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Large accelerated
filer

Smaller reporting
company

(Do not check if a smaller reporting
company)

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.
 Yes No

At April 28, 2016, Vector Group Ltd. had 123,792,329 shares of common stock outstanding.

VECTOR GROUP LTD.

FORM 10-Q

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

	March 31, 2016	December 31, 2015
ASSETS:		
Current assets:		
Cash and cash equivalents	\$209,048	\$240,368
Investment securities available for sale	152,700	181,976
Accounts receivable - trade, net	20,449	23,889
Inventories	92,451	86,516
Income taxes receivable, net	4,621	2,841
Restricted assets	9,628	9,195
Other current assets	37,748	38,954
Total current assets	526,645	583,739
Property, plant and equipment, net	73,608	75,632
Real estate held for sale, net	23,366	23,318
Long-term investments	59,488	62,726
Investments in real estate ventures	225,033	217,168
Restricted assets	14,887	12,303
Goodwill and other intangible assets, net	263,413	263,959
Prepaid pension costs	20,976	20,650
Other assets	21,373	21,120
Total assets	\$1,228,789	\$1,280,615
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Current portion of notes payable and long-term debt	\$25,927	\$8,919
Current payments due under the Master Settlement Agreement	43,705	29,241
Current portion of employee benefits	914	915
Income taxes payable, net	—	96
Litigation accruals	7,686	22,904
Other current liabilities	113,085	154,217
Total current liabilities	191,317	216,292
Notes payable, long-term debt and other obligations, less current portion	864,554	856,108
Fair value of derivatives embedded within convertible debt	134,348	144,042
Non-current employee benefits	55,171	55,055
Deferred income taxes, net	85,069	79,429
Payments due under the Master Settlement Agreement	20,094	20,094
Litigation accruals	22,034	24,718
Other liabilities	10,062	7,038
Total liabilities	1,382,649	1,402,776
Commitments and contingencies (Note 7)		
Stockholders' deficiency:		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized	—	—
Common stock, par value \$0.10 per share, 250,000,000 shares authorized, 123,792,329 shares issued and outstanding	12,379	12,379
Accumulated deficit	(238,180)	(210,113)
Accumulated other comprehensive income	(8,270)	(8,313)
Total Vector Group Ltd. stockholders' deficiency	(234,071)	(206,047)

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Non-controlling interest	80,211	83,886
Total stockholders' deficiency	(153,860)	(122,161)
Total liabilities and stockholders' deficiency	\$1,228,789	\$ 1,280,615

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

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VECTOR GROUP LTD. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Dollars in Thousands, Except Per Share Amounts)
 Unaudited

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Tobacco*	\$221,015	\$228,085
Real estate	159,747	132,256
E-Cigarettes	38	419
Total revenues	380,800	360,760
Expenses:		
Cost of sales:		
Tobacco*	136,738	157,030
Real estate	99,678	84,358
E-Cigarettes	6	630
Total cost of sales	236,422	242,018
Operating, selling, administrative and general expenses	79,828	74,181
Litigation settlement and judgment expense	2,350	843
Restructuring charges	41	—
Operating income	62,159	43,718
Other income (expenses):		
Interest expense	(30,720)	(31,746)
Change in fair value of derivatives embedded within convertible debt	9,694	6,460
Equity in (losses) earnings from real estate ventures	(507)	338
Equity in (losses) earnings from investments	(1,671)	612
Gain on sale of investment securities available for sale	567	13,029
Impairment of investment securities available for sale	(4,813)	—
Other, net	1,047	1,937
Income before provision for income taxes	35,756	34,348
Income tax expense	14,363	12,867
Net income	21,393	21,481
Net income attributed to non-controlling interest	(2,055)	(260)
Net income attributed to Vector Group Ltd.	\$19,338	\$21,221
Per basic common share:		
Net income applicable to common shares attributed to Vector Group Ltd.	\$0.16	\$0.18
Per diluted common share:		

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Net income applicable to common shares attributed to Vector Group Ltd.	\$0.16	\$0.18
Dividends declared per share	\$0.40	\$0.38

* Revenues and cost of sales include excise taxes of \$90,846 and \$97,359, respectively.

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

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VECTOR GROUP LTD. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in Thousands, Except Per Share Amounts)
 Unaudited

	Three Months Ended March 31,	
	2016	2015
Net income	\$21,393	\$21,481
Net unrealized losses on investment securities available for sale:		
Change in net unrealized (losses) gains	(4,634)	20,910
Net unrealized losses (gains) reclassified into net income	4,246	(13,029)
Net unrealized (losses) gains on investment securities available for sale	(388)	7,881
Net unrealized gains on long-term investments accounted for under the equity method:		
Net unrealized gains on long-term investments accounted for under the equity method	—	14
Net change in forward contracts	9	16
Net change in pension-related amounts		
Amortization of loss	445	267
Net change in pension-related amounts	445	267
Other comprehensive income	66	8,178
Income tax effect on:		
Change in net unrealized (losses) gains on investment securities	1,908	(8,460)
Net unrealized losses (gains) reclassified into net income on investment securities	(1,745)	5,387
Change in unrealized gains on long-term investments accounted for under the equity method	—	(6)
Forward contracts	(3)	(6)
Pension-related amounts	(183)	(111)
Income tax provision on other comprehensive income	(23)	(3,196)
Other comprehensive income, net of tax	43	4,982
Comprehensive income	21,436	26,463
Comprehensive income attributed to non-controlling interest	(2,055)	(260)
Comprehensive income attributed to Vector Group Ltd.	\$19,381	\$26,203

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

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Additional Accumulated Deficit	Accumulated Other Comprehensive Income	Non-controlling Interest	Non-controlling Total
Balance, January 1, 2016	123,792,329	\$12,379	\$ —	\$(210,113)	\$ (8,313)	\$ 83,886	\$(122,161)
Net income	—	—	—	19,338	—	2,055	21,393
Total other comprehensive income	—	—	—	—	43	—	43
Total comprehensive income	—	—	—	—	—	—	21,436
Distributions and dividends on common stock	—	—	(2,307	(47,405)	—	—	(49,712)
Stock-based compensation	—	—	2,307	—	—	—	2,307
Contributions from non-controlling interest	—	—	—	—	—	248	248
Distributions to non-controlling interest	—	—	—	—	—	(5,978)	(5,978)
Balance as of March 31, 2016	123,792,329	\$12,379	\$ —	\$(238,180)	\$ (8,270)	\$ 80,211	\$(153,860)

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

VECTOR GROUP LTD. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Dollars in Thousands, Except Per Share Amounts)
 Unaudited

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net cash (used in) provided by operating activities	\$(4,936)	\$7,828
Cash flows from investing activities:		
Sale of investment securities	51,218	74,591
Maturities of investment securities	343	947
Purchase of investment securities	(29,112)	(67,628)
Proceeds from sale or liquidation of long-term investments	—	1,216
Purchase of long-term investments	—	(5,000)
Investments in real estate ventures	(5,795)	(7,816)
Distributions from investments in real estate ventures	12	—
Increase in cash surrender value of life insurance policies	(62)	(606)
Increase in restricted assets	(3,017)	(6,933)
Proceeds from sale of fixed assets	—	3
Capital expenditures	(3,915)	(3,156)
Pay downs of investment securities	2,174	1,594
Investments in real estate held for sale	(49)	—
Net cash provided by (used in) investing activities	11,797	(12,788)
Cash flows from financing activities:		
Proceeds from issuance of debt	57	—
Deferred financing costs	—	(585)
Repayments of debt	(1,576)	(1,857)
Borrowings under revolver	59,426	107,668
Repayments on revolver	(41,482)	(110,792)
Dividends and distributions on common stock	(48,876)	(46,350)
Contributions from non-controlling interest	248	—
Distributions to non-controlling interest	(5,978)	—
Proceeds from exercise of Vector options	—	809
Tax benefit of options exercised	—	274
Net cash used in financing activities	(38,181)	(50,833)
Net decrease in cash and cash equivalents	(31,320)	(55,793)
Cash and cash equivalents, beginning of period	240,368	326,365
Cash and cash equivalents, end of period	\$209,048	\$270,572

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

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The condensed consolidated financial statements of Vector Group Ltd. (the “Company” or “Vector”) include the accounts of VGR Holding LLC (“VGR Holding”), Liggett Group LLC (“Liggett”), Vector Tobacco Inc. (“Vector Tobacco”), Liggett Vector Brands LLC (“Liggett Vector Brands”), Zoom E-Cigs LLC (“Zoom”), New Valley LLC (“New Valley”) and other less significant subsidiaries. New Valley includes the accounts of Douglas Elliman Realty, LLC (“Douglas Elliman”) and other less significant subsidiaries. All intercompany balances and transactions have been eliminated.

Liggett and Vector Tobacco are engaged in the manufacture and sale of cigarettes in the United States. Zoom is engaged in the sale of electronic cigarettes in the United States. New Valley is engaged in the real estate business.

The unaudited, interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and, in management’s opinion, contain all adjustments, consisting only of normal recurring items, necessary for a fair statement of the results for the periods presented. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

Revisions to December 31, 2015 Consolidated Balance Sheet. In April 2015, the FASB issued ASU No. 2015-03, “Interest-Imputation of Interest” (“ASU 2015-03”), which requires debt issuance costs to be reported in the balance sheet as a direct deduction from the face amount of the note. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015. This amendment must be applied retrospectively to all periods presented. The Company adopted the provisions of this ASU retrospectively in the first quarter of 2016, and adjusted all prior periods accordingly. The adoption of this ASU will simplify the presentation of debt issuance costs and reduce complexity without decreasing the usefulness of information provided to users of financial statements.

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

The cumulative impacts of the application of the new ASU are presented in the table below:

	December 31, 2015		
	As Previously Reported	ASU Adoption	As Revised
Other assets	\$51,261	\$(30,141)	\$21,120
Total assets	\$1,310,756	\$(30,141)	1,280,615
Notes payable, long-term debt and other obligations, less current portion	\$886,249	\$(30,141)	\$856,108
Total liabilities	1,432,917	(30,141)	1,402,776
Total stockholders' deficiency	(122,161)	—	(122,161)
Total liabilities and stockholders' deficiency	\$1,310,756	\$(30,141)	\$1,280,615

Adoption of Equity Method. The Company adopted the equity method of accounting for its investments in Ladenburg Thalmann Financial Services Inc. (“LTS”) and Castle Brands Inc. (“Castle”) in 2015 because the Company determined that it had significant influence due to the evolution of the relationships with each company. In accordance with ASC 323-35-33, the Company has adjusted its condensed consolidated financial statements, retrospectively, on a step-by-step basis as if the equity method had been in effect since inception.

The cumulative impact of the retrospective application of the equity method of accounting for the two investments are presented in the table below:

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

	Three months ended March 31, 2015		
	As Previously Reported	Revision	As Revised
Operating, selling, administrative and general expenses	\$73,944	\$237	\$74,181
Operating income	43,955	(237)	43,718
Equity in (losses) earnings from investments	(37)	649	612
Other, net	1,896	41	1,937
Income before provision for income taxes	33,895	453	34,348
Income tax expense	12,679	188	12,867
Net income	21,216	265	21,481
Net income attributed to Vector Group Ltd.	20,956	265	21,221
Other comprehensive income (loss), net of tax	1,999	2,983	4,982
Comprehensive income	23,215	3,248	26,463
Comprehensive income attributed to Vector Group Ltd.	\$22,955	\$3,248	\$26,203

(b) Distributions and Dividends on Common Stock:

The Company records distributions on its common stock as dividends in its condensed consolidated statement of stockholders' deficiency to the extent of retained earnings and accumulated paid-in capital. Any amounts exceeding retained earnings are recorded as a reduction to additional paid-in capital to the extent paid-in-capital is available. The Company's stock dividends are recorded as stock splits and given retroactive effect to earnings per share for all periods presented.

(c) Revenue Recognition:

Tobacco and E-Cigarettes sales: Revenues from sales are recognized upon the shipment of finished goods when title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sale price is fixed or determinable and collectibility is reasonably assured. The Company provides an allowance for expected sales returns, net of any related inventory cost recoveries (e.g. federal excise taxes). Certain sales incentives, including promotional price discounts, are classified as reductions of net sales. The Company includes federal excise taxes on tobacco sales in revenues and cost of goods sold. 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 at the Company and industry levels, regulation, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

Real estate sales: Revenue is recognized only when persuasive evidence of an arrangement exists, the price is fixed or determinable, the transaction has been completed and collectibility of the resulting receivable is reasonably assured.

Real estate commissions earned by the Company's real estate brokerage businesses are recorded as revenue on a gross basis upon the closing

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

of a real estate transaction as evidenced when the escrow or similar account is closed, the transaction documents have been recorded and funds are distributed to all appropriate parties. Commissions expenses are recognized concurrently with related revenues. Property management fees and rental commissions earned are recorded as revenue when the related services are performed.

(d) Earnings Per Share (“EPS”):

Information concerning the Company's common stock has been adjusted to give retroactive effect to the 5% stock dividend paid to Company stockholders on September 29, 2015. All per share amounts and references to share amounts have been updated to reflect the retrospective effect of the stock dividends.

Net income for purposes of determining basic and diluted EPS was as follows:

	Three Months Ended March 31, 2016		2015
Net income attributed to Vector Group Ltd.	\$19,338		\$21,221
Income attributed to participating securities	(633)		(630)
Net income available to common shares attributed to Vector Group Ltd.	\$18,705		\$20,591

Basic and diluted EPS were calculated using the following common shares:

	Three Months Ended March 31, 2016		2015
Weighted-average shares for basic EPS	118,058,860		116,990,724
Plus incremental shares related to stock options and non-vested restricted stock	194,424		201,456
Weighted-average shares for diluted EPS	118,253,284		117,192,180

The following were outstanding during the three months ended March 31, 2016 and 2015, but were not included in the computation of diluted EPS because the effect was anti-dilutive.

	Three Months Ended March 31, 2016		2015
Weighted-average shares of non-vested restricted stock	1,200,000		—
Weighted-average expense per share	\$22.75		\$ —
Weighted-average number of shares issuable upon conversion of debt	24,895,425		27,779,073
Weighted-average conversion price	\$19.63		\$ 19.32

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

(e) Fair Value of Derivatives Embedded within Convertible Debt:

The Company has estimated the fair market value of the embedded derivatives based principally on the results of a valuation model. The estimated fair value of the derivatives embedded within the convertible debt is based principally on the present value of future dividend payments expected to be received by the convertible debt holders over the term of the debt. The discount rate applied to the future cash flows is estimated based on a spread in the yield of the Company's debt when compared to risk-free securities with the same duration. A readily determinable fair market value of the embedded derivatives is not available. The valuation model assumes future dividend payments by the Company and utilizes interest rates and credit spreads for secured to unsecured debt, unsecured to subordinated debt and subordinated debt to preferred stock to determine the fair value of the derivatives embedded within the convertible debt. The valuation also considers other items, including current and future dividends and the volatility of the Company's stock price. At March 31, 2016, the range of estimated fair market values of the Company's embedded derivatives was between \$133,267 and \$135,403. The Company recorded the fair market value of its embedded derivatives at the approximate midpoint of the range at \$134,348 as of March 31, 2016. At December 31, 2015, the range of estimated fair market values of the Company's embedded derivatives was between \$143,422 and \$144,660. The Company recorded the fair market value of its embedded derivatives at the midpoint of the range at \$144,042 as of December 31, 2015. The estimated fair market value of the Company's embedded derivatives could change significantly based on future market conditions. (See Note 6.)

(f) Investment in Real Estate Ventures:

The Company's investment in real estate ventures are subject to evaluation under ASU No. 2015-02, "Consolidation" ("ASU 2015-02") which requires all legal entities to be evaluated as either a voting interest entity or a Variable Interest Entities ("VIE"). The guidance is effective for financial statements of public companies issued for fiscal years beginning after December 15, 2015. The Company has followed the decision tree set forth in ASC 810-10-05-6 in analyzing each of its investments in real estate ventures. The Company examines specific criteria and uses judgment when determining if the real estate venture is a VIE and then if the Company is the primary beneficiary of a VIE. Factors considered in the qualification of a VIE include sufficient equity investment at risk, disproportionate voting rights and substantially all of the activities are conducted on behalf of an investor with disproportionately few voting rights, and characteristics of a controlling financial interest.

Accounting guidance requires the Company to perform the VIE primary-beneficiary assessment for entities determined to be VIEs. The Company is required to consolidate all VIEs in which the Company is the primary beneficiary. The guidance requires consolidation of VIEs that a reporting entity has a controlling financial interest. A controlling financial interest will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (b) the obligation to absorb losses or the right to receive residual returns of the VIE that could potentially be significant to the VIE.

The Company's maximum exposure to loss in its investments in unconsolidated VIEs is limited to its investment in the unconsolidated VIEs which is the carrying value. The Company's maximum exposure to loss in its investment in its consolidated VIEs is limited to its investment which is the carrying value of the investment net of the non-controlling interest. Creditors of the consolidated VIEs have no recourse to the general credit of the primary beneficiary.

(g) Other Income, Net:

Other income, net consisted of:

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	Three Months Ended March 31,	
	2016	2015
Interest and dividend income	\$1,324	\$1,740
Gain on long-term investment	—	200
Impairment of long-term investments	(282)	—
Other expense	5	(3)
Other income, net	\$1,047	\$1,937

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

(h) Other Current Liabilities:

Other current liabilities consisted of:

	March 31, December 31,	
	2016	2015
Accounts payable	\$ 10,865	\$ 19,639
Accrued promotional expenses	20,733	24,816
Accrued excise and payroll taxes payable, net	18,690	26,556
Accrued interest	16,523	28,147
Commissions payable	8,770	11,008
Accrued salary and benefits	9,117	20,134
Other current liabilities	28,387	23,917
Total other current liabilities	\$ 113,085	\$ 154,217

(i) Goodwill and Other Intangible Assets:

The components of “Goodwill and other intangible assets, net” were as follows:

	March 31, December 31,	
	2016	2015
Goodwill	\$ 70,791	\$ 70,791
Indefinite life intangibles:		
Intangible asset associated with benefit under the MSA	107,511	107,511
Trademark - Douglas Elliman	80,000	80,000
Intangibles with a finite life, net	5,111	5,657
Total goodwill and other intangible assets, net	\$ 263,413	\$ 263,959

(j) Commitments:

Douglas Elliman Lease Extension. On March 31, 2016, Douglas Elliman extended the duration of an existing lease and entered into a sublease for additional space in New York. The agreement extended the lease term from 2018 to 2032. The new agreements could increase the Company’s lease commitments by \$0 in 2016, \$1,164 in 2017, \$1,412 in 2018, \$3,733 in 2019, \$5,394 in 2020 and \$69,460 thereafter.

(k) New Accounting Pronouncements:

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 modifies U.S. Generally Accepted Accounting Principles (“GAAP”) by requiring the following, among others: (1) all excess tax benefits and tax deficiencies are to be recognized as income tax expense or benefit on the income statement (excess tax benefits are recognized regardless of whether the benefit

reduces taxes payable in the current period); (2) excess tax benefits are to be classified along with other income tax cash flows as an operating activity in the statement of cash flows; (3) in

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VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

the area of forfeitures, an entity can still follow the current U.S. GAAP practice of making an entity-wide accounting policy election to estimate the number of awards that are expected to vest or may instead account for forfeitures when they occur; and (4) classification as a financing activity in the statement of cash flows of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes. ASU 2016-09 is effective for the Company's fiscal year beginning January 1, 2017, including interim periods. Early application is permitted. The Company is currently assessing the impact the adoption of ASU 2016-09 will have on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). ASU 2016-08 does not change the core principle of the guidance stated in ASU 2014-09, instead, the amendments in this ASU are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis. ASU 2016-08 will have the same effective date and transition requirements as the new revenue standard issued in ASU 2014-09. The Company is currently evaluating the method and impact the adoption of this ASU and ASU 2014-09 will have on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments- Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. ASU 2016-07 will be effective for the Company's fiscal year beginning January 1, 2017 and subsequent interim periods. The adoption of ASU 2016-07 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force) ("ASU 2016-06"). ASU 2016-06 clarifies the requirement for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under ASU 2016-06 is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The amendments in ASU 2016-06 are effective for the Company's fiscal year beginning January 1, 2017, including interim periods. The Company is currently evaluating the method and impact the adoption of this ASU 2016-06 will have on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which provides guidance for accounting for leases. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or on a straight line basis over the term of the lease. Accounting for lessors remains largely unchanged from current U.S. GAAP. ASU 2016-02 will be effective for the Company's fiscal year beginning January 1, 2019 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the Company's condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at

fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such these investments may be measured at cost. ASU 2016-01 will be effective for the Company's fiscal year beginning January 1, 2018 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-01 will have on the Company's condensed consolidated financial statements.

In May 2014, FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606), ("ASU 2014-9"). ASU 2014-9 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As amended by ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date the new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting

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periods beginning subsequent to December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method and it has not determined the impact of the new standard on its condensed consolidated financial statements.

2. INVENTORIES

Inventories consist of:

	March 31, December 31,	
	2016	2015
Leaf tobacco	\$ 51,035	\$ 49,856
Other raw materials	3,423	3,578
Work-in-process	918	789
Finished goods	65,781	61,493
E-Cigarettes	74	80
Inventories at current cost	121,231	115,796
LIFO adjustments	(28,780)	(29,280)
	\$ 92,451	\$ 86,516

All of the Company's inventories at March 31, 2016 and December 31, 2015 are reported under the LIFO method. The \$28,780 LIFO adjustment as of March 31, 2016 decreases the current cost of inventories by \$19,363 for Leaf tobacco, \$643 for Other raw materials, \$33 for Work-in-Process, \$8,736 for Finished goods and \$5 for E-Cigarettes. The \$29,280 LIFO adjustment as of December 31, 2015 decreased the current cost of inventories by \$19,863 for Leaf tobacco, \$643 for Other raw materials, \$33 for Work-in-Process, \$8,736 for Finished goods and \$5 for E-Cigarettes.

Liggett enters into purchase commitments for leaf tobacco that will be used entirely for future production. The future quantities of leaf tobacco and prices are established at the date of the commitments. At March 31, 2016, Liggett had tobacco purchase commitments of approximately \$24,397. Liggett has a single source supply agreement for fire safe cigarette paper through 2019.

The Company capitalizes the incremental prepaid cost of the MSA in ending inventory. Each year, the Company capitalizes in inventory that portion of its MSA liability that relates to cigarettes shipped to public warehouses but not sold. The amount of capitalized MSA cost in "Finished goods" inventory was \$15,390 and \$15,796 at March 31, 2016 and December 31, 2015, respectively. Federal excise tax in inventory was \$25,159 and \$23,455 at March 31, 2016 and December 31, 2015,

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3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The components of investment securities available for sale at March 31, 2016 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$37,947	\$ 18,822	\$ (238)	\$56,531
Mutual funds invested in fixed income securities	20,215	77	—	20,292
Marketable debt securities	75,120	757	—	75,877
Total investment securities available for sale	\$133,282	\$ 19,656	\$ (238)	\$152,700

The components of investment securities available for sale at December 31, 2015 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$47,502	\$ 19,833	\$ (62)	\$67,273
Mutual funds invested in fixed income securities	20,126	—	(15)	20,111
Marketable debt securities	94,540	52	—	94,592
Total investment securities available for sale	\$162,168	\$ 19,885	\$ (77)	\$181,976

The table below summarizes the maturity dates of marketable debt securities at March 31, 2016.

Investment Type:	Market Value	Under 1 Year	1 Year up to 5 Years	More than 5 Years
U.S. Government securities	\$22,730	\$—	\$22,730	\$ —
Corporate securities	35,592	433	35,159	—
U.S. mortgage-backed securities	5,369	605	4,764	—
Commercial mortgage-backed securities	5,605	4,526	1,079	—
U.S. asset-backed securities	4,443	3,857	586	—
Index-linked U.S. bonds	2,138	—	2,138	—
Total marketable debt securities by maturity dates	\$75,877	\$9,421	\$66,456	\$ —

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The available-for-sale investment securities with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	In loss position for				Total Fair Value	Total Unrealized Losses
	Less than 12 months	12 months or more	Fair Value	Unrealized Losses		
March 31, 2016						
Marketable equity securities	\$5,762	\$ (238)	\$ —	\$ —	—\$5,762	\$ (238)
	\$5,762	\$ (238)	\$ —	\$ —	—\$5,762	\$ (238)
December 31, 2015						
Marketable equity securities	\$5,938	\$ (62)	\$ —	\$ —	—\$5,938	\$ (62)
Mutual funds invested in fixed income securities	10,053	(15)	—	—	10,053	(15)
	\$15,991	\$ (77)	\$ —	\$ —	—\$15,991	\$ (77)

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Unrealized losses from equity and debt securities are due to market price movements. The Company believes the unrealized losses associated with the Company's equity securities will be recovered in the future.

Gross realized gains and losses on available-for-sale investment securities were as follows:

	Three Months Ended March 31,	
	2016	2015
Gross realized gains on sales	\$759	\$13,564
Gross realized losses on sales	(192)	(535)
Gains on sale of investment securities available for sale	\$567	\$13,029

Gross realized losses on other-than-temporary impairments \$(4,813) \$—

The Company recorded an “Other-than-temporary impairment” charge of \$4,813 during the three months ended March 31, 2016. The largest component of this charge was \$4,772 related to Morgans Hotel Group Co., a company where Vector's President and Chief Executive Officer also serves as Chairman of the Board of Directors. Although management generally does not have the intent to sell any specific securities at the end of the period, in the ordinary course of managing the Company's investment securities portfolio, management may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements and the funding of claims and obligations to policyholders.

Proceeds from investment securities sales totaled \$51,218 and \$74,591 and proceeds from early redemptions by issuers totaled \$2,517 and \$2,541 in the three months ended March 31, 2016 and 2015, respectively, mainly from sales of Corporate securities and U.S. Government securities.

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4. LONG-TERM INVESTMENTS

Long-term investments consisted of the following:

	March 31, 2016	December 31, 2015
Investments accounted at cost	\$39,949	\$ 41,231
Investments accounted for under the equity method	19,539	21,495
	\$59,488	\$ 62,726

(a) Cost-Method Investments:

Long-term investments accounted for at cost consisted of the following:

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments partnerships	\$39,448	\$41,386	\$40,730	\$44,217
Real estate partnership	501	505	501	552
	\$39,949	\$41,891	\$41,231	\$44,769

The principal business of the investment partnerships is investing in investment securities and real estate. The estimated fair value of the investment partnerships was provided by the partnerships based on the indicated market values of the underlying assets or investment portfolio. The investments in these investment 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. In the future, the Company may invest in other investments, including limited partnerships, real estate investments, equity securities, debt securities, derivatives and certificates of deposit, depending on risk factors and potential rates of return.

If it is determined that an other-than-temporary decline in fair value exists in long-term investments, the Company records an impairment charge with respect to such investment in its consolidated statements of operations. The Company will continue to perform additional assessments to determine the impact, if any, on the Company's condensed consolidated financial statements. Thus, future impairment charges may occur.

The Company has accounted for these investments using the cost method of accounting because the investments did not meet the requirements for equity method accounting.

The Company invested \$5,000 in a reinsurance company during the the three months ended March 31, 2015.

The long-term investments are carried on the consolidated balance sheet at cost. The fair value determination disclosed above

would be classified as Level 3 under fair value hierarchy disclosed in Note 11 if such assets were recorded on the consolidated balance sheet at fair value. The fair value determinations disclosed above were based on company assumptions, and information obtained from the partnerships based on the indicated market values of the underlying assets of the investment portfolio.

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(b) Equity-Method Investments:

Long-term investments accounted for under the equity method consisted of the following:

	March 31, 2016	December 31, 2015
Indian Creek Investors LP	\$3,780	\$ 4,989
Boyar Value Fund	7,286	7,302
Ladenburg Thalmann Financial Services Inc.	8,473	9,204
Castle Brands, Inc.	—	—
	\$19,539	\$ 21,495

The Company's investments accounted for under the equity method include the following: Indian Creek Investors LP (“Indian Creek”), Boyar Value Fund (“Boyar”), Ladenburg Thalmann Financial Services Inc. (“LTS”) and Castle Brands Inc. (“Castle”). At March 31, 2016, the Company's ownership percentages in Indian Creek, Boyar, LTS and Castle were 20.17%, 30.36%, 7.76% and 7.92%, respectively. The Company accounted for Indian Creek and Boyar interests as equity-method investments because the Company's ownership percentage meets the threshold for equity-method accounting. The Company accounted for the LTS and Castle interests as equity-method investments because the Company has the ability to exercise significant influence over their operating and financial policies.

The Company's investments under the equity method include an investment in Boyar. The value of the investment based on the quoted market price as of March 31, 2016 was \$7,286, equal to its carrying value. Ladenburg Thalmann Fund Management, LLC, an indirect subsidiary of LTS, is the manager of Boyar.

At March 31, 2016, the aggregate values of the LTS and Castle investments based on the quoted market price were \$35,478 and \$11,911, respectively.

The principal business of Indian Creek is investing in investment securities. Fair value approximates carrying value. The estimated fair value of the investment partnership was provided by the partnership based on the indicated market values of the underlying assets or investment portfolio. The investment in the investment partnership is illiquid and the ultimate realization of the investment is subject to the performance of the underlying partnership and its management by the general partners.

The Company received cash distributions of \$285 and \$1,433 from the Company's investments in long-term investments under the equity method for the three months ended March 31, 2016 and 2015, respectively. The Company recognized equity in losses from long-term investments under the equity method of \$1,671 for the three months ended March 31, 2016 and equity in earnings from long-term investments under the equity method of \$612 for the three months ended March 31, 2015. The Company has suspended its recognition of equity losses in Castle to the extent such losses exceed its basis.

If it is determined that an other-than-temporary decline in fair value exists in long-term investments, the Company records an impairment charge with respect to such investment in its consolidated statements of operations. The Company will continue to perform additional assessments to determine the impact, if any, on the Company's condensed consolidated financial statements. Thus, future impairment charges may occur.

5. NEW VALLEY LLC

Residential Brokerage Business. New Valley is engaged in the real estate business and is seeking to acquire additional real estate properties and operating companies. The Company owns a 70.59% interest in Douglas Elliman and the condensed consolidated financial statements of the Company include the account balances of Douglas Elliman.

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VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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Investments in real estate ventures. New Valley also holds equity investments in various real estate projects domestically and internationally. The components of “Investments in real estate ventures” were as follows:

	March 31, December 31,	
	2016	2015
10 Madison Square Park (1107 Broadway)	\$ 12,123	\$ 11,391
The Marquand (11 East 68th Street)	13,054	13,900
11 Beach Street	13,527	13,209
20 Times Square (701 Seventh Avenue)	16,024	14,985
111 Murray Street	25,387	25,567
160 Leroy Street	4,530	3,952
215 Chrystie Street	5,666	5,592
The Dutch (25-19 43rd Avenue)	1,107	1,077
Queens Plaza (23-10 Queens Plaza South)	16,553	16,177
87 Park (8701 Collins Avenue)	8,770	8,658
125 Greenwich Street	9,870	9,750
West Hollywood Edition (9040 Sunset Boulevard)	14,416	10,510
76 Eleventh Avenue	18,487	17,967
Monad Terrace	6,849	6,608
Takanasee	4,816	4,680
Condominium and Mixed Use Development	171,179	164,023
Maryland Portfolio	—	—
ST Portfolio	16,270	15,754
Apartment Buildings	16,270	15,754
Park Lane Hotel	19,835	19,697
Hotel Taiwana	7,451	7,069
Coral Beach and Tennis Club	2,702	3,159
Hotels	29,988	29,925
The Plaza at Harmon Meadow	5,526	5,449
Commercial	5,526	5,449
Other	2,070	2,017
Investments in real estate ventures	\$ 225,033	\$ 217,168

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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Condominium and Mixed-Use Development:

Condominium and mixed-use development investments range in ownership percentage from 3.1% to 49.5%. New Valley recorded net equity in losses of \$1,183 for the three months ended March 31, 2016 from its condominium and mixed-used developments. New Valley recorded equity income of \$536 for the three months ended March 31, 2015. The Company recorded \$300 of equity income related to its proportionate share of the Marquand's equity earnings from the sale of two of its units during the quarter and \$236 from Chelsea Eleven for a distribution of excess amounts held back in 2012 for final expenses of the investment for the three months ended March 31, 2015.

During the three months ended March 31, 2016, New Valley made capital contributions totaling \$5,077 related to ventures where New Valley previously held an investment, primarily at 20 Times Square, 160 Leroy Street, West Hollywood Edition, and Monad Terrace. For ventures where New Valley previously held an investment, New Valley contributed its proportionate share of additional capital along with contributions by the other investment partners. New Valley's direct investment percentage did not change. During the three months ended March 31, 2015, New Valley made capital contributions totaling \$1,352 primarily related to 215 Chrystie Street and the Dutch. New Valley contributed its proportionate share of additional capital along with contributions by the other investment partners. New Valley's investment percentages did not change.

During the three months ended March 31, 2016, New Valley received distributions of \$258 primarily related to income from marketing fees paid by 125 Greenwich Street. During the three months ended March 31, 2015, New Valley received distributions of \$236 from its investment in Chelsea Eleven, which sold its last unit in 2012, for excess amounts held back in 2012 for final expenses of the investment.

New Valley's maximum exposure to loss, net of non-controlling interest, as a result of its investments in condominium and mixed-use developments was \$153,669 at March 31, 2016.

New Valley capitalized \$3,520 of interest expense into the carrying value of its ventures whose projects were currently under development during the three months ended March 31, 2016.

Douglas Elliman has been engaged by the developers as the sole broker or the co-broker for several of the real estate development projects that New Valley owns an interest in through its joint venture investments. Douglas Elliman had gross commissions of approximately \$2,405 for the three months ended March 31, 2016 from these projects.

Apartment Buildings:

Apartment building investments range in ownership percentage from 7.6% to 16.3%. New Valley recorded equity income of \$516 for the three months ended March 31, 2016, related to the ST Portfolio apartment portfolio. New Valley recorded equity losses of \$48 for the three months ended March 31, 2015, primarily related to equity losses of the Maryland Portfolio. New Valley received distributions of \$212 during the three months ended March 31, 2015, primarily related to the Maryland Portfolio. New Valley has suspended its recognition of equity losses in Maryland Portfolio to the extent such losses exceed its basis. New Valley's maximum exposure to loss as a result of its investment in apartment buildings was \$16,270 at March 31, 2016.

Hotels:

Hotel investments range in ownership percentage from 5.2% to 49.0%. New Valley recorded equity losses of \$655 for the three months ended March 31, 2016, related to hotel operations. New Valley recorded equity losses of \$747 for the three months ended March 31, 2015. New Valley made capital contributions totaling \$718 for the three months ended March 31, 2016, related to the Park Lane Hotel. New Valley made capital contributions totaling \$533 for the three

months ended March 31, 2015, primarily related to Coral Beach and Tennis Club. New Valley's maximum exposure to loss as a result of its investments in hotels was \$29,988 at March 31, 2016.

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Commercial:

Commercial ventures include a contribution by New Valley of \$5,931 for a 49% interest in a joint venture which purchased a shopping center, The Plaza at Harmon Meadow, in New Jersey at the end of March 2015. New Valley recorded equity income of \$212 for the three months ended March 31, 2016 related to shopping center rental operations. New Valley received distributions totaling \$135 for the three months ended March 31, 2016, related to Harmon Meadow. New Valley's maximum exposure to loss as a result of its investments in commercial ventures was \$5,526 at March 31, 2016.

Other:

Other investments in real estate ventures relate to a 50% investment in an insurance consulting company owned by Douglas Elliman.

Real Estate Held for Sale:

The components of "Real estate held for sale, net" were as follows:

	March 31, December 31,	
	2016	2015
Escena, net	\$ 10,714	\$ 10,716
Sagaponack	12,652	12,602
Real estate held for sale, net	\$ 23,366	\$ 23,318

Escena. The assets of "Escena, net" were as follows:

	March 31, December 31,	
	2016	2015
Land and land improvements	\$ 8,907	\$ 8,907
Building and building improvements	1,874	1,875
Other	2,004	1,923
	12,785	12,705
Less accumulated depreciation	(2,071)	(1,989)
	\$ 10,714	\$ 10,716

New Valley recorded operating income of \$508 and \$725 for the three months ended March 31, 2016 and 2015, respectively, from Escena.

Investment in Sagaponack. In April 2015, New Valley has invested \$12,502 in a residential real estate project located in Sagaponack, NY. The project is wholly owned and the balances of the project are included in the condensed consolidated financial statements of the Company. As of March 31, 2016, the assets of Sagaponack consist of land and land improvements of \$12,652.

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

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

	March 31, 2016	December 31, 2015
Vector:		
7.75% Senior Secured Notes due 2021, including premium of \$7,685 and \$8,014	\$ 607,685	\$ 608,014
7.5% Variable Interest Senior Convertible Notes due 2019, net of unamortized discount of \$127,301 and \$132,119*	102,699	97,881
5.5% Variable Interest Senior Convertible Debentures due 2020, net of unamortized discount of \$82,668 and \$86,136*	176,082	