STAR SCIENTIFIC

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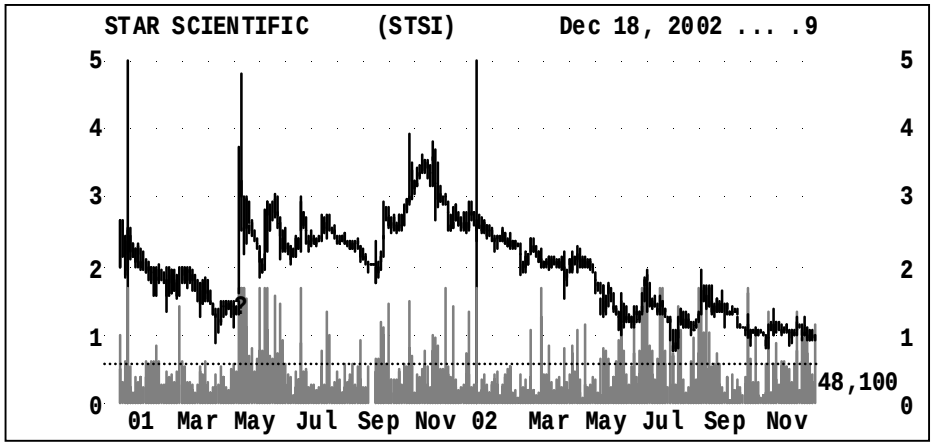
Ticker Symbol: **STSI**

December 19, 2002

Current Data		
Current Price	$	0.90
52-Week Range		3-0
Shares Out (Mill)		59.7
Ave Volume LTM		44,782
Market Capitalization	$	53.7
LTD/Tot Cap		51.0%
Institutional Holdings		2.6%
Insider Buys-Sells		0.0
Book Value	$	0.47



Valuation	**Current**
P/E (Last FY)	15.00
P/B	1.91
Price/Sales	0.49
PEG (2003)	0.01

Operating Data	**This Qtr**
Sales Growth	-19.8%
EBITDA Margin Grwt	33.2%
Net Inc. Growth	-23.62%

EPS		
2001	$	0.06
2002e		-
2003e		-

Annual Results (FY-Dec.) ($Million)	**1998**	**1999**	**2000**	**2001**	**9/30/01**	**9/30/02**
Sales	-	$99.3	$223.1	$174.8	$57.5	$46.1
Gr Margin	-	68.7%	58.9%	56.3%	78%	95%
EBITDA	-	18.1%	9.5%	5.0%	3%	4%
EPS	-$0.51	$0.23	$0.17	$0.06	$ 0.05	($0.03)
LTD/Cap.	-	37.9%	34.5%	51.1%	51.3%	57.4%
Times Int	-	-	10.5	9.3	na	6.30

Company Description

Star Scientific Inc. develops scientific technology to delay or reduce the formation of carcinogenic toxins present in tobacco and tobacco smoke. The company also develops tobacco products that deliver much less carcinogenic toxins to tobacco consumers. The StarCured tobacco curing process involves the use of specially designed curing barns and in certain applications microwave and electronic beam technology. It manufactures and sells 4 discount cigarette brands and also develops very low nitrosamine smokeless tobacco products, i.e., moist snuff and hard snuff tobacco. The company sells its discount cigarettes through approximately two hundred and sixty tobacco distributors throughout the US, some 90 of which are located in Texas, Florida, Minnesota and Mississippi.

Operating Data-LTM Company	Symbol	Sales(MM)	Sales Growth	Gross Margin	EBITDA Margin	$ Flow /Share	LT Debt/ Total Cap	ROE
STAR SCIENTIFIC	**STSI**	**$153**	**-22%**	**56.4%**	**-**	**$ -**	**51.0**	**-**
Peer Group Avg*		$2,601	-13%	47.6%	23.1	$ 4.17	53.5	33.7
Industry Average		-	9%	-	23.8	$ 29.04	46.0	38.3
Top Competitors								
RJ REYNOLDS TOBA(	RJR	$6,900	-19%	48.8%	23.7	$ 12.05	19.0	7.5
UST INC	UST	$1,700	5%	83.7%	55.2	$ 3.26	61.0	84.9
VECTOR GROUP	VGR	$604	-20%	38.2%	2.1	$ (0.42)	85.0	-

Valuation Data		Price	CY P/E 2000	CY P/E 2001	CY P/E 2002	Price/ $ Flow	Pr/Sales	Price/Bk
STAR SCIENTIFIC	**STSI**	**$0.90**	**15.0**	**-**	**-**	**471.3**	**0.4**	**1.9**
Peer Group Avg*		$23.26	12.6	9.1	63.4	5.7	1.2	4.2
Industry Average		$200.67	10.2	9.0	8.7	6.9	1.1	3.2
Top Competitors								
RJ REYNOLDS TOBA(	RJR	$41.52	9.2	6.9	7.2	3.4	0.5	0.5
UST INC	UST	$33.34	11.2	11.3	11.0	10.2	3.3	7.6
VECTOR GROUP	VGR	$12.03	21.8	-	171.9	-	0.7	8.1

*Peer Group includes compaes with LTM sales between $1 to 3 billion.

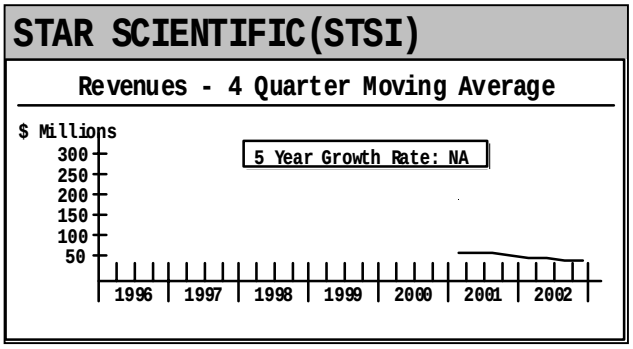
Source: Baseline

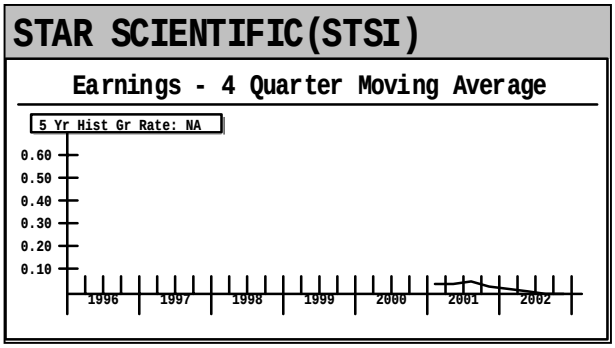
See important disclaimers on last page.

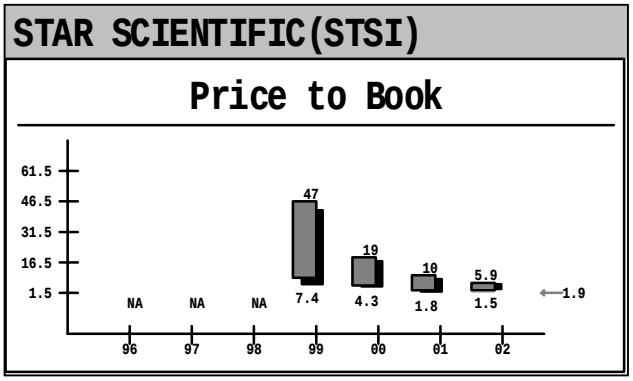
3Q02 Update:
Sales declined almost 20% as foreign producers (who don't have to pay MSA fees) under priced domestic producers. STSI has been reducing operating costs, but margins have been adversely impacted by the combination of pursuing the patent case, introducing Ariva, and paying MSA fees. Operating income increased 17% to $0.96 million but increased interest expense caused pre tax income to decline almost 34%.

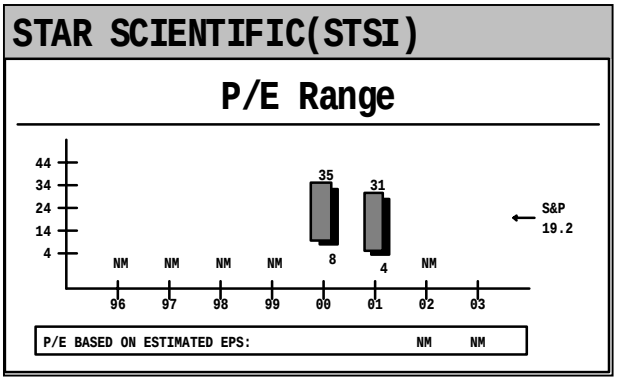
On the bright side:
> A $7.4 million tax refund was received in earl y 4Q02.
> Demand for Ariva may be boosted as the trend to smokeless public places continues and as a competitor starts to advertise a nicotine lozenge that is 3x's the price of Arvia.
> RJR litigation may be a "lottery ticket." Currently, STSI is seeking about $400 million/year in damages and could net about $200 million
The Company is converting itself from a cigarette manufacturer to a smokeless product and technology licensing company.

-Rick Wayman, CFA
rwayman@researchstock.com









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