Alma	2,748		2,748	0	
Elias, Alma and Gabriel	600		600	0	
Elliman, Christopher	27		27	0	
Ellis, E. Stephen and Carol	250		250	0	
Engle, Kay D.	34		34	0	
Enright, Brian	50		50	0	
Equitable Capital Diversified Holdings	13,041		13,041	0	
Ersken, Margold & Wang Pension and Profit Sharing Plans	34		34	0	
FamCo Income Partners LP	5,698		5,698	0	
FamCo Offshore	25,830		3,330	22,500	
FamCo Value Income Partners LP	47,052		14,152	32,900	
Felder, Mitchell S., M.D.	84		84	0	
First Options of Chicago Inc.	999		999	0	
Fischer, Martin A. Profit Sharing Plan	67		67	0	
Flax, Jean and Leo	267		267	0	
Fleming, Thomas C.	17		17	0	
Flowe, Thompson R.	37,465		1,665	35,800	
Foothill Capital Corporation	4,125		4,125	0	
Foothill Partners II, L.P.	21,827		21,827	0	
Foothill Partners III, L.P.	13,389		13,389	0	
Fox, Leon H. and Lois S. Fox	34		34	0	
Franklin Principal Maturity Trust	29,394		19,394	10,000	
Franklin Principal Maturity Trust	10,000		10,000	0	
Franklin, Maynard and Charlotte Co- Ttees Living Trust	167		167	0	

SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
Freda, Genevieve	17		17	0	
Freed, Howard - Trust	217		217	0	
Frost National Bank Trustee for the account of Capital Imaging Association 401(k) and Profit Sharing Dr. Gary Williamson	999		999	0	
Fruman, Dorothy, Lee Fruman, Marshall Fruman, Dale Fruman	283		283		
Fugger, Norma	50		50	0	
Gabriel Capital, L.P.	9,305		9,305	0	
Gelbank, Catherine K.	34		34	0	
Geyer, Jacques	167		167	0	
Glade, John	167		167	0	
Glade, John Joseph	873		873	0	
Glade, Mary E.	67		67	0	
Goldfarb, James M. and Ronda	84		84	0	
Goldstein, Stanley (IRA)	17		17	0	
Gordon, Helene (IRA)	34		34	0	
Gordon, Mark and Helene	450		450	0	
Graber, Harry and Cherie	67		67	0	
Granatt, Samuel FBO Spencer Lauren Granatt	34		34	0	
Granatt, Samuel R.	333		333	0	
Greco, Anthony J.	34		34	0	
Greenblatt, Bernard	5,355		5,355	0	
Greene, K. L.	167		167	0	
Grossman, Ellen, c/f Andrew					
Grossman UGMA/NY	167		167	0	
Grossman, Ellen, c/f Joshua Grossman UGMA/NY	167		167	0	
Grossman, Kenneth S. Profit Sharing Plan	500		500	0	
Grossman, Kenneth S., Pension PL Dtd 1/1/90, Kenneth S. Grossman TTEE	500		500	0	
Guerra, Rose Ann and Henry	17		17	0	
Gummo, Barbara M.	84		84	0	
Gummo, John A. and Joyce A.	34		34	0	
Gutman Family Foundation	333		333	0	
Gutman, Edward J.	400		400	0	
Haag, Peter G.	333		333	0	
Haag, Werner	666		666	0	
Harrison, Kellie A.	17		17	0	
Hartzmark & Co., Inc. Defined Bene Pen/Pl	250		250	0	
Hendrix, Thurmon M., Jr.	50		50	0	
Highbridge Capital Corp.	16,650		16,650	0	
High River Limited Partnership (6)	1,574,100	7.5	1,330,100	244,000	1.2

(6) See "High River Limited Partnership" below.

SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
Hogan, Daniel J.	50		50	0	
Hong Zen Lin Hung	34		34	0	
Houseweart, George W. and Elizabeth A.	84		84	0	
International Game Technology	1,339		1,339	0	
Jacobs, Mark	50		50	0	
JDM Capitol Fund, LP	666		666	0	
John Hancock High Yield Bond Fund	3,330		3,330	0	
Johnson, Samuel L.	34		34	0	
Juliano, Andrew M.	34		34	0	
Juliano, Andrew M. C/F Theresa Juliano	17		17	0	
Kadima Partners	333		333	0	
Kaplan, Jennifer	67		67	0	
Kaplan, Matthew	67		67	0	
Kaplan, Mitchell	17		17	0	
Kasowitz, Benson, Torres & Friedman LLP (7)	1,250,000 (3)	5.6	1,250,000	0	
Kauffman, Mirian	50		50	0	
Kay, Patricia C.	67		67	0	
Kenosian, Harry	47		47	0	
Kern, Douglas G. and Marguerite A.	167		167	0	
Kinsey, Rodney M.	167		167	0	
Klein, Betty	17		17	0	
Knecht, Hillery	167		167	0	
Knoll-Smith Partnership	67		67	0	
Krane, Michael	70		70	0	
Krochtengel, Alan	84		84	0	
Kulig, Robert E.	400		400	0	
Kurta, Stuart and Deborah Gross Kurtz	34		34	0	
Larenz, Ernest and Anna Maria	333		333	0	
Laskin, Sam L. and Sonia L. Laskin	34		34	0	
Lauck, Mary Taylor	50		50	0	
Lawson, Chris, Trustee	268		268	0	
Leahy, Kathleen C. and Henry C. Leahy	34		34	0	
LeBow, Bennett S. (5)	8,373,008	40.0	8,373,008	0	
Leff, Lerslie	155,243		333	154,910	
Leff, Mei Li	244,639	1.2	500	244,139	1.2
Leff, Richard and Lorraine	5,299		300	5,000	
Leff, Ron and Joan	214,689	1.0	833	213,856	1.0
Leifer, Susan	34		34	0	
Levin, Katherine Trust et al Dtd 12/17/90	7		7	0	

(5) See "Bennett S. LeBow" below.

(7) See "Kasowitz, Benson, Torres & Friedman LLP" below.

SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
Lider, Milton S., Trustee	67		67	0	
Linden, Todd	34		34	0	
Lion Advisors, L.P. (4)	1,826,000 (3)	4.0	1,826,000	0	
Litherland, Cliff	317		317	0	
LM Inc.	999		999	0	
Lorber, Howard M. (8)	808,332 (3)	3.8	475,000	333,332	1.6
Lorber Charitable Fund (8)	23,200		23,200		
Lubliner, Leona	304		304	0	
Lyon, Bernice K.	34		34	0	
Mack, Robert F. and Maria R.	34		34	0	
Magdovitz, Barbara S.	34		34	0	
Maharam, Bessie	50		50	0	
Major Insulator Products Pension Plan	84		84	0	
Maloy, James H.	333		333	0	
Maltzman, Amy	34		34	0	
Maltzman, Marshall J.	50		50	0	
Marmaduke, John M.	666		666	0	
Martin, James T.	100		100	0	
Mathewson, Charles N. Trust	1,166		1,166	0	
May, Cary V.	67		67	0	
McKissock, J. Bruce	34		34	0	
McLarque Hudson, Rebecca	167		167	0	
McMurry, Gregg E.	134		134	0	
Mikheeva, Irina	17		17	0	
Milfam Family Limited Partnership	3,460		3,460	0	
Miller Family Limited Partnership II	417		417	0	
Miller, Lloyd I, Trust A-4	3,580		3,580	0	
Miller, Lloyd I.	60		60	0	
Miller, Lloyd I., Trust C.	417		417	0	
Minch, Jeff	966		966	0	
Mullul, Albert A.	27		27	0	
Myers, Diane	34		34	0	
Nechvatal, Ursula	34		34	0	
Neven, Thomas	17		17	0	
New Generatiion Limited Partnership	2,584		2,584	0	
New Generation Institutional L.P.	267		267	0	
New Generation Turnaround Fund (Bermuda) L.P.	2,112		2,112	0	
Newman, Robert	97		97	0	
Newman, Robert (IRA)	150		150	0	
North Shore Associates, L.P.	666		666	0	

(4) See "Apollo Holders" below.

(8) See "Howard M. Lorber" below.



SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
O'Hare, Glenna	84		84	0	
O'Neil, John	34		34	0	
OTA Limited Partnership	333		333	0	
Overhills Partnership	577		577	0	
Painter, Carol Ann	50		50	0	
Palmore, Jim R. and Peggy B.	267		267	0	
Parish, Lynn M. and Walter J.	17		17	0	
Parrish, Richard	50		50	0	
Pearlman, Helen C.	34		34	0	
Peine, Walter and Claire	417		417	0	
Peine, Walter W.	417		417	0	
Penso, Yolanda C.	30		30	0	
Penwick Ltd.	333		333	0	
Pequod International	34		34	0	
Pequod Investments	134		134	0	
Pizzirusso, Joseph F. and Rose F.	100		100	0	
Plastic & Reconstructive Surgeons Employee Pension Plan	84		84	0	
Pluckeck, Elizabeth June	34		34	0	
Pluckeck, Wayne Lionel, Sr.	34		34	0	
Pollock, Shirley R.	34		34	0	
Pope, Frank	34		34	0	
Popick, Bernard	67		67	0	
Prahalis, Lynn	34		34	0	
Prahalis, Stanley	34		34	0	
Prahalis, Stanley-Family Trust	34		34	0	
Pribis, Marian E.	34		34	0	
Pribis, Steven	50		50	0	
Procacci, Michael	408,566	2.0	367	408,199	1.9
Procacci, Pat M.	342,997	1.6	2,997	340,000	1.6
Puma, John L. and Simone	34		34	0	
Quelland, APSC Family Trust	933		933	0	
Quelland, Carroll Trust	8,558		8,558	0	
Ramat Securities Ltd.	500		500	0	
Ratkowski, David and Mary	34		34	0	
Rayba, Sandra J.	16		16	0	
Reifel, Thelma, Trustee	50		50	0	
Richmont High Yield Bond Fund, LP	1,665		1,665	0	
Ritola, William	34		34	0	
Rockman, Belle E. Trust	84		84	0	
Rogers, Nate J.	1,332		1,332	0	
Rogers, Nate J.	666		666	0	
Rosenblum, Herbert	44		44	0	
Rosenthal, Irwin	117		117	0	
Ross Insurance Agency Keogh Acct FBO W. R. Ross	334		334	0	

SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
Rotta, Dan	84		84	0	
Sackheim, Carl	134		134	0	
Samkavitz, Sandra G.	500		500	0	
Samkavitz, William A.	40		40	0	
Samkavitz, William A. (IRA)	50		50	0	
Sanders, C.P. and Margaret G.	34		34	0	
Sanders, David and Miriam	100		100	0	
Santangelo, Charlotte W.	34		34	0	
Santangelo, Joseph A.	34		34	0	
Santangelo, Joseph A. (IRA)	57		57	0	
Schaffer, Lonnie B.	50		50	0	
Schatz, Nathan MD Assoc. Pension Plan	167		167	0	
Scheiderwind, Barry	167		167	0	
Schubert, Richard A.	84		84	0	
Security Thrift and Acceptance Corp.	333		333	0	
Select Contractor, TTEE Wm. Mohundro	67		67	0	
Senior, Thomas and Nancy	34		34	0	
Serling, Myron M.	50		50	0	
Siegler, Danielle	34		34	0	
Siegler, Ethan	34		34	0	
Siegler, Marlene	34		34	0	
Siegler, Norman	1,199		1,199	0	
Siegler, Rebecca	34		34	0	
Siegler, Robert	433		433	0	
Siegler, Robert and Suzanne	167		167	0	
Siegler, Robert H. (IRA)	167		167	0	
Simplon Investments Limited	29,471		29,471	0	
Simplon Partners, L.P.	4,113		4,112	0	
Singer, Brad and Beth Children's Trust	14		14	0	
Singer, Gary and Karen Children's Trust	54		54	0	
Singer, Steven Children's Trust	14		14	0	
Sirangelo, Peter	17		17	0	
Sirangelo, Vincent	84		84	0	
Skinner, Harvey	67		67	0	
Small, Samuel	34		34	0	
Smith, Edwin P.-P.C. M/P Pension Plan	84		84	0	
Snyder, Helen V.	50		50	0	
Sokol, Richard	234		234	0	
Spatafora, Maureen	100		100	0	
Spear Leeds Kellogg/Berkshire Bank	167		167	0	
Steiner, Brian R.	84		84	0	
Steiner, S., IRA Trust	167		167	0	
Steiner, Stanley A.	217		217	0	
Stone & Youngberg LLC	333		333	0	
Strome Hedgecap Ltd.	250		250	0	

SELLING STOCKHOLDER -----	SHARES OF COMMON STOCK OWNED PRIOR TO OFFERING -----	PERCENT OF CLASS (1) -----	SHARES OF COMMON STOCK BEING OFFERED -----	NO. OF SHARES OF COMMON STOCK OWNED AFTER OFFERING (2) -----	PERCENT OF CLASS (1) -----
Strome Offshore Ltd.	7,043		7,043	0	
Strome Partners, L.P.	4,696		4,696	0	
Strome Susskind Hedgecap, L.P.	1,416		1,416	0	
Strougo, Robert	200		200	0	
Swan, William H.	297		297	0	
Tedeschi, Lucy	19,666		666	19,000	
Thomas F. White & Co. Inc.	1,516		1,516	0	
Thomas, Wilmer J.	2,331		2,331	0	
Tomaneng, Edward	550		550	0	
Trabocco, Ronald E.	67		67	0	
Triage Capital Management LP	999		999	0	
Udis, Gary	1,000		50	950	
Udis, Gary ACF Jennifer Udis	17		17	0	
Udis, Gary ACF Lane Udis	17		17	0	
Udis, Gary ACF Mark Udis	17		17	0	
Value Partners, Ltd.	82,418		82,418	0	
Value Realization Fund, L.P.	5,071		5,071	0	
Vellucci, Richard J.	16		16	0	
Verthelyi, Roberto and Juan	50		50	0	
Vierengel, Thomas J.	84		84	0	
Waks, Susan	17		17	0	
Waks, Susan, IRA	17		17	0	
WAM L.P.	34		34	0	
Weber, Marion	34		34	0	
Wechsler, Stuart	50		50	0	
Weidman, Kathryn W.	34		34	0	
Weil, Max	134		134	0	
Wellens, Beatrice and Richard S.	34		34	0	
Wetlands Investments, L.L.C.	167		167	0	
Wheat First Securities	11		11	0	
Wheller, Wilmot F., Jr.	150		150	0	
Wholesale Realtors Supply	167		167	0	
Wichert, Caty A.	157		157	0	
Williams, Claudie	333		333	0	
Williams, R. Scott	1,176		1,176	0	
Williams, R. Scott (IRA)	666		666	0	
Williamson, Gary W.	84		84	0	
Williamson, Gary W. and Jacqueline R.	67		67	0	
Wiseman, Milton	34		34	0	
Wissner, Donald A. and Beverlie F.	333		333	0	
Wolf, Block, Schorr & Solis-Cohen LLP Fiduciary Account	300		300	0	
Wolinetz, Harry. D.	666		666	0	
Wugalter, Joel	200		200	0	
Wynhoff, G. R.	333		333	0	
Wynhoff, G. R.	1,332		1,332	0	
Wynhoff, G. R. and D. S.	1,332		1,332	0	
Yesolik, Donald and Ward, Karen J.	17		17	0	
Zimmerman, Jamie	17		17	0	
ZPG Securities	1,332		1,332	0	

LIGGETT NOTEHOLDERS. On January 30, 1998, Liggett solicited consents from the requisite majority of holders of Liggett Notes to an amendment to the Liggett indenture. See Note 9 to the Company's Consolidated Financial Statements. As consideration for such consents, the Company agreed to issue 483,002 shares of the Company's common stock to the consenting and non-consenting holders of Liggett Notes. Unless otherwise stated, the selling stockholders listed above received their shares offered hereby in connection with the consent. To the knowledge of the Company, none of such selling stockholders has any material relationship with the Company except Howard L. Blum, Jr. is a former executive officer and director of Ladenburg.

The Company agreed in a registration rights agreement which has been incorporated by reference into the Registration Statement of which this Prospectus is a part to register the shares.

APOLLO HOLDERS. The shares being offered for the account of AIF II, L.P. and Lion Advisors, L.P., on behalf of, and for the benefit of, a managed account, Artemis America Partnership (together the "Apollo Holders"), may be acquired upon exercise of certain warrants issued to the Apollo Holders in connection with the March 2, 1998 Standstill Agreement relating to the BGLS Notes. The Apollo Holders were issued a warrant, which expires March 2, 2003, to purchase an aggregate of 2,000,000 shares of the Company's common stock at \$5.00 per share. The Apollo Holders were also issued a second warrant expiring October 31, 2004 to purchase an additional 2,150,000 shares of the Company's common stock at \$0.10 per share. The second warrant will become exercisable on October 31, 1999. The Company will have the right prior to that date to substitute for the second warrant a new warrant for 9.9% of the Liggett common stock if the following conditions are satisfied: Liggett has complied with the covenants in the Liggett Notes Indenture that govern or prohibit changes to Liggett's capital structure or affiliate transactions; the substitution of the warrant is not precluded by the BGLS Notes' Indenture; no Termination Event (as defined) has occurred under the Standstill Agreement; and the Company, Liggett and the Apollo Holders have entered into a mutually satisfactory agreement providing certain protections to the Apollo Holders as a minority shareholder of Liggett and establishing methods for the Apollo Holders to realize the fair market value of the Liggett warrant as soon as practicable following the warrant substitution and to participate in sales of the Liggett common stock. The Company agreed in a registration rights agreement, which has been incorporated by reference into the Registration Statement of which this Prospectus is a part, to register the resale of the shares. For information concerning the Standstill Agreement with the Apollo Holders, see Note 9 to the Company's Consolidated Financial Statements. The Company, New Valley and their affiliates have other business relationships with affiliates of the Apollo Holders. For additional information concerning such business relationships, see "The Company -- New Valley Corporation -- Western Realty Ducat", "-- Western Realty Repin" and "-- New Valley Realty Division" and "Management -- Certain Relationships and Related Transactions", as well as Note 3 to the Company's Consolidated Financial Statements.

KASOWITZ, BENSON, TORRES & FRIEDMAN LLP. On March 12, 1998, the Company entered into a Stock Option Agreement (the "Option Agreement") with Kasowitz, Benson, Torres & Friedman LLP, a law firm that during the past three years has represented the Company, Liggett and New Valley. Under the terms of the Option Agreement, as amended, the firm was granted options to purchase 1,250,000 shares of the Company's common stock at a purchase price of \$6.00 per share. See "Management - - Certain Relationships and Related Transactions." The Company has agreed in the Option Agreement to use its best efforts to file with the SEC a registration statement to cover resales of the Shares issuable upon exercise of the options.

HIGH RIVER LIMITED PARTNERSHIP. The shares being registered for the account of High River Limited Partnership ("High River"), a Delaware limited partnership, were acquired from the Company pursuant to a Stock Purchase Agreement by and between the Company and High River dated January 16,

1998 incorporated by reference herein (the "Agreement"). The closing price per share of the Company's common stock on The New York Stock Exchange on January 16, 1998 was \$10.25 per share. The consideration received by the Company from High River in connection with the sale of 1,500,000 shares under the Agreement was \$9,000,000 in the aggregate, or \$6.00 per share, representing a discount of \$4.25 per share (\$6,375,000 in total) from the closing price of the Company's common stock on January 16, 1998.

High River is an entity owned by Carl C. Icahn. On October 17, 1995, High River and New Valley entered into an agreement, as amended (the "NV Agreement"), pursuant to which New Valley sold approximately 1,600,000 shares of RJR Nabisco common stock to High River for an aggregate purchase price of \$51,000,000. Also on October 17, 1995, High River entered into a separate agreement with the Company and BGLS (the "High River Agreement"). Pursuant to both the NV Agreement and the High River Agreement, High River agreed to support certain actions taken by the Company designed to cause RJR Nabisco to effectuate a spin-off of its food business, Nabisco Holdings Corp. Subsequently, the Company and its affiliates engaged in an unsuccessful proxy contest to replace the incumbent Board of Directors of RJR Nabisco at its 1996 annual meeting of stockholders with a slate of directors committed to effectuate the spin-off.

In addition, Tortoise Corp., also owned by Mr. Icahn, holds approximately 41.9% of the BGLS Notes. See "Management -- Certain Relationships and Related Transactions."

HOWARD M. LORBER. Howard M. Lorber acts as a consultant to the Company and a subsidiary and also serves as a member of the Board of Directors and President and Chief Operating Officer of New Valley. Pursuant to the two agreements described in the following paragraph, Mr. Lorber owns or has the right to acquire 475,000 shares of the Company's common stock, and the shares offered hereby represent all of such Company common stock. In addition, pursuant to the 1996 Option Agreement and a stock grant in July 1998, Mr. Lorber also holds options to purchase 1,500,000 shares of the Company's common stock. Except for the shares issuable upon exercise of such options, Mr. Lorber will own no shares of the Company's common stock after completion of the offering. For additional information concerning Mr. Lorber's consulting arrangements, the 1995 Option Agreement, the 1996 Option Agreement and the 1998 option grant, see "Management - Certain Relationships and Related Transactions."

Mr. Lorber acquired 225,000 of the shares pursuant to a consulting agreement dated as of January 1, 1994, as amended, between Mr. Lorber and the Company. Mr. Lorber has the right to acquire the remaining 250,000 shares pursuant to the 1995 Option Agreement, whereby Mr. Lorber was granted options to purchase shares of the Company's common stock at \$2.00 per share. The options granted to Mr. Lorber under the 1995 Option Agreement are exercisable over a ten year period, with Mr. Lorber having the right to purchase up to 20% on the grant date and up to an additional 20% on each of the four anniversaries of the grant date.

Mr. Lorber is a stockholder and registered representative of ACC, a broker-dealer that has performed services for the Company and its affiliates since before January 1, 1995. See "Management - Compensation Committee Interlocks and Insider Participation." Mr. Lorber is also Chairman of the Board and Chief Executive Officer of Hallman & Lorber and its affiliates. During 1996, 1997 and 1998, Hallman & Lorber received ordinary and customary insurance commissions aggregating approximately \$136,000, \$133,000 and \$128,000, respectively, on various insurance policies issued for the Company and its affiliates.

Lorber Charitable Fund is a New York not-for-profit corporation, of which Mr. Lorber and family members serve as directors and executive officers.

BENNETT S. LEBOW. The shares shown in the table above as owned by Mr. LeBow are held by LeBow Limited Partnership, a Delaware limited partnership ("LLP"). Mr. LeBow is a director, officer and sole shareholder of LeBow Holdings, Inc., a Nevada corporation ("LHI"), the general partner of LLP.

Mr. LeBow may sell certain of the shares for his own account. Of these shares, 8,031,800 are pledged to U.S. Clearing Corp. to secure a margin loan to Mr. LeBow and may be sold by such pledgee. The Bennett and Geraldine LeBow Foundation, Inc. is a Florida not-for-profit corporation, of which Mr. LeBow and family members serve as directors and executive officers.

Mr. LeBow is Chairman of the Board, President and Chief Executive Officer of the Company, and beneficially owns 43% of the Company's common stock. For additional information concerning Mr. LeBow, see "Management" and "Security Ownership of Certain Beneficial Owners and Management."

The Company will from time to time supplement or amend this Prospectus, as required, to include additional selling stockholders or provide other information with respect to selling stockholders.

#### PLAN OF DISTRIBUTION

Any distribution of the shares by the selling stockholders, or by pledgees, donees, transferees or other successors in interest, may be effected from time to time in one or more of the following transactions: (a) to underwriters who will acquire the shares for their own account and resell them in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale (any public offering price and any discount or concessions allowed or reallocated or paid to dealers may be changed from time to time); (b) through brokers, acting as principal or agent, in transactions (which may involve block transactions) on The New York Stock Exchange, in special offerings, exchange distributions pursuant to the rules of the applicable exchanges or in the over-the-counter market, or otherwise, at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices or at fixed prices; or (c) directly or through brokers or agents in private sales at negotiated prices, or by any other legally available means. Unless otherwise set forth in any prospectus supplement, (i) the obligations of any underwriter to purchase any of the shares will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such shares, if any are purchased and (ii) any such agent will be acting on a best efforts basis for the period of its appointment.

The selling stockholders and such underwriters, brokers, dealers or agents, upon effecting the sale of the shares, may be considered "underwriters" as that term is defined by the Securities Act.

Underwriters participating in any offering made pursuant to this Prospectus (as amended or supplemented from time to time) may receive underwriting discounts and commissions, and discounts or concessions may be allowed or reallocated or paid to dealers, and brokers or agents participating in such transactions may receive brokerage or agent's commissions or fees.

At the time a particular offering of shares is made, to the extent required, a Prospectus Supplement will be distributed which will set forth the amount of shares being offered and the terms of the offering, including the purchase price or public offering price, the name or names of any underwriters, dealers or agents, the purchase price paid by any underwriter for shares purchased from the selling stockholders, any discounts, commissions and other items constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallocated or paid to dealers.

In order to comply with the securities laws of certain states, if applicable, the shares will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with.

All costs, expenses and fees in connection with the registration of the shares will be borne by the Company. Commissions and discounts, if any, attributable to the sale of the shares will be borne by the selling stockholders. The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act. The Company and the selling stockholders have agreed to indemnify each other and certain other persons against certain liabilities in connection with the offering of the shares, including liabilities arising under the Securities Act.

#### EXPERTS

The consolidated financial statements of Brooke Group Ltd. and subsidiaries at December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. The consolidated financial statements of New Valley Corporation and subsidiaries at December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

#### VALIDITY OF SHARES

The validity of the shares offered hereby is being passed upon for the Company by Marc N. Bell, Esq., Vice President and General Counsel of the Company. Mr. Bell has an outstanding option to purchase 67,000 shares of the Company's common stock at an exercise price of \$5.00 per share.

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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders  
of Brooke Group Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Brooke Group Ltd. and Subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Miami, Florida  
March 30, 1999

BROOKE GROUP LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 31, 1998	December 31, 1997
	-----	-----
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents .....	\$ 7,396	\$ 4,754
Accounts receivable - trade .....	15,160	10,462
Other receivables .....	924	1,239
Inventories .....	36,316	39,312
Deferred income taxes .....	59,613	
Other current assets .....	3,151	10,992
	-----	-----
Total current assets .....	122,560	66,759
Property, plant and equipment, at cost, less accumulated depreciation of \$33,856 and \$33,187 .....	93,504	45,943
Intangible assets, at cost, less accumulated amortization of \$21,551 and \$19,302 .....	171	2,610
Other assets .....	12,747	9,922
	-----	-----
Total assets .....	\$ 228,982	\$ 125,234
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):</b>		
Current liabilities:		
Notes payable and current portion of long-term debt .....	\$ 21,176	\$ 6,429
Accounts payable .....	13,880	10,461
Cash overdraft .....	77	945
Accrued promotional expenses .....	23,760	26,993
Accrued taxes payable .....	14,854	19,998
Accrued interest .....	17,189	39,782
Proceeds received for options .....	150,000	
Other accrued liabilities .....	32,505	34,670
	-----	-----
Total current liabilities .....	273,441	139,278
Notes payable, long-term debt and other obligations, less current portion .....	262,665	399,835
Noncurrent employee benefits .....	21,701	29,850
Other liabilities .....	65,350	44,668
Commitments and contingencies.....		
Stockholders' equity (deficit):		
Preferred Stock, par value \$1.00 per share, authorized 10,000,000 shares.....		
Series G Preferred Stock, 2,184,834 shares, convertible, participating, cumulative, each share convertible to 1,000 shares of common stock and cash or stock distribution, liquidation preference of \$1.00 per share.....		
Common stock, par value \$0.10 per share, authorized 100,000,000 and 40,000,000 shares, issued 26,498,043 and 24,998,043 shares, outstanding 20,943,730 and 18,097,096 .....	2,094	1,850
Additional paid-in capital .....	124,120	88,290
Deficit .....	(512,182)	(538,791)
Accumulated other comprehensive income .....	24,774	(1,857)
Other .....	(5,508)	(3,750)
Less: 5,554,313 and 6,900,947 shares of common stock in treasury, at cost .....	(27,473)	(34,139)
	-----	-----
Total stockholders' equity (deficit) .....	(394,175)	(488,397)
	-----	-----
Total liabilities and stockholders' equity (deficit) .....	\$ 228,982	\$ 125,234
	=====	=====

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

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

	Year Ended December 31,		
	1998	1997	1996
Revenues*	\$ 444,566	\$ 389,615	\$ 460,356
Cost of goods sold*	200,996	202,121	243,333
Gross profit	243,570	187,494	217,023
Operating, selling, administrative and general expenses	186,904	162,938	220,950
Settlement charges	(14,928)	16,527	
Operating income (loss)	71,594	8,029	(3,927)
Other income (expenses):			
Interest income	1,169	553	220
Interest expense	(79,704)	(61,778)	(60,556)
Equity in loss of affiliate	(28,717)	(26,646)	(7,808)
Sale of assets	5,975	23,086	6,716
Other, net	(5,711)	6,458	1,242
Loss from continuing operations before income taxes	(35,394)	(50,298)	(64,113)
(Benefit) provision for income taxes	(59,613)	1,123	1,402
Income (loss) from continuing operations	24,219	(51,421)	(65,515)
Discontinued operations:			
Gain on disposal of discontinued operations	3,208	1,536	2,982
Net income (loss)	27,427	(49,885)	(62,533)
Proportionate share of New Valley capital transactions, retirement of Class A Preferred Shares			1,782
Net income (loss) applicable to common shares	\$ 27,427	\$ (49,885)	\$ (60,751)
Per basic common share:			
Income (loss) from continuing operations	\$ 1.19	\$ (2.83)	\$ (3.44)
Income from discontinued operations	\$ 0.16	\$ 0.09	\$ 0.16
Net income (loss) applicable to common shares	\$ 1.35	\$ (2.74)	\$ (3.28)
Basic weighted average common shares outstanding	20,425,005	18,168,329	18,497,096
Per diluted common share:			
Income (loss) from continuing operations	\$ 0.98	\$ (2.83)	\$ (3.44)
Income from discontinued operations	\$ 0.13	\$ 0.09	\$ 0.16
Net income (loss) applicable to common shares	\$ 1.11	\$ (2.74)	\$ (3.28)
Diluted weighted average common shares outstanding	24,795,154	18,168,329	18,497,096

\*Revenues and Cost of goods sold include excise taxes of \$82,613, \$87,683 and \$112,218 for ended the years ended December 31, 1998, 1997 and 1996, respectively.

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

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

	Common Stock		Additional Paid-In Capital	Deficit	Treasury Stock	Other	Accumulated Other Comprehensive Income	Total
	Shares	Amount						
Balance, December 31, 1995 .....	18,497,096	\$1,850	\$ 93,186	\$(428,173)	\$(32,339)	\$ (563)	\$ 9,935	\$(356,104)
Net loss.....				(62,533)				(62,533)
Unrealized holding loss on investment in New Valley.....							(33,936)	(33,936)
Effect of New Valley capital transactions.....							1,099	1,099
Total other comprehensive loss.....								(32,837)
Total comprehensive loss.....								(95,370)
Repurchase of New Valley Class A Shares.....			1,782					1,782
Distributions on common stock.....			(5,549)					(5,549)
Amortization of deferred compensation.....						252		252
Stock options granted to consultant.....			4,750			(4,750)		
Balance, December 31, 1996.....	18,497,096	1,850	94,169	(490,706)	(32,339)	(5,061)	(22,902)	(454,989)
Net loss.....				(49,885)				(49,885)
Unrealized holding gain on investment in New Valley.....							16,842	16,842
Effect of New Valley capital transactions.....							3,190	3,190
Pension-related minimum liability adjustment.....							1,013	1,013
Total other comprehensive income.....								21,045
Total comprehensive loss.....								(28,840)
Distributions on common stock.....			(5,504)					(5,504)
Amortization of deferred compensation.....						1,311		1,311
Stock options granted to consultant.....			(375)					(375)
Settlement of loan.....	(400,000)			1,800	(1,800)			
Balance, December 31, 1997.....	18,097,096	1,850	88,290	(538,791)	(34,139)	(3,750)	(1,857)	(488,397)
Net income.....				27,427				27,427
Unrealized holding gain on investment in New Valley.....							30,902	30,902
Effect of New Valley capital transactions.....							(3,383)	(3,383)
Pension-related minimum liability adjustment.....							(888)	(888)
Total other comprehensive income.....								26,631
Total comprehensive income.....								54,058
Distributions on common stock.....			(6,123)					(6,123)
Effectiveness fee on debt.....	483,002	48	1,666		2,391			4,105
Issuance of options and warrants.....			28,086			(3,261)		24,825
Issuance of common stock.....	1,500,000	150	11,342					11,492
Issuance of treasury stock.....	863,632	46	319	(818)	4,275			3,822
Amortization of deferred compensation.....			540			1,503		2,043
Balance, December 31, 1998.....	20,943,730	\$2,094	\$124,120	\$(512,182)	\$(27,473)	\$(5,508)	\$24,774	\$(394,175)

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

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

	Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income (loss).....	\$ 27,427	\$(49,885)	\$(62,533)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization.....	8,610	8,135	8,819
Non-cash stock-based expense.....	9,394	1,311	252
Gain on sale of assets.....	(5,003)	(26,247)	(6,716)
Deferred income taxes.....	(59,613)		1,061
Currency translation loss.....	4,294	(81)	125
Non-cash interest expense.....	11,797		
Impact of discontinued operations.....	(3,208)	(1,536)	(2,982)
Equity in loss of affiliates.....	28,717	26,646	7,808
Changes in assets and liabilities (net of effect of dispositions):			
Receivables.....	(3,782)	8,839	6,222
Inventories.....	2,997	14,379	6,830
Accounts payable and accrued liabilities.....	(5,496)	7,585	27,716
Deferred gain.....		(6,459)	
Other assets and liabilities, net.....	(19,423)	(7,750)	9,693
Net cash used in operating activities.....	(3,289)	(25,063)	(3,705)
Cash flows from investing activities:			
Proceeds from sale of business and assets.....	2,333	56,494	8,040
Proceeds received for options.....	150,000		
Investments.....		(25)	(2,811)
Capital expenditures.....	(21,006)	(20,142)	(34,241)
Dividends from New Valley.....			24,733
Net cash provided by (used in) investing activities.....	131,327	36,327	(4,279)

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

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

	Year Ended December 31,		
	1998	1997	1996
Cash flows from financing activities:			
Proceeds from debt.....	4,425	10,305	20,702
Repayments of debt.....	(146,701)	(11,516)	(8,864)
Borrowings under revolver.....	282,004	278,442	353,365
Repayments on revolver.....	(296,731)	(279,435)	(350,105)
Increase (decrease) in cash overdraft.....	(868)	938	(4,256)
Distributions on common stock.....	(6,123)	(7,266)	(4,162)
Proceeds from participating loan.....	30,000		
Issuance of common stock.....	9,970		
Net cash (used in) provided by financing activities.....	(124,024)	(8,532)	6,680
Effect of exchange rate changes on cash and cash equivalents.....	(1,372)	81	(125)
Net increase (decrease) in cash and cash equivalents.....	2,642	2,813	(1,429)
Cash and cash equivalents, beginning of period.....	4,754	1,941	3,370
Cash and cash equivalents, end of period.....	\$ 7,396	\$ 4,754	\$ 1,941

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION:

The consolidated financial statements of Brooke Group Ltd. (the "Company") include the accounts of BGLS Inc. ("BGLS"), Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("BOL"), New Valley Holdings, Inc. ("NV Holdings"), Liggett-Ducat Ltd. ("Liggett-Ducat") and other less significant subsidiaries. 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. All significant intercompany balances and transactions have been eliminated. Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

(b) LIQUIDITY:

The Company's anticipated sources of liquidity for 1999 include, among other things, proceeds from the exercise of an option in an entity to which a subsidiary of Liggett will contribute certain trademarks (the "Marks") and the distribution of loan proceeds from the entity (refer to Note 2), additional debt and/or equity financing, management fees and tax sharing and other payments from Liggett and certain funds available from New Valley Corporation ("New Valley") subject to limitations imposed by BGLS' indenture agreements. Liggett's and New Valley's ability to make such payments is subject to risks and uncertainties attendant to their businesses. (Refer to Notes 3 and 16.) New Valley may also acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions. In 1998, the Company used proceeds from the sale of stock, private debt and equity financing and cash received from the sale of the options on the Marks.

On December 28, 1998, Liggett redeemed all of its 11.50% Series B and 19.75% Series C Senior Secured Notes due 1999 (the "Liggett Notes"), together with accrued interest, using \$150,000 in proceeds received from the sale of the options in the entity that will hold the Marks. Liggett has a \$40,000 revolving credit facility expiring March 8, 2000 (the "Facility"), under which \$2,538 was outstanding at December 31, 1998.

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, at that date, approximately 41.8% of the \$232,864 principal amount of the BGLS 15.75% Series B Senior Secured Notes (the "BGLS Notes"). Pursuant to the terms of the agreement, the Apollo Holders (and any transferees) have 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. (Refer to Note 9.)

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

Liggett-Ducat is in the process of constructing a new tobacco factory in Moscow, Russia, currently scheduled to be operational in mid-1999. The remaining construction costs and equipment required for the new factory will be financed primarily by equipment lease financing currently in place and loans from banks and BOL. (Refer to Note 5.)

(c) ESTIMATES AND ASSUMPTIONS:

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

(d) CASH AND CASH EQUIVALENTS:

For purposes of the statements of cash flows, cash includes cash on hand, cash on deposit in banks and cash equivalents, comprised of short-term investments which have an original maturity of 90 days or less. Interest on short-term investments is recognized when earned.

(e) FINANCIAL INSTRUMENTS:

The estimated fair value of the Company's long-term debt is as follows:

At December 31,	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$283,841	\$267,679	\$406,264	\$314,108

SHORT-TERM DEBT - The carrying amounts reported in the Consolidated Balance Sheets are a reasonable estimate of fair value.

LONG-TERM DEBT - Fair value is estimated based on current market quotations, where available, or based on an evaluation of the debt in relation to market prices of the Company's publicly traded debt.

The methods and assumptions used by the Company's management in estimating fair values for financial instruments presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

(f) SIGNIFICANT CONCENTRATIONS OF CREDIT RISK:

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its temporary cash in money market securities (investment grade or better) with what management believes are high credit quality financial institutions.



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

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. One customer accounted for approximately 26.9% of net sales in 1998, 19.4% of net sales in 1997 and 13.9% of net sales in 1996. Sales to this customer were primarily in the private label discount segment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers, located primarily throughout the United States, comprising Liggett's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. Liggett maintains reserves for potential credit losses and such losses, in the aggregate, have generally not exceeded management's expectations.

Liggett-Ducat sells its products primarily to companies in the wholesale distribution and retail industries in the Russian Federation. Three distributors accounted for approximately 54% of sales in 1998 and two distributors accounted for approximately 47% in 1997. Prepayment for goods and services is a customary business practice in Russia, and Liggett-Ducat receives payment in advance for the majority of its sales. Although Liggett-Ducat does not require collateral and, as a consequence, is exposed to credit risk, Liggett-Ducat does perform ongoing credit evaluations of its customers and believes that its trade accounts receivable risk exposure is limited.

During the year ended December 31, 1998, the economy of the Russian Federation entered a period of economic instability. 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 operations of Liggett-Ducat may be significantly affected by these factors for the foreseeable future.

(g) ACCOUNTS RECEIVABLE:

The allowance for doubtful accounts and cash discounts was \$2,007 and \$1,383 at December 31, 1998 and 1997, respectively.

(h) INVENTORIES:

Domestic tobacco inventories, which comprised 71.5% and 92.6% of total inventory in 1998 and 1997, respectively, are stated at the lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method. All other inventories are determined primarily on a first-in, first-out (FIFO) basis. Although portions of leaf tobacco inventories may not be used or sold within one year because of the time required for aging, they are included in current assets, which is common practice in the industry. It is not practicable to determine the amount that will not be used or sold within one year.

(i) PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which are 20 years for buildings and 3 to 10 years for machinery and equipment.

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

Interest costs are capitalized in connection with the construction of major facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1998, 1997 and 1996, interest costs of \$761, \$693 and \$6,387, respectively, were capitalized.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in operations.

(j) INTANGIBLE ASSETS:

Intangible assets, consisting principally of trademarks and goodwill, are amortized using the straight-line method over 10-12 years. Amortization expense for the years ended December 31, 1998, 1997 and 1996 was \$2,473, \$1,845 and \$1,778, respectively. Management periodically reviews the carrying value of such assets to determine whether asset values are impaired.

(k) IMPAIRMENT OF LONG-LIVED ASSETS:

Impairment losses on long-lived assets are recognized when expected future cash flows are less than the assets' carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment and intangibles in relation to the operating performance and estimates of future cash flows of the underlying business.

(l) EMPLOYEE BENEFITS:

Liggett sponsors self-insured health and dental insurance plans for all eligible employees. As a result, the expense recorded for such benefits involves an estimate of unpaid claims as of December 31, 1998 and 1997 which are subject to significant fluctuations in the near term.

(m) POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:

The cost of providing retiree health care and life insurance benefits is actuarially determined and accrued over the service period of the active employee group.

(n) STOCK OPTIONS:

The Company measures compensation expense for stock-based employee compensation plans using the intrinsic value method and provides pro forma disclosures of net income as if the fair value-based method had been applied in measuring compensation expense.

(o) INCOME TAXES:

Deferred taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes as well as tax credit carryforwards and loss carryforwards. These deferred taxes are measured by applying currently enacted tax rates. A valuation allowance reduces deferred tax

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

assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized.

(p) REVENUE RECOGNITION:

Revenues from sales are recognized upon the shipment of finished goods to customers. The Company provides an allowance for expected sales returns, net of related inventory cost recoveries. Since the Company's primary line of business is tobacco, the Company's financial position and its results of operations and cash flows have been and could continue to be materially adversely affected by significant unit sales volume declines, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

(q) ADVERTISING AND PROMOTIONAL COSTS:

Advertising and promotional costs are expensed as incurred. Advertising expenses were \$44,540, \$40,534 and \$74,238 for the years ended December 31, 1998, 1997 and 1996, respectively.

(r) LEGAL COSTS:

The Company's policy is to accrue legal and other costs related to contingencies as services are performed.

(s) EARNINGS PER SHARE:

Basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options, vested restricted stock grants and warrants. Basic and diluted EPS were calculated using the following for the years ended December 31, 1998, 1997 and 1996:

	1998 ----	1997 ----	1996 ----
Weighted average shares for basic EPS ..	20,425,005	18,168,329	18,497,096
Plus incremental shares from conversions:			
Stock options and warrants .....	4,370,149	-----	-----
Weighted average shares for diluted EPS	24,795,154 =====	18,168,329 =====	18,497,096 =====

In 1997 and 1996, options on 1,922,000 and 1,500,000 shares, respectively, of common stock were not included in the calculation of weighted average shares for diluted EPS because the effects would have been antidilutive.

(t) FOREIGN CURRENCY TRANSLATION:

The Company's Russian subsidiary operates in a highly inflationary economy and uses the U.S. dollar as the functional currency. Therefore, certain assets of this entity (principally

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

inventories and property and equipment) are translated at historical exchange rates with all other assets and liabilities translated at year end exchange rates and all translation adjustments are reflected in the consolidated statements of operations.

(u) OTHER COMPREHENSIVE INCOME:

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting Comprehensive Income" effective in the first quarter of 1998 with prior periods restated. Other comprehensive income is a component of stockholders' equity and includes such items as the Company's proportionate interest in New Valley's capital transactions, unrealized gains and losses on investment securities and minimum pension liability adjustments. The implementation of SFAS No. 130 did not have any material effect on the consolidated financial statements.

2. PHILIP MORRIS BRAND TRANSACTION

On November 20, 1998, the Company and Liggett entered into a definitive agreement with Philip Morris Incorporated ("PM") which provided for PM to purchase options in an entity which will hold three cigarette brands, L&M, CHESTERFIELD AND LARK (the "Marks"), held by Liggett's subsidiary, Eve Holdings Inc. ("Eve"). As contemplated by the agreement, Liggett and PM entered into additional agreements (collectively, the "PM Agreements") on January 12, 1999 to effectuate the transactions.

Under the terms of the PM Agreements, Eve will contribute the Marks to Brands LLC ("LLC"), a newly-formed limited liability company, in exchange for 100% of two classes of LLC interests, the Class A Voting Interest (the "Class A Interest") and the Class B Redeemable Nonvoting Interest (the "Class B Interest"). PM acquired two options to purchase such interests (the "Class A Option" and the "Class B Option"). On December 2, 1998, PM paid Eve a total of \$150,000 for such options, \$5,000 for the Class A Option and \$145,000 for the Class B Option. The payments were used to fund the redemption of the Liggett Notes on December 28, 1998. (Refer to Note 9).

The Class A Option entitles PM to purchase the Class A Interest for \$10,100. The statutory waiting period under the Hart-Scott-Rodino Act regarding the exercise by PM of the Class A Option expired on February 12, 1999. On March 19, 1999, PM exercised the Class A Option with the closing scheduled for June 10, 1999, subject to customary closing conditions.

The Class B Option will entitle PM 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 PM 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 the LLC for \$139,900 during the same period the Class B Option may be exercised.

The LLC will seek to borrow \$134,900 (the "Loan") from a lending institution. The Loan will be guaranteed by Eve and collateralized by a pledge by the LLC of the Marks and of the LLC's 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, the LLC will distribute the Loan proceeds to Eve with respect to its Class B Interest. The cash exercise price of the Class B Option and the LLC's redemption price will be reduced by the amount distributed to Eve. Upon PM's exercise of the Class B Option or the LLC's exercise of its redemption right, PM or the LLC, as relevant, will be required to procure 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 LLC income or loss.

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

The LLC will grant PM an exclusive license of the Marks for an 11-year term at an annual royalty based on sales of cigarettes under the Marks, subject to a minimum annual royalty payment equal to the annual debt service obligation on the Loan plus \$1,000.

If PM fails to exercise the Class B Option, Eve will have an option to put its Class B Interest to PM, or PM's designees (the "Eve Put Option"), at a put price that is \$5,000 less than the exercise price of the Class B Option (and includes PM's procuring 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, the LLC's 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% LLC interest.

The \$150,000 in proceeds received from the sale of the Class A and B Options is 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 which is scheduled to occur during the second quarter of 1999. Upon such closing, PM will obtain control of the LLC, and the Company anticipates, based on the expected structure of the transactions, to recognize a gain 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. INVESTMENT IN NEW VALLEY CORPORATION

At December 31, 1998 and 1997, the Company's investment in New Valley consisted of an approximate 42% voting interest. At December 31, 1998 and 1997, the Company owned 57.7% of the outstanding \$15.00 Class A Increasing Rate Cumulative Senior Preferred Shares (\$100 Liquidation Value), \$.01 par value (the "Class A Preferred Shares"), 9.0% of the outstanding \$3.00 Class B Cumulative Convertible Preferred Shares (\$25 Liquidation Value), \$.10 par value (the "Class B Preferred Shares") and 41.7% of New Valley's common shares, \$.01 par value (the "Common Shares").

The Class A Preferred Shares and the Class B Preferred Shares are 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 are classified as available-for-sale. The Common Shares are accounted for pursuant to APB No. 18, "The Equity Method of Accounting for Investments in Common Stock".

The Company determines the fair value of the Class A Preferred Shares and Class B Preferred Shares based on the quoted market price. Through September 1996, earnings on the Class A Preferred Shares were comprised of dividends accrued during the period and the accretion of the difference between the Company's basis and their mandatory redemption price. During the quarter ended September 30, 1996, the decline in the market value of the Class A Preferred Shares, the dividend received on the Class A Preferred Shares and the Company's equity in losses incurred by New Valley caused the carrying value of the Company's investment in New Valley to be reduced to zero. Beginning in the fourth quarter of 1996, the Company suspended the recording of its earnings on the dividends accrued and the accretion of the difference between the Company's basis in the Class A Preferred Shares and their mandatory redemption price.

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

The Company's investment in New Valley at December 31, 1998 and 1997, respectively, is summarized below:

1998	Number of Shares	Fair Value	Carrying Amount
-----	-----	-----	-----
Class A Preferred Shares.....	618,326	\$61,833	\$ 61,833
Class B Preferred Shares.....	250,885	1,693	1,693
Common Shares.....	3,989,710	1,870	(63,526)
		-----	-----
		\$65,396	\$
		=====	=====
 1997			
Class A Preferred Shares.....	618,326	\$59,359	\$ 59,359
Class B Preferred Shares.....	250,885	941	941
Common Shares.....	3,989,710	1,995	(60,300)
		-----	-----
		\$62,295	\$
		=====	=====

In November 1994, New Valley's First Amended Joint Chapter 11 Plan of Reorganization, as amended ("Joint Plan"), was confirmed by order of the United States Bankruptcy Court for the District of New Jersey and on January 18, 1995, New Valley emerged from bankruptcy reorganization proceedings and completed substantially all distributions to creditors under the Joint Plan. Pursuant to the Joint Plan, among other things, the Class A Preferred Shares, the Class B Preferred Shares, the Common Shares and other equity interests were reinstated and retained all of their legal, equitable and contractual rights.

During 1996, New Valley repurchased 72,104 Class A Preferred Shares for a total amount of \$10,530. The Company has recorded its proportionate interest in the excess of the carrying value of the shares over the cost of the shares repurchased as a credit to additional paid-in capital in the amount of \$1,782 for the year ended December 31, 1996.

The Class A Preferred Shares of New Valley are required to be redeemed on January 1, 2003 for \$100.00 per share plus dividends accrued to the redemption date. The shares are redeemable, at any time, at the option of New Valley, at \$100.00 per share plus accrued dividends. The holders of Class A Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board of Directors, payable at the rate of \$19.00 per annum. At December 31, 1998 and 1997, respectively, the accrued and unpaid dividends arrearage was \$219,068 (\$204.46 per share) and \$163,302 (\$152.41 per share). The Company received \$24,733 (\$40.00 per share) in dividend distributions in 1996.

Holders of the Class B Preferred Shares are entitled to receive a quarterly dividend, as declared by the Board, at a rate of \$3.00 per annum. At December 31, 1998 and 1997, respectively, the accrued and unpaid dividends arrearage was \$165,856 (\$59.43 per share) and \$139,412 (\$49.95 per share). No dividends on the Class B Preferred Shares have been declared since the fourth quarter of 1988.

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

Summarized financial information for New Valley follows:

	1998	1997	1996
	----	----	----
Current assets, primarily cash and marketable securities..	\$ 91,451	\$118,642	
Noncurrent assets.....	181,271	322,749	
Current liabilities.....	83,581	125,628	
Noncurrent liabilities.....	78,251	187,524	
Redeemable preferred stock.....	316,202	258,638	
Shareholders' equity (deficit).....	(205,312)	(130,399)	
Revenues.....	102,087	114,568	\$130,865
Costs and expenses.....	127,499	139,989	149,454
Loss from continuing operations.....	(23,329)	(24,260)	(14,648)
Income from discontinued operations.....	7,740	3,687	7,158
Net loss applicable to Common Shares(A).....	(96,553)	(89,048)	(65,160)
Company's share of discontinued operations.....	3,208	1,536	2,982

(A) Considers all preferred accrued dividends, whether or not declared and, in 1996, the excess of carrying value of redeemable preferred shares over cost of shares purchased.

On January 31, 1997, New Valley acquired substantially all the common shares of BML from BOL for \$55,000. (Refer to Note 5.)

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. In connection with the formation of Western Realty Ducat, New Valley agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to \$58,750, including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded \$32,364 of its investment in Western Realty Ducat.

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 (\$40,000), together with a 15% annual rate of return, and 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 will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Ducat generally require the unanimous consent of the Board of Managers. Accordingly, New Valley has accounted 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.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits

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interest in, a company organized by BOL which, among other things, holds BOL's interest in Liggett-Ducat and the new factory being constructed by Liggett-Ducat on the outskirts of Moscow. (Refer to Note 5.)

In June 1998, New Valley and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a \$25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment (\$18,750) together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment (\$6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced \$19,067 (of which \$14,300 was funded by Apollo) under the Repin Loan to BML. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds to repay New Valley for certain expenditures on the Kremlin Sites previously incurred. The Repin 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 December 31, 1998, BML had invested \$18,013 in the Kremlin sites and held \$252, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional \$6,000 in 1999 and \$22,000 in 2000 in the development of the property. BML funded \$4,800 of this amount in the first quarter of 1999.

The development of Ducat Place III and the Kremlin Sites will require significant amounts of debt and other financing. New Valley is actively pursuing various 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.

In 1998, New Valley's United States real estate operations sold all of its office buildings, realizing a gain of \$4,682. In 1997, New Valley sold one of its shopping centers, realizing a gain of \$1,200.



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On October 31, 1995, New Valley sold substantially all the assets of its wholly-owned subsidiary, Western Union Data Services Company, Inc. (the "Messaging Service Business"), and conveyed substantially all of the liabilities of the Messaging Service Business for \$17,540 in cash and \$2,460 in cancellation of intercompany indebtedness. The financial statements of the Company reflect its portion of the gain in gain on disposal of discontinued operations in 1998, 1997 and 1996.

SUBSEQUENT EVENT - Proposed Recapitalization Plan:

New Valley intends to submit for approval of its shareholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of New Valley's outstanding Class A Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The number of authorized Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of \$12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of New Valley's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by New Valley for a three-year period. Upon completion of the Recapitalization Plan, New Valley will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of New Valley's shares, effectiveness of the New Valley proxy statement and prospectus for the annual meeting, receipt of a fairness opinion and compliance with the Hart-Scott-Rodino Act.

The Company has agreed to vote all of its shares in New Valley in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its warrants, the Company will increase its ownership of the outstanding Common Shares of New Valley from 42.3% to 55.1% and its total voting power from 42.3% to 55.1%. New Valley would become part of the Company's consolidated group for financial statement purposes.

The Joint Plan places restrictions on and requires approvals for certain transactions with the Company and its affiliates to which New Valley or a subsidiary of, or entity controlled by, New Valley may be party, including the requirements, subject to certain exceptions for transactions involving less than \$1 million in a year or pro rata distributions on New Valley's capital stock, of approval by not less than two-thirds of the entire Board, including at least one of the directors elected by the holders of New Valley's preferred shares, and receipt of a fairness opinion from an investment banking firm. In addition, the Joint Plan requires that, whenever New Valley's Certificate of Incorporation provides for the vote of the holders of the Class A Senior Preferred Shares acting as a single class, such vote must, in addition to satisfying all other applicable requirements, reflect the affirmative vote of either (x) 80% of the outstanding shares of that class or (y) a simple majority of all shares of that class voting on the issue exclusive of shares beneficially owned by the Company. The foregoing provisions of the Joint Plan will terminate upon consummation of the Recapitalization Plan.

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4. RJR NABISCO HOLDINGS CORP.

New Valley expensed \$100 in 1997 and \$11,724 in 1996 relating to its investment in the common stock of RJR Nabisco Holdings Corp. ("RJR Nabisco"). Pursuant to a December 27, 1995 agreement between the Company and New Valley whereby New Valley agreed to reimburse the Company and its subsidiaries for certain reasonable out-of-pocket expenses in connection with RJR Nabisco, New Valley paid the Company and its subsidiaries a total of \$17 and \$2,370 in 1997 and 1996, respectively.

On February 29, 1996, New Valley entered into a total return equity swap transaction (the "Swap") with an unaffiliated financial institution relating to 1,000,000 shares of RJR Nabisco common stock (reduced to 750,000 shares of RJR Nabisco common stock as of August 13, 1996). During the third quarter of 1996, the Swap was terminated in connection with New Valley's reduction of its holdings of RJR Nabisco common stock, and New Valley recognized a loss on the Swap of \$7,305 for the year ended December 31, 1996.

5. INVESTMENT IN BROOKE (OVERSEAS) LTD.

At December 31, 1998, BOL owned approximately 99.9% of the stock of Liggett-Ducat through its subsidiary, Western Tobacco Investments LLC ("Western Tobacco"). (Refer to Note 9 for information concerning pledges of interests in Western Tobacco.)

Liggett-Ducat is currently completing construction of a new cigarette factory on the outskirts of Moscow. Production at Liggett-Ducat's existing factory is currently scheduled to cease in March 1999, with production starting in the new factory in mid-1999. A 49-year land lease was renegotiated in 1996 for the new factory site. Liggett-Ducat has entered into a construction contract for the plant. The remaining liability under that contract, as amended, at December 31, 1998 is approximately \$7,825. Equipment purchase agreements in place at December 31, 1998 total \$35,846, of which \$29,438 is being financed by the manufacturers.

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. The loan, which bears no fixed interest, is payable only out of 30% of distributions, if any, made by Western Tobacco to BOL. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco to BOL will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of Western Tobacco. For the year ended December 31, 1998, preference requirement equal to 30% of Western Tobacco's net income, \$1,991, has been charged to interest expense. The loan is classified in other long-term liabilities on the consolidated balance sheet at December 31, 1998. (Refer to Note 3.)

On January 31, 1997, BOL sold all its shares of BML to New Valley for \$21,500 in cash and a promissory note of \$33,500 payable \$21,500 on June 30, 1997 and \$12,000 on December 31, 1997 with interest at 9%. The note was paid in full as of December 31, 1997. The consideration received exceeded the carrying value of its investment in BML by \$43,700. The Company recognized a gain on the sale in 1997 in the amount of \$21,300. The remaining \$22,400 was deferred in recognition of the fact that the Company retains an interest in BML through its 42% equity ownership in New Valley

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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 is currently used by Liggett-Ducat for its existing cigarette factory) is subject to a put option held by New Valley. The option allows New Valley to put this site back to the Company at the greater of the appraised fair value of the property at the date of exercise or \$13,600, during the period Liggett-Ducat operates the factory on such site. During the second quarter 1997, BML sold one of its office buildings, Ducat Place I, to a third party. Accordingly, the Company recognized \$1,240 of its deferred gain. As discussed in Note 3, in 1998, New Valley contributed the BML real estate assets to Western Realty Ducat, and the Company recognized a further portion of the deferred gain, \$4,246, to the extent of Apollo's interest in Western Realty Ducat.

In connection with the sale of its BML shares to New Valley, certain specified liabilities aggregating \$40,800 remained with BML, including a Russian bank loan with a balance of \$20,418, which was paid in full during the third quarter of 1997.

During the second quarter of 1996, BOL entered into stock purchase agreements with the former chairman of Liggett-Ducat and the former Director of Liggett-Ducat's tobacco operations (the "Sellers"). Under the stock purchase agreements, BOL acquired 142,558 shares held by the Sellers for \$2,143.

Concurrently, the Company entered into consulting and non-compete agreements with the Sellers. Under the terms of these agreements, the Company will pay the Sellers a total of approximately \$8,357 over five years. At December 31, 1998, the liability remaining under these agreements was \$3,099.

In 1996, Russian tax authorities assessed Liggett-Ducat \$7,600 for outstanding tax liabilities relating to 1995. The liability is payable in two parts, 50% within 2-1/2 years, the remaining 50% over the succeeding five years. The remaining liability at December 31, 1998 was \$396.

6. INVENTORIES

Inventories consist of:

	December 31,	
	1998	1997
Leaf tobacco.....	\$13,882	\$20,392
Other raw materials.....	4,629	4,103
Work-in-process.....	2,001	1,976
Finished goods.....	15,446	13,273
Replacement parts and supplies.....	4,130	4,466
	-----	-----
Inventories at current cost.....	40,088	44,210
LIFO adjustments.....	(3,772)	(4,898)
	-----	-----
	\$36,316	\$39,312
	=====	=====

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

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quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At December 31, 1998, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately \$6,721 and \$9,137, respectively. In addition, Liggett-Ducat had leaf tobacco prepayments of \$1,232.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	December 31,	
	----- 1998	1997
Land and improvements.....	\$ 412	\$ 411
Buildings.....	5,823	6,521
Machinery and equipment.....	54,144	53,717
Leasehold improvements.....		302
Construction-in-progress.....	66,981	18,179
	-----	-----
	127,360	79,130
Less accumulated depreciation.....	(33,856)	(33,187)
	-----	-----
	\$ 93,504	\$45,943
	=====	=====

Depreciation expense for the years ended December 31, 1998, 1997 and 1996 was \$4,123, \$4,513 and \$4,412, respectively. Capitalized interest included in property, plant and equipment was \$761 and \$693 in 1998 and 1997, respectively.

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

As discussed in Note 3, in connection with the construction of the new factory in Russia, equipment purchase agreements in place at December 31, 1998 total \$35,846 of which \$29,438 is being financed by manufacturers.

8. SALE OF ASSETS

On November 20, 1998, the Company and Liggett sold options to PM to purchase interests in the LLC. (Refer to Note 2.)

On January 31, 1997, BOL sold BML to New Valley for \$21,500 in cash and a promissory note of \$33,500 which was paid in 1997. (Refer to Note 5.)

On March 11, 1997, Liggett sold to Blue Devil Ventures, a North Carolina limited liability partnership, surplus realty for \$2,200. The Company recognized a gain of approximately \$1,100.

On May 14, 1996, Liggett sold to the County of Durham surplus realty for \$4,300. The Company recognized a gain of approximately \$3,600.

On July 15, 1996, the Company sold substantially all of the non-cash assets and certain liabilities of COM Products, Inc., a subsidiary engaged in the business of selling micrographics equipment and supplies, for approximately \$3,700 cash and a promissory note for \$500. The Company recognized a gain of approximately \$3,000 on this transaction.

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## 9. NOTES PAYABLE, LONG-TERM DEBT AND OTHER OBLIGATIONS

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

	December 31, 1998	December 31, 1997
	-----	-----
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of \$17,374 and \$1,141.....	\$215,490	\$231,723
Deferred interest on 15.75% Series B Senior Secured Notes due 2001.....	24,985	
14.500% Subordinated Debentures due 1998.....		800
Liggett:		
11.500% Senior Secured Series B Notes due 1999, net of unamortized discount of \$206.....		112,406
Variable Rate Series C Senior Secured Notes due 1999.....		32,279
Revolving credit facility.....	2,538	23,427
BOL:		
Foreign credit facilities.....	11,600	5,000
Notes payable.....	28,057	
Other.....	1,171	629
	-----	-----
Total notes payable, long-term debt and other obligations.	283,841	406,264
Less:		
Current maturities.....	21,176	6,429
	-----	-----
Amount due after one year.....	\$262,665	\$399,835
	=====	=====

## STANDSTILL AGREEMENT - BGLS:

On August 28, 1997, during negotiations with the holders of more than 83% of the BGLS Notes then outstanding which concerned certain modifications to the terms of such debt, BGLS entered into a standstill agreement with such holders. Pursuant to the standstill agreement, as amended, such holders agreed that they would be entitled to receive their portion of the July 31, 1997 interest payment on the BGLS Notes (in total, \$15,340) only after giving BGLS 20 days' notice but in any event by February 6, 1998.

On February 6, 1998, BGLS entered into a further amendment to the standstill agreement with the Apollo Holders, who held approximately 41.8% of the \$232,864 principal amount of the BGLS Notes then outstanding, which extended the termination date of such agreement with respect to the Apollo Holders to March 2, 1998. Also on February 6, 1998, the holder of 41.9% of the BGLS Notes, who had previously been a party to the standstill agreement, was paid its pro rata share of the July 31, 1997 interest payment on the BGLS Notes. The Company also sold stock on January 16, 1998 to an affiliate of this holder in which it recorded an expense of \$2,531 for the first quarter 1998, representing the difference between the cost and fair market value of the shares sold. (Refer to Note 13.)

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On March 2, 1998, the Company entered into an agreement with the Apollo Holders in which the Apollo Holders (and any transferees) agreed to defer the payment of interest on the BGLS Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the BGLS Notes on January 31, 2001 or upon an event of default under the Indenture for the BGLS Notes. Accordingly, accrued interest as of March 2, 1998 was reclassified and included in long-term debt. 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).

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

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

SUBSEQUENT EVENT:

On February 17, 1999, BGLS entered into an agreement with a third party to purchase, during the third quarter of 1999, approximately \$31,139 principal amount of the BGLS Notes, originally held by the Apollo Holders and subject to the standstill agreement. The purchase price is 95% of the principal amount of the notes and the accrued interest thereon. Such purchase is contingent upon receipt by the Company of approximately \$145,000 (in addition to the \$150,000 option fee paid in December 1998) on terms substantially consistent with the transactions contemplated by the PM Agreements. (Refer to Note 2.) BGLS will fund the purchase price with tax sharing payments from Liggett.

14.500% SUBORDINATED DEBENTURES DUE 1998

The 14.500% Subordinated Debentures due 1998 in principal amount of \$800 were paid at maturity together with accrued interest on April 1, 1998.

15.75% SERIES B SENIOR SECURED NOTES DUE 2001

The BGLS Notes are collateralized by substantially all of BGLS' assets, including a pledge of BGLS' equity interests in Liggett, BOL and NV Holdings as well as a pledge of all of the New Valley securities held by BGLS and NV Holdings. The BGLS Notes Indenture contains certain covenants, which among other things, limit the ability of BGLS to make distributions to the Company to \$6,000 per year (\$12,000 if less than 50% of the BGLS Notes remain outstanding), limit additional

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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 BGLS 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.

LIGGETT 11.500% SENIOR SECURED SERIES B NOTES DUE 1999:

On February 14, 1992, Liggett issued \$150,000 in 11.50% Senior Secured Notes (the "Liggett Series B Notes"). The Liggett Series B Notes and Series C Notes referred to below (collectively, the "Liggett Notes") required mandatory principal redemptions of \$7,500 on February 1 in each of the years 1993 through 1997 and \$37,500 on February 1, 1998 with the balance of the Liggett Notes due on February 1, 1999. In February 1997, \$7,500 of Liggett Series B Notes were purchased using the Facility and credited against the mandatory redemption requirements. The transaction resulted in a net gain of \$2,963. The Liggett Notes were redeemed on December 28, 1998 at a price equal to 100% of the principal amount together with accrued interest. As discussed in Note 2, proceeds of \$150,000 from the purchase by PM of two options to purchase the Class A Interest and the Class B Interest in the LLC were used to fund the redemption.

On January 30, 1998, with the consent of the required majority of the holders of the Liggett Notes, Liggett entered into various amendments to the Indenture governing the Liggett Notes, which provided, among other things, for a deferral of the February 1, 1998 mandatory redemption payment of \$37,500 to the date of final maturity of the Liggett Notes on February 1, 1999. In connection with the deferral, on February 2, 1998, the Company issued 483,002 shares of the Company's common stock to the holders of record on January 15, 1998 of the Liggett Notes. As a result of this transaction, Liggett recorded a deferred charge of \$4,105 during the first quarter of 1998 reflecting the fair value of the instruments issued. This deferred charge was amortized over a period of eleven months.

ISSUANCE OF LIGGETT SERIES C VARIABLE RATE NOTES:

The Series C Notes had the same terms (other than interest rate, which was 19.75%) and stated maturity as the Liggett Series B Notes. They were also redeemed on December 28, 1998 together with accrued interest.

REVOLVING CREDIT FACILITY - LIGGETT:

On March 8, 1994, Liggett entered into the Facility for \$40,000 with a syndicate of commercial lenders. The Facility is collateralized by all inventories and receivables of Liggett. At December 31, 1998, \$18,607 was available under the Facility based on eligible collateral. Borrowings under the Facility, whose interest is calculated at a rate equal to 1.5% above the Philadelphia National Bank's prime rate, bore a rate of 9.25% at December 31, 1998. 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

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as computed in accordance with the agreement, this computation was \$141,414 at December 31, 1998) and net working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement, this computation was \$6,168 at December 31, 1998).

On August 29, 1997, the Facility was amended to permit Liggett to borrow an additional \$6,000 which was used on that date in making the interest payment of \$9,700 due on August 1, 1997 to the holders of the Liggett Notes. BGLS guaranteed the additional \$6,000 advance under the Facility and collateralized the guarantee with \$6,000 in cash, deposited with Liggett's lender. At December 31, 1997, this amount was classified in other assets on the consolidated balance sheet. At December 31, 1998, the Company had recovered the \$6,000 collateral from the lender together with accrued interest.

FOREIGN LOANS:

At December 31, 1998, Liggett-Ducat had two credit facilities outstanding. One, for \$10,000, expires in May 1999. The interest rate had been 21% but was increased to 25% on August 26, 1998 over the remaining term of the facility. The second, for \$5,000, expires in December 1999. The interest rate is 20%. At December 31, 1998, the balance outstanding under the facilities was \$11,600. The facilities are collateralized by factory equipment and tobacco stock.

SCHEDULED MATURITIES:

Scheduled maturities of long-term debt are as follows:

Year ending December 31:	
1999.....	\$ 21,176
2000.....	7,448
2001.....	245,385
2002.....	4,910
2003.....	4,922
Thereafter.....	--
	-----
	\$283,841
	=====

10. COMMITMENTS

Certain of the Company's subsidiaries lease certain facilities and equipment used in its operations under both month-to-month and fixed-term agreements. The aggregate minimum rentals under operating leases with noncancelable terms for one year or more are as follows:

Year ending December 31:	
1999.....	\$1,598
2000.....	804
2001.....	357
2002.....	369
2003.....	214
Thereafter.....	2,023
	-----
	\$5,365
	=====



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Lease commitments for 2003 and thereafter relate primarily to the remaining 43 years of a land lease and 23 years of an equipment lease in Russia.

The Company's rental expense for the years ended December 31, 1998, 1997 and 1996 was \$3,035 \$3,625 and \$5,471, respectively.

11. EMPLOYEE BENEFIT PLANS

The Company adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits", which does not change the measurement or recognition of those plans, but revises the disclosure requirements for pension and other postretirement benefit plans in order to facilitate financial analysis. SFAS No. 132 is effective for the Company for the year ended 1998 and for all years presented.

DEFINED BENEFIT RETIREMENT PLANS:

The Company sponsors several defined benefit pension plans, covering virtually all of Liggett's full-time employees. These plans provide pension benefits for eligible employees based primarily on their compensation and length of service. Contributions are made to the pension plans in amounts necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

In a continuing effort to reduce operating expenses, all defined benefit plans were frozen between 1993 and 1995 and several early retirement windows were offered in 1995 and 1996. As a result of these actions, the Company recorded a curtailment charge (see table below).

The Company's net pension expense consists of the following components:

	Year Ended December 31,		
	1998	1997	1996
Service cost - benefits earned during the period.....	\$ 350	\$ 350	\$ 350
Interest cost on projected benefit obligation.....	11,707	12,255	12,241
Expected return on assets.....	(16,724)	(14,093)	(10,753)
Amortization of net gain.....	(3,064)	(988)	(3,006)
Curtailment related to plan restructuring.....		484	1,463
	\$ (7,731)	\$ (1,992)	\$ 295

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	1998	1997
	-----	-----
Change in benefit obligation:		
Benefit obligation at January 1.....	\$(165,474)	\$(163,502)
Interest cost.....	(11,707)	(12,255)
Benefits paid.....	15,861	17,987
Termination, settlements and curtailment.....		(484)
Actuarial losses .....	(8,744)	(7,220)
	-----	-----
Benefit obligation at December 31.....	\$(170,064)	\$(165,474)
	=====	=====
Change in plan assets:		
Fair value of plan assets at January 1.....	\$ 194,732	\$ 169,845
Actual return on plan assets.....	4,866	42,511
Contributions.....	342	363
Benefits paid.....	(15,861)	(17,987)
	-----	-----
Fair value of plan assets at December 31.....	\$ 184,079	\$ 194,732
	=====	=====
Excess of plan assets versus benefit obligations at December 31.....	\$ 14,015	\$ 29,258
Unrecognized actuarial gains.....	(25,729)	(49,045)
Contributions or SERP benefits.....	86	86
	-----	-----
Net pension liability before additional minimum liability and purchase accounting valuation adjustments.....	(11,628)	(19,701)
Additional minimum liability.....	(1,901)	(2,058)
Purchase accounting valuation adjustments relating to income taxes.....	2,730	3,077
	-----	-----
Pension liability included in the December 31 balance sheet.....	\$ (10,799)	\$ (18,682)
	=====	=====

Assumptions used in the determination of net pension expense and the actuarial present value of benefit obligations for the years ended December 31, 1998 and 1997 follow:

	1998	1997
	----	----
Discount rates.....	5.50 - 7.50%	6.25 - 8.00%
Accrued rates of return on invested assets.....	8.75 - 9.0%	9.0%
Salary increase assumptions.....	N/A	N/A

Plan assets consist of commingled funds, marketable equity securities and corporate and government debt securities.

POSTRETIREMENT MEDICAL AND LIFE INSURANCE PLANS:

BGLS AND LIGGETT

Substantially all of Liggett's employees are eligible for certain postretirement benefits if they reach retirement age while working for the Company. Retirees are required to fund 100% of participant medical premiums.

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The components of net periodic postretirement benefit cost for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
	----	----	----
Service cost benefits earned during the year.....	\$ 43	\$ 24	\$ 68
Interest cost on accumulated postretirement benefit obligation.....	583	703	829
Charge for special termination benefits.....	47	47	137
Amortization of net (gain) loss.....	(284)	(193)	(92)
	----	----	----
Net periodic postretirement benefit expense.....	\$342	\$581	\$942
	=====	=====	=====

The following sets forth the actuarial present value of the Accumulated Postretirement Benefit Obligation ("APBO") at December 31, 1998 and 1997 applicable to each employee group for benefits:

	1998	1997
	----	----
Change in benefit obligation:		
Benefit obligation at January 1.....	\$ (8,178)	\$ (9,225)
Service cost.....	(43)	(24)
Interest cost.....	(583)	(703)
Benefits paid.....	934	960
Actuarial (losses) gains.....	(1,246)	814
	-----	-----
Benefit obligation at December 31.....	\$ (9,116)	\$ (8,178)
	=====	=====
Change in plan assets:		
Contributions.....	\$ 934	\$ 960
Benefits paid.....	(934)	(960)
	-----	-----
Fair value of plan assets at December 31.....	\$	\$
	=====	=====
Accumulated post retirement benefit obligation in excess of the plan assets.....	\$ (9,116)	\$ (8,178)
Unrecognized actuarial gains.....	(2,462)	(3,992)
Purchase accounting valuation adjustments relating to income taxes.....	676	1,002
	-----	-----
Postretirement liability included in the December 31 balance sheet.....	\$(10,902)	\$(11,168)
	=====	=====

The APBO at December 31, 1998 and 1997 was determined using discount rates of 7.5% and 7.5%, respectively, and a health care cost trend rate of 4% in 1998 and 1997. A 1% increase in the trend rate for health care costs would have increased the APBO and net periodic postretirement benefit cost by \$363 and \$26, respectively, for the year ended December 31, 1998. The Company does not hold any assets reserved for use in the plan.

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## PROFIT SHARING PLAN:

## LIGGETT

The 401(k) plans originally called for Liggett contributions matching up to a 3% employee contribution, plus additional Liggett contributions of up to 6% of salary based on the achievement of Liggett's profit objectives. Liggett contributed and expensed \$469, \$497 and \$591 to the 401(k) plans for the years ended December 31, 1998, 1997 and 1996, respectively.

## 12. INCOME TAXES

The Company files a consolidated U.S. income tax return that includes its more than 80%-owned United States subsidiaries. The amounts provided for income taxes are as follows:

	Year Ended December 31,		
	1998	1997	1996
Current:			
U.S. Federal.....	\$		
Foreign.....		\$1,134	\$1,454
State.....		(11)	(52)
	-----	-----	-----
Deferred:			
U.S. Federal.....	\$(59,158)	\$	\$
Foreign.....	(455)		
State.....			
	-----	-----	-----
Total (benefit) provision.....	\$ (59,613)	\$1,123	\$1,402
	=====	=====	=====

The tax effect of temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows:

	December 31, 1998		December 31, 1997	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Sales and product allowances.....	\$ 3,468		\$ 3,102	
Inventory.....	660	\$ 1,220	457	\$ 1,568
Coupon accruals.....	1,004		2,369	
Property, plant and equipment.....		4,791		5,760
Employee benefit plan accruals.....	8,429		12,698	
Debt restructuring charges.....	17,159		19,105	
Excess of tax basis over book basis- non-consolidated entities.....	9,969		9,467	
Legal settlements.....	2,036		9,840	
Russian tax loss carryforwards.....	3,354			
U.S. net operating loss carryforwards.....	62,714		50,151	
Valuation allowance.....	(43,169)		(99,861)	
Reclassifications.....	(6,011)	(6,011)	(7,328)	(7,328)
	-----	-----	-----	-----
	\$ 59,613	\$	\$	\$
	=====	=====	=====	=====

The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has established a valuation allowance against deferred tax assets of \$43,169 at December 31, 1998.

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At December 31, 1998, the Company and its consolidated group had U.S. tax carryforwards of \$157,000 which may be subject to certain restrictions and limitations and which will expire in the years 2006 to 2017.

Differences between the amounts provided for income taxes and amounts computed at the federal statutory tax rate are summarized as follows:

	Year Ended December 31,		
	1998	1997	1996
Loss from continuing operations			
before income taxes.....	\$(35,394)	\$(50,298)	\$(64,113)
Federal income tax benefit at statutory rate.....	(12,387)	(17,604)	(22,440)
Increases (decreases) resulting from:			
State income taxes, net of federal income tax			
benefits.....		(8)	(34)
Foreign taxes.....	(455)	1,134	1,454
Other.....	9,921	8,386	951
Changes in valuation allowance.....	(56,692)	9,215	21,471
Provision for income tax.....	\$ (59,613)	\$ 1,123	\$ 1,402

## 12. EQUITY

On January 16, 1998, the Company entered into a Stock Purchase Agreement in which High River Limited Partnership purchased 1,500,000 shares of the Company's common stock for \$9,000. (Refer to Note 9.)

In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued warrants to purchase the Company's common stock. (Refer to Note 9.)

On March 12, 1998, the Company granted an option for 1,250,000 shares of the Company's common stock to a law firm that represents the Company and Liggett. On May 1, 1998 and April 1, 1999, options for 250,000 and 1,000,000 shares, respectively, of common stock were exercisable at \$17.50 per share. The option, as originally written, was to expire on March 31, 2003. The fair value of the equity instruments was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility 77.6%, risk-free interest rate of 5.47%, expected life of two years and dividend rate of 0%. The Company recognized expense of \$1,495 in the second quarter of 1998. On October 12, 1998, the Company amended the option to reduce the exercise price from \$17.50 per share to \$6.00 per share and extended the initial exercise date on all 1,250,000 shares to April 1, 2000, subject to earlier exercise under certain circumstances. The expense at the initial grant date was \$3,063, and the incremental expense incurred due to the modifications of the grant was \$2,050. At December 31, 1998, \$2,507 had been expensed, and the remaining amount of \$2,606 will be recognized over the vesting period.

During April and May 1998, the Company granted 10,000 shares of the Company's common stock to each of its three outside directors. Of these shares, 7,500 vested immediately and the remaining 22,500 shares will vest in three equal annual installments. At December 31, 1998, \$124 had been expensed and the remaining amount of \$227 will be recognized over the vesting period.

On August 28, 1998, the Company granted 470,000 shares of its common stock as part of a performance fee to members of a law firm which represents the Company and Liggett. The shares generally are not transferable prior to September 1, 1999. The Company expensed \$1,687 for the year ended December 31, 1998.

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On October 15, 1998, the Company obtained stockholder approval to increase the number of authorized shares of the Company's common stock from 40,000,000 to 100,000,000 shares.

On March 7, 1997, a partnership controlled by the Company's Chairman, President and Chief Executive Officer and controlling stockholder (the "Chairman"), transferred 400,000 shares of common stock to the Company in satisfaction of an obligation. (Refer to Note 17.)

14. STOCK PLANS

On October 15, 1998, shareholders of the Company approved the adoption of the 1998 Long-Term Incentive Plan (the "Plan"). The Plan, adopted on May 8, 1998, authorizes the granting of up to 5,000,000 shares of the Company's common stock through awards of stock options (which may include incentive stock options and/or nonqualified stock options), stock appreciation rights and shares of restricted Company common stock. All officers, employees and consultants of the Company and its subsidiaries are eligible to receive awards under the Plan.

On July 20, 1998, the Company granted a non-qualified stock option to each of the Chairman and a consultant to the Company who serves as President and a director of New Valley (the "Consultant"), pursuant to the Plan, which grants had been conditioned upon the approval of the Plan by the Company's stockholders. Under the options, the Chairman and the Consultant have the right to purchase 2,500,000 shares and 500,000 shares, respectively, of the Company's common stock at an exercise price of \$9.75 per share (the fair market value of a share of common stock on the date of grant). The options have a ten-year term and become exercisable as to one-fourth of the aggregate shares covered thereby on each of the first four anniversaries of the date of grant. However, any then unexercisable portion of the option will immediately vest and become exercisable upon (i) the occurrence of a "Change in Control," or (ii) the termination of the option holder's employment or consulting arrangement with the Company due to death or disability.

The fair value of the equity instruments issued to the Consultant was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility of 82.18%, risk-free interest rate of 5.47%, expected option life of 10 years and dividend rate of 0%. At December 31, 1998, \$407 had been expensed and the remaining amount of \$2,853 will be recognized over the remaining vesting period.

As of January 1, 1998 and 1997, the Company granted to employees of the Company non-qualified stock options to purchase 43,000 and 422,000, respectively, shares of the Company's common stock at an exercise price of \$5.00 per share. The options have a ten-year term and vest in six equal annual installments. The Company will recognize compensation expense of \$154 over the vesting period.

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A summary of stock options granted to employees follows:

	Number of Shares	Exercise Price	Weighted Average Fair Value
	-----	-----	-----
Outstanding on December 31, 1996.....	0		
Granted.....	422,000	\$5.00	\$4.30
Exercised.....	0		
Cancelled.....	0		
Outstanding on December 31, 1997.....	422,000	\$5.00	\$4.30
Granted.....	2,543,000	\$5.00-\$9.75	\$7.64
Exercised.....	94,132	\$5.00	
Cancelled.....	0		
Outstanding on December 31, 1998.....	2,870,868	\$5.00-\$9.75	\$7.75
Options exercisable at:			
December 31, 1997.....	89,165		
December 31, 1998.....	70,366		

The Company will continue to account for stock options granted employees at their intrinsic value. Had the fair value method of accounting been applied to the Company's stock options granted to employees, the pro forma effect would be as follows:

	1998 ----	1997 ----
Net income (loss) as reported.....	\$27,427	\$(49,885)
Estimated fair value of the year's option grants.....	2,549	383
Net income (loss) adjusted.....	24,878	(50,268)
Adjusted net income (loss) per share - basic.....	1.22	(2.81)
Adjusted net income (loss) per share - diluted.....	1.00	(2.81)

The fair value of option grants to employees is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for options granted in July 1998, January 1998 and January 1997, respectively. There are no expected dividends or forfeitures.

Date ----	Risk Free Interest Rate -----	Expected Life in Years -----	Expected Volatility -----	Weighted Average Fair Value -----
July 20, 1998	5.54%	10	79.14%	\$8.21
January 1, 1998	5.74%	10	76.56%	\$7.58
January 1, 1997	6.44%	10	81.46%	\$4.30

On December 16, 1996, the Company entered into a Stock Option Agreement (the "Agreement") with the Consultant. The Agreement granted the Consultant non-qualified stock options to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$1.00 per share. The options, which have a ten-year term, vest and become exercisable in six equal annual installments

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beginning on July 1, 1997. Pursuant to the Agreement, common stock dividend equivalents are paid on each vested and unexercised option. The Company estimated the fair value of such grant on the date of grant using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 6.4%, expected option life of 10 years, volatility of 81.4% and no expected dividends or forfeiture. Under this model, the fair value of stock options granted in 1996 was \$4,750. The Company recognized expense of \$780, \$1,127 and \$64 for the years ended 1998, 1997 and 1996, respectively.

As of January 1, 1994, the Company had granted 500,000 shares of restricted common stock to the Consultant. Of the total number of shares granted, 250,000 were immediately vested and issued during the third quarter. The remaining 250,000 shares were issued in 1995 and vested in 1997. In addition, on January 25, 1995, the Company entered into a non-qualified stock option agreement with the Consultant. Under the agreement, options to purchase 500,000 shares were granted at \$2.00 per share. The options are exercisable over a ten-year period, beginning with 20% on the grant date and 20% on each of the four anniversaries of the grant date. The grant provides for dividend equivalent rights on all the shares underlying the options. During 1998, 1997 and 1996, the Company recorded charges to income of \$188, \$205 and \$222, respectively, for compensation based on estimates of the fair market value for the shares and options granted. In 1998, 1997 and 1996, the Company also recorded charges to income of \$155, \$188, and \$150, respectively, for the dividend equivalent rights.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
I. Cash paid during the period for:			
Interest.....	\$62,339	\$43,028	\$57,362
Income taxes, net of refunds.....	2,751	462	582
II. Non-cash investing and financing activities:			
Issuance of stock to Liggett bondholders.....	4,105		
Issuance of stock to consultants and law firms..	3,705		
Issuance of warrants.....	22,421		
Dividends payable.....			\$ 1,387
Exchange of Series 2 Senior Secured Notes			
for Series A Notes.....			99,154
Exchange of 14.50% Subordinated Debentures			
for Series B Notes.....			125,495
Issuance of Series A Notes for options.....			822
Exchange of Series A Notes for Series B Notes...			99,976
Issuance of promissory notes for shares			
of Liggett-Ducat.....			1,643
Promissory note from New Valley.....		33,500	



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## 16. CONTINGENCIES

## TOBACCO-RELATED LITIGATION:

OVERVIEW. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are reported hereinafter as though having been commenced against Liggett (without regard to whether such cases were actually commenced against the Company or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into four categories: (i) smoking and health cases alleging personal injury brought on behalf of individual smokers ("Individual Actions"); (ii) smoking and health cases alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. In 1996 and 1997, Liggett incurred counsel fees and costs in connection with tobacco-related litigation in the amount of approximately \$3,500 and \$5,750, respectively. Certain fees and expenses were paid by others in the industry, but, this assistance terminated in 1997. In 1998, Liggett incurred counsel fees and costs totaling approximately \$7,828.

INDIVIDUAL ACTIONS. As of December 31, 1998, there were approximately 270 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, 89 are pending in Florida, 91 in New York, 29 in Massachusetts and 19 in Texas. The balance of the individual cases were pending in 21 states. There are four individual cases pending where Liggett is the only named defendant.

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

CLASS ACTIONS. As of December 31, 1998, 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. Two of these cases, FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL. and

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WALKER, ET AL. V. LIGGETT GROUP INC., ET AL., have been settled by the Company, subject to court approval. These two settlements are more fully discussed below under the "Settlements" section.

In October 1991, an action entitled BROIN, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Circuit Court of the Eleventh Judicial District in and for Dade County, Florida, was filed against Liggett and others. This case was brought by plaintiffs on behalf of all flight attendants that worked or are presently working for airlines based in the United States and who never regularly smoked cigarettes but allege that they have been damaged by involuntary exposure to ETS. In October 1997, the other major tobacco companies settled this matter, which settlement provides for a release of the Company and Liggett. In February 1998, the Circuit Court approved the settlement; however, an objector filed a Notice of Appeal of the settlement in the Third District Court of Appeal. (See "Subsequent Events" below.)

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 New York, Louisiana and Maryland have certified "addiction-as-injury" class actions that covered only citizens in those states. Two class actions pending in state court in Florida have also been certified one of which, the BROIN case, was settled in 1997. The CASTANO decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

Class certification motions are pending in a number of putative class actions. Class certification has been denied or reversed in 13 actions while classes remain certified in two cases in Florida and Maryland. A number of class certification decisions are on appeal.

GOVERNMENTAL ACTIONS. As of December 31, 1998, actions against Liggett and the Company were filed by each of the 50 states and certain territories. As more fully discussed below, Liggett and the Company have settled these actions. In addition, actions against Liggett and the Company have

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been filed by foreign countries and counties, municipalities and public hospitals. As of December 31, 1998, there were approximately 15 Governmental Actions pending against Liggett. In these proceedings, the governmental entities seek reimbursement for Medicaid and other health care expenditures allegedly caused by use of tobacco products. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

THIRD-PARTY PAYOR ACTIONS. As of December 31, 1998, 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 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. (See "Subsequent Events" below.)

SETTLEMENTS. In March 1996, the Company and Liggett entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. Under the CASTANO settlement agreement, upon final court approval of the settlement, the CASTANO class would be entitled to receive up to five percent of Liggett's pretax income (income before income taxes) each year (up to a maximum of \$50,000 per year) for the next 25 years, subject to certain reductions provided for in the agreement and a \$5,000 payment from Liggett if the Company or Liggett fail to consummate a merger or similar transaction with another non-settling tobacco company defendant within three years of the date of settlement. The Company and Liggett have the right to terminate the CASTANO settlement under certain circumstances. On March 14, 1996, the Company, the CASTANO Plaintiffs Legal Committee and the CASTANO plaintiffs entered into a letter agreement. According to the terms of the letter agreement, for the period ending nine months from the date of Final Approval (as defined in the letter), if granted, of the CASTANO settlement or, if earlier, the completion by the Company or Liggett of a combination with any defendant in CASTANO, except PM, the CASTANO plaintiffs and their counsel agree not to enter into any more favorable settlement agreement with any CASTANO defendant which would reduce the terms of the CASTANO settlement agreement. If the CASTANO plaintiffs or their counsel enter into any such settlement during this period, they shall pay the Company \$250,000 within 30 days of the more favorable agreement and offer the Company and Liggett the option to enter into a settlement on terms at least as favorable as those included in such other settlement. The letter agreement further provides that during the same time period, and if the CASTANO settlement agreement has not been earlier terminated by the Company in accordance with its terms, the Company and its affiliates will not enter into any business transaction with any third

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party which would cause the termination of the CASTANO settlement agreement. If the Company or its affiliates enter into any such transaction, then the CASTANO plaintiffs will be entitled to receive \$250,000 within 30 days from the transacting party. In May 1996, the CASTANO Plaintiffs Legal Committee filed a motion with the United States District Court for the Eastern District of Louisiana seeking preliminary approval of the CASTANO settlement. In September 1996, shortly after the class was decertified, the CASTANO plaintiffs withdrew the motion for approval of the CASTANO settlement.

In March 1996, March 1997 and March 1998, the Company and Liggett entered into settlements of tobacco-related litigation with the Attorneys General of 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.

On November 23, 1998, PM, B&W, R.J. Reynolds Tobacco Company ("RJR") and Lorillard Tobacco Company ("Lorillard") (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States. As described below, the Company and Liggett had previous settlements with a number of these Settling States and also had previously settled similar claims brought by Florida, Mississippi, Texas and Minnesota.

The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, to date, in 40 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"). 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

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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 nations" protection for both the Company and Liggett, the payments due these states by Liggett (other than Mississippi and Minnesota) have been eliminated. With respect to all non-economic obligations under the previous settlements, both the Company and Liggett are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In March 1997, Liggett, the Company and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class, and in May 1997, a similar mandatory class settlement agreement was filed in an action entitled WALKER, ET AL. V. LIGGETT GROUP INC., ET AL., United States District Court, Southern District of West Virginia. On July 2, 1998, Liggett, the Company and plaintiffs filed an amended class action settlement agreement in FLETCHER which agreement was preliminarily approved by the court on December 8, 1998. A hearing on final approval of the settlement is scheduled for April 27, 1999. Effectiveness of the mandatory settlement is conditioned on final court approval of the settlement. There can be no assurance as to whether, or when, such court approval will be obtained. Pursuant to the amended agreement, Liggett is required to pay to the class 7.5% of Liggett's pre-tax income each year for 25 years, with a minimum annual payment guarantee of \$1,000 over the term of the agreement. The amended agreement does not set forth a formula with respect to the distribution of settlement proceeds to the class. If the court issues a final order and judgment approving the settlement, such an order, the Company anticipates, would preclude further prosecution by class members of tobacco-related claims against both Liggett and the Company. Under the Full Faith and Credit Act, a final judgment entered in a nationwide class action

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pending in a state court has a preclusive effect against any class member with respect to the claims settled and released. As the class definition in FLETCHER encompasses all persons in the United States who could claim injury as a result of cigarette smoking or ETS and any third-party payor claimants, it is anticipated that, upon final order and judgment, all such persons and third-party payor claimants would be barred from further prosecution of tobacco-related claims against Liggett and the Company.

The WALKER court also granted preliminary approval and preliminary certification of the nationwide class; however, in August 1997, the court vacated its preliminary certification of the settlement class, which decision is currently on appeal. The WALKER court relied on the Supreme Court's decision in AMCHEM PRODUCTS INC. V. WINDSOR in reaching its decision to vacate preliminary certification of the class. In AMCHEM, the Supreme Court affirmed a decision of the Third Circuit vacating the certification of a settlement class that involved asbestos-exposure claims. The Supreme Court held that the proposed settlement class did not meet the requirements of Rule 23 of the Federal Rules of Civil Procedure for predominance of common issues and adequacy of representation. The Third Circuit had held that, although classes could be certified for settlement purposes, Rule 23's requirements had to be satisfied as if the case were going to be litigated. The Supreme Court agreed that the fairness and adequacy of the settlement are not pertinent to the predominance inquiry under Rule 23(b)(3), and thus, the proposed class must have sufficient unity so that absent class members can fairly be bound by decisions of class representatives.

After the AMCHEM opinion was issued by the Supreme Court in June 1997, objectors to Liggett's settlement in WALKER moved for decertification. Although Liggett's settlement in the WALKER action is a "limited fund" class action settlement proceeding under Rule 23(b)(1) and AMCHEM was a Rule 23 (b)(3) case, the court in the WALKER action, nonetheless, decertified the WALKER class. Applying AMCHEM to the WALKER case, the District Court, in a decision issued in August 1997, determined that while plaintiffs in WALKER have a common interest in "maximizing the limited fund available from the defendants," there remained "substantial conflicts among class members relating to distribution of the fund and other key concerns" that made class certification inappropriate.

The AMCHEM decision's ultimate affect on the viability of both the WALKER and FLETCHER settlements remains uncertain given the Fifth Circuit's recent ruling reaffirming a limited fund class action settlement in IN RE ASBESTOS LITIGATION ("AHEARN"). In June 1997, the Supreme Court remanded AHEARN to the Fifth Circuit for consideration in light of AMCHEM. On remand, the Fifth Circuit made two decisive distinctions between AMCHEM and AHEARN. First, the AHEARN class action proceeded under Rule 23(b)(1) while AMCHEM was a Rule 23(b)(3) case, and second, in AHEARN, there was no allocation or difference in award, according to nature or severity of injury, as there was in AMCHEM. The Fifth Circuit concluded that all members of the class and all class representatives share common interests and none of the uncommon questions abounding in AMCHEM exist. On June 22, 1998, the Supreme Court granted certiorari to review the Fifth Circuit decision.

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 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.

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TRIALS. In July 1998, trial commenced in the ENGLE, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., case, a class action pending in Miami Dade County, Florida, brought on behalf of all Florida residents allegedly injured by smoking. Plaintiffs seek compensatory and punitive damages ranging into the billions of dollars, as well as equitable relief including, but not limited to, a medical fund for future health care costs, attorneys' fees and court costs. The class consists of all Florida residents and citizens, and their survivors, who claim to have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine.

The current trial plan calls for the case to be tried in three "Phases". Phase One, which is currently underway, involves evidence concerning certain "common" class issues relating to the plaintiff class' causes of action. Entitlement to punitive damages will be decided at the end of Phase One, but no amount will be set at that time.

If plaintiffs prevail in Phase One, the first two stages of Phase Two will involve individual determinations of specific causation and other individual issues regarding entitlement to compensatory damages for the class representatives. Stage three of Phase Two will involve an assessment of the amount of punitive damages, if any, that individual class representatives will be awarded. Stage four of Phase Two will involve the setting of a percentage or ratio of punitive damages for absent class members, assuming entitlement was found at the end of Phase One.

Phase Three of the trial will be held before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

Additional cases are currently scheduled for trial during 1999, including two Third-Party Payor Actions brought by unions in Washington (September) and New York (September), and three Class Actions in Alabama (August), Wisconsin (September) and New York (November). Also, six Individual Actions are currently scheduled for trial during 1999. Trial dates, however, are subject to change.

OTHER RELATED MATTERS:

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

In March 1996, and in each of March, July, October and December 1997, the Company and/or Liggett received subpoenas from a Federal grand jury in connection with an investigation by the United States Department of Justice (the "DOJ Investigation") involving the industry's knowledge of: the health consequences of smoking cigarettes; the targeting of children by the industry; and the

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addictive nature of nicotine and the manipulation of nicotine by the industry. Liggett has responded to the March 1996, March 1997 and July 1997 subpoenas and is in the process of responding to the October and December 1997 subpoenas. The Company understands that the Eastern District Investigation and the DOJ Investigation essentially have been consolidated into one investigation conducted by the Department of Justice (the "DOJ"). The Company and Liggett are unable, at this time, to predict the outcome of this investigation.

In April 1998, the Company announced that Liggett had reached an agreement with the DOJ to cooperate in both the Eastern District Investigation and the DOJ Investigation. The agreement does not constitute an admission of any wrongful behavior by Liggett. The DOJ has not provided immunity to Liggett and has full discretion to act or refrain from acting with respect to Liggett in the investigation.

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

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

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

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

There are several other proceedings, lawsuits and claims pending against the Company 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.** On January 4, 1999, a federal judge in Seattle dismissed a Third-Party Payor Action brought by seven Blue Cross/Blue Shields against the tobacco industry. The court ruled that



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the insurance providers did not have standing to bring the lawsuit. However, on February 26, 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 Shields.

On February 10, 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 PM. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages.

On February 17, 1999, Liggett settled the IRON WORKERS LOCAL UNION NO. 17 INSURANCE FUND, ET AL. V. PHILIP MORRIS INC., ET AL. matter. This Third-Party Payor Action was brought on behalf of all health and welfare union funds in Ohio in order to recover monies allegedly expended to treat members' smoking-related illnesses. Liggett has no payment obligations under the settlement unless Liggett reaches a monetary settlement with any other health and welfare fund. On March 18, 1999, a defense verdict was rendered in this action.

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

On March 24, 1999 the Florida appeals court upheld the 1997 BROIN settlement involving the other major tobacco companies.

On March 30, 1999 a state court jury in Portland awarded \$80,311 in damages to the family of a deceased smoker who smoked Marlboro made by PM. The award includes \$79,500 in punitive damages.

LEGISLATION AND REGULATION:

In January 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.

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

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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 Court reversed the district court on appeal and on August 14, 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. 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, the Commonwealth of Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect; however, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

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

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

**OTHER MATTERS:**

In June 1993, the Company obtained expropriation and forced abandonment insurance coverage for its investment in its Ducat Place I real estate project in Moscow, Russia. Shortly thereafter, the Company submitted a Notice of Loss to the insurer, under and pursuant to the policy. The insurer denied the claim and, in July 1994, arbitration proceedings were commenced in the United Kingdom. In January 1997, the Company recognized a gain of \$4,125 in settlement of the dispute.

On or about March 13, 1997, a shareholder derivative suit was filed against New Valley, as a nominal defendant, its directors and the Company in the Delaware Chancery Court, by a shareholder of New Valley. The suit alleges that New Valley's purchase of the BML shares constituted a self-dealing transaction which involved the payment of excessive consideration by New Valley. The plaintiff seeks (i) a declaration that New Valley's directors breached their fiduciary duties, the Company aided and abetted such breaches and such parties are therefore liable to New Valley, and (ii) unspecified damages to be awarded to New Valley. The Company's time to respond to the complaint has not yet expired. The Company believes that the allegations are without merit. Although there can be no assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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On or about September 18, 1998, a lawsuit was commenced against the Company, New Valley, certain officers, directors and shareholders and others in the United States District Court, Southern District of Texas, Houston Division. The defendants have moved to dismiss the case. The court, in the interim, has stayed all discovery.

17. RELATED PARTY TRANSACTIONS

In 1995, the Company and New Valley entered into an expense sharing agreement whereby certain lease, legal and administrative expenses are allocated to the entity incurring the expense. Expense reimbursements amounted to \$502, \$375 and \$462 for the years ended December 31, 1998, 1997 and 1996, respectively.

An outside director of the Company is a stockholder of and serves as the chairman and treasurer of a registered broker-dealer that has performed services for the Company and its affiliates since before December 31, 1995. The broker-dealer received brokerage commissions and other income of approximately \$128, \$522 and \$317 from the Company and/or its affiliates during 1998, 1997 and 1996, respectively. The broker-dealer, in the ordinary course of its business, engages in brokerage activities with New Valley's broker-dealer subsidiary on customary terms. In connection with the acquisition of certain office buildings by New Valley on January 10, 1996, this director received a commission of \$220 from the seller.

Effective May 1, 1998, a former officer of the Company entered into a consulting agreement in which the Company will pay him a total of \$2,254 in stock or cash in quarterly installments over a period of 6 years. The Company recognized the expense during the second quarter of 1998.

In September 1998, New Valley made a one-year, \$950 loan to BGLS which bears interest at 14% per annum. At December 31, 1998, the loan and accrued interest thereon of \$983 were included in current liabilities. On December 18, 1996, New Valley loaned BGLS \$990 under a short-term promissory note due January 31, 1997 and bearing interest at 14%. On January 2, 1997, New Valley loaned BGLS an additional \$975 under another short-term promissory note due January 31, 1997 and bearing interest at 14%. Both loans including interest were repaid on January 31, 1997.

On March 7, 1997, a partnership controlled by the Chairman transferred to the Company the remaining 400,000 pledged shares of the Company's common stock with a market value of \$1,800 in final satisfaction of an obligation to make certain payments to the Company on account of a former executive's outstanding indebtedness of \$5,477 (deducted from equity).

On January 31, 1997, New Valley entered into a stock purchase agreement with BOL pursuant to which New Valley acquired 10,483 shares of BML common stock (99.1%) for a purchase price of \$55,000, consisting of \$21,500 in cash and a \$33,500 promissory note with an interest rate of 9%. The note was paid in full in 1997. (Refer to Note 5.)

On December 16, 1996, the Company entered into a Stock Option Agreement relating to 1,000,000 shares of the Company's common stock with the Consultant. In addition, the Company granted the Consultant options to purchase 500,000 shares in 1995 and in 1998. (Refer to Note 15.) During 1998, 1997 and 1996, the Consultant received consulting fees of \$480 per year from the Company and a subsidiary.

BROOKE GROUP LTD.  
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During 1996, the Company and BGLS entered into a court-approved Stipulation and Agreement (the "Settlement") with New Valley relating to the Company's and BGLS' application under the Federal Bankruptcy Code for reimbursement of legal fees and expenses incurred by them in connection with New Valley's bankruptcy reorganization proceedings. Pursuant to the Settlement, New Valley reimbursed the Company and BGLS \$655 for such legal fees and expenses. The terms of the Settlement were substantially similar to the terms of previous settlements between New Valley and other applicants who had sought reimbursement of reorganization-related legal fees and expenses.

18. SEGMENT INFORMATION

For the year ended December 31, 1998, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which changes the way the Company reports information about its operating segments. The Company's business segment is tobacco with reportable segments being geographic, i.e., the United States and Russia in 1998, 1997 and 1996.

	United States Tobacco -----	Russia Tobacco -----	Corporate and Other -----	Total -----
1998 -----				
Net sales	\$347,129	\$ 97,437	\$	\$444,566
Operating income.....	54,422	13,234	3,938	71,594
Identifiable assets.....	74,743	104,090	50,149	228,982
Depreciation and amortization.....	6,678	1,708	224	8,610
Capital expenditures.....	1,859	17,784	1,363	21,006
1997 -----				
Net sales .....	\$312,268	\$ 77,347		\$389,615
Operating income.....	3,688	8,642	\$(4,301)	8,029
Identifiable assets.....	68,475	46,222	11,760	126,457
Depreciation and amortization.....	7,025	783	327	8,135
Capital expenditures.....	2,462	17,680		20,142
1996 -----				
Net sales .....	\$401,062	\$ 54,160	5,134	\$460,356
Operating income (loss).....	6,753	(6,825)	(3,855)	(3,927)
Identifiable assets.....	97,677	72,296	7,704	177,677
Depreciation and amortization.....	7,969	520	330	8,819
Capital expenditures.....	4,319	29,860	62	34,241

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and the  
Stockholders of New Valley Corporation

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholder's equity and cash flows present fairly, in all material respects, the financial position of New Valley Corporation and its subsidiaries (the "Company") at December 31, 1998 and December 31, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Thinking Machines Corporation, a consolidated subsidiary, which statements reflect total assets of \$5,604,159 at December 31, 1997, and total revenues of \$350,234 for the year ended December 31, 1997. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Thinking Machines Corporation, is based solely on the report of the other auditors. We conducted our audits of the consolidated financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

As discussed in the Notes to the Consolidated Financial Statements, the investments and operations of the Company, and those of similar companies in the Russian Federation, have been significantly affected, and could continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Russian Federation.

/s/ PricewaterhouseCoopers LLP

Miami, Florida  
March 19, 1999

## NEW VALLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31,	
	1998	1997
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 16,444	\$ 11,606
Investment securities available for sale.....	37,567	51,993
Trading securities owned.....	8,984	49,988
Restricted assets.....	1,220	232
Receivable from clearing brokers.....	22,561	1,205
Other current assets.....	4,675	3,618
	-----	-----
Total current assets.....	91,451	118,642
	-----	-----
Investment in real estate, net.....	82,875	259,968
Furniture and equipment, net.....	10,444	12,194
Restricted assets.....	6,082	5,484
Long-term investments, net.....	9,226	27,224
Investment in joint venture.....	65,193	--
Other assets.....	7,451	17,879
	-----	-----
Total assets.....	\$ 272,722	\$ 441,391
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Margin loan payable.....	\$ 13,088	\$ 13,012
Current portion of notes payable and long-term obligations.....	2,745	760
Accounts payable and accrued liabilities.....	32,047	55,222
Prepetition claims and restructuring accruals.....	12,364	12,611
Income taxes.....	18,702	18,413
Securities sold, not yet purchased.....	4,635	25,610
	-----	-----
Total current liabilities.....	83,581	125,628
	-----	-----
Notes payable.....	54,801	176,314
Other long-term liabilities.....	23,450	11,210
Commitments and contingencies.....	--	--
Redeemable preferred shares.....	316,202	258,638
Stockholders' deficiency:		
Cumulative preferred shares; liquidation preference of \$69,769, dividends in arrears: 1998 - \$165,856; 1997 - \$139,412.....	279	279
Common Shares, \$.01 par value; 850,000,000 shares authorized; 9,577,624 shares outstanding.....	96	96
Additional paid-in capital.....	550,119	604,215
Accumulated deficit.....	(758,016)	(742,427)
Unearned compensation on stock options.....	(475)	(158)
Accumulated other comprehensive income.....	2,685	7,596
	-----	-----
Total stockholders' deficiency.....	(205,312)	(130,399)
	-----	-----
Total liabilities and stockholders' deficiency.....	\$ 272,722	\$ 441,391
	=====	=====

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues:			
Principal transactions, net.....	\$ 11,430	\$ 16,754	\$ 28,344
Commissions.....	28,284	16,727	17,755
Corporate finance fees.....	14,733	12,514	10,230
Gain on sale of investments, net.....	11,768	19,202	10,014
Loss in joint venture.....	(4,976)	--	--
Real estate leasing.....	20,577	27,067	23,559
Gain on sale of real estate.....	4,682	1,290	--
Computer sales and service.....	794	3,947	15,017
Interest and dividends.....	8,808	9,417	16,951
Other income.....	5,987	7,650	8,995
Total revenues.....	<u>102,087</u>	<u>114,568</u>	<u>130,865</u>
Costs and expenses:			
Selling, general and administrative expenses.....	110,375	119,205	140,399
Interest.....	13,939	16,988	17,760
Recovery of restructuring charges.....	--	--	(9,706)
Provision for loss on long-term investments .....	3,185	3,796	1,001
Total costs and expenses.....	<u>127,499</u>	<u>139,989</u>	<u>149,454</u>
Loss from continuing operations before income taxes and minority interests.....	(25,412)	(25,421)	(18,589)
Income tax provision.....	6	186	300
Minority interests in loss from continuing operations of consolidated subsidiaries.....	2,089	1,347	4,241
Loss from continuing operations.....	(23,329)	(24,260)	(14,648)
Discontinued operations (Note 22):			
Gain on disposal of discontinued operations.....	7,740	3,687	7,158
Income from discontinued operations.....	7,740	3,687	7,158
Net loss .....	(15,589)	(20,573)	(7,490)
Dividend requirements on preferred shares.....	(80,964)	(68,475)	(61,949)
Excess of carrying value of redeemable preferred shares over cost of shares purchased.....	--	--	4,279
Net loss applicable to Common Shares.....	<u>\$ (96,553)</u>	<u>\$ (89,048)</u>	<u>\$ (65,160)</u>

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Income (loss) per common share (Basic and Diluted):			
Continuing operations.....	\$(10.89)	\$(9.68)	\$(7.55)
Discontinued operations.....	.81	.38	.75
	-----	-----	-----
Net loss.....	\$(10.08)	\$(9.30)	\$(6.80)
	-----	-----	-----
Number of shares used in computation.....	9,577,624	9,577,624	9,577,624
	-----	-----	-----

See accompanying Notes to Consolidated Financial Statements



## NEW VALLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	CLASS B PREFERRED SHARES	COMMON SHARES	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	UNEARNED COMPENSATION ON STOCK OPTIONS	ACCUMULATED OTHER COMPREHENSIVE INCOME
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1995.....	\$ 279	\$ 1,916	\$679,058	\$(714,364)		\$2,650
Net loss.....				(7,490)		
Undeclared dividends and accretion on redeemable preferred shares.....			(41,123)			
Purchase of redeemable preferred shares....			4,279			
Effect of 1-for-20 reverse stock split.....		(1,820)	1,820			
Issuance of stock options.....			755		\$ (755)	
Compensation expense on stock option grants					24	
Unrealized gain on investment securities						2,407
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996.....	279	96	644,789	(721,854)	(731)	5,057
Net loss.....				(20,573)		
Undeclared dividends and accretion on redeemable preferred shares.....			(45,148)			
Unrealized gain on investment securities....						2,539
Compensation expense on stock option grants.					15	
Adjustment to unearned compensation on stock options.....			(558)		558	
Public sale of subsidiaries' common stock, net.....			5,132			
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997.....	279	96	604,215	(742,427)	(158)	7,596
Net loss.....				(15,589)		
Undeclared dividends and accretion on redeemable preferred shares.....			(54,520)			
Adjustment to unearned compensation on stock options.....			424		(424)	
Compensation expense on stock option grants.					107	
Unrealized loss on investment securities....						(4,911)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	\$ 279	\$ 96	\$550,119	\$(758,016)	\$ (475)	\$ 2,685
	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements

NEW VALLEY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net loss.....	\$ (15,589)	\$ (20,573)	\$ (7,490)
Adjustments to reconcile net loss to net cash used for operating activities:			
Income from discontinued operations.....	(7,740)	(3,687)	(7,158)
Depreciation and amortization.....	6,495	9,414	4,757
Loss in joint venture.....	4,976	--	--
Provision for loss on long-term investments.....	3,185	3,796	1,001
Gain on sales of real estate and liquidation of long-term investments.....	(9,452)	(1,290)	--
Reversal of restructuring accruals.....	--	--	(9,706)
Stock based compensation expense.....	3,151	2,934	384
Other.....	578	--	--
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Decrease (increase) in receivables and other assets....	19,376	4,474	(13,813)
Increase (decrease) in income taxes payable.....	396	170	(2,040)
(Decrease) increase in accounts payable and accrued liabilities.....	(27,073)	4,513	11,336
Net cash used for continuing operations.....	(21,697)	(249)	(22,699)
Net cash provided from discontinued operations.....	7,740	--	--
Net cash used for operating activities.....	(13,957)	(249)	(22,699)
Cash flows from investing activities:			
Sale or maturity of investment securities.....	22,888	45,472	160,088
Purchase of investment securities.....	(19,429)	(30,756)	(12,825)
Sale or liquidation of long-term investments.....	25,895	2,807	18,292
Purchase of long-term investments.....	(13,590)	(15,384)	(3,051)
Sale of real estate, net of closing costs.....	111,292	8,718	--
Purchase of and additions to real estate.....	(18,236)	(10,777)	(24,496)
Purchase of furniture and equipment.....	(583)	(3,478)	(5,240)
Payment of prepetition claims and restructuring accruals....	(1,061)	(828)	(8,160)
Payment for acquisitions, net of cash acquired.....	--	(20,014)	1,915
(Increase) decrease in restricted assets.....	(1,586)	3,130	29,159
Cash contributed to joint venture.....	(442)	--	--
Net proceeds from disposal of business.....	--	--	10,174
Other, net.....	(935)	--	--
Net cash provided from (used for) investing activities.....	104,213	(21,110)	165,856
Cash flows from financing activities:			
Payment of preferred dividends.....	--	--	(41,419)
Proceeds from participating loan.....	14,300	--	--
Purchase of redeemable preferred shares.....	--	--	(10,530)
Increase (decrease) in margin loan payable.....	76	13,012	(75,119)
Payment of long-term notes and other liabilities.....	(99,303)	(62,739)	(10,549)
Increase in long-term borrowings.....	--	19,993	--
Issuance of subsidiary stock.....	--	5,417	--
Other, net.....	(491)	--	--
Net cash used for financing activities.....	(85,418)	(24,317)	(137,617)
Net increase (decrease) in cash and cash equivalents.....	4,838	(45,676)	5,540
Cash and cash equivalents, beginning of year.....	11,606	57,282	51,742
Cash and cash equivalents, end of year.....	\$ 16,444	\$ 11,606	\$ 57,282

See accompanying Notes to Consolidated Financial Statements

## NEW VALLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Supplemental cash flow information: Cash paid during the year for:			
Interest.....	\$ 11,958	\$ 16,667	\$17,482
Income taxes.....	169	116	2,341
Detail of acquisitions:			
Fair value of assets acquired.....	\$ --	\$ 94,114	\$27,301
Liabilities assumed.....	--	74,100	16,701
Cash paid.....	--	20,014	10,600
Less cash acquired.....	--	--	(12,515)
Net cash paid for acquisition.....	\$ --	\$(20,014)	\$ 1,915)
Detail of contribution to joint venture:			
Fair value of assets contributed.....	\$ 97,107	\$ --	\$ --
Liabilities contributed.....	(37,380)	--	--
Capital contribution.....	(60,169)	--	--
Net cash contributed to joint venture.....	\$ (442)	\$ --	\$ --

See accompanying Notes to Consolidated Financial Statements

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

## 1. BASIS OF PRESENTATION

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of New Valley Corporation and its majority owned subsidiaries (the "Company"). The Company's investment in Western Realty Development LLC has been accounted for under the equity method. All significant intercompany transactions are eliminated in consolidation.

Certain amounts in the 1996 and 1997 financial statements have been reclassified to conform to the 1998 presentation.

## NATURE OF OPERATIONS

The Company and its subsidiaries are engaged in the investment banking and brokerage business, in the ownership and management of commercial real estate, and in the acquisition of operating companies. As discussed in Note 21, the investment banking and brokerage segment accounted for 65% and 49% of the Company's revenues and 24% and 39% of the Company's operating loss from continuing operations for the years ended December 31, 1998 and 1997, respectively. The Company's investment banking and brokerage segment provides its services principally for middle market and emerging growth companies through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals.

## PROPOSED RECAPITALIZATION PLAN

The Company intends to submit for approval of its stockholders at its 1999 annual meeting a proposed recapitalization of its capital stock (the "Recapitalization Plan"). Under the Recapitalization Plan, each of the Company's outstanding Class A Senior Preferred Shares would be reclassified and changed into 20 Common Shares and one Warrant to purchase Common Shares (the "Warrants"). Each of the Class B Preferred Shares would be reclassified and changed into one-third of a Common Share and five Warrants. The existing Common Shares would be reclassified and changed into one-tenth of a Common Share and three-tenths of a Warrant. The authorized number of Common Shares would be reduced from 850,000,000 to 100,000,000. The Warrants to be issued as part of the Recapitalization Plan would have an exercise price of \$12.50 per share subject to adjustment in certain circumstances and be exercisable for five years following the effective date of the Company's Registration Statement covering the underlying Common Shares. The Warrants would not be callable by the Company for a three-year period. Upon completion of the Recapitalization Plan, the Company will apply for listing of the Common Shares and Warrants on NASDAQ.

Completion of the Recapitalization Plan would be subject to, among other things, approval by the required holders of the various classes of the Company's shares, effectiveness of the Company's proxy statement and prospectus for the annual meeting, receipt of a fairness opinion and compliance with the Hart-Scott-Rodino Act.

Brooke Group Ltd. ("Brooke"), the Company's principal stockholder, has agreed to vote all of its shares in the Company in favor of the Recapitalization Plan. As a result of the Recapitalization Plan and assuming no warrant holder exercises its Warrants, Brooke will increase its ownership of the outstanding Common Shares of the Company from 42.3% to 55.1% and its total voting power from 42% to 55.1%.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

The Company believes the proposed Recapitalization Plan will simplify the current capital structure of the Company by replacing it with a single class of equity securities. The exchange of the Preferred Shares for Common Shares will eliminate dividend arrearages, thus increasing the net worth of the Company by approximately \$316,202 on a pro forma basis as of December 31, 1998. It will also remove the need to redeem the Class A Senior Preferred Shares in 2003. The resulting improvement in the net worth of the Company, along with a hoped for increase in the price of the Common Shares, should increase the likelihood of having the Common Shares quoted on NASDAQ. This, along with a more transparent capital structure, should increase the liquidity of the Company's securities, improve the valuation of the Common Shares and provide a currency for acquisitions and financings. Finally, the recapitalization will allow the voting rights of stockholders to properly reflect the economic interest of such stockholders.

## REORGANIZATION

On November 15, 1991, an involuntary petition under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") was commenced against the Company in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On March 31, 1993, the Company consented to the entry of an order for relief placing it under the protection of Chapter 11 of the Bankruptcy Code.

On November 1, 1994, the Bankruptcy Court entered an order confirming the First Amended Joint Chapter 11 Plan of Reorganization, as amended (the "Joint Plan"). The terms of the Joint Plan provided for, among other things, the sale of Western Union Financial Services Company, Inc. ("FSI"), a wholly-owned subsidiary of the Company, and certain other Company assets related to FSI's money transfer business, payment in cash of all allowed claims, payment of postpetition interest in the amount of \$178,000 to certain creditors, a \$50 per share cash dividend to the holders of the Company's Class A Senior Preferred Shares, a tender offer by the Company for up to 150,000 shares of the Class A Senior Preferred Shares, at a price of \$80 per share, and the reinstatement of all of the Company's equity interests.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

On November 15, 1994, pursuant to the Asset Purchase Agreement, dated as of October 20, 1994, as amended (the "Purchase Agreement"), by and between the Company and First Financial Management Corporation ("FFMC"), FFMC purchased all of the common stock of FSI and other assets relating to FSI's money transfer business for \$1,193,000 (the "Purchase Price"). The Purchase Price consisted of \$593,000 in cash, \$300,000 representing the assumption of the Western Union Pension Plan obligation, and \$300,000 paid on January 13, 1995 for certain intangible assets of FSI. The Purchase Agreement contained various terms and conditions, including the escrow of \$45,000 of the Purchase Price, a put option by the Company to sell to FFMC, and a call option by FFMC to purchase, Western Union Data Services Company, Inc., a wholly-owned subsidiary of the Company engaged in the messaging service business (the "Messaging Services Business"), for \$20,000, exercisable during the first quarter of 1996, and various services agreements between the Company and FFMC.

On January 18, 1995, the effective date of the Joint Plan, the Company paid approximately \$550,000 on account of allowed prepetition claims and emerged from bankruptcy. At December 31, 1998, the Company's remaining accruals totaled \$12,364 for unsettled prepetition claims and restructuring accruals (see Note 17). The Company's accounting policy is to evaluate the remaining restructuring accruals on a quarterly basis and adjust liabilities as claims are settled or dismissed by the Bankruptcy Court.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**REINCORPORATION AND REVERSE STOCK SPLIT.** On July 29, 1996, the Company completed its reincorporation from the State of New York to the State of Delaware and effected a one-for-twenty reverse stock split of the Company's Common Shares. In connection with the reverse stock split, all per share data have been restated to reflect retroactively the reverse stock split.

**CASH AND CASH EQUIVALENTS.** The Company considers all highly liquid financial instruments with an original maturity of less than three months to be cash equivalents.

**FAIR VALUE OF FINANCIAL INSTRUMENTS.** Investments in securities and securities sold, not yet purchased traded on a national securities exchange or listed on NASDAQ are valued at the last reported sales prices of the reporting period. Futures contracts are valued at their last reported sales price. Investments in securities, principally warrants, which have exercise or holding period restrictions, are valued at fair value as determined by the Company's management based on the intrinsic value of the warrants discounted for such restrictions. For cash and cash equivalents, restricted assets, receivable from clearing brokers and short-term loan, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of long-term debt, including current portion, is estimated based on current rates offered to the Company for debt of the same maturities. The fair value of the Company's redeemable preferred shares is based on their last reported sales price.

**INVESTMENT SECURITIES.** The Company classifies investments in debt and marketable equity securities as either trading, available for sale, or held to maturity. Trading securities are carried at fair value, with unrealized gains and losses included in income. Investments classified as available for sale are carried at fair value, with net unrealized gains and losses included as a separate component of stockholders' equity (deficiency). Debt securities classified as held to maturity are carried at amortized cost. Realized gains and losses are included in other income, except for those relating to the Company's broker-dealer subsidiary which are included in principal transactions revenues. The cost of securities sold is determined based on average cost.

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

**RESTRICTED ASSETS.** Restricted assets at December 31, 1998 consisted primarily of \$5,831 pledged as collateral for a \$5,000 letter of credit which is used as collateral for a long-term lease of commercial office space. Restricted assets at December 31, 1997 consisted primarily of \$5,484 pledged as collateral for the \$5,000 letter of credit.

**PROPERTY AND EQUIPMENT.** Shopping centers are depreciated over periods approximating 25 years, the estimated useful life, using the straight-line method. Office buildings were depreciated over periods approximating 40 years, the estimated useful life, using the straight-line method (see Note 7). Furniture and equipment (including equipment subject to capital leases) is depreciated over the estimated useful lives, using the straight-line method. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or the lease term, if shorter. The cost and the related accumulated depreciation are eliminated upon retirement or other disposition and any resulting gain or loss is reflected in operations.

**INCOME TAXES.** Under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", deferred taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes as well as tax credit carryforwards and loss carryforwards. These deferred taxes are measured by applying currently enacted tax rates. A valuation allowance reduces deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized.

**SECURITIES SOLD, NOT YET PURCHASED.** Securities sold, not yet purchased represent obligations of the Company to deliver a specified security at a contracted price and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions involve, to varying degrees, elements of market risk, as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount recognized in the consolidated balance sheet.

**REAL ESTATE LEASING REVENUES.** The real estate properties are being leased to tenants under operating leases. Base rental revenue is generally recognized on a straight-line basis over the term of the lease. The lease agreements for certain properties contain provisions which provide for reimbursement of real estate taxes and operating expenses over base year amounts, and in certain cases as fixed increases in rent. In addition, the lease agreements for certain tenants provide additional rentals based upon revenues in excess of base amounts, and such amounts are accrued as earned. The future minimum rents scheduled to be received on non-cancelable operating leases at December 31, 1998 are \$6,013, \$5,519, \$4,685, \$4,239 and \$3,662 for the years 1999, 2000, 2001, 2002 and 2003, respectively, and \$16,872 for subsequent years.

**BASIC INCOME (LOSS) PER COMMON SHARE.** Basic net income (loss) per common share is based on the weighted average number of Common Shares outstanding. Net income (loss) per common share represents net income (loss) after dividend requirements on redeemable and non-redeemable preferred shares (undeclared) and any adjustment for the difference between excess of carrying value of redeemable preferred shares over the cost of the shares purchased. Diluted net income (loss) per common share assuming full dilution is based on the weighted average number of Common Shares outstanding plus the additional common shares resulting from the conversion of convertible preferred shares and the exercise of stock options and warrants if such conversion was dilutive.

Options to purchase 330,000 common shares at \$.58 per share and 40,417 common shares issuable upon the conversion of Class B Preferred Shares were not included in the computation of diluted loss per share as the effect would have been anti-dilutive.

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

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings Per Share". SFAS No. 128 specifies new standards designed to improve the earnings per share ("EPS") information provided in financial statements by simplifying the existing computational guidelines, revising the disclosure requirements, and increasing the comparability of EPS data on an international basis. Prior years' EPS have been restated to conform with standards established by SFAS No. 128.

**RECOVERABILITY OF LONG-LIVED ASSETS.** An impairment loss is recognized whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Beginning in 1995 with the adoption of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally measured by discounting expected future cash flows at the rate the Company utilizes to evaluate potential investments. The Company estimates fair value based on the best information available making whatever estimates, judgments and projections are considered necessary.

**NEW ACCOUNTING PRONOUNCEMENTS.**

In June 1997, the FASB released SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements and is effective for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 130 did not have a material impact on the Company's financial statements.

For transactions entered into in fiscal years beginning after December 15, 1997, the Company adopted and is reporting in accordance with SOP 97-2, "Software Revenue Recognition". The adoption of SOP 97-2 did have a material impact on the Company's financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for the way that public business enterprises report information about operating segments. The Company has adopted SFAS No. 131 and has restated its financial statements accordingly.

**3. ACQUISITIONS AND DISPOSITIONS**

On May 31, 1995, the Company consummated its acquisition of Ladenburg, Thalmann & Co. Inc. ("Ladenburg"), a registered broker-dealer and investment bank, for \$25,750, net of cash acquired. The acquisition was treated as a purchase for financial reporting purposes and, accordingly, these consolidated financial statements include the operations of Ladenburg from the date of acquisition. The excess of the consideration paid over the estimated fair value of net assets acquired of \$1,342 has been recorded as goodwill to be amortized on a straight-line basis over 15 years.



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

On January 10 and January 11, 1996, the Company acquired four commercial office buildings (the "Office Buildings") and eight shopping centers (the "Shopping Centers") for an aggregate purchase price of \$183,900, consisting of \$23,900 in cash and \$160,000 in non-recourse mortgage financing provided by the sellers. In addition, the Company has capitalized approximately \$800 in costs related to the acquisitions. The Company paid \$11,400 in cash and executed four promissory notes aggregating \$100,000 for the Office Buildings. On September 28, 1998, the Company completed the sale to institutional investors of the Office Buildings for an aggregate purchase price of \$112,400 and recognized a gain of \$4,682 on the sale. The Company received approximately \$13,400 in cash from the transaction before closing adjustments and expenses. The Office Buildings were subject to approximately \$99,300 of mortgage financing which was retired at closing.

The following table presents unaudited pro forma results from continuing operations as if the sale of the Office Buildings had occurred on January 1, 1998 and January 1, 1997, respectively. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had this acquisition been consummated as of each respective date.

	Pro forma Year ended December 31, 1998 -----	Pro forma Year ended December 31, 1997 -----
Revenues.....	\$ 87,112 =====	\$ 99,996 =====
Loss from continuing operations.....	\$ (27,896) =====	\$ (23,925) =====
Loss from continuing operations applicable to common shares.....	\$(108,860) =====	\$ (92,400) =====
Loss from continuing operations per common share.....	\$ (11.37) =====	\$ (9.65) =====

The Shopping Centers were acquired for an aggregate purchase price of \$72,500, consisting of \$12,500 in cash and \$60,000 in eight promissory notes. In November 1997, the Company sold one of the Shopping Centers for \$5,400 and realized a gain of \$1,200.

On January 11, 1996, the Company provided a \$10,600 convertible bridge loan to finance Thinking Machines Corporation ("Thinking Machines"), a developer and marketer of data mining and knowledge discovery software and services. In February 1996, the bridge loan was converted into a controlling interest in a partnership which held approximately 61.4% of Thinking Machines' outstanding common shares. In December 1997, the Company acquired for \$3,150 additional shares in Thinking Machines pursuant to a rights offering by Thinking Machines to its existing stockholders which increased the Company's ownership to approximately 72.7% of the outstanding Thinking Machines shares. As a result of the rights offering, the Company recorded \$2,417 as additional paid-in-capital which represented its interest in the increase in Thinking Machines' stockholders' equity. In September 1998, the Company made a \$2,000 loan due December 31, 1999 to Thinking Machines and acquired warrants to purchase additional shares pursuant to a rights offering by Thinking Machines to its existing stockholders. In the first quarter of 1999, the Company lent Thinking Machines an additional \$1,250. The acquisition of Thinking Machines through the conversion of the bridge loan was accounted for as a purchase for financial reporting purposes, and accordingly, the operations of Thinking Machines subsequent to January 31, 1996 are included in the operations of the Company. The fair value of assets acquired, including goodwill of \$1,726, was \$27,301 and liabilities assumed totaled \$7,613. In addition, minority interests in the amount of \$9,088 were recognized at the time of acquisition. To date, no material revenues have been recognized by Thinking Machines with respect to the sale or licensing of such software and services. Thinking Machines is also subject to uncertainties relating to, without limitation, the development and marketing of computer products, including customer acceptance and required funding, technological changes, capitalization, and the ability to utilize and exploit its intellectual property and propriety software technology.

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

On January 31, 1997, the Company entered into a stock purchase agreement (the "Purchase Agreement") with Brooke (Overseas) Ltd. ("Brooke (Overseas)"), a wholly-owned subsidiary of Brooke Group Ltd. ("Brooke"), an affiliate of the Company, pursuant to which the Company acquired 10,483 shares (the "BML Shares") of the common stock of BrookeMil Ltd. ("BML") from Brooke (Overseas) for a purchase price of \$55,000, consisting of \$21,500 in cash and a \$33,500 9% promissory note of the Company (the "Note"). The BML Shares comprise 99.1% of the outstanding shares of BML, a real estate development company in Russia. The Note, which was collateralized by the BML Shares, was paid during 1997.

BML is developing a three-phase complex on 2.2 acres of land in downtown Moscow. In 1993, the first phase of the project, Ducat Place I, a 46,500 sq. ft. Class-A office building, was constructed and leased. On April 18, 1997, BML sold Ducat Place I to one of its tenants for approximately \$7,500, which purchase price had been reduced to reflect prepayments of rent. In 1997, BML completed construction of Ducat Place II, a 150,000 sq. ft. office building. Ducat Place II has been leased to a number of leading international companies. The development of the third phase, Ducat Place III, has been planned as a 450,000 sq. ft. mixed-use complex. The site of Ducat Place III, which is currently used by a subsidiary of Brooke (Overseas) as the site for a factory, is subject to a put option held by the Company. The option allows the Company to put this site back to Brooke (Overseas) and BGLS Inc., a subsidiary of Brooke, at the greater of the appraised fair value of the property at the date of exercise or \$13,600 during the period the subsidiary of Brooke (Overseas) operates the factory on such site.

In connection with the Purchase Agreement, certain specified liabilities of BML aggregating approximately \$40,000 remained as liabilities of BML after the purchase of the BML Shares by the Company. These liabilities included a \$20,400 loan to a Russian bank for the construction of Ducat Place II (the "Construction Loan"). In addition, the liabilities of BML at the time of purchase included approximately \$13,800 of rents and related payments prepaid by tenants of Ducat Place II for periods generally ranging from 15 to 18 months.

The fair value of the assets acquired, including goodwill of \$12,400 was \$95,500. The Company, through its interest in Western Realty, is amortizing the goodwill over a five year period.

In August 1997, BML refinanced all amounts due under the Construction Loan with borrowings under a new credit facility with another Russian bank. The new credit facility bears interest at 16% per year, matures no later than August 2002, with principal payments commencing after the first year, and is collateralized by a mortgage on Ducat Place II and guaranteed by the Company. At December 31, 1997, borrowings under the new credit facility totaled \$19,700.

#### 4. RUSSIAN REAL ESTATE JOINT VENTURES

##### WESTERN REALTY DEVELOPMENT LLC

In February 1998, the Company 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. In connection with the formation of Western Realty Ducat, the Company agreed, among other things, to contribute the real estate assets of BML, including Ducat Place II and the site for Ducat Place III, to Western Realty Ducat and Apollo agreed to contribute up to \$58,750, including the investment in Western Realty Repin discussed below. Through December 31, 1998, Apollo had funded \$32,364 of its investment in Western Realty Ducat.

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

The ownership and voting interests in Western Realty Ducat are held equally by Apollo and the Company. Apollo will be entitled to a preference on distributions of cash from Western Realty Ducat to the extent of its investment (\$40,000), together with a 15% annual rate of return, and the Company will then be entitled to a return of \$20,000 of BML-related expenses incurred and cash invested by the Company since March 1, 1997, together with a 15% annual rate of return; subsequent distributions will be made 70% to the Company and 30% to Apollo. Western Realty Ducat will be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and the Company. All material corporate transactions by Western Realty Ducat will generally require the unanimous consent of the Board of Managers. Accordingly, the Company has accounted for its non-controlling interest in Western Realty Ducat using the equity method of accounting. Through December 31, 1998, Apollo has funded \$32,364 of its investment in Western Realty Ducat.

The Company recorded its basis in the investment in the joint venture 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 the Company's proportionate interest in the underlying value of net assets of the joint venture. The Company recognizes losses incurred by Western Realty Ducat to the extent that cumulative earnings of Western Realty Ducat are not sufficient to satisfy Apollo's preferred return.

Western Realty Ducat will seek to make additional real estate and other investments in Russia. Western Realty Ducat has made a \$30,000 participating loan to, and payable out of a 30% profits interest in Western Tobacco Investments LLC ("WTI"), a company organized by Brooke (Overseas) which, among other things, holds the interests of Brooke (Overseas) in Liggett-Ducat Ltd. and the new factory being constructed by Liggett-Ducat Ltd. on the outskirts of Moscow. Western Realty Ducat has recognized as other income \$1,991, which represents 30% of WTI's net income for the period from April 28, 1998 (date of inception) to December 31, 1998.

Summarized financial information as of December 31, 1998 and for the period from February 20, 1998 (date of inception) to December 31, 1998 for Western Realty Ducat follows:

Current assets.....	\$	857
Participating loan receivable.....		31,991
Real estate, net.....		85,761
Furniture and fixtures, net.....		179
Noncurrent assets.....		631
Goodwill, net.....		7,636
Notes payable - current.....		5,299
Current liabilities.....		5,802
Notes payable.....		14,356
Long-term liabilities.....		756
Members' equity.....		100,842
Revenues.....		10,176
Costs and expenses.....		13,099
Other income.....		1,991
Income tax benefit.....		760
Net loss.....		(1,692)

WESTERN REALTY REPIN LLC

In June 1998, the Company and Apollo organized Western Realty Repin LLC ("Western Realty Repin") to make a \$25,000 participating loan (the "Repin Loan") to BML. The proceeds of the loan will be used by BML for the acquisition and preliminary development of two adjoining sites totaling 10.25 acres (the "Kremlin Sites") located in Moscow across the Moscow River from the Kremlin. BML, which is planning the development of a 1.1 million sq. ft. hotel, office, retail and residential complex on the Kremlin Sites, owned 94.6% of one site and 52% of the other site at December 31, 1998. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment (\$18,750), together with a 20% annual rate of return, and the Company will then be entitled to a return of its investment (\$6,250), together with a 20% annual rate of return; subsequent distributions will be made 50% to the Company and 50% to Apollo. Western Realty Repin will

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

be managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and the Company. All material corporate transactions by Western Realty Repin will generally require the unanimous consent of the Board of Managers.

Through December 31, 1998, Western Realty Repin has advanced \$19,067 under the Repin Loan to BML, of which \$14,300 was funded by Apollo and is classified in other long-term obligations on the consolidated balance sheet at December 31, 1998. The Repin Loan, which bears no fixed interest, is payable only out of 100% of the distributions, if made, by the entities owning the Kremlin Sites to BML. Such distributions shall be applied first to pay the principal of the Repin Loan and then as contingent participating interest on the Repin Loan. Any rights of payment on the Repin Loan are subordinate to the rights of all other creditors of BML. BML used a portion of the proceeds of the Repin Loan to repay the Company for certain expenditures on the Kremlin Sites previously incurred. The Repin Loan is due and payable upon the dissolution of BML and is collateralized by a pledge of the Company's shares of BML.

As of December 31, 1998, BML had invested \$18,013 in the Kremlin Sites and held \$252, in cash, which was restricted for future investment. In connection with the acquisition of its interest in one of the Kremlin Sites, BML has agreed with the City of Moscow to invest an additional \$6,000 in 1999 and \$22,000 in 2000 in the development of the property. BML funded \$4,800 of this amount in the first quarter of 1999.

The Company has accounted for the formation of Western Realty Repin as a financing by Apollo and a contribution of assets into a consolidated subsidiary by New Valley which is eliminated in consolidation. Based on the distribution terms contained in the Western Realty Repin LLC agreement, the 20% annual rate of return preference to be received by Apollo on funds advanced to Western Realty Repin is treated as interest cost in the consolidated statement of operations.

The development of Ducat Place III and the Kremlin Sites will require significant amounts of debt and other financing. The Company is actively pursuing various 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.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

## 5. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains included as a separate component of stockholders' equity (deficiency). The Company had net unrealized gains on investment securities available for sale of \$2,685 and \$7,596 at December 31, 1998 and 1997, respectively.

The components of investment securities available for sale are as follows:

	COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	FAIR VALUE
	----	-----	-----	-----
1998				
Marketable equity securities.....	\$34,882	\$ 1,856	\$ 2,877	\$33,861
Marketable warrants.....	--	3,706	--	3,706
	-----	-----	-----	-----
Investment securities.....	\$34,882	\$ 5,562	\$ 2,877	\$37,567
	=====	=====	=====	=====
1997				
Short-term investments.....	\$ 6,218	--	--	\$ 6,218
Marketable equity securities.....	34,494	\$ 7,492	\$ 2,101	39,885
Marketable warrants.....	--	4,939	--	4,939
Marketable debt securities .....	3,685	--	2,734	951
	-----	-----	-----	-----
Investment securities.....	\$ 44,397	\$ 12,431	\$ 4,835	\$ 51,993
	=====	=====	=====	=====

During 1998, the Company determined that an other than temporary impairment had occurred in marketable debt securities (face amount of \$14,900, cost of \$3,185) of a company that was in default at the time of purchase and is currently in default under its various debt obligations. The Company wrote down this investment to zero resulting in a \$3,185 charge to operations.

## INVESTMENT IN RJR NABISCO

The Company expensed \$100 in 1997 and \$11,724 in 1996 relating to its investment in the common stock of RJR Nabisco Holdings Corp. ("RJR Nabisco"). Pursuant to a December 31, 1995 agreement between the Company and Brooke whereby the Company agreed to reimburse Brooke and its subsidiaries for certain reasonable out-of-pocket expenses relating to RJR Nabisco, the Company paid Brooke and its subsidiaries a total of \$17 and \$2,370 in 1997 and 1996.

On February 29, 1996, the Company entered into a total return equity swap transaction (the "Swap") with an unaffiliated company (the "Counterparty") relating to 1,000,000 shares of RJR Nabisco common stock (reduced to 750,000 shares of RJR Nabisco common stock as of August 13, 1996). The Company entered into the Swap in order to be able to participate in any increase or decrease in the value of the RJR Nabisco common stock during the term of the Swap. The transaction was for a period of up to six months, unless extended by the parties, subject to earlier termination at the election of the Company, and provided for the Company to make a payment to the Counterparty of \$1,537 upon commencement of the Swap. At the termination of the transaction, if the price of the RJR Nabisco common stock during a specified period prior to such date (the "Final Price") exceeded \$34.42, the price of the RJR Nabisco common stock during a specified period following the commencement of the Swap (the "Initial Price"), the Counterparty was required to pay the Company an amount in cash equal to the amount of such appreciation with respect to the shares of RJR Nabisco.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

common stock subject to the Swap plus the value of any dividends with a record date occurring during the Swap period. If the Final Price was less than the Initial Price, then the Company was required to pay the Counterparty at the termination of the transaction an amount in cash equal to the amount of such decline with respect to the shares of RJR Nabisco common stock subject to the Swap, offset by the value of any dividends, provided that, with respect to approximately 225,000 shares of RJR Nabisco common stock, the Company was not required to pay any amount in excess of an approximate 25% decline in the value of the shares. The potential obligations of the Counterparty under the Swap were guaranteed by the Counterparty's parent, a large foreign bank, and the Company pledged certain collateral in respect of its potential obligations under the Swap and agreed to pledge additional collateral under certain conditions. The Company marked its obligation with respect to the Swap to fair value with unrealized gains or losses included in income. During the third quarter of 1996, the Swap was terminated in connection with the Company's reduction of its holdings of RJR Nabisco common stock, and the Company recognized a loss on the Swap of \$7,305 for the year ended December 31, 1996.

## 6. TRADING SECURITIES OWNED AND SECURITIES SOLD, NOT YET PURCHASED

The components of trading securities owned and securities sold, not yet purchased are as follows:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED
Common stock.....	\$ 4,243	\$ 4,395	\$ 16,208	\$ 4,513
Equity and index options....	870	240	5,290	17,494
Other.....	3,871	--	28,490	3,603
	-----	-----	-----	-----
	\$ 8,984	\$ 4,635	\$ 49,988	\$ 25,610
	=====	=====	=====	=====

## 7. INVESTMENT IN REAL ESTATE AND NOTES PAYABLE

The components of the Company's investment in real estate and the related non-recourse notes payable collateralized by such real estate at December 31, 1998 are as follows:

	RUSSIAN REAL ESTATE	SHOPPING CENTERS	TOTAL
	-----	-----	-----
Land	\$18,013	\$16,087	\$34,100
Buildings.....	912	52,959	53,871
	-----	-----	-----
Total.....	18,925	69,046	87,971
Less accumulated depreciation.....	--	(5,096)	(5,096)
	-----	-----	-----
Net investment in real estate.....	\$18,925	\$63,950	\$82,875
	=====	=====	=====
Notes payable.....	\$ --	\$54,801	\$54,801
Current portion of notes payable.....	--	--	--
	-----	-----	-----
Notes payable -- long-term portion.....	\$ --	\$54,801	\$54,801
	=====	=====	=====

At December 31, 1998, the Company's investment in real estate collateralized eight promissory notes aggregating \$54,801 due 2001 related to the Shopping Centers. Each Shopping Center note has a term of five years, requires no principal amortization, and bears interest payable monthly at the rate of 8% for the first two and one-half years and at the rate of 9% for the remainder of the term.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
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The components of the Company's investment in real estate and the related notes payable collateralized by such real estate at December 31, 1997 are as follows:

	U.S. OFFICE BUILDINGS	RUSSIAN REAL ESTATE	SHOPPING CENTERS	TOTAL
	-----	-----	-----	-----
Land	\$ 19,450	\$ 22,623	\$ 16,087	\$ 58,160
Buildings.....	92,332	66,688	51,430	210,450
	-----	-----	-----	-----
Total.....	111,782	89,311	67,517	268,610
Less accumulated depreciation.....	(4,616)	(879)	(3,147)	(8,642)
	-----	-----	-----	-----
Net investment in real estate.....	\$ 107,166	\$ 88,432	\$ 64,370	\$259,968
	=====	=====	=====	=====
Notes payable.....	\$ 99,302	\$ 20,078	\$ 54,801	\$174,181
Current portion of notes payable.....	336	424		760
	-----	-----	-----	-----
Notes payable - long-term portion.....	\$ 98,966	\$ 19,654	\$ 54,801	\$173,421
	=====	=====	=====	=====

At December 31, 1997, the Company's investment in real estate collateralized four promissory notes aggregating \$99,302 related to the Office Buildings and eight promissory notes aggregating \$54,801 related to the Shopping Centers.

In 1997, the Company sold one of the Shopping Centers for \$5,400 and realized a gain of \$1,200. In 1998, the Company sold its U.S. Office Buildings for \$112,400 and realized a gain of \$4,682.

## 8. LONG-TERM INVESTMENTS

Long-term investments consisted of investments in the following:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	-----	-----	-----	-----
Limited partnerships.....	\$ 9,226	\$12,282	\$ 27,224	\$ 33,329

The principal business of the limited partnerships is investing in investment securities. The estimated fair value of the limited partnerships was provided by the partnerships based on the indicated market values of the underlying investment portfolio. The Company is not required to make additional investments in limited partnerships as of December 31, 1998. The Company's investments in limited partnerships are illiquid, and the ultimate realization of these investments is subject to the performance of the underlying partnership and its management by the general partners. During 1997, the Company sold for an amount which approximated its \$2,000 cost an investment in a foreign corporation which owned an interest in a Russian bank. During 1997, the Company determined that an other than temporary impairment in the value of its investment in a joint venture had occurred and wrote down this investment to zero with a charge to operations of \$3,796.

In January 1997, the Company converted an investment in preferred stock made in 1995 into a majority equity interest in a small on-line directory assistance development stage company and, accordingly, began consolidating the results of this company. This long-term investment of \$1,001 was written off in 1996 due to continuing losses of this company. In May 1997, this development stage company completed an initial public offering and, as a result, the Company recorded \$2,715 as additional paid-in capital which represented its 50.1% ownership in this company's stockholders' equity after this offering.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

The Company recognized gains of \$4,652 on liquidations of investments of certain limited partnerships for the year ended December 31, 1998.

The Company's estimate of the fair value of its long-term investments are subject to judgment and are not necessarily indicative of the amounts that could be realized in the current market.

## 9. PENSIONS AND RETIREE BENEFITS

Ladenburg has a Profit Sharing Plan (the "Plan") for substantially all its employees. The Plan includes two features: profit sharing and a deferred compensation vehicle. Contributions to the profit sharing portion of the Plan are made by Ladenburg on a discretionary basis. The deferred compensation feature of the Plan enables non-salaried employees to invest up to 15% of their pre-tax annual compensation. For the year ended December 31, 1996, employer contributions to the Plan were approximately \$200, excluding those made under the deferred compensation feature described above. The Plan was inactive in 1997 and 1998.

The Company maintains 401(k) plans for substantially all employees, except those employees of Thinking Machines. These 401(k) plans allow eligible employees to invest a percentage of their pre-tax compensation. Ladenburg elected to contribute \$500 of matching contributions in 1997. The Company did not make discretionary contributions to these 401(k) plans in 1998 and 1996.

## 10. COMMITMENT AND CONTINGENCIES

## LEASES

The Company, Thinking Machines and Ladenburg are currently obligated under three noncancelable lease agreements for office space, expiring in May 2003, April 1999 and December 2015, respectively. The following is a schedule by fiscal year of future minimum rental payments required under the agreements that have noncancelable terms of one year or more at December 31, 1998:

1999.....	\$5,431
2000.....	5,163
2001.....	4,309
2002.....	4,115
2003 and thereafter.....	50,382
	-----
Total.....	\$69,400
	=====

Rental expense for operating leases during 1998, 1997 and 1996 was \$6,397, \$4,404 and \$3,914, respectively.

## LAWSUITS

On or about March 13, 1997, a shareholder derivative suit was filed against the Company, as a nominal defendant, its directors and Brooke in the Delaware Chancery Court, by a stockholder of the Company. The suit alleges that the Company's purchase of the BML Shares constituted a self-dealing transaction which involved the payment of excessive consideration by the Company. The plaintiff seeks (i) a declaration that the Company's directors breached their fiduciary duties, Brooke aided and abetted such breaches and such parties are therefore liable to the Company, and (ii) unspecified damages to be awarded to the Company. The Company's time to respond to the complaint has not yet expired. The Company believes that the allegations were without merit.



## NEW VALLEY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
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Although there can be no assurances, management is of the opinion, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

## RUSSIAN OPERATIONS

During 1998, the economy of the Russian Federation entered a period of economic instability. 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 operations of BML and Western Realty Ducat may be significantly affected by these factors for the foreseeable future.

Russian Taxation: Russian taxation is subject to varying interpretations and constant changes. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of BML and Western Realty Ducat may not coincide with that of management. As a result, transactions may be challenged by tax authorities and BML and Western Realty Ducat may be assessed additional taxes, penalties and interest, which can be significant.

Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations and from time to time potential exposures are identified. At any point in time a number of open matters may exist, however, management believes that adequate provision has been made for all material liabilities. Tax years remain open to review by the authorities for six years.

Year 2000: It is unclear whether the Russian government and other organizations who provide significant infrastructure services have addressed the Year 2000 Problem sufficiently to mitigate potential substantial disruption to these infrastructure services. The substantial disruption of these services would have an adverse affect on the operations of BML and Western Realty Ducat. Furthermore, the current financial crisis could affect the ability of the government and other organizations to fund Year 2000 compliance programs.

## 11. FEDERAL INCOME TAX

At December 31, 1998, the Company had \$102,061 of unrecognized net deferred tax assets, comprised primarily of net operating loss carryforwards, available to offset future taxable income for federal tax purposes. A valuation allowance has been provided against this deferred tax asset as it is presently deemed more likely than not that the benefit of the tax asset will not be utilized. The Company continues to evaluate the realizability of its deferred tax assets and its estimate is subject to change. The provision for income taxes, which represented the effect of the Alternative Minimum Tax and state income taxes, for the three years ended December 31, 1998, 1997 and 1996, does not bear a customary relationship with pre-tax accounting income from continuing operations principally as a consequence of the change in the valuation allowance relating to deferred tax assets. The provision for income taxes on continuing operations differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate (35%) to pretax income from continuing operations as a result of the following differences:

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

	1998	1997	1996
	----	----	----
Loss from continuing operations.....	\$ (23,323)	\$ (24,074)	\$(14,348)
	-----	-----	-----
(Credit) provision under statutory U.S. tax rates.....	(8,163)	(8,426)	(5,022)
Increase (decrease) in taxes resulting from:			
Nontaxable items.....	4,281	2,603	(224)
State taxes, net of Federal benefit.....	4	55	195
Foreign Taxes.....	--	108	--
Increase (decrease) in valuation reserve.....	3,884	5,846	5,351
	-----	-----	-----
Income tax provision.....	\$ 6	\$ 186	\$ 300
	=====	=====	=====

Income taxes associated with discontinued operations and extraordinary items have been shown net of the utilization of the net operating loss carryforward and the change in other deferred tax assets.

Deferred tax amounts are comprised of the following at December 31:

	1998	1997
	----	----
Deferred tax assets:		
Net operating loss carryforward:		
Restricted net operating loss.....	\$ 12,450	\$15,561
Unrestricted net operating loss.....	70,552	70,216
Other.....	21,718	17,209
	-----	-----
Total deferred tax assets.....	104,720	102,986
	-----	-----
Deferred tax liabilities:		
Other.....	(2,659)	(5,542)
	-----	-----
Total deferred tax liabilities.....	(2,659)	(5,542)
	-----	-----
Net deferred tax assets.....	102,061	97,444
Valuation allowance.....	(102,061)	(97,444)
	-----	-----
Net deferred taxes.....	\$ --	\$ --
	=====	=====

In December 1987, the Company consummated certain restructuring transactions that included certain changes in the ownership of the Company's stock. The Internal Revenue Code restricts the amount of future income that may be offset by losses and credits incurred prior to an ownership change. The Company's annual limitation on the use of its net operating losses is approximately \$7,700, computed by multiplying the "long-term tax exempt rate" at the time of change of ownership by the fair market value of the company's outstanding stock immediately before the ownership change. The limitation is cumulative; any unused limitation from one year may be added to the limitation of a following year. Operating losses incurred subsequent to an ownership change are generally not subject to such restrictions.

The Company's tax years from 1993 to 1995 are presently under audit with the Internal Revenue Service. The Company believes it has adequately reserved for any potential adjustments which may occur.

As of December 31, 1998, the Company had consolidated net operating loss carryforwards of approximately \$206,000 for tax purposes, which expire at various dates through 2008. Approximately \$31,000 net operating loss carryforwards constitute pre-change losses and \$175,000 of net operating losses were unrestricted.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

## 12. OTHER LONG-TERM LIABILITIES

The components of other long-term liabilities, excluding notes payable, are as follows:

	DECEMBER 31,			
	1998		1997	
	LONG-TERM PORTION	CURRENT PORTION	LONG-TERM PORTION	CURRENT PORTION
Retiree and disability obligations.....	\$ 4,715	\$ 500	\$ 3,638	\$ 2,000
Minority interests.....	2,699	--	6,112	--
Participating loan payable.....	15,795	--	--	--
Other long-term liabilities.....	241	--	1,460	--
Total other long-term liabilities.....	<u>\$ 23,450</u>	<u>\$ 500</u>	<u>\$ 11,210</u>	<u>\$ 2,000</u>

## 13. REDEEMABLE PREFERRED SHARES

At December 31, 1998 and 1997, the Company had authorized and outstanding 2,000,000 and 1,071,462, respectively, of its Class A Senior Preferred Shares. At December 31, 1998 and 1997, respectively, the carrying value of such shares amounted to \$316,202 and \$258,638, including undeclared dividends of \$219,068 and \$163,302, or \$204.46 and \$152.41 per share.

The holders of Class A Senior Preferred Shares are currently entitled to receive a quarterly dividend, as declared by the Board, payable at the rate of \$19.00 per annum. The Class A Senior Preferred Shares are mandatorily redeemable on January 1, 2003 at \$100 per share plus accrued dividends. The Class A Senior Preferred Shares were recorded at their market value (\$80 per share) at December 30, 1987, the date of issuance. The discount from the liquidation value is accreted, utilizing the interest method, as a charge to additional paid-in capital and an increase to the recorded value of the Class A Senior Preferred Shares, through the redemption date. As of December 31, 1998, the unamortized discount on the Class A Senior Preferred Shares was \$6,846.

In the event a required dividend or redemption is not made on the Class A Senior Preferred Shares, no dividends shall be paid or declared and no distribution made on any junior stock other than a dividend payable in junior stock. If at any time six quarterly dividends payable on the Class A Senior Preferred Shares shall be in arrears or such shares are not redeemed when required, the number of directors will be increased by two and the holders of the Class A Senior Preferred Shares, voting as a class, will have the right to elect two directors until full cumulative dividends shall have been paid or declared and set aside for payment. Such directors were designated pursuant to the Joint Plan in November 1994.

The Company declared and paid cash dividends on the Class A Senior Preferred Shares of \$40 per share in 1996. Undeclared dividends are accrued quarterly and such accrued and unpaid dividends shall accrue additional dividends in respect thereof compounded monthly at the rate of 19% per annum, both of which are included in the carrying amount of redeemable preferred shares, offset by a charge to additional paid-in capital.

During the first quarter of 1996, the Company repurchased 72,104 of its Class A Senior Preferred Shares for an aggregate consideration of \$10,530. The repurchase increased the Company's additional paid-in capital by \$4,279 based on the difference between the purchase price and the carrying values of the shares.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

On November 18, 1996, the Company granted to an executive officer and director of the Company 36,000 Class A Senior Preferred Shares (the "Award Shares"). The Award Shares are identical with all other Class A Senior Preferred Shares issued and outstanding as of July 1, 1996, including undeclared dividends of \$3,776 and declared dividends of \$1,080. The Award Shares vested one-sixth on July 1, 1997 and one-sixth on each of the five succeeding one-year anniversaries thereof through and including July 1, 2002. The Company recorded deferred compensation of \$5,436 representing the fair market value of the Award Shares on November 18, 1996 and \$3,020 of original issue discount representing the difference between the book value of the Award Shares on November 18, 1996 and their fair market value. The deferred compensation will be amortized over the vesting period and the original issue discount will be accreted, utilizing the interest method, through the redemption date, both through a charge to compensation expense. During 1998, 1997 and 1996, the Company recorded \$3,043, \$2,934 and \$359, respectively, in compensation expense related to the Award Shares and, at December 31, 1998 and 1997, the balance of the deferred compensation and the unamortized discount related to the Award Shares was \$5,721 and \$6,890, respectively.

For information on Class A Senior Preferred Shares owned by Brooke, see Note 18.

## 14. PREFERRED SHARES NOT SUBJECT TO REDEMPTION REQUIREMENTS

The holders of the Class B Preferred Shares, 12,000,000 shares authorized and 2,790,776 shares outstanding as of December 31, 1998 and 1997, are entitled to receive a quarterly dividend, as declared by the Board, at a rate of \$3.00 per annum. Undeclared dividends are accrued quarterly at a rate of 12% per annum, and such accrued and unpaid dividends shall accrue additional dividends in respect thereof, compounded monthly at the rate of 12% per annum.

Each Class B Preferred Share is convertible at the option of the holder into .41667 Common Shares based on a \$25 liquidation value and a conversion price of \$60 per Common Share.

At the option of the Company, the Class B Preferred Shares are redeemable in the event that the closing price of the Common Shares equals or exceeds 140% of the conversion price at a specified time prior to the redemption. If redeemed by New Valley, the redemption price would equal \$25 per share plus accrued dividends.

In the event a required dividend is not paid on the Class B Preferred Shares, no dividends shall be paid or declared and no distribution made on any junior stock other than a dividend payable in junior stock. If at any time six quarterly dividends on the Class B Preferred Shares are in arrears, the number of directors will be increased by two, and the holders of Class B Preferred Shares and any other classes of preferred shares similarly entitled to vote for the election of two additional directors, voting together as a class, will have the right to elect two directors to serve until full cumulative dividends shall have been paid or declared and set aside for payment. Such directors were designated pursuant to the Joint Plan in November 1994.

No dividends on the Class B Preferred Shares have been declared since the fourth quarter of 1988. The undeclared dividends, as adjusted for conversions of Class B Preferred Shares into Common Shares, cumulatively amounted to \$165,856 and \$139,412 at December 31, 1998 and 1997, respectively. These undeclared dividends represent \$59.43 and \$49.95 per share as of the end of each period. No accrual was recorded for such undeclared dividends as the Class B Preferred Shares are not mandatorily redeemable.

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

## 15. COMMON SHARES

On November 18, 1996, the Company granted an executive officer and director of the Company nonqualified options to purchase 330,000 Common Shares at a price of \$.58 per share and 97,000 Class B Preferred Shares at a price of \$1.85 per share. These options may be exercised on or prior to July 1, 2006 and vest one-sixth on July 1, 1997 and one-sixth on each of the five succeeding anniversaries thereof through and including July 1, 2002. The Company recognized compensation expense of \$108 in 1998, \$15 in 1997 and \$24 in 1996 from these option grants and recorded deferred compensation of \$475 and \$158 representing the intrinsic value of these options at December 31, 1998 and December 31, 1997, respectively.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock options. In 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation", which, if fully adopted, changes the methods of recognition of cost on certain stock options. Had compensation cost for the nonqualified stock options been determined based upon the fair value at the grant date consistent with SFAS No. 123, the Company's net loss in 1998 and 1997 would have been increased by \$316 and by \$33 in 1996. The fair value of the nonqualified stock options was estimated at \$1,774 using the Black-Scholes option-pricing model with the following assumptions: volatility of 171% for the Class B Preferred Shares and 101% for the Common Shares, a risk free interest rate of 6.2%, an expected life of 10 years, and no expected dividends or forfeiture.

## 16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities is as follows:

	DECEMBER 31,	
	----- 1998 -----	----- 1997 -----
Accounts payable and accrued liabilities:		
Accrued compensation.....	\$ 9,753	\$11,202
Deferred rent.....	4,739	4,560
Unearned revenues.....	79	10,163
Taxes (property and miscellaneous).....	7,037	9,429
Accrued expenses and other liabilities.....	10,439	19,868
	-----	-----
Total.....	\$32,047	\$55,222
	=====	=====

## 17. PREPETITION CLAIMS UNDER CHAPTER 11 AND RESTRUCTURING ACCRUALS

On January 18, 1995, approximately \$550,000 of the approximately \$620,000 of prepetition claims were paid pursuant to the Joint Plan. Another \$57,000 of prepetition claims and restructuring accruals have been settled and paid or adjusted since January 18, 1995. The remaining prepetition claims may be subject to future adjustments depending on pending discussions with the various parties and the decisions of the Bankruptcy Court.

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

	DECEMBER 31,	
	1998	1997
	----	----
Restructuring accruals(a).....	\$ 8,085	\$ 8,196
Money transfer payable(b).....	4,279	4,415
	-----	-----
Total.....	<u>\$12,364</u>	<u>\$12,611</u>
	=====	=====

(a) Restructuring accruals at December 31, 1998 consisted of \$6,771 of disputed claims, primarily related to leases and former employee benefits, and \$1,178 of other restructuring accruals. In 1996, the Company reversed \$9,706 of prior year restructuring accruals as a result of settlements on certain of its prepetition claims and vacated real estate lease obligations.

(b) Represents unclaimed money transfers issued by the Company prior to January 1, 1990. The Company is currently in litigation in Bankruptcy Court seeking a determination that these monies are not an obligation of the Company. There can be no assurance as to the outcome of the litigation.

#### 18. RELATED PARTY TRANSACTIONS

At December 31, 1998, Brooke, a company under the control of Bennett S. LeBow, Chairman of the Company's Board of Directors, held 3,989,710 Common Shares (approximately 41.7% of such class), 618,326 Class A Senior Preferred Shares (approximately 57.7% of such class), and 250,885 Class B Preferred Shares (approximately 8.9% of such class) which represented in the aggregate 42.1% of all voting power. Several of the other officers and directors of the Company are also affiliated with Brooke. In 1995, the Company signed an expense sharing agreement with Brooke pursuant to which certain lease, legal and administrative expenses are allocated to the entity incurring the expense. The Company expensed approximately \$502, \$312 and \$462 under this agreement in 1998, 1997, and 1996, respectively.

The Joint Plan imposes a number of restrictions on transactions between the Company and certain affiliates of the Company, including Brooke.

On December 18, 1996, the Company loaned BGLS Inc. ("BGLS"), a wholly-owned subsidiary of Brooke, \$990 under a short-term promissory note due January 31, 1997 and bearing interest at 14%. On January 2, 1997, the Company loaned BGLS an additional \$975 under another short-term promissory note due January 31, 1997 and bearing interest at 14%. Both loans including interest were repaid on January 31, 1997. In September 1998, the Company made a one-year \$950,000 loan to BGLS, which bears interest at 14% per annum. At December 31, 1998, the loan and accrued interest thereon of \$984 was included in other current assets.

During 1998, one director of the Company and during 1996 and 1997, two directors of the Company, were affiliated with law firms that rendered legal services to the Company. The Company paid these firms \$516, \$568 and \$4,141 during 1998, 1997 and 1996, respectively, for legal services. An executive officer and director of the Company is a shareholder and registered representative in a broker-dealer to which the Company paid \$128, \$522 and \$317 in 1998, 1997 and 1996, respectively, in brokerage commissions and other income, and is also a shareholder in an insurance company that received ordinary and customary insurance commissions from the Company and its affiliates of \$128, \$133 and \$136 in 1998, 1997 and 1996, respectively. The broker-dealer, in the ordinary course of its business, engages in brokerage activities with Ladenburg on customary terms.

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

During 1996, the Company entered into a court-approved Stipulation and Agreement (the "Settlement") with Brooke and BGLS relating to Brooke's and BGLS's application under the Federal Bankruptcy code for reimbursement of legal fees and expenses incurred by them in connection with the Company's bankruptcy reorganization proceedings. Pursuant to the Settlement, the Company reimbursed Brooke and BGLS \$655 for such legal fees and expenses. The terms of the Settlement were substantially similar to the terms of previous settlements between the Company and other applicants who had sought reimbursement of reorganization-related legal fees and expenses.

In connection with the acquisition of the Office Buildings by the Company in 1996, a director of Brooke received a commission of \$220 from the seller.

See Note 3 for information concerning the purchase by the Company on January 31, 1997 of BML from a subsidiary of Brooke.

19. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

LADENBURG - As a nonclearing broker, Ladenburg's transactions are cleared by other brokers and dealers in securities pursuant to clearance agreements. Although Ladenburg clears its customers through other brokers and dealers in securities, Ladenburg is exposed to off-balance-sheet risk in the event that customers or other parties fail to satisfy their obligations. In accordance with industry practice, agency securities transactions are recorded on a settlement-date basis. Should a customer fail to deliver cash or securities as agreed, Ladenburg may be required to purchase or sell securities at unfavorable market prices.

The clearing operations for Ladenburg's securities transactions are provided by several brokers. At December 31, 1998, substantially all of the securities owned and the amounts due from brokers reflected in the consolidated balance sheet are positions held at and amounts due from one clearing broker. Ladenburg is subject to credit risk should this broker be unable to fulfill its obligations.

In the normal course of its business, Ladenburg enters into transactions in financial instruments with off-balance-sheet risk. These financial instruments consist of financial futures contracts and written index option contracts. Financial futures contracts provide for the delayed delivery of a financial instrument with the seller agreeing to make delivery at a specified future date, at a specified price. These futures contracts involve elements of market risk in excess of the amounts recognized in the consolidated statement of financial condition. Risk arises from changes in the values of the underlying financial instruments or indices. At December 31, 1998, Ladenburg had commitments to purchase and sell financial instruments under futures contracts of \$3,113 and \$1,378, respectively.

Equity index options give the holder the right to buy or sell a specified number of units of a stock market index, at a specified price, within a specified time from the seller ("writer") of the option and are settled in cash. Ladenburg generally enters into these option contracts in order to reduce its exposure to market risk on securities owned. Risk arises from the potential inability of the counterparties to perform under the terms of the contracts and from changes in the value of a stock market index. As a writer of options, Ladenburg receives a premium in exchange for bearing the risk of unfavorable changes in the price of the securities underlying the option. Financial instruments have the following notional amounts as December 31, 1998:

	LONG	SHORT
	-----	-----
Equity and index options.....	\$24,555	\$3,755
Financial futures contracts.....	2,954	1,532

## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

The table below discloses the fair value at December 31, 1998 of these commitments, as well as the average fair value during the year ended December 31, 1998, based on monthly observations.

	DECEMBER 31, 1998		AVERAGE	
	LONG	SHORT	LONG	SHORT
Equity and index options.....	\$ 870	\$ 241	\$ 5,385	\$12,469
Financial futures contracts.....	3,113	1,378	23,261	2,098

For the years ended December 31, 1998, 1997, and 1996, the net loss arising from options and futures contracts included in net gain on principal transactions was \$3,661, \$2,399, and \$6,012, respectively. The Company's accounting policy related to derivatives is to value these instruments, including financial futures contracts and written index option contracts, at the last reported sales price. The measurement of market risk is meaningful only when related and offsetting transactions are taken into consideration.

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments have been determined by the Company using available market information and appropriate valuation methodologies described below. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash and cash equivalents.....	\$ 16,444	\$ 16,444	\$ 11,606	\$ 11,606
Investments available for sale.....	37,567	37,567	51,993	51,993
Trading securities owned.....	8,984	8,984	49,988	49,988
Restricted assets.....	7,302	7,302	5,716	5,716
Receivable from clearing brokers....	22,561	22,561	1,205	1,205
Long-term investments (Note 8).....	9,226	12,282	27,224	33,329
Financial liabilities:				
Margin loans payable.....	13,088	13,088	13,012	13,012
Notes payable.....	57,546	57,546	177,074	177,074
Redeemable preferred shares.....	316,202	107,146	258,638	102,860



## NEW VALLEY CORPORATION AND SUBSIDIARIES

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

## 21. BUSINESS SEGMENT INFORMATION

The following table presents certain financial information of the Company's continuing operations before taxes and minority interests as of and for the years ended December 31, 1998, 1997 and 1996:

	BROKER- DEALER	REAL ESTATE	COMPUTER SOFTWARE	CORPORATE AND OTHER	TOTAL
	-----	-----	-----	-----	-----
1998					
Revenues.....	\$ 66,569	\$ 25,259	\$ 794	\$ 9,465	\$102,087
Operating loss.....	(6,175)	(192)	(6,130)	(12,915)	(25,412)
Identifiable assets.....	53,160	87,670	1,241	130,651	272,722
Depreciation and amortization.....	1,125	4,373	693	304	6,495
Capital expenditures.....	428	18,270	83	38	18,819
1997					
Revenues.....	\$ 56,197	\$ 27,067	\$ 3,947	\$ 27,357	\$114,568
Operating (loss) income.....	(9,958)	(7,827)	(8,156)	520	(25,421)
Identifiable assets.....	77,511	276,770	5,604	81,506	441,391
Depreciation and amortization.....	1,035	7,469	815	95	9,414
Capital expenditures.....	1,627	10,777	466	1,385	14,255
1996					
Revenues.....	\$71,960	\$ 23,559	\$ 15,017	\$20,329	\$130,865
Operating loss.....	(345)	(745)	(15,082)	(2,417)	(18,589)
Identifiable assts.....	76,302	182,645	11,686	135,787	406,540
Depreciation and Amortization.....	600	3,622	532	3	4,757
Capital expenditures.....	3,644	183,193	1,596	18	188,451

## 22. DISCONTINUED OPERATIONS

During the fourth quarter of 1996, the Company received \$5,774 in cash and \$600 in a promissory note (paid in 1997) in settlement of a receivable claim originally filed by the Company's former Western Union telegraph business. In addition, the Company reduced its liability related to certain Western Union retirees by \$784. The Company recorded the gain on settlement of \$6,374 and liability reduction of \$784 as gain on disposal of discontinued operations. During 1997, the Company recorded a gain on disposal of discontinued operations of \$3,687 related to reversals in estimates of certain pre-petition claims under Chapter 11 and restructuring accruals which resulted from the Company's former money transfer business. The Company recorded a gain on disposal of discontinued operations of \$7,740 in 1998 related to the settlement of a lawsuit originally initiated by the Western Union telegraph business.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
Thinking Machines Corporation:

We have audited the accompanying consolidated balance sheets of Thinking Machines Corporation and subsidiaries as of December 31, 1997, and the related consolidated statements of operations, stockholders' investment and cash flows for the year ended December 31, 1997 and for the period from February 8, 1996 (inception) to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thinking Machines Corporation and subsidiaries as of December 31, 1997, and the results of their operations and their cash flows for the year ended December 31, 1997 and the period from February 8, 1996 (inception) to December 31, 1996, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has been unable to generate significant revenue and has incurred recurring losses from its operations. These factors, among others, as described in Note 1, create substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ARTHUR ANDERSEN LLP

Boston, Massachusetts  
January 23, 1998

## EXHIBIT 99.1

## MATERIAL LEGAL PROCEEDINGS

## I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

1. 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.
2. 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.
3. 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).
4. 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).
5. 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.
6. 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.
7. ST. LOUIS COUNTY, 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.

8. 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.
9. 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.
10. 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.
11. 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.
12. 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.
13. 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.
14. 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.
15. 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.

## II. THIRD-PARTY PAYOR ACTIONS

1. 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.
2. 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.
3. 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.
4. 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.
5. FIBREBOARD CORPORATION, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 791919-8, Superior Court of California, County of Alameda (case filed 11/10/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.
6. 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.
7. 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.

8. 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.
9. 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.
10. 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.
11. 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.
12. 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.
13. 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.

14. 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.
15. 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.
16. UA LOCAL NO. 159 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL, Case No. 796938-8, Superior Court of California, County of Alameda (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.
17. 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.
18. 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.
19. 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.
20. 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.

21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. 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.
27. 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.



28. 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.
29. TEAMSTERS UNION NO. 142, ET AL. V. PHILIP MORRIS, ET AL., Case No. 71C019709CP01281, USDC, Northern District of Indiana (case filed 9/15/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Union Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.
30. 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.
31. 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.
32. 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.
33. OPERATING ENGINEERS LOCAL 324 HEALTH CARE FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 598--CV-60020, Circuit Court of Michigan, Wayne County, (case filed 3/9/98). 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.
34. 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.

35. 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.
36. 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.
37. 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.
38. 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.
39. 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.
40. 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.
41. 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.

42. 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.
43. 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.
44. 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.
45. 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.
46. 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.
47. 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.
48. 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.
49. 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.

50. 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.
51. 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.
52. 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.
53. 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 benefaciaries suffering from smoking-related illnesses.
54. 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.
55. 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.

56. 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.
57. 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.
58. 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.
59. IRON WORKERS LOCAL UNION NO.17 INSURANCE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 1:97CV 1422, USDC, Northern District of Ohio, Eastern Division (case filed 5/20/97). 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.
60. 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.
61. 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.
62. 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.

63. 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.
64. 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.
65. 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.
66. 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.
67. 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.
68. 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.
69. 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

1. 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.
2. 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.
3. 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.
4. 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.
5. PECHANGA BAND OF LUISENO MISSION INDIANS, ET AL V. PHILIP MORRIS, INC., 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.
6. 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.
7. 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.
8. 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. An appeal is currently pending.

9. 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, and is currently on trial.
10. 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.
11. 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.
12. 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.
13. 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.
14. 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.
15. EMIG, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-1121-MLB, USDC, District of Kansas (case filed 4/11/97). This "addiction-as-injury" putative class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Kansas.
16. CASTANO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 95-30725, USDC, Eastern District of Louisiana (case filed 3/29/94). This case was settled by Liggett and Brooke on March 12, 1996. Nationwide "addiction-as-injury" class action was decertified by the Fifth Circuit in May 1996.



17. 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.
18. YOUNG, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:97-CV-03851, Civil District Court, State of Louisiana, Orleans Parish (case filed 11/12/97). This personal injury class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Louisiana.
19. 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.
20. 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.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.

26. 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.
27. 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.
28. 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.
29. 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.
30. 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.
31. 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.
32. 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.
33. 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.
34. CHAMBERLAIN, ET AL. V. THE AMERICAN TOBACCO COMPANY, 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.

35. 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.
36. 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.
37. 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.
38. 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.
39. 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.
40. 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.
41. 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.

42. 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.
43. 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.
44. 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.
45. 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.
46. 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 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.
47. 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.
48. 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.
49. FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., 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. A hearing on final approval is scheduled for April 27, 1999.

## IV. INDIVIDUAL SMOKER CASES

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. 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.
11. VAN FOSSEN V. THE AMERICAN TOBACCO COMPANY, ET AL, Case No. CIV S-98-1694, USDC, Eastern District of the State of California (case filed 9/3/98). One individual suing.
12. 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.
13. 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.
14. 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.
15. 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.

16. 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.
17. 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.
18. 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.
19. 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.
20. 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.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. 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.
27. 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.

28. 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.
29. 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.
30. 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.
31. 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.
32. 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.
33. 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.
34. 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.
35. 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.
36. 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.
37. 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.
38. FERGUSON, ET VIR. V. LIGGETT GROUP INC., ET AL., Case No.  
97-32331CICI, Circuit Court of the 7th Judicial Circuit, State of  
Florida, Volusia County (case filed 10/10/97). Two individuals suing.

39. 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.
40. 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.
41. 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.
42. GATTO, ET UX. V. R.J. REYNOLDS, ET AL., Case No. 97-2680-CA, Circuit Court, State of Florida, Citrus County (case filed 10/14/97). Two individuals suing.
43. 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.
44. GONZALEZ V. LIGGETT GROUP INC., ET AL., Case No. 96-00009-Div. D, Circuit Court, State of Florida, Hillsborough County (case filed 1/2/96). Two individuals suing.
45. 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.
46. 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.
47. 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.
48. 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.
49. 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.
50. 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.



51. 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.
52. 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.
53. 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).
54. 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.
55. 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.
56. 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.
57. 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.
58. 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.
59. 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.
60. 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.
61. LEHMAN V. LIGGETT GROUP INC., ET AL., Case No. 97-31346 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). One individual suing.
62. 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.

63. 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.
64. 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.
65. 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.
66. 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.
67. 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.
68. 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.
69. 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.
70. 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.
71. 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.
72. 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.
73. 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.

74. 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.
75. 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.
76. 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.
77. 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.
78. 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.
79. 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.
80. 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.
81. 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.
82. 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.
83. 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.
84. 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.
85. 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.

86. 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.
87. 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.
88. 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.
89. 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.
90. 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.
91. 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.
92. 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.
93. 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.
94. 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.
95. 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.
96. 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.
97. 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.

98. 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.
99. 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.
100. 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.
101. 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.
102. 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.
103. 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.
104. 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.
105. 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.
106. 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.
107. 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.
108. 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.
109. 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.
110. KENNON V. BROWN & WILLIAMSON, ET AL. Case No. 98-586, USDC, Middle District of Louisiana (case filed 12/5/97). One individual suing.
111. 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.

112. 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.
113. 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.
114. 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.
115. 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.
116. BRANDANO V. THE TOBACCO INSTITUTE, INC., ET AL., Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.
117. 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.
118. CARMICHAEL-FOLEY V. LOWNEY, ET AL., Case No. 98-3694, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.
119. 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.
120. 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.
121. 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.
122. 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.
123. 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.
124. 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.
125. 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.
126. 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.
127. 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.
128. 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.
129. 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.
130. 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.
131. 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.
132. 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.
133. 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.
134. WATT V. LIGGETT GROUP INC., ET AL., Case No. 98-5499, USDC, District of Massachusetts (case filed 8/18/98). One individual suing.
135. 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.
136. 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.
137. 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.
138. 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.
139. 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.

140. 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.
141. 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.
142. 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.
143. 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.
144. 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.
145. 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.
146. 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.
147. 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.
148. 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.
149. 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.
150. 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.
151. 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.
152. 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.



153. 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.
154. 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.
155. 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.
156. 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.
157. 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.
158. 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.
159. 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.
160. 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.
161. 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.
162. 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.
163. 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.
164. 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.
165. 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.
166. 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.

167. 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.
168. 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.
169. 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.
170. 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.
171. 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.
172. 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.
173. 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.
174. 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.
175. 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.
176. 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.
177. 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.
178. 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.
179. 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.
180. 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.

181. 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.
182. 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.
183. 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.
184. 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.
185. 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.
186. 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.
187. 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.
188. 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.
189. 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.
190. 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.
191. 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.
192. 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.
193. 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.
194. 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.

195. 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.
196. 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.
197. 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.
198. 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.
199. 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.
200. 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.
201. 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.
202. 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.
203. 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.
204. 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.
205. 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.
206. 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.
207. 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.
208. 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.

209. 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.
210. 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.
211. 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.
212. 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.
213. 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.
214. RICO, ET AL V. THE AMERICAN TOBACCO COMPASTATE OF NEW YORK, ET AL, Case No. 120693/98, Supreme Court of New York, New York County (case filed 11/16/98). Nine individuals suing.
215. 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.
216. 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.
217. 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.
218. RUBINOBITZ, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15717/97, Supreme Court of New York, Nassau County (case filed 5/28/97). Five individuals suing.
219. 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.
220. 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.
221. 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.
222. 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.

223. 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.
224. 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.
225. 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.
226. 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.
227. 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.
228. 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.
229. STERN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97 Civ 1175 (ss), USDC, Southern District of New York (case filed 1/29/97). Two individuals suing.
230. 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.
231. 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.
232. 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.
233. 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.
234. ZIMMERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Supreme Court of New York, Queens County (case filed 1997).
235. 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.
236. ROBISON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 1:98 CV 1360, USDC, Northern District of Ohio (case filed 6/12/98). Two individuals suing.

237. 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.
238. 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.
239. 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.
240. TABB V. PHILIP MORRIS, ET AL., Case No. 98-3223, USDC, Eastern District of Pennsylvania (case filed 6/23/98). One individual suing.
241. TANTUM V. AMERICAN TOBACCO CO., ET AL., Case No. 3762, Court of Common Pleas, State of Pennsylvania, Philadelphia County (case filed 1/26/99). Two individuals suing.
242. 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.
243. NICOLO V. PHILIP MORRIS, ET AL., Case No. 96-528 B, USDC, District of Rhode Island (case filed 9/24/96). One individual suing.
244. 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.
245. 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.
246. 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.
247. 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.
248. 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.
249. 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.
250. 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.

251. DIESTE V. PHILIP MORRIS, ET AL., Case No.597CV117, USDC, Eastern District of Texas (case filed 11/3/97). Two individuals suing.
252. 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.
253. 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.
254. LUNA V. AMERICAN BRANDS, ET AL., Case No. 96-5654-H, USDC, Southern District of Texas (case filed 2/18/97). One individual suing.
255. 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.
256. MIRELES V. AMERICAN BRANDS, INC., Case No. 966143A, District Court of the 28th Judicial District, State of Texas, Nueces County (case filed 2/14/97). One individual suing.
257. 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.
258. 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.
259. SANCHEZ V. AMERICAN BRANDS, ET AL., Case No. 97-04-35562, USDC, Southern District of Texas (case filed 7/22/97). Two individuals suing.
260. 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.
261. 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.
262. 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.



263. 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.
264. 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.
265. 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.
266. 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.
267. FERRELL V. BROWN & WILLIAMSON, ET AL., Case No. 2:98-0439, USDC, Southern District of West Virginia (case filed 5/21/98). One individual suing.
268. 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.
269. 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.
270. 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.
271. 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.

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not, and the selling stockholders and any underwriter have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the selling stockholders and any underwriter are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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16,726,310 SHARES

BROOKE GROUP LTD.

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COMMON STOCK  
(PAR VALUE, \$.10 PER SHARE)

PROSPECTUS

APRIL \_\_\_\_\_, 1999

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## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 15. - RECENT SALES OF UNREGISTERED SECURITIES

No securities of the Company which were not registered under the Securities Act have been issued or sold by the Company during the past three years, except as follows:

- (i) On December 16, 1996, the Company granted a consultant to the Company a stock option to purchase 1,000,000 shares of its common stock at purchase price of \$1.00 per share.
- (ii) As of January 1, 1997 and January 1, 1998, the Company granted to officers of the Company stock options to purchase 422,000 and 42,500 shares, respectively, of the Company's common stock at a price of \$5.00 per share.
- (iii) On January 16, 1998, the High River Limited Partnership purchased 1,500,000 shares of the Company's common stock at a price of \$6.00 per share (an aggregate of \$9,000,000).
- (iv) On February 2, 1998, the Company issued 483,002 shares of its common stock to the holders of the Liggett Senior Secured Notes in connection with amendments to the Indenture governing the Liggett Notes.
- (v) On March 12, 1998, the Company granted a law firm that represents the Company and Liggett an option for 1,250,000 shares of the Company's common stock at a purchase price of \$17.50 per share, which price was reduced to \$6.00 per share on October 12, 1998.
- (vi) Between March 6, 1998 and April 16, 1998, a consultant to the Company purchased 250,000 shares of the Company's common stock upon exercise of options at a price of \$2.00 per share (an aggregate of \$500,000).
- (vii) On April 28, 1998 and May 1, 1998, the Company awarded each of the three outside directors of the Company 10,000 shares of its common stock for services as a director.
- (viii) On July 20, 1998, the Company granted to an executive officer and to a consultant of the Company stock options to purchase 2,500,000 shares and 500,000 shares, respectively, of the Company's Common Stock at a price of \$9.75 per share.
- (ix) On August 28, 1998, the Company awarded 470,000 shares of its Common Stock to four members of a law firm that represents the Company and Liggett.

The foregoing transactions were effected in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act or did not involve a "sale" under the Securities Act.

## ITEM 16. - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS. The following is a list of exhibits filed as a part of this Registration Statement or incorporated by reference herein:

EXHIBIT NO.	DESCRIPTION
* 2.1	Stock Purchase Agreement dated as of January 31, 1997 among BrookeMil Ltd. ("BML"), Brooke (Overseas) Ltd. ("BOL"), BGLS Inc. ("BGLS") and New Valley Corporation ("New Valley") (incorporated by reference to Exhibit 2.1 in New Valley's Current Report on Form 8-K dated January 31, 1997, Commission File No. 1-2493 (the "New Valley Form 8-K")).
* 3.1	Restated Certificate of Incorporation of Liggett Group Inc. (the predecessor to Brooke Group Ltd. (the "Company")) (incorporated by reference to the Company's Registration Statement on Form S-1, Commission File No. 33-16868).
* 3.2	Certificate of Amendment of the Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1990, Commission File No. 1-5759).
* 3.3	Certificate of Amendment of the Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1998, Commission File No. 1-5759).
* 3.4	Amended and Restated By-Laws of the Company, effective December 5, 1995 (incorporated by reference to the Company's current Report on Form 8-K dated December 5, 1995, Commission File No. 1-5759).
* 3.5	Certificate of Designations of Series A Junior Convertible Participating PIK Preferred Stock, Series B Junior Convertible Participating Reset Preferred Stock, Series C Junior Convertible Participating Reset Preferred Stock and Series D Junior Convertible Participating Reset Preferred Stock (incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1990, Commission File No. 1-5759).
* 3.6	Certificate of Designation of Series E Junior Convertible Participating Preferred Stock of the Company (incorporated by reference to the Company's Report on Form 8-K dated October 29, 1993).
* 3.7	Certificate of Designation of Series F Junior Convertible Participating Preferred Stock of the Company (incorporated by reference to the Company's Report on Form 8-K dated October 29, 1993, Commission File No. 1-5759).

EXHIBIT  
NO.

## DESCRIPTION

- \* 3.8 Certificate of Designation of Series G Junior Convertible Participating Preferred Stock of the Company (incorporated by reference to the Company's Form 10-K for the fiscal year ended 1993, Commission File No. 1-5759).
- \* 3.9 Certificate of Incorporation of BGLS (incorporated by reference to Exhibit 3.1 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File Number 33-80593).
- \* 3.10 By-Laws of BGLS (incorporated by reference to exhibit 3.2 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File Number 33-80593).
- \* 4.1 Indenture, dated as of January 1, 1996, between BGLS Inc. ("BGLS") and Fleet National Bank of Massachusetts ("Fleet"), as Trustee, relating to the "Series A Notes" and the 15.75% Series B Senior Secured Notes due 2001 (the "Series B Notes"), including the form of Series A Note and the form of Series B Note (the "Series A and Series B Indenture") (incorporated by reference to Exhibit 4.1 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
- \* 4.2 Pledge and Security Agreement, dated as of January 1, 1996, between BGLS and Fleet, as Trustee, under the Series A and Series B Indenture (incorporated by reference to Exhibit 4.2 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
- \* 4.3 A/B Exchange and Registration Rights Agreement, dated as of November 21, 1995, among the Company, BGLS, AIF II L.P., Artemis America Partnership, Tortoise Corp., and Mainstay High Yield Corporate Bond Fund (incorporated by reference to Exhibit 4.3 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
- \* 4.4 Pledge and Security Agreement, dated as of January 1, 1996, between New Valley Holdings, Inc. and Fleet, as Trustee, under the Series A and Series B Indenture (incorporated by reference to Exhibit 4.4 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
- \* 4.5 Standstill Agreement and Consent, dated as of August 28, 1997, among BGLS, AIF II, L.P., Artemis America Partnership and Tortoise Corp. (incorporated by reference to Exhibit 99.2 in the Company's Form 8-K dated August 29, 1997, Commission No. 1-5759).
- \* 4.6 Amended and Restated Standstill Agreement, dated as of February 9, 1999, among BGLS and AIF II, L.P. ("AIF II") and Artemis America Partnership ("AAP" and collectively, with AIF and their future transferees, the "Apollo Holders") (incorporated by reference to Exhibit 4.6 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 4.7 Amended and Restated Limited Recourse Guarantee Agreement, dated as of February 9, 1999, made by BOL for the benefit of the Apollo Holders (incorporated by reference to Exhibit 4.7 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-2493).
  - \* 4.8 Amended and Restated Pledge Agreement, dated as of February 9, 1999, between BOL and the Apollo Holders (incorporated by reference to Exhibit 4.8 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-2493).
  - \* 4.9 Collateral Agency Agreement, dated as of February 9, 1999, between the Apollo Holders, U.S. Bank Trust National Association, as Collateral Agent, and BOL (incorporated by reference to Exhibit 4.9 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-2493).
  - \* 4.10 Loan and Security Agreement, dated as of March 8, 1994, in the amount of \$40,000,000 between Liggett and Congress Financial Corporation (incorporated by reference to Exhibit 10(xx) in the Company's Form 10-K for the year ended December 31, 1993, Commission File No. 1-5759).
  - \* 4.11 First Amended Joint Chapter 11 Plan or Reorganization for New Valley Corporation ("New Valley") dated September 27, 1994, Notice of Modification of the First Amended Joint Chapter 11 Plan of Reorganization dated October 20, 1994 and Plan Amendment dated October 28, 1994, as confirmed by the United States Bankruptcy Court for the District of New Jersey, Newark Division, on November 1, 1994 (incorporated by reference to Exhibit 2 in New Valley's Form 10-Q for the quarter ended September 30, 1994, Commission File No. 1-2493).
  - \* 4.12 Order Confirming First Amended Joint Chapter 11 Plan of Reorganization for New Valley entered by the Bankruptcy Court on November 1, 1994 (incorporated by reference to Exhibit 99(b) in New Valley's Form 10-Q for the quarter ended September 30, 1994, Commission File No. 1-2493).
  - \* 5.1 Opinion of Marc N. Bell, Esq. (filed as Exhibit 5.1 to the Company's Registration Statement on Form S-3, Commission File No. 333-46055).
  - \* 10.1 Corporate Services Agreement, dated as of June 29, 1990, between the Company and Liggett (incorporated by reference to Exhibit 10.10 in Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).
  - \* 10.2 Corporate Services Agreement, dated June 29, 1990, between the Company and Liggett (incorporated by reference to Exhibit 10.11 in Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.3 Services Agreement, dated as of February 26, 1991, between Brooke Management Inc. ("BMI") and Liggett (the "Liggett Services Agreement") (incorporated by reference to Exhibit 10.5 in BGLS' Registration Statement on Form S-1, Commission File No. 33-93576).
  - \* 10.4 First Amendment to Liggett Services Agreement, dated as of November 30, 1993, between Liggett and BMI (incorporated by reference to Exhibit 10.6 of BGLS' Registration Statement on Form S-1, Commission File No. 33-93576).
  - \* 10.5 Second Amendment to Liggett Services Agreement, dated as of October 1, 1995, between BMI, the Company and Liggett (incorporated by reference to Exhibit 10(c) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
  - \* 10.6 Corporate Services Agreement, dated January 1, 1992, between BGLS and Liggett (the "Liggett Services Agreement") (incorporated by reference to Exhibit 10.13 of Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).
  - \* 10.7 Employment Agreement, dated February 21, 1992, between the Company and Bennett S. LeBow (incorporated by reference to Exhibit 10(xx) in the Company's Form 10-K for the year ended December 31, 1991, Commission File No. 1-5759).
  - \* 10.8 Amendment to Employment Agreement, dated as of July 20, 1998, between the Company and Bennett S. LeBow (incorporated by reference to Exhibit 10.8 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.9 Tax-Sharing Agreement, dated June 29, 1990, among the Company, Liggett and certain other entities (incorporated by reference to Exhibit 10.12 in Liggett's Registration Statement on Form S-1, Commission File No. 33-47482).
  - \* 10.10 Lease with respect to Liggett's distribution center in Durham, North Carolina, including letter agreement extending term of Lease (incorporated by reference to Exhibit 10.15 in Liggett's Registration Statement on Form S-1, Commission File No. 33- 47482).
  - \* 10.11 Tax Indemnity Agreement, dated as of October 6, 1993, among the Company, Liggett and certain other entities (incorporated by reference to Exhibit 10.2 in SkyBox International Inc.'s Form 10-Q for the quarter ended September 30, 1993, Commission File No. 0-22126).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.12 Exchange Agreement, dated as of November 21, 1995, among the Company, BGLS, AIF, Artemis Partnership, Tortoise, Starfire Holding Corporation and Mainstay (incorporated by reference to Exhibit 10.13 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
  - \* 10.13 Registration Rights Agreement, dated as of January 1, 1996, among the Company, New Valley, BGLS and Fleet, as Trustee (incorporated by reference to Exhibit 10.14 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
  - \* 10.14 Agreement among BGLS, the Company and High River Limited Partnership ("High River"), dated October 17, 1995 (incorporated by reference to Exhibit 10(b) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
  - \* 10.15 Letter Agreement among BGLS, the Company and High River dated November 5, 1995 (incorporated by reference to Exhibit 10(a) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
  - \* 10.16 Agreement between New Valley and the Company, dated as of December 27, 1995 (incorporated by reference to Exhibit 10.19 in BGLS' Registration Statement on Form S-4 dated December 19, 1995, Commission File No. 33-80593).
  - \* 10.17 Expense Sharing Agreement, dated as of January 18, 1995, between the Company and New Valley (incorporated by reference to Exhibit 10(d) in the Company's Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-5759).
  - \* 10.18 Stock Option Agreement, dated January 25, 1995, between the Company and Howard M. Lorber (incorporated by reference to Exhibit 10(g) in the Company's Form 10-K for the year ended December 31, 1994, Commission File No. 1-5759).
  - \* 10.19 Amended and Restated Consulting Agreement, dated as of March 1, 1996, between the Company and Howard M. Lorber (the "Lorber Consulting Agreement") (incorporated by reference to Exhibit 10.25 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
  - \* 10.20 Amendment dated January 1, 1998 to the Lorber Consulting Agreement (incorporated by reference to Exhibit 10.23 in the Company's Form 10-K for the year ended December 31, 1997, Commission File No. 1-5759).



EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.21 Settlement Agreement, dated March 12, 1996, by and between Dianne Castano and Ernest Perry, the putative representative plaintiffs in Dianne Castano, et al. v. The American Tobacco Company, Inc. et al., Civil No. 94-1044, United States District Court for the Eastern District of Louisiana, for themselves and on behalf of the plaintiff settlement class, and the Company and Liggett, as supplemented by the letter agreement dated March 14, 1996 (the "Settlement Agreement") (incorporated by reference to Exhibit 13 in the Schedule 13D filed by, among others, the Company with the Commission on March 11, 1996, as amended, with respect to the common stock of RJR Nabisco Holdings Corp. (the "Schedule 13D")).
  - \* 10.22 Addendum to Settlement Agreement (incorporated by reference to Exhibit 10.30 in the Company's Form 10-K/A No. 1 for the year ended December 31, 1996, Commission File No. 1-5759).
  - \* 10.23 Settlement Agreement, dated March 15, 1996, by and among the State of West Virginia, State of Florida, State of Mississippi, Commonwealth of Massachusetts, and State of Louisiana, the Company and Liggett (incorporated by reference to Exhibit 15 in the Schedule 13D).
  - \* 10.24 Addendum to Initial States Settlement Agreement (incorporated by reference to Exhibit 10.43 in the Company's Form 10-Q for the quarterly period ended March 31, 1997, Commission File No. 1-5759).
  - \* 10.25 Settlement Agreement, dated March 20, 1997, by and between the named and representative plaintiffs in Fletcher, et al. v. Brooke Group Ltd., et al., for themselves and on behalf of the plaintiff settlement class, and the Company and Liggett (incorporated by reference to Exhibit 10.41 in the Company's Form 10-K for the year ended December 31, 1996, Commission File No. 1-5759).
  - \* 10.26 Settlement Agreement, dated April 14, 1997, by and among the State of California, the Company and Liggett (incorporated by reference to Exhibit 10.44 in the Company's Form 10-Q for the quarter ended March 31, 1997, Commission File No. 1-5759).
  - \* 10.27 Settlement Agreement, dated May 6, 1997, by and between the State of Alaska, the Company and Liggett (incorporated by reference to Exhibit 10.44 in the Company's Form 10-Q for the quarter ended March 31, 1997, Commission File No. 1-5759).
  - \* 10.28 Class Settlement Agreement, dated May 15, 1997, by and between the named and representative plaintiff in Earl William Walker, et. al., v. Liggett Group Inc., et. al., for himself and on behalf of the plaintiff settlement class, and the Company and Liggett (incorporated by reference to Exhibit 10.1 in the Company's Form 10-Q for the quarter ended June 30, 1997, Commission File No. 1-5759).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.29 Settlement Agreement, dated June 9, 1997, by and between the State of Oregon and the Company and Liggett (incorporated by reference to Exhibit 10.2 in the Company's Form 10-Q for the quarter ended September 30, 1997, Commission File No. 1-5759).
  - \* 10.30 Settlement Agreement, dated September 15, 1997, by and among the State of Nevada and the Company and Liggett (incorporated by reference to Exhibit 10.1 in the Company's Form 10-Q for the quarter ended September 30, 1997, Commission File No. 1-5759).
  - \* 10.31 Settlement Agreement, dated March 12, 1998, by and among the States listed in Appendix A thereto, the Company and Liggett (incorporated by reference to Exhibit 10.35 in the Company's Form 10-K for the year ended December 31, 1997, Commission File No. 1-5759).
  - \* 10.32 Amended Settlement Agreement, dated July 2, 1998, by and between the named representative plaintiffs in Fletcher, et al., v. Liggett Group Inc., et al., for themselves and on behalf of the plaintiff settlement class, and the Company and Liggett (incorporated by reference to Exhibit 10.32 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.33 Master Settlement Agreement made by the Settling States and Participating Manufacturers signatories thereto (incorporated by reference to Exhibit 10.1 in Philip Morris Companies Inc.'s Report on Form 8-K dated November 25, 1998, Commission File No. 1-8940).
  - \* 10.34 General Liggett Replacement Agreement, dated as of November 23, 1998, entered into by each of the Settling States under the Master Settlement Agreement, and the Company and Liggett (incorporated by reference to Exhibit 10.34 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.35 Class Settlement Agreement, dated January 14, 1999, by and between the named representative plaintiffs in Iron Workers Union No. 17 Insurance Fund, et al., v. Philip Morris Inc., et al., for themselves and on behalf of the plaintiff settlement class, and the Company and Liggett (incorporated by reference to Exhibit 10.35 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.36 Stock Purchase Agreement, dated April 3, 1996, among Liggett-Ducat Ltd. ("Liggett-Ducat"), Belgrave Limited ("Belgrave"), Eduard Z. Nakhamkin ("Nakhamkin") and BOL (incorporated by reference to Exhibit 10.28 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
  - \* 10.37 Consulting Agreement, dated April 3, 1996, among BOL, Belgrave and Nakhamkin (incorporated by reference to Exhibit 10.29 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.38 Pledge Agreement, dated April 3, 1996, between BOL and Belgrave (incorporated by reference to Exhibit 10.30 in the Company's Form 10-K for the year ended December 31, 1995, Commission File No. 1-5759).
  - \* 10.39 Stock Option Agreement, dated December 16, 1996, between the Company and Howard M. Lorber (incorporated by reference to Exhibit 10.34 in the Company's Form 10-K for the year ended December 31, 1996, Commission File No. 1-5759).
  - \* 10.40 Letter Agreement dated September 5, 1996 between Ronald S. Fulford and Liggett (incorporated by reference to Exhibit 10.23 in Liggett's Form 10-K for the year ended December 31, 1996, Commission File No. 33-75224).
  - \* 10.41 Stock Option Agreement, dated January 1, 1997, between the Company and Richard J. Lampen (incorporated by reference to Exhibit 10.35 in the Company's Form 10-K for the year ended December 31, 1996).
  - \* 10.42 Stock Option Agreement, dated January 1, 1997, between the Company and Marc N. Bell (incorporated by reference to exhibit 4.3 in the Company's Registration Statement on Form S-8 (No. 333-24217)).
  - \* 10.43 Stock Option Agreement, dated January 1, 1998, between the Company and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.43 in the Company's Form 10-K for the year ended December 31, 1997, Commission File No. 1-5759).
  - \* 10.44 Use Agreement dated as of January 31, 1997, entered into by and between BML and Liggett-Ducat Joint Stock Company (incorporated by reference to exhibit 10.3 in the New Valley Form 8-K).
  - \* 10.45 Stock Purchase Agreement, dated as of January 16, 1998, by and between the Company and High River Limited Partnership (incorporated by reference to the Company's Form 8-K dated January 16, 1998, Commission File No. 5759).
  - \* 10.46 Registration Rights Agreement, dated as of January 30, 1998, among the Company and the holders of record of the shares of the Company's common stock referred to therein (incorporated by reference to Exhibit 99.5 in the Company's Form 8-K dated February 2, 1998, Commission File No. 1-5759).
  - \* 10.47 Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.2 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.48 Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.3 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
  - \* 10.49 Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.4 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
  - \* 10.50 Warrant to purchase common stock of the Company, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.5 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
  - \* 10.51 Registration Rights Agreement, dated as of March 2, 1998, among the Company and the Apollo Holders (incorporated by reference to Exhibit 10.6 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
  - \* 10.52 Registration Rights Agreement, dated as of March 2, 1998, among the Company and the Apollo Holders (incorporated by reference to Exhibit 10.7 in the Company's Form 8-K dated March 2, 1998, Commission File No. 1-5759).
  - \* 10.53 Amended and Restated Stock Option Agreement, dated as of October 12, 1998, by and between the Company and Kasowitz, Benson, Torres & Friedman LLP, Marc E. Kasowitz and Daniel R. Benson (incorporated by reference to Exhibit 10.4 in the Company's Form 10-Q for the quarter ended September 30, 1998, Commission File No. 1-5759).
  - \* 10.54 Participating Loan Agreement, dated as of April 28, 1998, by and among Western Realty Development LLC, Western Tobacco Investments LLC and Brooke (Overseas) Ltd. (incorporated by reference to Exhibit 10.2 in New Valley's Form 10-Q for the quarter ended June 30, 1998, Commission File No. 1-2493).
  - \* 10.55 Consulting Agreement, dated as of May 1, 1998, between the Company and J. Sauter Enterprises, Inc. (incorporated by reference to Exhibit 4.1 in the Company's Registration Statement on Form S-8, No. 333-59615).
  - \* 10.56 Brooke Group Ltd. 1998 Long-Term Incentive Plan (incorporated by reference to the Appendix to the Company's Proxy Statement dated September 15, 1998, Commission File No. 1-5759).
  - \* 10.57 Stock Option Agreement, dated July 20, 1998, between the Company and Bennett S. LeBow (incorporated by reference to Exhibit 6 in the Amendment No. 5 to the Schedule 13D filed by Bennett S. LeBow on October 16, 1998 with respect to the common stock of the Company).

EXHIBIT  
NO.

## DESCRIPTION

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- \* 10.58 Stock Option Agreement, dated July 20, 1998, between the Company and Howard M. Lorber (incorporated by reference to Exhibit 10.3 in the Company's Form 10-Q for the quarter ended September 30, 1998, Commission File No. 1-5759).
  - \* 10.59 Letter Agreement, dated November 20, 1998, by and among Philip Morris Incorporated ("PM"), the Company, Liggett & Myers Inc. ("L&M") and Liggett (incorporated by reference to Exhibit 10.1 in the Company's Report on Form 8-K dated November 25, 1998, Commission No. 1-5759).
  - \* 10.60 Formation and Limited Liability Company Agreement of Brands LLC (the "Formation Agreement"), dated as of January 12, 1999, among the Company, L&M, Eve Holdings Inc. ("Eve"), Liggett and PM, including the form of Trademark License Agreement (incorporated by reference to Exhibit 10.60 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.61 Class A Option Agreement, dated as of January 12, 1999, among the Company, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.61 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.62 Class B Option Agreement, dated as of January 12, 1999, among the Company, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.62 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.63 Amendment to the Formation Agreement, dated as of February 19, 1999, among the Company, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.63 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.64 Purchase and Sale Agreement, dated February 17, 1999, between BGLS and U.S. Bancorp Investments, Inc. (incorporated by reference to Exhibit 10.64 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
  - \* 10.65 Employment Agreement dated as of June 1, 1995, as amended, effective as of January 1, 1996, between New Valley and Bennett S. LeBow (incorporated by reference to Exhibit 10(b)(i) in New Valley's Form 10-K for the year ended December 31, 1995, Commission File No. 1-2493).
  - \* 10.66 Employment Agreement dated September 22, 1995, between New Valley and Richard J. Lampen (incorporated by reference to Exhibit 10(a) in New Valley's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, Commission File No. 1-2493).

EXHIBIT NO.	DESCRIPTION
* 10.67	Employment Agreement dated April 15, 1994, between the Company and Marc N. Bell (incorporated by reference to Exhibit 10.67 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
* 21	Subsidiaries of the Company (incorporated by reference to Exhibit 21 in the Company's Form 10-K for the year ended December 31, 1998, Commission File No. 1-5759).
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Arthur Andersen LLP.
23.3	Consent of Marc N. Bell (included in Exhibit 5.1) (previously filed).
24.1	Power of Attorney (on signature page to the Company's Registration Statement on Form S-3, Commission File No. 333-46055) (previously filed).
99.1	Material Legal Proceedings (included as part of Prospectus included in this Registration Statement).

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 \*Incorporated by reference

REPORT OF INDEPENDENT ACCOUNTANTS ON  
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders  
of Brooke Group Ltd.

Our audits of the consolidated financial statements referred to in our report dated March 30, 1999 appearing in this Post-Effective Amendment No. 1 on Form S-1 to the Registration Statement on Form S-3 of Brooke Group Ltd. also included an audit of the financial statement schedule listed in Item 16 of this Post-Effective Amendment No. 1 on Form S-1 to the Registration Statement on Form S-3. In our opinion the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP  
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Miami, Florida  
March 30, 1999

BROOKE GROUP LTD.  
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

(DOLLARS IN THOUSANDS)

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
YEAR ENDED DECEMBER 31, 1998					
Allowances for:					
Doubtful accounts .....	\$ 820	\$ 613		\$ 337	\$ 1,096
Cash discounts .....	563	12,583		12,235	911
Sales returns .....	4,750		\$ 2,350		7,100
Total .....	\$ 6,133	\$13,196	\$ 2,350	\$12,572	\$ 9,107
Provision for inventory obsolescence .....	\$ 1,157	\$ 1,303	\$	\$ 495	\$ 1,965
YEAR ENDED DECEMBER 31, 1997					
Allowances for:					
Doubtful accounts .....	\$ 750	\$ 226		\$ 156	\$ 820
Cash discounts .....	530	11,319		11,286	563
Sales returns .....	5,000			250	4,750
Total .....	\$ 6,280	\$11,545	\$	\$11,692	\$ 6,133
Provision for inventory obsolescence .....	\$ 3,218	\$ 221	\$	\$ 2,282	\$ 1,157
YEAR ENDED DECEMBER 31, 1996					
Allowances for:					
Doubtful accounts .....	\$ 921	\$ 903		\$ 1,074	\$ 750
Cash discounts .....	615	13,929		14,014	530
Sales returns .....	5,000				5,000
Total .....	\$ 6,536	\$14,832	\$	\$15,088	\$ 6,280
Provision for inventory obsolescence .....	\$ 2,641	\$ 1,341	\$	\$ 764	\$ 3,218

(a) Charged to net sales.

(b) Amounts include impact of consolidating Liggett-Ducat.

Financial statement schedules not included in this Registration Statement have been omitted because they are not applicable or the required information is shown in the Company's Consolidated Financial Statements or the Notes thereto.



## ITEM 17. UNDERTAKINGS.

(a) The Company hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this amendment to its Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, and State of Florida, on the 26th day of April, 1999.

BROOKE GROUP LTD.

By: /s/ Joselynn D. Van Siclen  
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Joselynn D. Van Siclen  
Vice President, Treasurer and Chief  
Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to Registration Statement has been signed below by the following persons in the capacities indicated on April 26, 1999.

\*  
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Bennett S. LeBow  
Chairman of the Board of  
Directors, President and  
Chief Executive Officer  
(Principal Executive Officer)  
  
/s/ Joselynn D. Van Siclen  
-----  
Joselynn D. Van Siclen  
Vice President, Treasurer and  
Chief Financial Officer (Principal  
Financial Officer and Principal  
Accounting Officer)

\*  
-----  
Robert J. Eide  
Director

\*  
-----  
Jeffrey S. Podell  
Director

-----  
Jean E. Sharpe  
Director

\*By: /s/ Joselynn D. Van Siclen  
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Joselynn D. Van Siclen  
Attorney-in-Fact

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Post-Effective Amendment No. 1 on Form S-1 to the Registration Statement on Form S-3 (File No. 333-46055) of: (i) our reports dated March 30, 1999, relating to the consolidated financial statements and financial statement schedule of Brooke Group Ltd. and Subsidiaries, and (ii) our report dated March 19, 1999, relating to the consolidated financial statements of New Valley Corporation and Subsidiaries, which appear in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

Miami, Florida  
April 23, 1999

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors  
Brooke Group Ltd.

As independent public accountants, we consent to the use of our report dated January 23, 1998 in this Post-Effective Amendment No. 1 on Form S-1 to the registration statement on Form S-3 of Brooke Group Ltd., relating to the consolidated balance sheet of Thinking Machines Corporation and subsidiaries as of December 31, 1997, and the related consolidated statements of operations, stockholders' investment and cash flows for the year ended December 31, 1997 and the period from February 8, 1996 (inception) to December 31, 1996.

Arthur Andersen LLP

Boston, Massachusetts  
April 26, 1999