VECTOR GROUP LTD
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2016

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

Delaware	1-5759	65-0949535
(State or other jurisdiction of incorporation incorporation or organization)	Commission File Number	(I.R.S. Employer Identification No.)

4400 Biscayne Boulevard
Miami, Florida 33137
305-579-8000
(Address, including zip code and telephone number, including area code,
of the principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
o Accelerated filero Non-accelerated filer

x Large accelerated filer		o 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.
o Yes x No

At August 5, 2016, Vector Group Ltd. had 123,754,768 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

	June 30, 2016	December 31, 2015
ASSETS:		
Current assets:		
Cash and cash equivalents	$474,738	$240,368
Investment securities available for sale	160,854	181,976
Accounts receivable - trade, net	25,076	23,889
Inventories	92,735	86,516
Income taxes receivable, net	218	2,841
Restricted assets	9,437	9,195
Other current assets	40,163	38,954
Total current assets	803,221	583,739
Property, plant and equipment, net	71,904	75,632
Investments in real estate, net	23,328	23,318
Long-term investments	59,369	62,726
Investments in real estate ventures	206,139	217,168
Restricted assets	9,386	12,303
Goodwill and other intangible assets, net	262,866	263,959
Prepaid pension costs	21,302	20,650
Other assets	21,985	21,120
Total assets	$1,479,500	$1,280,615
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Current portion of notes payable and long-term debt	$16,615	$8,919
Current payments due under the Master Settlement Agreement	56,972	29,241
Current portion of employee benefits	914	915
Income taxes payable, net	—	96
Litigation accruals	3,514	22,904
Other current liabilities	140,388	154,217
Total current liabilities	218,403	216,292
Notes payable, long-term debt and other obligations, less current portion	1,110,731	856,108
Fair value of derivatives embedded within convertible debt	126,932	144,042
Non-current employee benefits	55,308	55,055
Deferred income taxes, net	87,914	79,429
Payments due under the Master Settlement Agreement	22,257	20,094
Litigation accruals	22,619	24,718
Other liabilities	10,772	7,038
Total liabilities	1,654,936	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, 123,842,329 and 123,792,329 shares issued and outstanding	12,384	12,379
Accumulated deficit	(261,370)	(210,113)
Accumulated other comprehensive income	(8,539)	(8,313)
Total Vector Group Ltd. stockholders' deficiency	(257,525)	(206,047)

Non-controlling interest	82,089	83,886
Total stockholders' deficiency	(175,436)	(122,161)
Total liabilities and stockholders' deficiency	$ 1,479,500	$ 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Tobacco*	$255,498	$254,890	$476,513	$482,975
Real estate	182,765	161,022	342,512	293,278
E-Cigarettes	10	261	48	680
Total revenues	438,273	416,173	819,073	776,933
Expenses:				
Cost of sales:				
Tobacco*	168,607	174,867	305,345	331,897
Real estate	115,017	103,870	214,695	188,228
E-Cigarettes	7	467	13	1,097
Total cost of sales	283,631	279,204	520,053	521,222
Operating, selling, administrative and general expenses	83,922	79,916	163,750	154,097
Litigation settlement and judgment expense	—	1,250	2,350	2,093
Restructuring charges	—	—	41	—
Operating income	70,720	55,803	132,879	99,521
Other income (expenses):				
Interest expense	(36,369)	(31,761)	(67,089)	(63,507)
Change in fair value of derivatives embedded within convertible debt	7,416	5,256	17,110	11,716
Equity in earnings from real estate ventures	2,813	1,856	2,306	2,194
Equity in earnings (losses) from investments	1,089	(2,163)	(582)	(1,551)
Gain (loss) on sale of investment securities available for sale	139	(190)	706	12,839
Impairment of investment securities available for sale	(49)	—	(4,862)	—
Other, net	581	1,821	1,628	3,758
Income before provision for income taxes	46,340	30,622	82,096	64,970
Income tax expense	19,003	11,178	33,366	24,045
Net income	27,337	19,444	48,730	40,925
Net income attributed to non-controlling interest	(3,322)	(1,837)	(5,377)	(2,097)
Net income attributed to Vector Group Ltd.	$24,015	$17,607	$43,353	$38,828
Per basic common share:				
Net income applicable to common shares attributed to Vector Group Ltd.	$0.20	$0.14	$0.36	$0.32
Per diluted common share:				

Net income applicable to common shares attributed to Vector Group Ltd.	$0.20	$0.14	$0.35	$0.32
Dividends declared per share	$0.40	$0.38	$0.80	$0.76

* Revenues and cost of sales include federal excise taxes of $106,861, $108,912, $197,707 and $206,271, 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	$27,337	$19,444	$48,730	$40,925
Net unrealized losses on investment securities available for sale:				
Change in net unrealized (losses) gains	(820)	(4,493)	(5,454)	16,417
Net unrealized (gains) losses reclassified into net income	(90)	190	4,156	(12,839)
Net unrealized (losses) gains on investment securities available for sale	(910)	(4,303)	(1,298)	3,578
Net unrealized gains on long-term investments accounted for under the equity method:				
Change in net unrealized gains	—	1,176	—	1,190
Net unrealized losses reclassified into net income	—	1,624	—	1,624
Net unrealized gains on long-term investments accounted for under the equity method	—	2,800	—	2,814
Net change in forward contracts	9	16	18	32
Net change in pension-related amounts				
Net loss arising during the year	—	1,607	—	1,607
Amortization of loss	445	254	890	521
Net change in pension-related amounts	445	1,861	890	2,128
Other comprehensive (loss) income	(456)	374	(390)	8,552
Income tax effect on:				
Change in net unrealized (losses) gains on investment securities	337	1,857	2,245	(6,603)
Net unrealized losses (gains) reclassified into net income on investment securities	37	(78)	(1,708)	5,309
Change in unrealized gains on long-term investments accounted for under the equity method	—	(478)	—	(484)
Net unrealized losses reclassified into net income on long-term investments accounted for under the equity method	—	(672)	—	(672)
Forward contracts	(4)	(7)	(7)	(13)
Pension-related amounts	(183)	(769)	(366)	(880)
Income tax benefit (provision) on other comprehensive income	187	(147)	164	(3,343)
Other comprehensive (loss) income, net of tax	(269)	227	(226)	5,209
Comprehensive income	27,068	19,671	48,504	46,134

Comprehensive income attributed to non-controlling interest	(3,322)	(1,837)	(5,377)	(2,097)
Comprehensive income attributed to Vector Group Ltd.	$23,746	$17,834	$43,127	$44,037

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 STOCKHOLDERS' DEFICIENCY
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Capital	Deficit	Income	Interest	Total
Balance, January 1, 2016	123,792,329	$12,379	$ —	$(210,113)	$ (8,313)	$ 83,886	$(122,161)
Net income	—	—	—	43,353	—	5,377	48,730
Total other comprehensive loss	—	—	—	—	(226)	—	(226)
Total comprehensive income	—	—	—	—	—	—	48,504
Distributions and dividends on common stock	—	—	(4,833)	(94,610)	—	—	(99,443)
Restricted stock grant	50,000	5	(5)	—	—	—	—
Stock-based compensation	—	—	4,838	—	—	—	4,838
Contributions from non-controlling interest	—	—	—	—	—	248	248
Distributions to non-controlling interest	—	—	—	—	—	(7,422)	(7,422)
Balance as of June 30, 2016	123,842,329	$12,384	$ —	$(261,370)	$ (8,539)	$ 82,089	$(175,436)

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 CASH FLOWS
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net cash provided by operating activities	$78,825	$83,885
Cash flows from investing activities:		
Sale of investment securities	67,033	118,261
Maturities of investment securities	343	1,737
Purchase of investment securities	(56,691)	(113,595)
Proceeds from sale or liquidation of long-term investments	1,000	1,254
Purchase of long-term investments	(50)	(5,000)
Investments in real estate ventures	(11,806)	(34,857)
Distributions from investments in real estate ventures	17,983	—
Increase in cash surrender value of life insurance policies	(393)	(1,118)
Decrease (increase) in restricted assets	2,674	(7,934)
Issuance of notes receivable	—	(4,410)
Proceeds from sale of fixed assets	5	3
Capital expenditures	(7,615)	(5,379)
Pay downs of investment securities	4,926	3,530
Proceeds from sale of preferred securities	—	1,000
Investments in real estate, net	(81)	(12,502)
Net cash provided by (used in) investing activities	17,328	(59,010)
Cash flows from financing activities:		
Proceeds from issuance of debt	243,282	22
Deferred financing costs	(6,600)	(625)
Repayments of debt	(2,917)	(3,374)
Borrowings under revolver	89,695	126,727
Repayments on revolver	(80,223)	(144,492)
Dividends and distributions on common stock	(97,846)	(92,778)
Contributions from non-controlling interest	248	—
Distributions to non-controlling interest	(7,422)	—
Proceeds from exercise of Vector options	—	1,219
Tax benefit of options exercised	—	384
Net cash provided by (used in) financing activities	138,217	(112,917)
Net increase (decrease) in cash and cash equivalents	234,370	(88,042)
Cash and cash equivalents, beginning of period	240,368	326,365
Cash and cash equivalents, end of period	$474,738	$238,323

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 June 30, 2015			Six Months Ended June 30, 2015		
	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Operating, selling, administrative and general expenses	$79,679	$237	$79,916	$153,623	$474	$154,097
Operating income	56,040	(237)	55,803	99,995	(474)	99,521
Equity in losses from investments	(1,657)	(506)	(2,163)	(1,694)	143	(1,551)
Other, net	1,525	296	1,821	3,421	337	3,758
Income before provision for income taxes	31,069	(447)	30,622	64,964	6	64,970
Income tax expense	11,364	(186)	11,178	24,043	2	24,045
Net income	19,705	(261)	19,444	40,921	4	40,925
Net income attributed to Vector Group Ltd.	17,868	(261)	17,607	38,824	4	38,828
Other comprehensive (loss) income, net of tax	(2,781)	3,008	227	(782)	5,991	5,209
Comprehensive income	16,924	2,747	19,671	40,139	5,995	46,134
Comprehensive income attributed to Vector Group Ltd.	$15,087	$2,747	$17,834	$38,042	$5,995	$44,037

(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 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. Commission expenses are recognized concurrently with related revenues.

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
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Property management fees and rental commissions earned are recorded as revenue when the related services are performed and the earnings process is complete.

(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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income attributed to Vector Group Ltd.	$24,015	$17,607	$43,353	$38,828
Income attributed to participating securities	(784)	(521)	(1,417)	(1,151)
Net income available to common shares attributed to Vector Group Ltd.	$23,231	$17,086	$41,936	$37,677

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Weighted-average shares for basic EPS	118,065,857	117,954,708	118,062,358	117,475,380
Plus incremental shares related to stock options and non-vested restricted stock	236,348	209,067	215,386	205,262
Weighted-average shares for diluted EPS	118,302,205	118,163,775	118,277,744	117,680,642

The following were outstanding during the three and six months ended June 30, 2016 and 2015, but were not included in the computation of diluted EPS because the effect was anti-dilutive.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Weighted-average number of shares issuable upon conversion of debt	24,895,477	24,895,477	24,895,477	25,334,835
Weighted-average conversion price	$19.63	$ 19.63	$19.63	$ 19.48

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 value of the embedded derivatives based principally on the results of a valuation model. A readily determinable fair value of the embedded derivatives is not available. 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. 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. At June 30, 2016, the range of estimated fair values of the Company's embedded derivatives was between $125,983 and $127,870. The Company recorded the fair value of its embedded derivatives at the approximate midpoint of the range at $126,932 as of June 30, 2016. At December 31, 2015, the range of estimated fair values of the Company's embedded derivatives was between $143,422 and $144,660. The Company recorded the fair value of its embedded derivatives at the midpoint of the range at $144,042 as of December 31, 2015. The estimated fair 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:

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2016	2015	2016	2015
Interest and dividend income	$1,452	$1,795	$2,776	$3,535
Gain on long-term investment	—	24	—	224
Impairment of long-term investments	(921)	—	(1,203)	—
Other income (expense)	50	2	55	(1)
Other income, net	$581	$1,821	$1,628	$3,758

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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:

	June 30, 2016	December 31, 2015
Accounts payable	$10,265	$ 19,639
Accrued promotional expenses	22,269	24,816
Accrued excise and payroll taxes payable, net	16,784	26,556
Accrued interest	35,028	28,147
Commissions payable	9,885	11,008
Accrued salary and benefits	18,179	22,774
Other current liabilities	27,978	21,277
Total other current liabilities	$140,388	$ 154,217

(i) Goodwill and Other Intangible Assets:

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

	June 30, 2016	December 31, 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	4,564	5,657
Total goodwill and other intangible assets, net	$262,866	$ 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 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 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 periods beginning subsequent to December 15, 2016. The new standard is required to be applied retrospectively to each prior

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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 the Company's condensed consolidated financial statements.

2. INVENTORIES

Inventories consist of:

	June 30, 2016	December 31, 2015
Leaf tobacco	$49,537	$ 49,856
Other raw materials	3,586	3,578
Work-in-process	606	789
Finished goods	67,219	61,493
E-Cigarettes	67	80
Inventories at current cost	121,015	115,796
LIFO adjustments	(28,280)	(29,280)
	$92,735	$ 86,516

All of the Company's inventories at June 30, 2016 and December 31, 2015 are reported under the LIFO method. The $28,280 LIFO adjustment as of June 30, 2016 decreases the current cost of inventories by $18,863 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 with third party providers 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 June 30, 2016, Liggett had tobacco purchase commitments of approximately $16,151. Liggett has a single source supply agreement for reduced ignition propensity cigarette paper through 2019.

The Company capitalizes the incremental prepaid cost of the MSA in ending inventory. Each period, 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 $15,865 and $15,796 at June 30, 2016 and December 31, 2015, respectively. Federal excise tax in inventory was $26,417 and $23,455 at June 30, 2016 and December 31, 2015.

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3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The components of investment securities available for sale at June 30, 2016 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	$38,172	$ 17,343	$ (206)	$55,309
Mutual funds invested in fixed income securities	20,307	211	—	20,518
Marketable debt securities	83,865	1,162	—	85,027
Total investment securities available for sale	$142,344	$ 18,716	$ (206)	$160,854

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 June 30, 2016.

Investment Type:	Market Value	Under 1 Year	1 Year up to 5 Years	More than 5 Years
U.S. Government securities	$27,456	$—	$27,456	$—
Corporate securities	35,660	2,271	33,389	—
U.S. mortgage-backed securities	7,343	—	49	7,294
Commercial mortgage-backed securities	3,675	—	—	3,675
U.S. asset-backed securities	2,115	—	2,115	—
Commercial paper	7,985	7,985	—	—
Index-linked U.S. bonds	793	—	793	—
Total marketable debt securities by maturity dates	$85,027	$10,256	$63,802	$10,969

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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 Less than 12 months		12 months or more			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2016						
Marketable equity securities	$—	$ —	$5,794	$ (206)	$5,794	$ (206)
	$—	$ —	$5,794	$ (206)	$5,794	$ (206)
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 mutual funds invested in fixed-income securities are primarily attributable to changes in interest rates. Unrealized losses from equity 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Gross realized gains on sales	$206	$520	$955	$14,084
Gross realized losses on sales	(67)	(710)	(249)	(1,245)
Gains (losses) on sale of investment securities available for sale	$139	$(190)	$706	$12,839
Gross realized losses on other-than-temporary impairments	$(49)	$—	$(4,862)	$—

The Company recorded an "Other-than-temporary impairment" charge of $49 and $4,862 during the three and six months ended June 30, 2016. The largest component of the charge for the six months ended June 30, 2016 was $4,772 related to an investment in the common stock of 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.

Proceeds from investment securities sales totaled $67,033 and $118,261 and proceeds from early redemptions by issuers totaled $5,269 and $5,267 in the six months ended June 30, 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:

	June 30, 2016	December 31, 2015
Investments accounted at cost	$39,028	$ 41,231
Investments accounted for under the equity method	20,341	21,495
	$59,369	$ 62,726

(a) Cost-Method Investments:

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

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments partnerships	$38,527	$41,522	$40,730	$44,217
Real estate partnership	501	504	501	552
	$39,028	$42,026	$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 received cash distributions of $1,000 and $371 from the Company's investments in long-term investments under the cost method for the six months ended June 30, 2016 and 2015, respectively. The Company invested $5,000 in a reinsurance company during the six months ended June 30, 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:

	June 30, 2016	December 31, 2015
Indian Creek Investors LP	$4,929	$ 4,989
Boyar Value Fund	7,312	7,302
Ladenburg Thalmann Financial Services Inc.	8,100	9,204
Castle Brands, Inc.	—	—
	$20,341	$ 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 June 30, 2016, the Company's ownership percentages in Indian Creek, Boyar, LTS and Castle were 20.13%, 30.65%, 7.75% and 7.91%, respectively. The Company accounted for its 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 its LTS and Castle interests as equity-method investments because, in accordance with generally accepted accounting principles, the Company has the ability to exercise significant influence over their operating and financial policies.
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's investments under the equity method include an investment in Boyar. The value of the investment based on the quoted market price as of June 30, 2016 was $7,312, equal to its carrying value. Ladenburg Thalmann Fund Management, LLC, an indirect subsidiary of LTS, is the manager of Boyar.

At June 30, 2016, the aggregate values of the LTS and Castle investments based on the quoted market price were $33,491 and $9,250, respectively.
The Company received cash distributions of $572 and $1,754 from the Company's investments in long-term investments under the equity method for the six months ended June 30, 2016 and 2015, respectively. The Company recognized equity in earnings from long-term investments under the equity method of $1,089 for the three months ended June 30, 2016 and equity in losses from long-term investments under the equity method of $582 for the six months ended June 30, 2016. The Company recognized equity in losses from long-term investments under the equity method of $2,163 and $1,551 for the three and six months ended June 30, 2015, respectively. The Company has suspended its recognition of equity in losses from 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 or invest in additional real estate properties or projects. 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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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:

	June 30, 2016	December 31, 2015
10 Madison Square Park (1107 Broadway)	$9,188	$ 11,391
The Marquand (11 East 68th Street)	9,333	13,900
11 Beach Street	13,702	13,209
20 Times Square (701 Seventh Avenue)	16,487	14,985
111 Murray Street	25,308	25,567
160 Leroy Street	4,511	3,952
215 Chrystie Street	5,729	5,592
The Dutch (25-19 43rd Avenue)	1,129	1,077
Queens Plaza (23-10 Queens Plaza South)	16,834	16,177
87 Park (8701 Collins Avenue)	8,846	8,658
125 Greenwich Street	9,780	9,750
West Hollywood Edition (9040 Sunset Boulevard)	7,050	10,510
76 Eleventh Avenue	18,867	17,967
Monad Terrace	7,774	6,608
Takanasee	4,916	4,680
Condominium and Mixed Use Development	159,454	164,023
Maryland Portfolio	—	—
ST Portfolio	9,193	15,754
Apartment Buildings	9,193	15,754
Park Lane Hotel	21,138	19,697
Hotel Taiwana	7,786	7,069
Coral Beach and Tennis Club	3,162	3,159
Hotels	32,086	29,925
The Plaza at Harmon Meadow	3,682	5,449
Commercial	3,682	5,449
Other	1,724	2,017
Investments in real estate ventures	$206,139	$ 217,168

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 earnings from real estate ventures of $2,962 and $1,779 for the three and six months ended June 30, 2016 from its condominium and mixed-used developments. For the three months ended June 30, 2016 equity in earnings from real estate related to $3,788 in equity earnings from New Valley's proportionate share of the sale of condominium units at 10 Madison Square Park offset by equity in losses of $826 from the other condominiums and mixed-use development projects. For the six months ended June 30, 2016 equity in earnings from real estate was

related to $4,211 in equity earnings from New Valley's proportionate share of the sale of condominium units at 10 Madison Square Park and $34 equity in earnings from other condominiums and

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mixed-use development projects offset by equity losses of $962 at the Marquand, $160 at 11 Beach Street, $247 at 111 Murray Street, $144 at 215 Chrystie Street, $122 at Queens Plaza, $250 at 87 Park, $177 at West Hollywood Edition, and $404 at Monad Terrace. New Valley recorded equity in earnings from real estate ventures of $138 and $675 for the the three and six months ended June 30, 2015. The Company recorded $1,501 of equity in earnings related to its proportionate share of the Marquand’s equity earnings from the sale of three of its units for the six months ended June 30, 2015. The Company also recorded $236 of equity in earnings from Chelsea Eleven for a distribution of excess amounts held back in 2012 for final expenses of the investment for the six months ended June 30, 2015.
During the six months ended June 30, 2016, New Valley made capital contributions totaling $8,801 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 six months ended June 30, 2015, New Valley made capital contributions totaling $27,091 primarily related to 215 Chrystie Street, 76 Eleventh Avenue and Monad Terrace. 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 six months ended June 30, 2016, New Valley received distributions of $19,985 primarily related to 10 Madison Square West, the Marquand, West Hollywood Edition and income from marketing fees paid by 125 Greenwich Street. During the six months ended June 30, 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 $140,667 at June 30, 2016.

New Valley capitalized $4,836 of interest expense into the carrying value of its ventures whose projects were currently under development during the six months ended June 30, 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 $5,674 and $8,079 for the three and six months ended June 30, 2016 from these projects.

Apartment Buildings:
Apartment building investments range in ownership percentage from 7.6% to 16.3%. New Valley recorded equity in earnings from real estate ventures of $1,630 and $2,146 for the three and six months ended June 30, 2016, primarily related to the ST Portfolio apartment portfolio. In 2015, ST Portfolio sold one (Highgrove) of its two remaining Class A multi-family buildings. New Valley recorded equity in earnings from real estate ventures of $1,848 and $1,801 for the three and six months ended June 30, 2015, related to the ST Portfolio. In 2015, ST Portfolio sold one (Phoenix) of its three remaining Class A multi-family buildings. New Valley received distributions of $8,707 during the six months ended June 30, 2016, primarily related to ST Portfolio and Maryland Portfolio. New Valley received distributions of $493 during the six months ended June 30, 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 $9,193 at June 30, 2016.

Hotels:

Hotel investments range in ownership percentage from 5.2% to 49.0%. New Valley recorded equity in losses from real estate ventures of $189 and $844 for the three and six months ended June 30, 2016, related to hotel operations. New Valley recorded equity in losses from real estate ventures of $261 and $1,006 for the three and six months ended June 30, 2015. New Valley made capital contributions totaling $3,005 for the six months ended June 30, 2016, related to the Park Lane Hotel and Coral Beach and Tennis Club. New Valley made capital contributions totaling $1,980 for the six months ended June 30, 2015, related to the Park Lane Hotel and Coral Beach and Tennis Club. New Valley's maximum exposure to loss as a result of its investments in hotels was $32,086 at June 30, 2016.

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Commercial:
New Valley recorded equity in losses from real estate ventures of $1,744 and $1,532 for the three and six months ended June 30, 2016, related to shopping center rental operations. New Valley recorded equity in earnings from real estate ventures of $27 for the three and six months ended June 30, 2015, related to shopping center rental operations. New Valley received distributions totaling $235 for the six months ended June 30, 2016, related to Harmon Meadow. New Valley's maximum exposure to loss as a result of its investments in commercial ventures was $3,682 at June 30, 2016.

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

Investments in Real Estate, net:
The components of "Investments in real estate, net" were as follows:

	June 30, 2016	December 31, 2015
Escena, net	$10,644	$ 10,716
Sagaponack	12,684	12,602
Investments in real estate, net	$23,328	$ 23,318

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

	June 30, 2016	December 31, 2015
Land and land improvements	$8,907	$ 8,907
Building and building improvements	1,874	1,875
Other	2,001	1,923
	12,782	12,705
Less accumulated depreciation	(2,138)	(1,989)
	$10,644	$ 10,716

New Valley recorded operating losses of $299 and $173 for the three months ended June 30, 2016 and 2015, respectively, from Escena. New Valley recorded operating income of and $209 and $552 for the six months ended June 30, 2016 and 2015, respectively, from Escena.

Investment in Sagaponack. In April 2015, New Valley 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 June 30, 2016, the assets of Sagaponack consisted of land and land improvements of $12,684.

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

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

	June 30, 2016	December 31, 2015
Vector:		
7.75% Senior Secured Notes due 2021, including premium of $15,391 and $8,014	$850,391	$ 608,014
7.5% Variable Interest Senior Convertible Notes due 2019, net of unamortized discount of $121,788 and $132,119*	108,212	97,881
5.5% Variable Interest Senior Convertible Debentures due 2020, net of unamortized discount of $79,010 and $86,136*	179,740	172,614
Liggett:		
Revolving credit facility	12,808	3,213
Term loan under credit facility	3,147	3,269
Equipment loans	6,866	9,716
Other	354	461
Notes payable, long-term debt and other obligations	1,161,518	895,168
Less:		
Debt issuance costs	(34,172)	(30,141)
Total notes payable, long-term debt and other obligations	1,127,346	865,027
Less:		
Current maturities	(16,615)	(8,919)
Amount due after one year	$1,110,731	$ 856,108

* The fair value of the derivatives embedded within the 7.5% Variable Interest Senior Convertible Notes ($61,998 at June 30, 2016 and $72,083 at December 31, 2015, respectively) and the 5.5% Variable Interest Senior Convertible Debentures ($64,934 at June 30, 2016 and $71,959 at December 31, 2015, respectively), is separately classified as a derivative liability in the condensed consolidated balance sheets.

7.75% Senior Secured Notes due 2021 - Vector:

On May 9, 2016, the Company completed the sale of an additional $235,000 principal amount of its 7.75% Senior Secured Notes due 2021 for a price of 103.50% in a private offering to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933 (the "Securities Act"). The Company received net proceeds of approximately $236,900 after deducting underwriting discounts, commissions, fees and offering expenses. The net proceeds will be used for general corporate purposes, including for additional investments in real estate and in the Company's tobacco business. The Company will amortize the deferred costs and debt premium related to the additional Senior Secured Notes over the estimated remaining life of the debt.

In August 2016, the Company completed an offer to exchange the 7.75% Senior Secured Notes issued in May 2016 for an equal amount of newly issued 7.75% Senior Secured Notes due 2021. The new 7.75% Senior Secured Notes have substantially the same terms as the original notes, except that the new 7.75% Senior Secured Notes have been registered under the Securities Act.

6.75% Variable Interest Senior Convertible Note due 2015 - Vector:
On February 3, 2015, the holder of the 6.75% Variable Interest Senior Convertible Note due 2015, converted the remaining $25,000 principal balance of the $50,000 Note into 2,338,930 of the Company's common shares. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $25,000.

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Revolving Credit Facility and Term Loan Under Credit Facility - Liggett:

As of June 30, 2016, a total of $15,955 was outstanding under the revolving and term loan portions of the credit facility. Availability, as determined under the facility, was approximately $44,000 based on eligible collateral at June 30, 2016.

Shares of Common Stock per $1,000 Principal Amount due on Convertible Notes:

The conversion rates for all convertible debt outstanding as of June 30, 2016 and December 31, 2015, are summarized below:

	June 30, 2016		December 31, 2015	
	Conversion Price	Shares per $1,000	Conversion Price	Shares per $1,000
7.5% Variable Interest Senior Convertible Notes due 2019	$15.98	62.5743	$15.98	62.5743
5.5% Variable Interest Senior Convertible Debentures due 2020	$24.64	40.5891	$24.64	40.5891

Non-Cash Interest Expense - Vector:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amortization of debt discount, net	$8,653	$6,213	$16,609	$11,840
Amortization of debt issuance costs	1,401	1,022	2,569	1,988
	$10,054	$7,235	$19,178	$13,828

Fair Value of Notes Payable and Long-Term Debt:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable and long-term debt	$1,161,518 (1)	$1,513,012	$895,168 (1)	$1,297,875

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(1) The carrying value does not include the carrying value of the embedded derivative. See Note 11.

Notes payable and long-term debt are carried on the condensed consolidated balance sheet at amortized cost. The fair value determinations disclosed above are classified as Level 2 under the fair value hierarchy disclosed in Note 11 if such liabilities were recorded on the condensed consolidated balance sheet at fair value. The estimated fair value of the Company's notes payable and long-term debt has been determined by the Company using available market information and appropriate valuation methodologies including the evaluation of the Company's credit risk as described in the Company's Form 10-K. The Company used the quoted market prices as of June 30, 2016 to determine the fair value of its publicly-traded notes and debentures. The carrying value of the credit facility and term loan is equal to the fair value. The fair value of the equipment loans and other obligations was determined by calculating the present value of the required future cash flows. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimate presented herein is not necessarily indicative of the amount that could be realized in a current market exchange.

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7. CONTINGENCIES

Tobacco-Related Litigation:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. The cases have generally fallen into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) lawsuits by individuals requesting the benefit of the Engle ruling ("Engle progeny cases"); (iii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring, as well as cases alleging that use of the terms "lights" and/or "ultra lights" constitutes a deceptive and unfair trade practice, common law fraud or violation of federal law, purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); and (iv) health care cost recovery actions brought by various foreign and domestic governmental plaintiffs and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits ("Health Care Cost Recovery Actions"). With the commencement of new cases, the defense costs and the risks relating to the unpredictability of litigation increase. The future financial impact of the risks and expenses of litigation are not quantifiable. For the three months ended June 30, 2016 and 2015, Liggett incurred tobacco product liability legal expenses and costs totaling $1,707 and $3,158, respectively. For the six months ended June 30, 2016 and 2015, Liggett incurred tobacco product liability legal expenses and costs totaling $5,878 and $5,713, respectively. The tobacco product liability legal expenses and costs are included in the operating, selling, administrative and general expenses and litigation settlement and judgment expense line items in the Condensed Consolidated Statements of Operations.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending cases. Management reviews on a quarterly basis with counsel all pending litigation and evaluates the probability of a loss being incurred and whether an estimate can be made of the possible loss or range of loss that could result from an unfavorable outcome. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. Damages awarded in tobacco-related litigation can be significant.

Bonds. Although Liggett has been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts are on appeal, there remains a risk that such relief may not be obtainable in all cases. This risk has been reduced given that a majority of states now limit the dollar amount of bonds or require no bond at all. To obtain stays on judgments pending current appeals of the Putney, Calloway, Boatright, Buchanan and Ward cases Liggett, as of June 30, 2016, had secured approximately $10,767 in bonds.

In June 2009, Florida amended its existing bond cap statute by adding a $200,000 bond cap that applies to all Engle progeny cases in the aggregate and establishes individual bond caps for individual Engle progeny cases in amounts that vary depending on the number of judgments in effect at a given time but in any event, the maximum amount of any such bond for an appeal in the Florida state courts will be no greater than $5,000. In several cases, plaintiffs challenged the constitutionality of the bond cap statute, but to date the courts have upheld the constitutionality of the statute. It is possible that the Company's consolidated financial position, results of operations, and cash flows could be materially adversely affected by an unfavorable outcome of such challenges.

Accounting Policy. The Company and its subsidiaries record provisions in their consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as disclosed in this Note 7: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; or (ii) management is unable to reasonably estimate the possible loss or range of loss that could result from an unfavorable outcome of any of the pending tobacco-related cases and, therefore, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

Cautionary Statement About Engle Progeny Cases. Judgments have been entered against Liggett and other industry defendants in more than 100 Engle progeny cases. A number of the judgments have been affirmed on appeal and satisfied by the defendants. As of June 30, 2016, 24 Engle progeny cases where Liggett was a defendant at trial resulted in verdicts. Fifteen verdicts were returned in favor of the plaintiffs (although in two of these cases (Irimi and Cohen) the court granted defendants' motion for a new trial) and nine in favor of Liggett. In four of the cases, punitive damages were awarded against Liggett (although in Calloway, the punitive damages award was reversed and remanded to the trial court). In certain cases, the judgments were entered jointly and severally with other defendants and Liggett may face the risk that one or more co-defendants decline or

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otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, under certain circumstances, Liggett may have to pay more than its proportionate share of any bonding or judgment related amounts. Several of the judgments against Liggett remain on appeal. Except as discussed in this Note 7 regarding the cases where an adverse verdict against Liggett remains on appeal, management is unable to estimate the possible loss or range of loss from the remaining Engle progeny cases as there are currently multiple defendants in each case and, in most cases, discovery has not occurred or is limited. As a result, the Company lacks information about whether plaintiffs are in fact Engle class members (non-class members' claims are generally time-barred), the relevant smoking history, the nature of the alleged injury and the availability of various defenses, among other things. Further, plaintiffs typically do not specify their demand for damages.

Although Liggett has generally been successful in managing litigation, litigation is subject to uncertainty and significant challenges remain, including with respect to the remaining Engle progeny cases. There can be no assurances that Liggett's past litigation experience will be representative of future results. Judgments have been entered against Liggett in the past, in Individual Actions and Engle progeny cases, and several of those judgments were affirmed on appeal and satisfied by Liggett. It is possible that the consolidated financial position, results of operations and cash flows of the Company could be materially adversely affected by an unfavorable outcome or settlement of any of the remaining smoking-related litigation. Liggett believes, and has been so advised by counsel, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. All such cases are, and will continue to be, vigorously defended, however, Liggett has entered into settlement discussions in individual cases or groups of cases, where Liggett has determined it was in its best interest to do so, and it may continue to do so in the future, including with respect to the remaining Engle progeny cases. In October 2013, Liggett announced a settlement of the claims of over 4,900 Engle progeny plaintiffs (see Engle Progeny Settlement below). As of June 30, 2016, Liggett (and in certain cases the Company) had, on an individual basis, settled 175 Engle progeny cases for approximately $5,999 in the aggregate. One of those settlements occurred in the second quarter of 2016.

Individual Actions

As of June 30, 2016, there were 38 Individual Actions pending against Liggett and, in certain cases, the Company, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. These cases do not include the remaining Engle progeny cases or the individual cases pending in West Virginia state court as part of a consolidated action. The following table lists the number of Individual Actions by state:

State	Number of Cases
Maryland	13
Florida	11
New York	7
Louisiana	3
West Virginia	2
Missouri	1
Ohio	1

The plaintiffs' allegations of liability in cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, concealment, 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, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity, violations of deceptive trade practice laws, the federal Racketeer Influenced and Corrupt Organizations Act ("RICO"), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including treble/multiple damages, medical monitoring, disgorgement of profits and punitive damages. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from state to state and jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even billions of dollars.

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Defenses raised in Individual Actions 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.

Engle Progeny Cases

Engle Case. In May 1994, Engle was filed against Liggett and others in Miami-Dade County, Florida. The class consisted of all Florida residents who, by November 21, 1996, “have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarette smoking.” In July 1999, after the conclusion of Phase I of the trial, the jury returned a verdict against Liggett and other cigarette manufacturers on certain issues determined by the trial court to be “common” to the causes of action of the plaintiff class. The jury made several findings adverse to the defendants including that defendants’ conduct “rose to a level that would permit a potential award or entitlement to punitive damages.” Phase II of the trial was a causation and damages trial for three of the class plaintiffs and a punitive damages trial on a class-wide basis before the same jury that returned the verdict in Phase I. In April 2000, the jury awarded compensatory damages of $12,704 to the three class plaintiffs, to be reduced in proportion to the respective plaintiff’s fault. In July 2000, the jury awarded approximately $145,000,000 in punitive damages, including $790,000 against Liggett.

In May 2003, Florida’s Third District Court of Appeal reversed the trial court and remanded the case with instructions to decertify the class. The judgment in favor of one of the three class plaintiffs, in the amount of $5,831, was overturned as time barred and the court found that Liggett was not liable to the other two class plaintiffs.

In July 2006, the Florida Supreme Court affirmed the decision vacating the punitive damages award and held that the class should be decertified prospectively, but determined that the following Phase I findings are entitled to res judicata effect in Engle progeny cases: (i) that smoking causes lung cancer, among other diseases; (ii) that nicotine in cigarettes is addictive; (iii) that defendants placed cigarettes on the market that were defective and unreasonably dangerous; (iv) that defendants concealed material information knowing that the information was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vi) that defendants sold or supplied cigarettes that were defective; and (vii) that defendants were negligent. The Florida Supreme Court decision also allowed former class members to proceed to trial on individual liability issues (using the above findings) and compensatory and punitive damage issues, provided they filed their individual lawsuits by January 2008. In December 2006, the Florida Supreme Court added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations made by defendants. In October 2007, the United States Supreme Court denied defendants’ petition for writ of certiorari.

Pursuant to the Florida Supreme Court’s July 2006 ruling in Engle, which decertified the class on a prospective basis, and affirmed the appellate court’s reversal of the punitive damages award, former class members had until January 2008 in which to file individual lawsuits. As a result, Liggett and the Company, and other cigarette manufacturers, were sued in thousands of Engle progeny cases in both federal and state courts in Florida. Although the Company was not named as a defendant in the Engle case, it was named as a defendant in substantially all of the Engle progeny cases where Liggett was named as a defendant.

Engle Progeny Settlement. In October 2013, the Company entered into a settlement with approximately 4,900 Engle progeny plaintiffs and their counsel. Pursuant to the terms of the settlement, Liggett agreed to pay a total of approximately $110,000, with approximately $61,600 paid in a lump sum and the balance to be paid in installments over 14 years, starting in February 2015. In exchange, the claims of over 4,900 plaintiffs, including the claims of all plaintiffs with cases pending in federal court, were dismissed with prejudice against the Company and Liggett. Due to the settlement, in 2013 the Company recorded a charge of $86,213, of which $25,213 is related to certain payments discounted to their present value using an 11% annual discount rate. The installment payments total approximately $48,000 on an undiscounted basis. The Company’s future payments will be approximately $3,400 per annum through 2028, with a cost of living increase beginning in 2021.

Notwithstanding the comprehensive nature of the Engle Progeny Settlement, approximately 245 plaintiffs’ claims remain pending in state court. Therefore, the Company and Liggett may still be subject to periodic adverse judgments which could have a material adverse affect on the Company’s consolidated financial position, results of operations and cash flows.

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As of June 30, 2016, the following Engle progeny cases have resulted in judgments against Liggett:

Date	Case Name	County	Liggett Compensatory Damages (as adjusted) [1]	Liggett Punitive Damages	Status [2]
June 2002	Lukacs v. R.J. Reynolds	Miami-Dade	$12,418	$—	Liggett satisfied the judgment and the case is concluded.
August 2009	Campbell v. R.J. Reynolds	Escambia	156	—	Liggett satisfied the judgment and the case is concluded.
March 2010	Douglas v. R.J. Reynolds	Hillsborough	1,350	—	Liggett satisfied the judgment and the case is concluded.
April 2010	Clay v. R.J. Reynolds	Escambia	349	1,000	Liggett satisfied the judgment and the case is concluded.
April 2010	Putney v. R.J. Reynolds	Broward	3,008	—	On June 12, 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings regarding the amount of the award. Both sides sought discretionary review from the Florida Supreme Court. In February 2016, the Florida Supreme Court reinstated the jury's verdict. The defendants moved for clarification of that order, which was granted in March 2016. The court clarified that it reversed the district court's decision regarding the statute of repose only, leaving the remaining portions of the decision intact. The case will be remanded to the trial court for proceedings consistent with those portions of the district court's decision that were not reversed.
April 2011	Tullo v. R.J. Reynolds	Palm Beach	225	—	Liggett satisfied the judgment and other than an issue with respect to the calculation of interest on the judgment and the amount of costs owed by Liggett, the case is concluded.
January 2012	Ward v. R.J. Reynolds	Escambia	1	—	Liggett satisfied the merits judgment. Subsequently, the trial court entered a joint and several final judgment on attorneys' fees and costs for $981 and defendants appealed that judgment.
May 2012	Calloway v. R.J. Reynolds	Broward	1,530	—	A joint and several judgment for $16,100 was entered against R.J. Reynolds, Philip Morris, Lorillard and Liggett. On January 6, 2016, the Fourth District Court of Appeal reversed in part, including the $7,600 punitive damages award

					against Liggett, and remanded the case to the trial court for a new trial on certain issues. Both sides have moved for rehearing.
December 2012	Buchanan v. R.J. Reynolds	Leon	2,750	—	Liggett satisfied the judgment and the case is concluded.
May 2013	Cohen v. R.J. Reynolds	Palm Beach	—	—	In May 2013, the jury awarded compensatory damages in the amount of $2,055 and apportioned 10% of the fault to Liggett ($205). Defendants' motion seeking a new trial was granted by the trial court. Plaintiff appealed and defendants cross-appealed. Oral argument occurred on June 7, 2016. A decision is pending.
August 2013	Rizzuto v. R.J. Reynolds	Hernando	3,479	—	Liggett settled its portion of the judgment for $1,500 and the case is concluded as to Liggett.
August 2014	Irimi v. R.J. Reynolds	Broward	—	—	In August 2014, the jury awarded compensatory damages in the amount of $3,123 and apportioned 1% of the fault to Liggett ($31). In January 2015, the trial court granted defendants' motion for a new trial. Plaintiff appealed.
October 2014	Lambert v. R.J. Reynolds	Pinellas	3,600	9,500	Liggett satisfied the judgment and the case is concluded.
November 2014	Boatright v. R.J. Reynolds	Polk	—	300	In November 2014, the jury awarded compensatory damages in the amount of $15,000 with 15% fault apportioned to plaintiff and 85% to Philip Morris. The jury further assessed punitive damages against Philip Morris for $19,700 and Liggett for $300. Post trial motions were denied. A joint and several judgment was entered in the amount of $12,750 on the compensatory damages. Judgment was further entered against Liggett for $300 in punitive damages. Defendants appealed and plaintiff cross-appealed.
June 2015	Caprio v. R.J. Reynolds	Broward	—	—	In February 2015, the jury answered certain questions on the verdict form, but were deadlocked as to others. The jury returned a verdict of $559 in economic damages. The court entered a partial judgment and ordered a new trial on the remaining issues, including comparative fault and punitive damages. Defendants appealed.
Total Damages Awarded:			28,866	10,800	
Amounts accrued, paid or compromised:			(24,328)	(10,500)	
Damages remaining on Appeal:			$4,538	$300	

(1) Compensatory damages are adjusted to reflect the jury's allocation of comparative fault and only include Liggett's jury allocated share, regardless of whether a judgment was joint and several. The amounts listed above do not include attorneys' fees or statutory interest.

(2) See Exhibit 99.1 for a more complete description of the cases currently on appeal.

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Through June 30, 2016, Liggett paid $39,773, including interest and attorneys' fees, to satisfy the judgments in the following Engle progeny cases: Lukacs, Campbell, Douglas, Clay, Tullo, Ward, Rizzuto, Lambert and Buchanan. The Company's current potential range of loss in the remaining cases on appeal is between $0 and $4,838 in the aggregate, plus interest and attorneys' fees, however, this is only an estimate and final damages in any case might increase as a result of pending appeals. In determining the range of loss, the Company considers potential settlements as well as future appellate relief. Except as disclosed elsewhere in this Note 7, the Company is unable to determine a range of loss related to the remaining Engle progeny cases. As cases proceed through the appellate process, the Company will consider accruals on a case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

Appeals of Engle Progeny Judgments. In December 2010, in the Martin case, a state court case against R.J. Reynolds, the First District Court of Appeal held that the trial court correctly construed the Florida Supreme Court's 2006 decision in Engle in instructing the jury on the preclusive effect of the Phase I Engle findings. In July 2011, the Florida Supreme Court declined to review the First District Court of Appeal's decision. In March 2012, the United States Supreme Court declined to review the Martin case, along with the Campbell case and two other Engle progeny cases. The Martin decision has led to additional adverse rulings by other state appellate courts.

In Jimmie Lee Brown, a state court case against R.J. Reynolds, the trial court tried the case in two phases. In the first phase, the jury determined that the smoker was addicted to cigarettes that contained nicotine and that his addiction was a legal cause of his death, thereby establishing he was an Engle class member. In the second phase, the jury determined whether the plaintiff established legal cause and damages with regard to each of the underlying claims. The jury found in favor of plaintiff in both phases. In September 2011, the Fourth District Court of Appeal affirmed the judgment entered in plaintiff's favor and approved the trial court's procedure of bifurcating the trial. The Fourth District Court of Appeal agreed with Martin that individual post-Engle plaintiffs need not prove conduct elements as part of their burden of proof, but disagreed with Martin to the extent that the First District Court of Appeal only required a finding that the smoker was a class member to establish legal causation as to addiction and the underlying claims. The Fourth District Court of Appeal held that in addition to establishing class membership, Engle progeny plaintiffs must also establish legal causation and damages as to each claim asserted. In so finding, the Fourth District Court of Appeal's decision in Jimmie Lee Brown is in conflict with Martin.

In Rey, a state court case, the trial court entered final summary judgment on all claims in favor of the Company, Liggett and Lorillard based on what has been referred to in the Engle progeny litigation as the "Liggett Rule." The Liggett Rule stands for the proposition that a manufacturer cannot have liability to a smoker under any asserted claim if the smoker did not use a product manufactured by that particular defendant. The Liggett Rule is based on the entry of final judgment in favor of Liggett/Brooke Group in Engle on all of the claims asserted against them by class representatives Mary Farnan and Angie Della Vecchia, even though the Florida Supreme Court upheld, as res judicata, the generic finding that Liggett/Brooke Group engaged in a conspiracy to commit fraud by concealment. In September 2011, the Third District Court of Appeal affirmed in part and reversed in part holding that the defendants were entitled to summary judgment on all claims asserted against them other than the claim for civil conspiracy. Defendants' further appellate efforts were unsuccessful.

In Douglas, a state court case, the Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the Engle jury findings, but certified to the Florida Supreme Court the question of whether granting res judicata effect to the Engle jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the use of Engle jury findings and determined that there is no violation of the defendants' due process rights. This was the first time the Florida Supreme Court addressed the merits of an Engle progeny case. In October 2013, the United States Supreme Court declined to

review the decision and Liggett satisfied the judgment. To date, the United States Supreme Court has declined to review any Engle progeny decisions.
In Hess, a state court case, in April 2015, the Florida Supreme Court held that Engle defendants cannot raise a statute of repose defense to claims for concealment or conspiracy. Defendants' motion for rehearing was denied.
In April 2015, in Graham, a federal case, the Eleventh Circuit held that federal law impliedly preempts use of the res judicata Engle findings to establish claims for strict liability or negligence. In February 2016, the Eleventh Circuit Court of Appeals vacated the panel’s opinion and granted Plaintiff’s motion for rehearing en banc. Defendants filed a motion requesting that the court enter a briefing order directing the parties to address both implied preemption and whether the application of the Engle findings violates federal due process. That motion was granted. Oral argument occurred in June 2016 and a decision is pending.

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Maryland Cases

Liggett is currently a defendant in 13 multi-defendant personal injury cases in Maryland that allege claims arising from asbestos and tobacco exposure. Liggett along with other tobacco defendants have moved (or are in the process of moving) to dismiss the cases. In the past, motions to dismiss have generally been successful, typically resulting in the dismissal without prejudice of the tobacco company defendants, including Liggett. Recently, however, a Maryland intermediate appellate court ruled, in Stidham, et al. v. R. J. Reynolds Tobacco Company, et al., that dismissal of tobacco company defendants may not be appropriate where injury is asserted based on both asbestos and tobacco usage. On May 9, 2016, the Court of Appeals for Maryland (Maryland's highest court) heard oral argument on the appeal of the intermediate appellate court's decision. On July 5, 2016, the Court of Appeals ruled that joinder of tobacco and asbestos cases may be possible in certain circumstances, but plaintiffs must demonstrate at the trial court level how such cases may be joined while providing appropriate safeguards to prevent embarrassment, delay, expense or prejudice to defendants and "the extent to which, if at all, the special procedures applicable to asbestos cases should extend to tobacco companies." Other than providing guidance, the Court of Appeals remanded these issues to be determined at the trial court level. It is possible that Liggett and other tobacco company defendants will not be dismissed from pending synergy exposure cases, and may be named as defendants in asbestos-related personal injury actions in Maryland going forward, including approximately 20 additional synergy exposure cases currently pending in Maryland state court.

Liggett Only Cases

There are currently three cases pending where Liggett is the only remaining defendant. Each of these cases is an Individual Action. In November 2015, in Hausrath (NY state court), the court entered a case management order providing discovery deadlines. A status conference is scheduled for August 2, 2016. There has been no further activity in the other two Individual Actions. Cases where Liggett is the only defendant could increase as a result of the remaining Engle progeny cases.

Class Actions

As of June 30, 2016, three actions were pending for which either a class had been certified or plaintiffs were seeking class certification where Liggett is a named defendant. Other cigarette manufacturers are also named in these actions. Plaintiffs' allegations of liability in class action cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violation of deceptive trade practice laws and consumer protection statutes and claims under the federal and state anti-racketeering statutes. Plaintiffs in the class actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief.
Defenses raised in these cases include, among others, lack of proximate cause, individual issues predominate, assumption of the risk, comparative fault and/or contributory negligence, statute of limitations and federal preemption.
In November 1997, in Young v. American Tobacco Co., a purported personal injury class action was commenced on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, allege they were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of

compensatory and punitive damages. No class certification hearing has been held. In 2013, plaintiffs' filed a motion to stay the case and that motion was granted.
In February 1998, in Parsons v. AC & S Inc., a purported class action was commenced on behalf of all West Virginia residents who allegedly have personal injury claims arising from exposure to cigarette smoke and asbestos fibers. The complaint seeks to recover $1,000 in compensatory and punitive damages individually and unspecified compensatory and punitive damages for the class. The case is stayed due to the December 2000 bankruptcy of three of the defendants.
Although not technically a class action, in In Re: Tobacco Litigation (Personal Injury Cases), a West Virginia state court consolidated approximately 750 individual smoker actions that were pending prior to 2001 for trial of certain "common" issues. Liggett was severed from trial of the consolidated action. After two mistrials, in May 2013, the jury rejected all but one of the plaintiffs' claims, finding in favor of plaintiffs on the claim that ventilated filter cigarettes between 1964 and July 1, 1969 should have included instructions on how to use them. The issue of damages was reserved for further proceedings. The court entered judgment in October 2013, dismissing all claims except the ventilated filter claim. The judgment was affirmed on appeal and

remanded to the trial court for further proceedings. In April 2015, the plaintiffs filed a petition for writ of certiorari to the United States Supreme Court which subsequently declined review. In July 2015, the trial court ruled on the scope of the ventilated filter claim and determined that only 30 plaintiffs have potentially viable claims against the non-Liggett defendants, which may be pursued in a second phase of the trial. The court intends to try the claims of these plaintiffs in six consolidated trials, each with five plaintiffs. The trial court set the first date for the consolidated trials for January 9, 2017. With respect to Liggett, the trial court requested that Liggett and plaintiffs brief whether any claims against Liggett survive given the outcome of the first phase of the trial. On May 23, 2016, the trial court ruled that the case may proceed against Liggett. Liggett intends to seek appellate review of this decision. It is estimated that Liggett could be a defendant in approximately 25 of the remaining individual cases.

In addition to the cases described above, numerous class actions remain certified against other cigarette manufacturers including cases alleging, among other things, that use of the terms “lights” and “ultra lights” constitutes unfair and deceptive trade practices. Adverse decisions in these cases could have a material adverse affect on Liggett’s sales volume, operating income and cash flows.

Health Care Cost Recovery Actions

As of June 30, 2016, one Health Care Cost Recovery Action was pending against Liggett, Crow Creek Sioux Tribe v. American Tobacco Company, a South Dakota case filed in 1997, where the plaintiff seeks to recover damages based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is inactive. Other cigarette manufacturers are also named as defendants.

The claims asserted in health care cost recovery actions vary, but can include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO. Although no specific damage amounts are typically pleaded, it is possible that requested damages might be in the billions of dollars. In these cases, plaintiffs typically assert equitable claims that the tobacco industry was “unjustly enriched” by their payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Relief sought by some, but not all, plaintiffs include punitive damages, multiple damages and other statutory damages and penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees.

Department of Justice Lawsuit

In September 1999, the United States government commenced litigation against Liggett and other cigarette manufacturers in the United States District Court for the District of Columbia. The action sought to recover an unspecified amount of health care costs paid and to be paid by the federal government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, to restrain defendants and co-conspirators from engaging in alleged fraud and other allegedly unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. Claims were asserted under RICO.

In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. In May 2009, the United States Court of Appeals for the District of Columbia affirmed most of the district court’s decision. The United States Supreme Court denied review. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court’s Final Judgment which ordered the following relief: (i) an injunction against “committing any act of racketeering” relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for

Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against “making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States’ public and that misrepresents or suppresses information concerning cigarettes”; (iv) an injunction against conveying any express or implied health message through use of descriptors on cigarette packaging or in cigarette advertising or promotional material, including “lights,” “ultra lights,” and “low tar,” which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of “corrective statements” in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking “low tar” or “lights” cigarettes, defendants’ manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to

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environmental tobacco smoke; (vi) the disclosure of defendants' public document websites and the production of all documents produced to the government or produced in any future court or administrative action concerning smoking and health; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedules as defendants now follow in disclosing such data to the Federal Trade Commission for a period of ten years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette business within the United States; and (ix) payment of the government's costs in bringing the action. In June 2014, the court approved a consent agreement between the defendants and the Department of Justice regarding the "corrective statements" to be issued by the defendants. In May 2015, the court of appeals issued an opinion on the legality of the "corrective statements," affirming them in part and reversing them in part. The implementation of the "corrective statements" is uncertain as proceedings are ongoing.

It is unclear what impact, if any, the Final Judgment will have on the cigarette industry as a whole. To the extent that the Final Judgment leads to a decline in industry-wide shipments of cigarettes in the United States or otherwise results in restrictions that adversely affect the industry, Liggett's sales volume, operating income and cash flows could be materially adversely affected.

Upcoming Trials

As of June 30, 2016, there were 16 Engle progeny cases and two Individual Actions scheduled for trial through June 30, 2017, where Liggett (and/or the Company) is a named defendant. Trial dates are, however, subject to change.

MSA and Other State Settlement Agreements

In March 1996, March 1997 and March 1998, Liggett entered into settlements of smoking-related litigation with 45 states and territories. The settlements released Liggett from all smoking-related claims made by those states and territories, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

In November 1998, Philip Morris, R.J. Reynolds and two other companies (the "Original Participating Manufacturers" or "OPMs") and Liggett and Vector Tobacco (together with any other tobacco product manufacturer that becomes a signatory, the "Subsequent Participating Manufacturers" or "SPMs") (the OPMs and SPMs are hereinafter referred to jointly as 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 Mariana Islands (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of the Settling States. The MSA received final judicial approval in each Settling State.

As a result of the MSA, the Settling States released Liggett and Vector Tobacco from:

- all claims of the Settling States and their respective political subdivisions and other recipients of state health care funds, relating to: (i) past conduct arising out of the use, sale, distribution, manufacture, development, advertising and marketing of tobacco products; (ii) the health effects of, the exposure to, or research, statements or warnings about, tobacco products; and
- all monetary claims of the Settling States and their respective subdivisions and other recipients of state health care funds relating to future conduct arising out of the use of, or exposure to, tobacco products that have been manufactured in the ordinary course of business.

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 certain limited exceptions; 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; and 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.

The MSA also requires Participating Manufacturers to affirm corporate principles to comply with the MSA and to reduce underage use of tobacco products and imposes restrictions on lobbying activities conducted on behalf of Participating Manufacturers. In addition, the MSA provides for the appointment of an independent auditor to calculate and determine the amounts of payments owed pursuant to the MSA.

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Under the payment provisions of the MSA, the Participating Manufacturers are required to make annual payments of $9,000,000 (subject to applicable adjustments, offsets and reductions including a "Non-Participating Manufacturers Adjustment" or "NPM Adjustment"). These annual payments are allocated based on unit volume of domestic cigarette shipments. The payment obligations under the MSA are the several, and not joint, obligation of each Participating Manufacturer and are not the responsibility of any parent or affiliate of a Participating Manufacturer.

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 1.65% of total cigarettes sold in the United States. Vector Tobacco has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 0.28% of total cigarettes sold in the United States. Liggett and Vector Tobacco's domestic shipments accounted for 3.3% of the total cigarettes sold in the United States in 2015. If Liggett's or Vector Tobacco's market share exceeds their respective market share exemption in a given year, then on April 15 of the following year, Liggett and/or Vector Tobacco, as the case may be, must pay on each excess unit an amount equal (on a per-unit basis) to that due from the OPMs for that year. On December 30, 2015, Liggett and Vector Tobacco pre-paid $100,000 of their approximate $115,000 2015 MSA obligation, the balance of which was paid in April 2016.

Certain MSA Disputes

NPM Adjustment. Liggett and Vector Tobacco contend that they are entitled to an NPM Adjustment for each year from 2003 - 2015. The NPM Adjustment is a potential adjustment to annual MSA payments, available when the Participating Manufacturers suffer a market share loss to NPMs for a particular year and an economic consulting firm selected pursuant to the MSA determines that the MSA was a "significant factor contributing to" that loss. A Settling State that has "diligently enforced" its qualifying escrow statute in the year in question may be able to avoid its allocable share of the NPM Adjustment. For 2003 - 2015, Liggett and Vector Tobacco, as applicable, disputed that they owed the Settling States the NPM Adjustments as calculated by the Independent Auditor. As permitted by the MSA, Liggett and Vector Tobacco either paid subject to dispute, withheld payment or paid into a disputed payment account, the amounts associated with these NPM Adjustments.

The two requirements for application of the NPM Adjustment, a market share loss and a finding or agreement that the MSA was a significant factor in that loss, have been satisfied, and the Participating Manufacturers are engaged in disputes with certain of the Settling States over whether they diligently enforced their respective escrow statutes in each of the years from 2003 - 2014. After several years of litigation over whether the MSA's arbitration clause required a multistate arbitration of the NPM Adjustment dispute, 48 of 49 state courts ultimately compelled the states to participate in a single, multistate arbitration of the 2003 NPM Adjustment. Notwithstanding, many states continued to refuse to arbitrate and agreed to do so only after the Participating Manufacturers agreed to a 20% reduction in their 2003 NPM Adjustment claims.

The arbitration for the 2003 NPM Adjustment began in June 2010. During the proceedings, the Participating Manufacturers decided not to contest the diligent enforcement of 16 states, with a combined allocable share of approximately 14%.

While the 2003 arbitration was underway, the Participating Manufacturers entered into a term sheet with 22 states settling the NPM Adjustment for 2003 - 2012 and agreeing to terms to address the NPM Adjustment with respect to those states for future years. The parties have been working towards converting the term sheet into a final settlement agreement.

The Participating Manufacturers continued to contest the diligence of 15 states relating to the 2003 NPM Adjustment. In September 2013, the panel found that six of those states did not diligently enforce their MSA escrow statutes in 2003.

Two of the states found non-diligent, Kentucky and Indiana, agreed to settle the dispute and enter into the term sheet described above.

The remaining four non-diligent states pursued motions in their respective state courts seeking to vacate or reduce the amount of the arbitration award. The Pennsylvania and Maryland courts refused to vacate the award but reduced the recovery by approximately 50%. State court appellate proceedings in Pennsylvania and Maryland are now exhausted but the Participating Manufacturers have filed petitions for certiorari seeking further review in the United States Supreme Court. The remaining two challenges to the 2003 arbitration award, in Missouri and New Mexico, remain pending in state court. In Missouri, the appellate court reversed the trial court, which had reduced the arbitration award, and reinstated the full award. The Missouri Supreme Court granted a discretionary appeal of that decision, and briefing is currently underway. There has been no decision in New Mexico.

In October 2015, substantially all of the Participating Manufacturers settled the NPM Adjustment dispute with the state of New York for 2004 - 2014 and agreed to a mechanism for potential future credits against the Participating Manufacturers' MSA payments for 2015 forward.

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As a result of the settlements and arbitration award described above, Liggett and Vector Tobacco reduced cost of sales in the aggregate by $22,356 for years 2013 - 2015. Liggett and Vector Tobacco maybe entitled to further adjustments for 2015 forward. The remaining NPM Adjustment accrual of approximately $20,000 at June 30, 2016 relates to the disputed amounts Liggett withheld from the non-settling states for 2004 - 2010, which may be subject to payment, with interest, if Liggett loses the disputes for those years. As of June 30, 2016, there remains approximately $28,600 in the disputed payments account relating to Liggett's 2011 - 2015 NPM Adjustment disputes with the non-settling states.

Disputes over the NPM Adjustments for 2004-2014 remain to be arbitrated with the states that have not joined the settlement. The dispute over the NPM Adjustment for 2015 remains to be arbitrated with all the states. The arbitration panel for the 2004 NPM Adjustment dispute has been selected and that proceeding has commenced.

“Gross” v. “Net” Calculations. In October 2004, the independent auditor notified all Participating Manufacturers that their payment obligations under the MSA, dating from the agreement’s execution in late 1998, had been recalculated using “net” units, rather than “gross” units (which had been used since 1999). Liggett objected to this retroactive change and disputed the change in methodology.

In December 2012, the parties arbitrated the dispute. In February 2013, the arbitrators ruled that the independent auditor was precluded from recalculating Liggett’s grandfathered market share (“GFMS”) exemption. The arbitrators further ruled that, for purposes of calculating Liggett’s payment obligations, Liggett’s market share, calculated on a net basis, should be increased by a factor of 1.25%. Liggett filed a motion seeking correction of the part of the arbitrators’ decision that would require the 1.25% increase in Liggett’s market share. The states opposed Liggett’s motion.

In October 2014, the panel issued a Corrected Final Award that eliminated the 1.25% adjustment increase. The panel further determined that the independent auditor shall compute Liggett’s market share for all years after 2000 on a “net” basis, but adjust that computation to approximate “gross” market share by using actual returned product data for each year. In July 2015, the independent auditor issued calculations, purportedly based on the Corrected Final Award, which indicated that Liggett owed approximately $16,000 for years 2001 - 2013. In June 2016, the independent auditor issued revised calculations indicating that Liggett owed approximately $8,100 for years 2001 - 2013. Based on these revised calculations Liggett is fully accrued for this matter although Liggett continues to dispute the independent auditor’s calculation.

Other State Settlements. The MSA replaced Liggett’s prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. Each of these four states, 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. Except as described below, Liggett’s agreements with these states remain in full force and effect. These states’ settlement agreements with Liggett contained most favored nation provisions which could reduce Liggett’s payment obligations based on subsequent settlements or resolutions by those states with certain other tobacco companies. Beginning in 1999, Liggett determined that, based on settlements with United States Tobacco Company, Liggett’s payment obligations to those four states were eliminated. With respect to all non-economic obligations under the previous settlements, Liggett believes it is 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 2003, as a result of a dispute with Minnesota regarding its settlement agreement, Liggett agreed to pay $100 a year in any year cigarettes manufactured by Liggett are sold in that state. The Attorneys General for Florida, Mississippi and Texas previously advised Liggett that they believed that Liggett had failed to make payments under the respective settlement agreements with those states. In 2010, Liggett settled with Florida and agreed to pay $1,200 and to make further annual payments of $250 for a period of 21 years, starting in March 2011, with the payments from year 12 forward being subject to an inflation adjustment. These payments are in lieu of any other payments allegedly due to

Florida.

On January 12, 2016, the Attorney General for Mississippi commenced an action against Liggett in state court in Jackson County, Mississippi (Chancery Division) to enforce the settlement agreement among Liggett, Mississippi and several other states, alleging that Liggett is liable to Mississippi for at least $26,000 (including interest) plus attorneys' fees and punitive damages. Discovery is underway. Liggett may be required to make additional payments to Texas or Mississippi which could adversely affect the Company’s consolidated financial position, results of operations and cash flows.

Cautionary Statement

Management is not able to reasonably predict the outcome of the litigation pending or threatened against Liggett or the Company. Litigation is subject to many uncertainties. Liggett has been found liable in multiple Engle progeny cases and Individual Actions, several of which were affirmed on appeal and satisfied by Liggett. It is possible that other cases could be decided

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unfavorably against Liggett and that Liggett will be unsuccessful on appeal. Liggett may attempt to settle particular cases if it believes it is in its best interest to do so.
Management cannot predict the cash requirements related to any future defense costs, settlements or judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in this Note 7, management is unable to estimate the loss or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases and as a result has not provided any amounts in its consolidated financial statements for unfavorable outcomes.
The tobacco industry is subject to a wide range of laws and regulations regarding the marketing, sale, taxation and use of tobacco products imposed by local, state and federal governments. There have been a number of restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional litigation or legislation.
It is possible that the Company’s consolidated financial position, results of operations and cash flows could be materially adversely affected by an unfavorable outcome in any of the smoking-related litigation.
The activity in the Company's accruals for the MSA and tobacco litigation for the six months ended June 30, 2016 were as follows:

	Current Liabilities			Non-Current Liabilities		
	Payments due under Master Settlement Agreement	Litigation Accruals	Total	Payments due under Master Settlement Agreement	Litigation Accruals	Total
Balance at January 1, 2016	$29,241	$22,904	$52,145	$20,094	$24,718	$44,812
Expenses	42,637	2,583	45,220	—	—	—
Change in MSA obligations capitalized as inventory	69	—	69	—	—	—
Payments	(12,847)	(25,545)	(38,392)	—	—	—
Reclassification to/(from) non-current liabilities	(2,163)	3,252	1,089	2,163	(3,252)	(1,089)
Interest on withholding	35	320	355	—	1,153	1,153
Balance as of June 30, 2016	$56,972	$3,514	$60,486	$22,257	$22,619	$44,876

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The activity in the Company's accruals for the MSA and tobacco litigation for the six months ended June 30, 2015 were as follows:

	Current Liabilities			Non-Current Liabilities		
	Payments due under Master Settlement Agreement	Litigation Accruals	Total	Payments due under Master Settlement Agreement	Litigation Accruals	Total
Balance at January 1, 2015	$26,322	$3,149	$29,471	$25,809	$25,700	$51,509
Expenses	53,435	2,490	55,925	—	(195)	(195)
Change in MSA obligations capitalized as inventory	1,011	—	1,011	—	—	—
Payments	(18,142)	(5,645)	(23,787)	—	—	—
Reclassification from non-current liabilities	—	3,305	3,305	—	(3,305)	(3,305)
Interest on withholding	—	178	178	—	1,244	1,244
Balance as of June 30, 2015	$62,626	$3,477	$66,103	$25,809	$23,444	$49,253

Other Matters:
Liggett’s and Vector Tobacco’s management are unaware of any material environmental conditions affecting their existing facilities. Liggett’s and Vector Tobacco’s management believe that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. 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 affect on the capital expenditures, results of operations or competitive position of Liggett or Vector Tobacco.
Liggett Vector Brands entered into an agreement with a subsidiary of the Convenience Distribution Association to support a program to permit certain tobacco distributors to secure, on reasonable terms, tax stamp bonds required by state and local governments for the distribution of cigarettes. Under the agreement, Liggett Vector Brands has agreed to pay a portion of losses incurred by the surety under the bond program, with a maximum loss exposure of $500. The Company believes the fair value of Liggett Vector Brands’ obligation under the agreement was immaterial at June 30, 2016.
In addition to the foregoing, Douglas Elliman Realty, LLC is subject to numerous proceedings, lawsuits and claims in connection with its ordinary business activities. Many of these matters are covered by insurance.

Liggett was contacted in October 2015, by one of its software vendors, who suggested that Liggett needed to purchase additional software licenses from it. Liggett believes that its use of the vendor's software is in compliance with the licenses previously purchased by Liggett. In January 2016, the software vendor requested to audit Liggett’s use of the relevant software. In response, Liggett has provided details of its use of the software and is continuing to cooperate with requests for information.
Management is of the opinion that the liabilities, if any, resulting from other proceedings, lawsuits and claims pending against the Company and its consolidated subsidiaries, unrelated to tobacco product liability, should not materially

affect the Company’s condensed consolidated financial position, results of operations or cash flows.

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8. EMPLOYEE BENEFIT PLANS

The following table summarizes key information related to the Company's pension plans and other postretirement benefits:

	Pension Benefits		Pension Benefits		Other Postretirement Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
Service cost — benefits earned during the period	$ 137	$ 133	$ 274	$ 265	$ 1	$ 2	$ 2	$ 4
Interest cost on projected benefit obligation	1,355	1,280	2,710	2,598	97	93	194	185
Expected return on assets	(1,519)	(1,888)	(3,038)	(3,813)	—	—	—	—
Settlement loss	—	1,607	—	1,607	—	—	—	—
Amortization of net loss (gain)	464	278	928	569	(19)	(24)	(38)	(48)
Net expense	$ 437	$ 1,410	$ 874	$ 1,226	$ 79	$ 71	$ 158	$ 141

9. RESTRUCTURING

The following table presents the activity under the Tobacco segment restructuring plan for the six months ended June 30, 2016:

	Employee Severance and Benefits	Contract Termination/Exit Costs	Other	Total
Accrual balance as of January 1, 2016	$ 422	$ 48	$ 20	$ 490
Restructuring charges	—	41	—	41
Utilized	(315)	(89)	(20)	(424)
Accrual balance as of June 30, 2016	$ 107	$ —	$ —	$ 107

10. INCOME TAXES

The Company's provision for income taxes in interim periods is based on an estimated annual effective income tax rate derived, in part, from estimated annual pre-tax results from ordinary operations. The annual effective income tax rate is reviewed and, if necessary, adjusted on a quarterly basis.

The Company's income tax expense consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015

Income before provision for income taxes	$46,340	$30,622	$82,096	$64,970
Income tax expense using estimated annual effective income tax rate	18,793	11,347	33,317	24,145
Changes in effective tax rates	210	(78)	—	—
Impact of discrete items, net	—	(91)	49	(100)
Income tax expense	$19,003	$11,178	$33,366	$24,045

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The discrete item for the six months ended June 30, 2016 is primarily related to the results of recent state income tax audits. The discrete item for the six months ended June 30, 2015 is primarily related to the rate differential in other comprehensive income and the results of a recent state income tax audit.

11. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Company's recurring financial assets and liabilities subject to fair value measurements were as follows:

	Fair Value Measurements as of June 30, 2016				
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Money market funds	$336,845	$336,845	$ —	$ —	
Commercial paper	42,044	—	42,044	—	
Certificates of deposit	2,976	—	2,976	—	
Bonds	10,767	10,767	—	—	
Investment securities available for sale					
Equity securities	55,309	55,309	—	—	
Mutual funds invested in fixed income securities	20,518	20,518	—	—	
Fixed income securities					
U.S. government securities	27,456	—	27,456	—	
Corporate securities	35,660	—	35,660	—	
U.S. government and federal agency	7,343	—	7,343	—	
Commercial mortgage-backed securities	3,675	—	3,675	—	
U.S. asset-backed securities	2,115	—	2,115	—	
Commercial paper	7,985	—	7,985	—	
Index-linked U.S. bonds	793	—	793	—	
Total fixed income securities	85,027	—	85,027	—	
Total investment securities available for sale	160,854	75,827	85,027	—	
Total	$553,486	$423,439	$ 130,047	$ —	

Liabilities:					
Fair value of derivatives embedded within convertible debt	$126,932	$—	$—	$ 126,932	
Nonrecurring fair value measurements					
Long-term investments (1)	$6,396			$ 6,396	$(1,203)

(1) Long-term investments with a carrying amount of $7,599 were written down to their fair value of $6,396, resulting in an impairment charge of $1,203, which was included in earnings.

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Description	Fair Value Measurements as of December 31, 2015 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Money market funds	$93,915	$93,915	$ —	$ —	
Certificates of deposit	3,469	—	3,469	—	
Bonds	12,767	12,767	—	—	
Investment securities available for sale					
Equity securities	67,273	67,273	—	—	
Mutual funds invested in fixed income securities	20,111	20,111	—	—	
Fixed income securities					
U.S. government securities	28,132	—	28,132	—	
Corporate securities	41,561	—	41,561	—	
U.S. government and federal agency	5,790	—	5,790	—	
Commercial mortgage-backed securities	8,728	—	8,728	—	
U.S. asset-backed securities	8,276	—	8,276	—	
Index-linked U.S. bonds	2,105	—	2,105	—	
Total fixed income securities	94,592	—	94,592	—	
Total investment securities available for sale	181,976	87,384	94,592	—	
Total	$292,127	$194,066	$ 98,061	$ —	
Liabilities:					
Fair value of derivatives embedded within convertible debt	$144,042	$—	$ —	$ 144,042	
Nonrecurring fair value measurements					
Long-term investments (1)	$11,189			$ 11,189	$(811)
Investments in real estate, net (2)	3,780			3,780	(230)
	$14,969			$ 14,969	$(1,041)

(1) Long-term investments with a carrying amount of $12,000 were written down to their fair value of $11,189, resulting in an impairment charge of $811, which was included in earnings.
(2) Investment in real estate, net with a carrying value of $4,010 was written down to its fair value of $3,780, resulting in an impairment charge of $230, which was included in earnings.

The fair value of the Level 2 certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is the rate offered by the financial institution. The fair value of investment securities available for sale included in Level 1 are

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based on quoted market prices from various stock exchanges. The Level 2 investment securities available for sale are based on quoted market prices of securities that are thinly traded.

The fair value of derivatives embedded within convertible debt was derived using a valuation model. These derivatives have been classified as Level 3. The valuation model assumes future dividend payments by the Company and utilizes interest rates and credit spreads based upon the implied credit spread of the 5.50% Convertible Notes due 2020 to determine the fair value of the derivatives embedded within the convertible debt. The changes in fair value of derivatives embedded within convertible debt are presented on the consolidated statements of operations.

The value of the embedded derivatives is contingent on changes in implied interest rates of the convertible debt, the Company's stock price, stock volatility as well as projections of future cash and stock dividends over the term of the debt. The interest rate component of the value of the embedded derivative is computed by calculating an equivalent non-convertible, unsecured and subordinated borrowing cost. This rate is determined by calculating the implied rate on the Company's 2020 Convertible Notes when removing the embedded option value within the convertible security. This rate is based upon market observable inputs and influenced by the Company's stock price, convertible bond trading price, risk free interest rates and stock volatility.

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at June 30, 2016:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at June 30, 2016	Valuation Technique	Unobservable Input	Range (Actual)
Fair value of derivatives embedded within convertible debt	$126,932	Discounted cash flow	Assumed annual stock dividend	5%
			Assumed annual cash dividend	$1.60
			Stock price	$22.42
			Convertible trading price (as a percentage of par value)	110.88%
			Volatility	19.33%
			Risk-free rate	Term structure of US Treasury Securities
			Implied credit spread	6.0% - 7.0% (6.5%)

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at December 31, 2015:

	Quantitative Information about Level 3 Fair Value Measurements	
	Fair Value at	Unobservable Input

	December 31, 2015	Valuation Technique		Range (Actual)
Fair value of derivatives embedded within convertible debt	$ 144,042	Discounted cash flow	Assumed annual stock dividend	5 %
			Assumed annual cash dividend	$ 1.60
			Stock price	$ 23.59
			Convertible trading price (as a percentage of par value)	114.31 %
			Volatility	18.30 %
			Risk-free rate	Term structure of US Treasury Securities
			Implied credit spread	5.0% - 5.5% (5.25%)

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VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

12. SEGMENT INFORMATION

The Company's significant business segments for the three and six months ended June 30, 2016 and 2015 were Tobacco, E-Cigarettes and Real Estate. The Tobacco segment consists of the manufacture and sale of conventional cigarettes. The E-Cigarettes segment includes the operations of the Company's e-cigarette business. The Real Estate segment includes the Company's investment in New Valley LLC, which includes Douglas Elliman, Escena, Sagaponack and investments in real estate ventures. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Financial information for the Company's operations before taxes and non-controlling interests for the three and six months ended June 30, 2016 and 2015 were as follows:

	Tobacco	E-Cigarettes	Real Estate	Corporate and Other	Total
Three months ended June 30, 2016					
Revenues	$255,498	$ 10	$182,765	$ —	$438,273
Operating income (loss)	66,016	(91)	11,706	(6,911)	70,720
Equity in earnings from real estate ventures	—	—	2,813	—	2,813
Depreciation and amortization	2,499	—	2,943	428	5,870
Three months ended June 30, 2015					
Revenues	$254,890	$ 261	$161,022	$ —	$416,173
Operating income (loss)	56,215 (1)	(2,400)	6,892	(4,904)	55,803
Equity in earnings from real estate ventures	—	—	1,856	—	1,856
Depreciation and amortization	2,931	—	3,076	435	6,442
Six months ended June 30, 2016					
Revenues	$476,513	$ 48	$342,512	$ —	$819,073
Operating income (loss)	127,499 (2)	(284)	19,380	(13,716)	132,879
Equity in earnings from real estate ventures	—	—	2,306	—	2,306
Depreciation and amortization	4,939	—	5,225	870	11,034
Capital expenditures	3,716	—	3,873	26	7,615
Six months ended June 30, 2015					
Revenues	$482,975	$ 680	$293,278	$ —	$776,933
Operating income (loss)	105,885 (3)	(5,564)	9,043	(9,843)	99,521
Equity in earnings from real estate ventures	—	—	2,194	—	2,194
Depreciation and amortization	5,867	—	5,984	872	12,723
Capital expenditures	2,350	—	3,029	—	5,379

(1) Operating income includes $1,250 of litigation settlement expense and $1,607 of pension settlement expense.
(2) Operating income includes $2,350 of litigation settlement expense, and $41 of restructuring expense.
(3) Operating income includes $2,093 of litigation settlement expense and $1,607 of pension settlement expense.

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
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13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The accompanying condensed consolidating financial information has been prepared and presented pursuant to Securities and Exchange Commission (“SEC”) Regulation S-X, Rule 3-10, “Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered.” Each of the subsidiary guarantors is 100% owned, directly or indirectly, by the Company, and all guarantees are full and unconditional and joint and several.

The Company’s investments in its consolidated subsidiaries are presented under the equity method of accounting.

The Company has outstanding $835,000 principal amount of its 7.75% Senior Secured Notes due 2021 that are guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of the Company that are engaged in the conduct of its cigarette businesses. (See Note 6). The notes are not guaranteed by any of the Company’s subsidiaries engaged in the real estate businesses conducted through its subsidiary New Valley.

Presented herein are Condensed Consolidating Balance Sheets as of June 30, 2016 and December 31, 2015, the related Condensed Consolidating Statements of Operations for the three and six months ended June 30, 2016 and the related Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2016 and 2015 of Vector Group. (Parent/Issuer), the guarantor subsidiaries (Subsidiary Guarantors) and the subsidiaries that are not guarantors (Subsidiary Non-Guarantors).

The indenture contains covenants that restrict the payment of dividends by the Company if the Company’s consolidated earnings before interest, taxes, depreciation and amortization (“Consolidated EBITDA”), as defined in the indenture, for the most recently ended four full quarters is less than $75,000. The indenture also restricts the incurrence of debt if the Company’s Leverage Ratio and its Secured Leverage Ratio, as defined in the indenture, exceed 3.0 and 1.5, respectively. The Company’s Leverage Ratio is defined in the indenture as the ratio of the Company’s and the guaranteeing subsidiaries’ total debt less the fair market value of the Company’s cash, investments in marketable securities and long-term investments to Consolidated EBITDA, as defined in the indenture. The Company’s Secured Leverage Ratio is defined in the indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness.

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VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING BALANCE SHEETS

	June 30, 2016				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	$335,034	$32,246	$107,458	$—	$474,738
Investment securities available for sale	120,283	40,571	—	—	160,854
Accounts receivable - trade, net	—	15,015	10,061	—	25,076
Intercompany receivables	16,435	—	—	(16,435)	—
Inventories	—	92,735	—	—	92,735
Income taxes receivable, net	12,342	—	—	(12,124)	218
Restricted assets	—	8,523	914	—	9,437
Other current assets	618	3,794	35,751	—	40,163
Total current assets	484,712	192,884	154,184	(28,559)	803,221
Property, plant and equipment, net	1,452	51,122	19,330	—	71,904
Investments in real estate, net	—	—	23,328	—	23,328
Long-term investments	58,414	454	501	—	59,369
Investments in real estate ventures	—	—	206,139	—	206,139
Investments in consolidated subsidiaries	517,365	—	—	(517,365)	—
Restricted assets	1,720	7,666	—	—	9,386
Goodwill and other intangible assets, net	—	107,511	155,355	—	262,866
Prepaid pension costs	—	21,302	—	—	21,302
Other assets	7,621	12,002	2,362	—	21,985
Total assets	$1,071,284	$392,941	$561,199	$(545,924)	$1,479,500
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	$—	$16,523	$92	$—	$16,615
Current portion of employee benefits	—	914	—	—	914
Intercompany payables	—	585	15,850	(16,435)	—
Income taxes payable, net	—	11,501	623	(12,124)	—
Litigation accruals and current payments due under the Master Settlement Agreement	—	60,486	—	—	60,486
Other current liabilities	44,520	55,350	40,518	—	140,388
Total current liabilities	44,520	145,359	57,083	(28,559)	218,403
Notes payable, long-term debt and other obligations, less current portion	1,104,171	6,338	222	—	1,110,731
Fair value of derivatives embedded within convertible debt	126,932	—	—	—	126,932
Non-current employee benefits	40,075	15,233	—	—	55,308
Deferred income taxes, net	7,826	35,138	44,950	—	87,914

Other liabilities, primarily litigation accruals and payments due under the Master Settlement Agreement	5,285	45,010	5,353	—	55,648
Total liabilities	1,328,809	247,078	107,608	(28,559)	1,654,936
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(257,525)	145,863	371,502	(517,365)	(257,525)
Non-controlling interest	—	—	82,089	—	82,089
Total stockholders' (deficiency) equity	(257,525)	145,863	453,591	(517,365)	(175,436)
Total liabilities and stockholders' deficiency	$1,071,284	$392,941	$561,199	$(545,924)	$1,479,500

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VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2015				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	$111,470	$12,375	$116,523	$—	$240,368
Investment securities available for sale	131,810	50,166	—	—	181,976
Accounts receivable - trade, net	—	15,913	7,976	—	23,889
Intercompany receivables	11,293	—	—	(11,293)	—
Inventories	—	86,516	—	—	86,516
Income taxes receivable, net	8,213	—	—	(5,372)	2,841
Restricted assets	—	7,781	1,414	—	9,195
Other current assets	575	3,747	34,632	—	38,954
Total current assets	263,361	176,498	160,545	(16,665)	583,739
Property, plant and equipment, net	1,711	54,097	19,824	—	75,632
Investments in real estate, net	—	—	23,318	—	23,318
Long-term investments	61,747	478	501	—	62,726
Investments in real estate ventures	—	—	217,168	—	217,168
Investments in consolidated subsidiaries	532,501	—	—	(532,501)	—
Restricted assets	1,713	10,590	—	—	12,303
Goodwill and other intangible assets, net	—	107,511	156,448	—	263,959
Prepaid pension costs	—	20,650	—	—	20,650
Other assets	7,582	11,769	1,769	—	21,120
Total assets	$868,615	$381,593	$579,573	$(549,166)	$1,280,615
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	$—	$8,733	$186	$—	$8,919
Current portion of employee benefits	—	915	—	—	915
Intercompany payables	—	586	10,707	(11,293)	—
Income taxes payable, net	—	5,464	4	(5,372)	96
Litigation accruals and current payments due under the Master Settlement Agreement	—	52,145	—	—	52,145
Other current liabilities	38,140	74,083	41,994	—	154,217
Total current liabilities	38,140	141,926	52,891	(16,665)	216,292
Notes payable, long-term debt and other obligations, less current portion	848,368	7,519	221	—	856,108
Fair value of derivatives embedded within convertible debt	144,042	—	—	—	144,042
Non-current employee benefits	39,244	15,811	—	—	55,055
Deferred income taxes, net	2,675	33,791	42,963	—	79,429

Other liabilities, primarily litigation accruals and payments due under the Master Settlement Agreement	2,193	44,982	4,675	—	51,850
Total liabilities	1,074,662	244,029	100,750	(16,665)	1,402,776
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(206,047)	137,564	394,937	(532,501)	(206,047)
Non-controlling interest	—	—	83,886	—	83,886
Total stockholders' (deficiency) equity	(206,047)	137,564	478,823	(532,501)	(122,161)
Total liabilities and stockholders' deficiency	$868,615	$381,593	$579,573	$(549,166)	$1,280,615

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VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2016				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$—	$255,648	$182,765	$ (140)	$ 438,273
Expenses:					
Cost of sales	—	168,614	115,017	—	283,631
Operating, selling, administrative and general expenses	9,019	18,943	56,100	(140)	83,922
Management fee expense	—	2,663	—	(2,663)	—
Operating (loss) income	(9,019)	65,428	11,648	2,663	70,720
Other income (expenses):					
Interest expense	(35,522)	(843)	(4)	—	(36,369)
Change in fair value of derivatives embedded within convertible debt	7,416	—	—	—	7,416
Equity in earnings from real estate ventures	—	—	2,813	—	2,813
Equity in earnings (loss) from investments	1,097	(8)	—	—	1,089
Gain on sale of investment securities available for sale	139	—	—	—	139
Impairment of investment securities available for sale	(49)	—	—	—	(49)
Equity in earnings in consolidated subsidiaries	46,441	—	—	(46,441)	—
Management fee income	2,663	—	—	(2,663)	—
Other, net	(93)	244	430	—	581
Income before provision for income taxes	13,073	64,821	14,887	(46,441)	46,340
Income tax benefit (expense)	10,942	(24,907)	(5,038)	—	(19,003)
Net income	24,015	39,914	9,849	(46,441)	27,337
Net income attributed to non-controlling interest	—	—	(3,322)	—	(3,322)
Net income attributed to Vector Group Ltd.	$24,015	$39,914	$6,527	$ (46,441)	$ 24,015
Comprehensive income attributed to non-controlling interest	$—	$—	$(3,322)	$ —	$ (3,322)
Comprehensive income attributed to Vector Group Ltd.	$23,746	$39,793	$6,527	$ (46,320)	$ 23,746

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VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2015				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$—	$255,291	$161,022	$ (140)	$ 416,173
Expenses:					
Cost of sales	—	175,334	103,870	—	279,204
Operating, selling, administrative and general expenses	7,174	22,555	50,327	(140)	79,916
Litigation settlement and judgment expense	—	1,250	—	—	1,250
Management fee expense	—	2,563	—	(2,563)	—
Operating (loss) income	(7,174)	53,589	6,825	2,563	55,803
Other income (expenses):					
Interest expense	(30,880)	(879)	(2)	—	(31,761)
Change in fair value of derivatives embedded within convertible debt	5,256	—	—	—	5,256
Equity in earnings from real estate ventures	—	—	1,856	—	1,856
Equity in loss from investments	(2,147)	(16)	—	—	(2,163)
Loss on sale of investment securities available for sale	(190)	—	—	—	(190)
Equity in earnings in consolidated subsidiaries	35,745	—	—	(35,745)	—
Management fee income	2,563	—	—	(2,563)	—
Other, net	1,192	200	429	—	1,821
Income before provision for income taxes	4,365	52,894	9,108	(35,745)	30,622
Income tax benefit (expense)	13,242	(21,219)	(3,201)	—	(11,178)
Net income	17,607	31,675	5,907	(35,745)	19,444
Net income attributed to non-controlling interest	—	—	(1,837)	—	(1,837)
Net income attributed to Vector Group Ltd.	$17,607	$31,675	$4,070	$ (35,745)	$ 17,607
Comprehensive income attributed to non-controlling interest	$—	$—	$(1,837)	$ —	$ (1,837)
Comprehensive income attributed to Vector Group Ltd.	$17,834	$31,131	$4,070	$ (35,201)	$ 17,834

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VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Six Months Ended June 30, 2016				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$476,790	$342,512	$ (229)	$ 819,073
Expenses:					
Cost of sales	—	305,358	214,695	—	520,053
Operating, selling, administrative and general expenses	18,215	37,216	108,548	(229)	163,750
Litigation settlement and judgment expense	—	2,350	—	—	2,350
Management fee expense	—	5,325	—	(5,325)	—
Restructuring charges	—	41	—	—	41
Operating (loss) income	(18,215)	126,500	19,269	5,325	132,879
Other income (expenses):					
Interest expense	(65,280)	(1,802)	(7)	—	(67,089)
Change in fair value of derivatives embedded within convertible debt	17,110	—	—	—	17,110
Equity in earnings from real estate ventures	—	—	2,306	—	2,306
Equity in losses from investments	(558)	(24)	—	—	(582)
Gain on sale of investment securities available for sale	315	391	—	—	706
Impairment of investment securities available for sale	(90)	(4,772)	—	—	(4,862)
Equity in earnings in consolidated subsidiaries	82,051	—	—	(82,051)	—
Management fee income	5,325	—	—	(5,325)	—
Other, net	307	481	840	—	1,628
Income before provision for income taxes	20,965	120,774	22,408	(82,051)	82,096
Income tax benefit (expense)	22,388	(48,293)	(7,461)	—	(33,366)
Net income	43,353	72,481	14,947	(82,051)	48,730
Net income attributed to non-controlling interest	—	—	(5,377)	—	