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, 2020

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

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)

Securities Registered Pursuant to 12(b) of the Act:

Title of each class:	**Trading Symbol(s)**	**Name of each exchange on which registered:**
Common stock, par value $0.10 per share	VGR	New York Stock Exchange

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 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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

At August 5, 2020, Vector Group Ltd. had 153,293,358 shares of common stock outstanding.

VECTOR GROUP LTD.

FORM 10-Q

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Vector Group Ltd. Condensed Consolidated Financial Statements (Unaudited):	
Condensed Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019	2
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019	3
Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2020 and 2019	4
Condensed Consolidated Statements of Stockholders' Deficiency for the three and six months ended June 30, 2020 and 2019	6
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	56
Item 3. Quantitative and Qualitative Disclosures About Market Risk	71
Item 4. Controls and Procedures	71
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	73
Item 1A. Risk Factors	73
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	74
Item 6. Exhibits	75
SIGNATURE	76

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

	June 30, 2020	December 31, 2019
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 540,363	$ 371,341
Investment securities at fair value	88,643	129,641
Accounts receivable - trade, net	32,760	36,959
Inventories	98,609	98,762
Other current assets	38,363	44,911
Total current assets	798,738	681,614
Property, plant and equipment, net	77,617	82,160
Investments in real estate, net	28,876	28,317
Long-term investment securities at fair value	33,232	45,781
Investments in real estate ventures	115,377	131,556
Operating lease right-of-use assets	148,662	149,578
Goodwill and other intangible assets, net	207,659	265,993
Other assets	121,586	120,090
Total assets	$ 1,531,747	$ 1,505,089
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Current portion of notes payable and long-term debt	$ 8,853	$ 209,269
Current portion of fair value of derivatives embedded within convertible debt	—	4,999
Current payments due under the Master Settlement Agreement	102,125	34,116
Income taxes payable, net	36,831	5,138
Current operating lease liability	18,268	18,294
Other current liabilities	332,034	189,317
Total current liabilities	498,111	461,133
Notes payable, long-term debt and other obligations, less current portion	1,398,194	1,397,216
Non-current employee benefits	61,025	67,853
Deferred income taxes, net	12,438	33,695
Non-current operating lease liability	159,296	156,963
Payments due under the Master Settlement Agreement	18,130	17,275
Other liabilities	53,757	55,970
Total liabilities	2,200,951	2,190,105
Commitments and contingencies (Note 9)		
Stockholders' deficiency:		
Preferred stock, par value $1 per share, 10,000,000 shares authorized	—	—
Common stock, par value $0.1 per share, 250,000,000 shares authorized, 153,484,477 and 148,084,900 shares issued and outstanding	15,348	14,808
Accumulated deficit	(663,723)	(678,464)
Accumulated other comprehensive loss	(20,829)	(21,808)
Total Vector Group Ltd. stockholders' deficiency	(669,204)	(685,464)
Non-controlling interest	—	448
Total stockholders' deficiency	(669,204)	(685,016)
Total liabilities and stockholders' deficiency	$ 1,531,747	$ 1,505,089

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

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

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenues:				
Tobacco*	$ 312,510	$ 294,501	$ 599,579	$ 551,257
Real estate	133,250	243,931	300,669	408,099
Total revenues	445,760	538,432	900,248	959,356
Expenses:				
Cost of sales:				
Tobacco*	214,067	204,461	411,357	381,764
Real estate	90,818	163,713	204,151	272,430
Total cost of sales	304,885	368,174	615,508	654,194
Operating, selling, administrative and general expenses	71,064	93,359	161,581	185,673
Litigation settlement and judgment expense	53	655	53	655
Impairments of goodwill and intangible assets	—	—	58,252	—
Restructuring charges	2,961	—	2,961	—
Operating income	66,797	76,244	61,893	118,834
Other income (expenses):				
Interest expense	(29,358)	(32,753)	(64,985)	(70,273)
Change in fair value of derivatives embedded within convertible debt	1,669	3,788	4,999	14,137
Equity in earnings (losses) from investments	2,207	(1,685)	52,359	(323)
Equity in (losses) earnings from real estate ventures	(12,260)	6,391	(18,765)	3,952
Other, net	7,635	4,781	(3,020)	12,221
Income before provision for income taxes	36,690	56,766	32,481	78,548
Income tax expense	10,916	17,459	9,938	24,208
Net income	25,774	39,307	22,543	54,340
Net income attributed to non-controlling interest	—	—	—	(80)
Net income attributed to Vector Group Ltd.	$ 25,774	$ 39,307	$ 22,543	$ 54,260
Per basic common share:				
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.17	$ 0.25	$ 0.14	$ 0.34
Per diluted common share:				
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.16	$ 0.25	$ 0.14	$ 0.33

* Revenues and cost of sales include federal excise taxes of $121,170, $119,943, $234,309, and $224,576, respectively.

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

VECTOR GROUP LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	$ 25,774	$ 39,307	$ 22,543	$ 54,340
Net unrealized gains on investment securities available for sale:				
Change in net unrealized gains (losses)	644	346	(20)	723
Net unrealized (gains) losses reclassified into net income	(70)	(4)	433	(37)
Net unrealized gains on investment securities available for sale	574	342	413	686
Net change in pension-related amounts				
Amortization of loss	463	491	927	948
Net change in pension-related amounts	463	491	927	948
Other comprehensive income	1,037	833	1,340	1,634
Income tax effect on:				
Change in net unrealized gains (losses) on investment securities	(174)	(94)	6	(198)
Net unrealized (gains) losses reclassified into net income on investment securities	19	1	(117)	10
Pension-related amounts	(125)	(135)	(250)	(260)
Income tax provision on other comprehensive income	(280)	(228)	(361)	(448)
Other comprehensive income, net of tax	757	605	979	1,186
Comprehensive income	26,531	39,912	23,522	55,526
Comprehensive income attributed to non-controlling interest	—	—	—	(80)
Comprehensive income attributed to Vector Group Ltd.	$ 26,531	$ 39,912	$ 23,522	$ 55,446

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

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

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Capital	Deficit	Loss	Interest	Total
Balance as of April 1, 2020	148,084,900	$ 14,808	$ —	$ (712,221)	$ (21,586)	$ —	$ (718,999)
Net income	—	—	—	25,774	—	—	25,774
Total other comprehensive income	—	—	—	—	757	—	757
Distributions and dividends on common stock ($0.20 per share)	—	—	(54,244)	22,644	—	—	(31,600)
Restricted stock grant	405,000	41	(41)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(5,423)	(1)	(61)	—	—	—	(62)
Issuance of common stock, net of offering costs	5,000,000	500	52,063	—	—	—	52,563
Stock-based compensation	—	—	2,283	—	—	—	2,283
Other	—	—	—	80	—	—	80
Balance as of June 30, 2020	153,484,477	$ 15,348	$ —	$ (663,723)	$ (20,829)	$ —	$ (669,204)

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Capital	Deficit	Loss	Interest	Total
Balance as of April 1, 2019	140,899,065	$ 14,090	$ —	$ (580,581)	$ (24,098)	$ 488	$ (590,101)
Net income	—	—	—	39,307	—	—	39,307
Total other comprehensive income	—	—	—	—	605	—	605
Distributions and dividends on common stock ($0.38 per share)	—	—	(2,285)	(56,512)	—	—	(58,797)
Restricted stock grant	60,000	6	(6)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(5,165)	(1)	(47)	—	—	—	(48)
Effect of 2019 stock dividend*	7,047,695	705	—	(705)	—	—	—
Stock-based compensation	—	—	2,338	—	—	—	2,338
Balance as of June 30, 2019	148,001,595	$ 14,800	$ —	$ (598,491)	$ (23,493)	$ 488	$ (606,696)

* Represents the effect of the September 27, 2019 stock dividend on the second quarter 2019 common-stock activity.

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

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Capital	Deficit	Loss	Interest	Total
Balance as of January 1, 2020	148,084,900	$ 14,808	$ —	$ (678,464)	$ (21,808)	$ 448	$ (685,016)
Impact of adoption of new accounting standards	—	—	—	(2,263)	—	—	(2,263)
Net income	—	—	—	22,543	—	—	22,543
Total other comprehensive income	—	—	—	—	979	—	979
Distributions and dividends on common stock ($0.40 per share)	—	—	(56,502)	(5,619)	—	—	(62,121)
Restricted stock grant	405,000	41	(41)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(5,423)	(1)	(61)	—	—	—	(62)
Issuance of common stock, net of offering costs	5,000,000	500	52,063	—	—	—	52,563
Stock-based compensation	—	—	4,541	—	—	—	4,541
Distributions to non-controlling interest	—	—	—	—	—	(448)	(448)
Other	—	—	—	80	—	—	80
Balance as of June 30, 2020	153,484,477	$ 15,348	$ —	$ (663,723)	$ (20,829)	$ —	$ (669,204)

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Capital	Deficit	Loss	Interest	Total
Balance as of January 1, 2019	140,914,642	$ 14,092	$ —	$ (542,169)	$ (19,982)	$ 693	$ (547,366)
Impact of adoption of new accounting standards	—	—	—	3,147	(4,697)	—	(1,550)
Net income	—	—	—	54,260	—	80	54,340
Total other comprehensive income	—	—	—	—	1,186	—	1,186
Distributions and dividends on common stock ($0.76 per share)	—	—	(4,550)	(113,024)	—	—	(117,574)
Restricted stock grant	60,000	6	(6)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(20,742)	(3)	(218)	—	—	—	(221)
Effect of 2019 stock dividend*	7,047,695	705	—	(705)	—	—	—
Stock-based compensation	—	—	4,774	—	—	—	4,774
Distributions to non-controlling interest	—	—	—	—	—	(285)	(285)
Balance as of June 30, 2019	148,001,595	$ 14,800	$ —	$ (598,491)	$ (23,493)	$ 488	$ (606,696)

* Represents the effect of the September 27, 2019 stock dividend on the second quarter 2019 common-stock activity.

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

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
Unaudited

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Net cash provided by operating activities	$ 341,329	$ 98,102
Cash flows from investing activities:		
Sale of investment securities	19,555	12,942
Maturities of investment securities	31,574	28,610
Purchase of investment securities	(16,867)	(44,222)
Proceeds from sale or liquidation of long-term investments	23,407	—
Purchase of long-term investments	(5,238)	—
Investments in real estate ventures	(3,858)	(21,908)
Distributions from investments in real estate ventures	5,172	23,200
Increase in cash surrender value of life insurance policies	(751)	(789)
Decrease in restricted assets	87	668
Proceeds from sale of fixed assets	—	8
Capital expenditures	(6,242)	(6,320)
Purchase of subsidiaries	—	(668)
Pay downs of investment securities	415	545
Investments in real estate, net	(679)	(1,153)
Net cash provided by (used in) investing activities	46,575	(9,087)
Cash flows from financing activities:		
Proceeds from issuance of debt	531	—
Deferred financing costs	—	(33)
Repayments of debt	(172,467)	(230,771)
Borrowings under revolver	130,641	172,224
Repayments on revolver	(165,593)	(169,727)
Dividends and distributions on common stock	(63,478)	(118,748)
Distributions to non-controlling interest	(448)	(285)
Proceeds from issuance of Vector stock	52,563	—
Other	5	—
Net cash used in financing activities	(218,246)	(347,340)
Net increase (decrease) in cash, cash equivalents and restricted cash	169,658	(258,325)
Cash, cash equivalents and restricted cash, beginning of period	379,476	591,729
Cash, cash equivalents and restricted cash, end of period	$ 549,134	$ 333,404

The accompanying notes are an integral part of the 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 Liggett Group LLC ("Liggett"), Vector Tobacco Inc. ("Vector Tobacco"), Liggett Vector Brands LLC ("Liggett Vector Brands"), 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 significant intercompany balances and transactions have been eliminated.

Liggett and Vector Tobacco are engaged in the manufacture and sale of cigarettes in the United States. Liggett Vector Brands coordinates Liggett and Vector Tobacco's sales and marketing efforts. Certain references to "Liggett" refer to the Company's tobacco operations, including the business of Liggett and Vector Tobacco, unless otherwise specified. 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 ("U.S. GAAP") 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. GAAP 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, 2019 filed with the Securities and Exchange Commission ("SEC"). 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.

Certain reclassifications have been made to the 2019 financial information to conform to the 2020 presentation.

(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. Any amounts exceeding retained earnings are recorded as a reduction to additional paid-in capital to the extent paid-in-capital is available and then to accumulated deficit. The Company's stock dividends are recorded as stock splits and given retroactive effect to earnings per share for all periods presented. On November 5, 2019, the Company announced that its board of directors decided that the Company will no longer pay an annual stock dividend.

(c) Earnings Per Share ("EPS"):

Information concerning the Company's common stock has been adjusted to give retroactive effect to the 5% stock dividend distributed to Company stockholders on September 27, 2019. All per share amounts and references to share amounts have been updated to reflect the retrospective effect of the stock dividend.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income attributed to Vector Group Ltd.	$ 25,774	$ 39,307	$ 22,543	$ 54,260
Income attributed to participating securities	(707)	(2,027)	(1,268)	(4,029)
Net income applicable to common shares attributed to Vector Group Ltd.	$ 25,067	$ 37,280	$ 21,275	$ 50,231

(Dollars in Thousands, Except Per Share Amounts)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income attributed to Vector Group Ltd.	$ 25,774	$ 39,307	$ 22,543	$ 54,260
Income attributable to 5.5% Variable Interest Senior Convertible Notes	(375)	—	—	—
Income attributable to 7.5% Variable Interest Senior Convertible Notes	—	—	—	(1,246)
Income attributed to participating securities	(707)	(2,027)	(1,268)	(4,029)
Net income applicable to common shares attributed to Vector Group Ltd.	$ 24,692	$ 37,280	$ 21,275	$ 48,985

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Weighted-average shares for basic EPS	149,379,306	146,509,025	148,189,710	146,490,322
Plus incremental shares related to convertible debt	1,379,454	—	—	1,449,753
Plus incremental shares related to stock options and non-vested restricted stock	88,100	12,082	85,701	14,242
Weighted-average shares for diluted EPS	150,846,860	146,521,107	148,275,411	147,954,317

The following non-vested restricted stock and shares issuable upon the conversion of convertible debt were outstanding during the three and six months ended June 30, 2020 and 2019, but were not included in the computation of diluted EPS because the impact of the per share expense associated with the restricted stock were greater than the average market price of the common shares during the respective periods and the common shares issuable under the convertible debt were anti-dilutive to EPS.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Weighted-average shares of non-vested restricted stock	625,122	1,407,820	625,122	1,407,820
Weighted-average expense per share	$ 19.54	$ 17.92	$ 19.54	$ 17.92
Weighted-average number of shares issuable upon conversion of debt	—	11,447,061	4,874,072	11,447,061
Weighted-average conversion price	$ —	$ 20.27	$ 20.27	$ 20.27

(d) Restructuring:

In response to the current novel coronavirus pandemic ("COVID-19"), the Company's Real Estate segment, including Douglas Elliman, has commenced a restructuring by realigning its administrative support function and office locations as well as adjusting its business model to more efficiently serve its clients. This included a reduction of staff by approximately 25% at Douglas Elliman.

(Dollars in Thousands, Except Per Share Amounts)

The following table summarizes amounts expensed for the three and six months ended June 30, 2020:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Cash Charges:		
Employee severance and benefits	$ 1,599	$ 1,599
Other restructuring expenses	218	218
	1,817	1,817
Non-Cash:		
Loss on fixed assets associated with consolidation of sales offices	1,144	1,144
	1,144	1,144
Total restructuring charges	$ 2,961	$ 2,961

All amounts expensed for the three and six months ended June 30, 2020 are included as Restructuring charges in the Company's condensed consolidated statements of operations and are all attributable to the Company's Real Estate segment.

Severance and benefits expensed for the three and six months ended June 30, 2020 relate entirely to a reduction in administrative positions.

The following table presents the activity under the Real Estate segment restructuring plan for the six months ended June 30, 2020:

	Employee Severance and Benefits	Other	Non-Cash Loss on Fixed Assets	Total
Accrual balance as of January 1, 2020	$ —	$ —	$ —	$ —
Restructuring charges	1,599	218	1,144	2,961
Utilized	(1,239)	—	(1,144)	(2,383)
Accrual balance as of June 30, 2020	$ 360	$ 218	$ —	$ 578

(e) Investments in Real Estate Ventures:

In accounting for its investments in real estate ventures, the Company identified its participation in Variable Interest Entities ("VIE"), which are defined as (a) entities in which the equity investment at risk is not sufficient to finance its activities without additional subordinated financial support; (b) as a group, the equity investors at risk lack 1) the power to direct the activities of a legal entity that most significantly impact the entity's economic performance, 2) the obligation to absorb the expected losses of the entity, or 3) the right to receive the expected residual returns of the entity; or (c) as a group, the equity investors have voting rights that are not proportionate to their economic interests and the entity's activities involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company's interest in VIEs is primarily in the form of equity ownership. The Company examines specific criteria and uses judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights exclusive of protective rights or voting rights and level of economic disproportionality between the Company and its other partner(s).

Accounting guidance requires the consolidation of VIEs in which the Company is the primary beneficiary. The guidance requires consolidation of VIEs that an enterprise 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 impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from 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 VIE, any unfunded capital commitments to the VIE, and, in some cases, guarantees in connection with debt on the specific project. The Company's maximum exposure to loss in its investment in 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.

(Dollars in Thousands, Except Per Share Amounts)

On a quarterly basis, the Company evaluates its investments in real estate ventures to determine if there are indicators of impairment. If so, the Company further investigates to determine if an impairment has occurred and whether such impairment is considered temporary or other than temporary. The Company believes that the assessment of temporary or other-than-temporary impairment is facts-and-circumstances driven.

(f) Other, Net:

Other, net consisted of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest and dividend income	$ 968	$ 3,139	$ 3,648	$ 6,347
Net gains (losses) recognized on investment securities	4,781	2,315	(7,459)	7,088
Net periodic benefit cost other than the service costs	(454)	(575)	(909)	(1,116)
Other income (expense)	2,340	(98)	1,700	(98)
Other, net	$ 7,635	$ 4,781	$ (3,020)	$ 12,221

(Dollars in Thousands, Except Per Share Amounts)

(g) Other Assets:

Other assets consisted of:

	June 30, 2020	December 31, 2019
Restricted assets	$ 4,004	$ 5,241
Prepaid pension costs	32,207	31,686
Equity-method investments	14,817	15,942
Contract assets, net	25,957	18,443
Other assets	44,601	48,778
Total other assets	$ 121,586	$ 120,090

(h) Other Current Liabilities:

Other current liabilities consisted of:

	June 30, 2020	December 31, 2019
Accounts payable	$ 12,232	$ 10,222
Accrued promotional expenses	44,254	35,900
Accrued excise and payroll taxes payable, net	149,758	18,653
Accrued interest	31,623	35,756
Commissions payable	22,225	18,378
Accrued salary and benefits	15,407	29,464
Contract liabilities	7,830	9,358
Allowance for sales returns	8,191	7,785
Other current liabilities	40,514	23,801
Total other current liabilities	$ 332,034	$ 189,317

(i) Reconciliation of Cash, Cash Equivalents and Restricted Cash:

The components of "Cash, cash equivalents and restricted cash" in the condensed consolidated statements of cash flows were as follows:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 540,363	$ 371,341
Restricted cash and cash equivalents included in other current assets	6,310	4,423
Restricted cash and cash equivalents included in other assets	2,461	3,712
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	$ 549,134	$ 379,476

Amounts included in current restricted assets and non-current restricted assets represent cash and cash equivalents required to be deposited into escrow for bonds required to appeal adverse product liability judgments, amounts required for letters of credit related to office leases, and certain deposit requirements for banking arrangements. The restrictions related to the appellate bonds will remain in place until the appeal process has been completed. The restrictions related to the letters of credit will remain in place for the duration of the respective lease. The restrictions related to the banking arrangements will remain in place for the duration of the arrangement.

(j) New Accounting Pronouncements:

Accounting Standards Updates ("ASU") adopted in 2020:

In October 2018, the Financial Accounting Standards Board ("FASB") issued *ASU No. 2018-17*, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The guidance requires indirect interests held through related parties under common control arrangements be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of this update did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued *ASU 2018-15*, *Intangibles - Goodwill and Other Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. *ASU 2018-15* is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Adoption of this update did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued *ASU No. 2018-13*, *Fair Value Measurement* (*Topic 820*): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which is designed to improve the effectiveness of disclosures by removing, modifying and adding disclosures related to fair value measurements. The ASU eliminates disclosures such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU also adds new disclosure requirements for Level 3 measurements. *ASU No. 2018-13* is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of *ASU 2018-13* impacted financial statement disclosure and had no impact on operating results.

In June 2016, the FASB issued *ASU No. 2016-13*, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("*ASU 2016-13*"), sets forth a current expected credit loss model that changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. Subsequent updates were released in November 2018 (*ASU No. 2018-19)*, November 2019 (*ASU No. 2019-10 and 2019-11*) and February 2020 (*ASU No. 2020-02*) that provided additional guidance on this Topic. This guidance is effective for fiscal years beginning after December 15, 2019.

The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for notes and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaced the previous impairment models in U.S. GAAP, which generally required that a loss be incurred before it is recognized. The new standard applies to receivables arising from revenue transactions such as contract assets and accounts receivables. The adoption of this standard resulted in an increase in stockholders' deficiency of $2,263, net of tax, attributed to commercial real estate term loans allowance for credit losses of $3,100 as of January 1, 2020.

In January 2017, the FASB issued *ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. Under the amendments of the ASU, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in this update are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. This guidance was adopted on January 1, 2020, on a prospective basis. The Company applied the new guidance to evaluate its goodwill during the first quarter of 2020. As a result, a goodwill impairment charge of $46,252 was recorded as the Company's estimated fair value of a reporting unit was less than its book value.

ASUs to be adopted in future periods:

In August 2018, the FASB issued *ASU No. 2018-14*, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans* ("*ASU 2018-14*").

(Dollars in Thousands, Except Per Share Amounts)

ASU 2018-14 eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The ASU also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. *ASU 2018-14* is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020. The Company does not plan to early adopt. The adoption of *ASU 2018-14* will impact financial statement disclosure with no impact on operating results.

In December 2019, the FASB issued *ASU No. 2019-12, Simplifying the Accounting for Income Taxes (“ASU 2019-12”).* This update simplifies various aspects related to accounting for income taxes, removes certain exceptions to the general principles in Accounting Standards Codification (“ASC”) 740, and clarifies and amends existing guidance to improve consistent application. *ASU No. 2019-12* is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the effect the standard will have on its condensed consolidated financial statements and related disclosures.

In January 2020, the FASB issued *ASU No. 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (“ASU 2020-01”).* The new standard clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. The Company is currently evaluating the effect the standard will have on its condensed consolidated financial statements and related disclosures.

In March 2020, the FASB issued *ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”*). This ASU is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. This guidance is effective for all entities for contract modifications beginning March 12, 2020 and can be applied prospectively through December 31, 2022. The Company has not yet determined the extent to which it will utilize these expedients and exceptions should a modification occur. The Company is currently evaluating the impact of the new guidance on its condensed consolidated financial statements.

2. REVENUE RECOGNITION

Disaggregation of Revenue

In the following table, revenue is disaggregated by major product line for the Tobacco segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Tobacco Segment Revenues:				
Core Discount Brands - EAGLE 20’s, PYRAMID, GRAND PRIX, LIGGETT SELECT, and EVE	$ 283,951	$ 267,277	$ 542,166	$ 500,383
Other Brands	28,559	27,224	57,413	50,874
Total tobacco revenues	$ 312,510	$ 294,501	$ 599,579	$ 551,257

(Dollars in Thousands, Except Per Share Amounts)

In the following table, revenue is disaggregated by major services line and primary geographical market for the Real Estate segment:

	Three months ended June 30, 2020				
	New York City	Northeast	Southeast	West	Total
Real Estate Segment Revenues:					
Commission and other brokerage income - existing home sales	$ 35,861	$ 35,631	$ 23,232	$ 20,024	$ 114,748
Commission and other brokerage income - development marketing	5,173	—	2,747	586	8,506
Property management revenue	8,617	215	—	—	8,832
Title fees	474	369	—	—	843
Total Douglas Elliman revenue	50,125	36,215	25,979	20,610	132,929
Other real estate revenues	—	—	—	321	321
Total real estate revenues	$ 50,125	$ 36,215	$ 25,979	$ 20,931	$ 133,250

	Three months ended June 30, 2019				
	New York City	Northeast	Southeast	West	Total
Real Estate Segment Revenues:					
Commission and other brokerage income - existing home sales	$ 104,301	$ 39,880	$ 31,324	$ 31,653	$ 207,158
Commission and other brokerage income - development marketing	22,718	—	436	22	23,176
Property management revenue	10,048	170	—	—	10,218
Title fees	1,869	471	—	60	2,400
Total Douglas Elliman revenue	138,936	40,521	31,760	31,735	242,952
Other real estate revenues	—	—	—	979	979
Total real estate revenues	$ 138,936	$ 40,521	$ 31,760	$ 32,714	$ 243,931

	Six Months Ended June 30, 2020				
	New York City	Northeast	Southeast	West	Total
Real Estate Segment Revenues:					
Commission and other brokerage income - existing home sales	$ 85,970	$ 70,355	$ 53,410	$ 45,724	$ 255,459
Commission and other brokerage income - development marketing	13,624	—	9,469	668	23,761
Property management revenue	17,179	432	—	—	17,611
Title fees	1,067	632	—	—	1,699
Total Douglas Elliman revenue	117,840	71,419	62,879	46,392	298,530
Other real estate revenues	—	—	—	2,139	2,139
Total real estate revenues	$ 117,840	$ 71,419	$ 62,879	$ 48,531	$ 300,669

(Dollars in Thousands, Except Per Share Amounts)

	Six Months Ended June 30, 2019				
	New York City	Northeast	Southeast	West	Total
Real Estate Segment Revenues:					
Commission and other brokerage income - existing home sales	$ 169,980	$ 70,991	$ 54,295	$ 50,182	$ 345,448
Commission and other brokerage income - development marketing	34,104	—	3,066	29	37,199
Property management revenue	18,215	354	—	—	18,569
Title fees	2,663	910	60	—	3,633
Total Douglas Elliman revenue	224,962	72,255	57,421	50,211	404,849
Other real estate revenues	—	—	—	3,250	3,250
Total real estate revenues	$ 224,962	$ 72,255	$ 57,421	$ 53,461	$ 408,099

Contract Balances

The following table provides information about contracts assets and contract liabilities from development marketing and commercial leasing contracts with customers:

	June 30, 2020	December 31, 2019
Receivables, which are included in accounts receivable - trade, net	$ 1,532	$ 2,129
Contract assets, net, which are included in other current assets	5,296	8,766
Payables, which are included in other current liabilities	1,084	1,663
Contract liabilities, which are included in other current liabilities	7,830	9,358
Contract assets, net, which are included in other assets	25,957	18,443
Contract liabilities, which are included in other liabilities	32,125	29,045

The Company recognized revenue of $3,921 and $6,658 for the three and six months ended June 30, 2020, that were included in the contract liabilities balances at December 31, 2019. There was no revenue recognized relating to performance obligations satisfied or partially satisfied in prior periods for the three and six months ended June 30, 2020 and 2019, respectively.

3. CURRENT EXPECTED CREDIT LOSSES

On January 1, 2020, the Company adopted ASU No. 2016-13, which sets forth a current expected credit loss model that changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income.

ASU 2016-13 introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The Company adopted this guidance using the modified retrospective approach, as required, and has not adjusted prior period comparative information and will continue to disclose the prior period financial information in accordance with the previous guidance. The adoption of this standard resulted in an increase in stockholders' deficiency of $2,263 net of tax, attributed to commercial real estate term loans allowance for credit losses of $3,100 as of January 1, 2020.

Tobacco receivables: Average collection terms for Tobacco sales range between three and twelve days from the time that the cigarettes are shipped to the customer. Based on Tobacco historical and ongoing cash collections from customers, an estimated credit loss in accordance with ASU 2016-13 was not required for these trade receivables as of January 1, 2020 and June 30, 2020.

Real estate broker agent receivables: Douglas Elliman Realty is exposed to credit losses for various amounts due from real estate agents, which are included in Other current assets on the condensed consolidated balance sheets, net of an allowance for credit losses. The Company historically estimated its allowance for credit losses on receivables from agents based on an evaluation of aging, agent sales in pipeline, any security, specific exposures, and historical experience of collections from the individual agents. Based on the Company's historical credit losses on receivables from agents, current and expected future market trends (such as the current and expected impact of COVID-19 on the real estate market), it was determined that the requirements of Topic 326 did not result in a material impact on the Company's allowance for credit losses as of January 1, 2020 of $6,132. The Company estimated that the credit losses for these receivables were $7,361 at June 30, 2020.

(Dollars in Thousands, Except Per Share Amounts)

Term loan receivables: New Valley periodically provides term loans to commercial real estate developers, which are included in Other assets on the condensed consolidated balance sheets. New Valley had two loans with a total amortized cost basis of $15,534 and $15,276, including accrued interest receivable of $6,034 and $5,776 at June 30, 2020 and December 31, 2019, respectively, and have maturities in 2021 and beyond. The loans are secured by guarantees and given their risk profiles are evaluated individually. As New Valley does not have internal historical loss information by which to evaluate the risk of credit losses, external market data measuring default risks on high yield loans as of each measurement date was utilized to estimate reserves for credit losses on these loans. Pursuant to the requirements of Topic 326, New Valley's expected credit loss estimate was $3,100 as of January 1, 2020 and $3,532 as of June 30, 2020, which reflects the significant current and expected decline in market conditions as of June 30, 2020 due to the impact of COVID-19 on the real estate market.

The adoption of this standard did not have a material impact on the debt securities available for sale portfolio.

The following is the rollforward of the allowance for credit losses for the six months ended June 30, 2020:

	January 1, 2020	Current Period Provision	Write-offs	Recoveries	June 30, 2020
Allowance for credit losses:					
Real estate broker agent receivables	$ 6,132	$ 1,270 [(1)]	$ 41	$ —	7,361
New Valley term loan receivables	3,100	432 [(2)]	—	—	3,532

[(1)] The bad debt expense related to the real estate broker agent receivables is included in Operating, selling, administrative and general expenses on the condensed consolidated statements of operations.

[(2)] The credit losses related to the New Valley term loan receivables are included in Other, net on the condensed consolidated statements of operations.

4. LEASES

Leases

The Company has operating and finance leases for corporate and sales offices, and certain vehicles and equipment. The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease cost	$ 9,356	$ 9,630	$ 18,780	$ 18,505
Short-term lease cost	389	279	790	513
Variable lease cost	588	898	1,155	1,690
Finance lease cost:				
Amortization	39	63	77	119
Interest on lease liabilities	4	4	7	7
Total lease cost	$ 10,376	$ 10,874	$ 20,809	$ 20,834

(Dollars in Thousands, Except Per Share Amounts)

Supplemental cash flow information related to leases was as follows:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 11,953	$ 18,440
Operating cash flows from finance leases	7	7
Financing cash flows from finance leases	69	113
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	9,076	13,061
Finance leases	60	123

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

Supplemental balance sheet information related to leases was as follows:

	June 30, 2020	December 31, 2019
Operating leases:		
Operating lease right-of-use assets	$ 148,662	$ 149,578
Current operating lease liability	$ 18,268	$ 18,294
Non-current operating lease liability	159,296	156,963
Total operating lease liabilities	$ 177,564	$ 175,257
Finance leases:		
Investments in real estate, net [1]	$ 84	$ 88
Property, plant and equipment, at cost	$ 127	$ 127
Accumulated amortization	(32)	(19)
Property and equipment, net	$ 95	$ 108
Current portion of notes payable and long-term debt	$ 61	$ 86
Notes payable, long-term debt and other obligations, less current portion	124	108
Total finance lease liabilities	$ 185	$ 194
Weighted average remaining lease term:		
Operating leases	8.35	8.46
Finance leases	3.10	3.01
Weighted average discount rate:		
Operating leases	9.48%	10.75%
Finance leases	7.68%	8.61%

[1] Included in Investments in real estate, net on the condensed consolidated balance sheets are financing lease equipment, at cost of $822 and $762 and accumulated amortization of $738 and $674 as of June 30, 2020 and December 31, 2019, respectively.

(Dollars in Thousands, Except Per Share Amounts)

As of June 30, 2020, maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases
Period Ending December 31:		
Remainder of 2020	$ 15,374	$ 39
2021	38,992	66
2022	34,772	61
2023	31,516	35
2024	25,902	8
2025	20,980	—
Thereafter	96,668	—
Total lease payments	264,204	209
Less imputed interest	(86,640)	(24)
Total	$ 177,564	$ 185

As of June 30, 2020, the Company had $870 in undiscounted lease payments relating to additional operating leases for office space and equipment that have not yet commenced. The operating leases will commence in the third and fourth quarter of 2020 with lease terms ranging from 1.5 years to 5 years.

Due to the business disruptions and challenges severely affecting the global economy caused by the COVID-19 pandemic, lessors may provide rent deferrals and other lease concessions to lessees. While the lease modification guidance in Topic 842 addresses routine changes to lease terms resulting from negotiations between the lessee and the lessor, this guidance does not contemplate concessions being so rapidly executed to address the sudden liquidity constraints of some lessees arising from the COVID-19 pandemic and restrictions intended to prevent its spread.

In April 2020, the FASB staff issued a question and answer document (the “Lease Modification Q&A”) focused on the application of lease accounting guidance to lease concessions provided as a result of the COVID-19 pandemic. Under existing lease guidance, the Company would have to determine, on a lease by lease basis, if a lease concession was the result of a new arrangement reached with the tenant (treated within the lease modification accounting framework) or if a lease concession was under the enforceable rights and obligations within the existing lease agreement (precluded from applying the lease modification accounting framework). The Lease Modification Q&A allows the Company, if certain criteria have been met, to bypass the lease by lease analysis, and instead elect to either apply the lease modification accounting framework or not, with such election applied consistently to leases with similar characteristics and similar circumstances.

The Company entered into rent deferral concession agreements during the three months ended June 30, 2020, with approximately half of its existing landlords. The agreements varied on the timing of repayment but all agreements required repayment of the deferrals over the remaining lease terms. The Company elected to treat these deferrals agreements as lease modifications and the existing lease liabilities were remeasured with a corresponding adjustment to the ROU asset on the effective date of the modification.

The Lease Modification Q&A’s future impact to the Company’s condensed consolidated financial statements is dependent upon the extent of any lease concessions granted to the Company or its subsidiaries as a result of the COVID-19 pandemic in future periods and the elections made by the Company at the time of entering into such concessions.

(Dollars in Thousands, Except Per Share Amounts)

5. INVENTORIES

Inventories consisted of:

	June 30, 2020	December 31, 2019
Leaf tobacco	$ 48,482	$ 44,516
Other raw materials	4,564	4,669
Work-in-process	532	333
Finished goods	66,970	71,183
Inventories at current cost	120,548	120,701
LIFO adjustments	(21,939)	(21,939)
	$ 98,609	$ 98,762

All of the Company’s inventories at June 30, 2020 and December 31, 2019 are reported under the LIFO method. The $21,939 LIFO adjustment as of June 30, 2020 decreases the current cost of inventories by $15,210 for Leaf tobacco, $183 for Other raw materials, $24 for Work-in-process and $6,522 for Finished goods. The $21,939 LIFO adjustment as of December 31, 2019 decreased the current cost of inventories by $15,210 for Leaf tobacco, $182 for Other raw materials, $24 for Work-in-process and $6,523 for Finished goods.

The amount of capitalized MSA cost in “Finished goods” inventory was $20,801 and $20,472 at June 30, 2020 and December 31, 2019, respectively. Federal excise tax capitalized in inventory was $27,663 and $27,676 at June 30, 2020 and December 31, 2019, respectively.

At June 30, 2020, Liggett had tobacco purchase commitments of approximately $18,799. Liggett has a single source supply agreement for reduced ignition propensity cigarette paper through 2022.

6. INVESTMENT SECURITIES

Investment securities consisted of the following:

	June 30, 2020	December 31, 2019
Debt securities available for sale	$ 54,885	$ 83,445
Equity securities at fair value:		
Marketable equity securities	11,091	23,819
Mutual funds invested in debt securities	22,667	22,377
Long-term investment securities at fair value [(1)]	33,232	45,781
Total equity securities at fair value	66,990	91,977
Total investment securities at fair value	121,875	175,422
Less:		
Long-term investment securities at fair value	33,232	45,781
Current investment securities at fair value	88,643	129,641
Equity-method investments	$ 14,817	$ 15,942

[(1)] These assets are measured at net asset value (“NAV”) as a practical expedient under ASC 820.

(Dollars in Thousands, Except Per Share Amounts)

Net gains (losses) recognized on investment securities were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net gains (losses) recognized on equity securities	$ 4,711	$ 2,311	$ (7,026)	$ 7,051
Net gains (losses) recognized on debt securities available for sale	70	6	(47)	42
Impairment expense	—	(2)	(386)	(5)
Net gains (losses) recognized on investment securities	$ 4,781	$ 2,315	$ (7,459)	$ 7,088

(a) Debt Securities Available for Sale

The components of debt securities available for sale at June 30, 2020 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities	$ 53,741	$ 1,144	$ —	$ 54,885

The table below summarizes the maturity dates of debt securities available for sale at June 30, 2020.

Investment Type:	Fair Value	Under 1 Year	1 Year up to 5 Years	More than 5 Years
U.S. Government securities	$ 12,754	$ 8,761	$ 3,993	$ —
Corporate securities	37,145	22,570	14,575	—
U.S. mortgage-backed securities	4,984	3,134	1,850	—
Commercial mortgage-backed securities	2	2	—	—
Total debt securities available for sale by maturity dates	$ 54,885	$ 34,467	$ 20,418	$ —

The components of debt securities available for sale at December 31, 2019 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities	$ 82,714	$ 731	$ —	$ 83,445

There were no available-for-sale debt securities with continuous unrealized losses for less than 12 months and 12 months or greater at June 30, 2020 and December 31, 2019, respectively.

(Dollars in Thousands, Except Per Share Amounts)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gross realized gains on sales	$ 72	$ 9	$ 170	$ 47
Gross realized losses on sales	(2)	(3)	(217)	(5)
Net gains (losses) recognized on debt securities available for sale	$ 70	$ 6	$ (47)	$ 42
Impairment expense	$ —	$ (2)	$ (386)	$ (5)

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.

(b) Equity Securities at Fair Value

The following is a summary of unrealized and realized net gains and losses recognized in net income on equity securities at fair value during the three and six months ended June 30, 2020 and 2019, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net gains (losses) recognized on equity securities	$ 4,711	$ 2,311	$ (7,026)	$ 7,051
Less: Net gains (losses) recognized on equity securities sold	601	278	(17)	410
Net unrealized gains (losses) recognized on equity securities still held at the reporting date	$ 4,110	$ 2,033	$ (7,009)	$ 6,641

The Company's marketable equity securities and mutual funds invested in debt securities are classified as Level 1 under the fair value hierarchy disclosed in Note 12. Their fair values are based on quoted prices for identical assets in active markets or inputs that are based upon quoted prices for similar instruments in active markets.

The Company received cash distributions of $23,510 and recorded $2,148 of in-transit redemptions as of June 30, 2020 related to its long-term investment securities at fair value. The Company classified $23,407 of these distributions as investing cash inflows for the six months ended June 30, 2020. The remaining distributions were classified as operating cash inflows.

(c) Equity-Method Investments:

Equity-method investments consisted of the following:

	June 30, 2020	December 31, 2019
Mutual fund and hedge funds	$ 14,817	$ 15,509
Ladenburg Thalmann Financial Services Inc. ("LTS")	—	433
	$ 14,817	$ 15,942

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

At June 30, 2020, the Company's ownership percentages in the mutual fund and hedge funds accounted for under the equity method ranged from 7.10% to 35.75%. The Company's ownership percentage in these investments meets the threshold for equity-method accounting.

In November 2019, LTS entered into an Agreement and Plan of Merger with Advisor Group whereby each LTS common share would be converted into the right to receive $3.50 per common share. On February 14, 2020, the merger was completed and the Company received proceeds of $53,169 in exchange for the Company's 15,191,205 common shares of LTS. The Company also tendered 240,000 shares of LTS 8% Series A Cumulative Redeemable Preferred Stock (Liquidation Preference $25.00 Per Share) for redemption and received an additional $6,009 in March 2020. At the closing of the transaction, the Company's Executive Vice President resigned as Chairman, President and Chief Executive Officer of LTS, and the Company's management agreement with LTS was terminated.

Equity in earnings (losses) from investments were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Mutual fund and hedge funds	$ 2,207	$ (230)	$ (693)	$ 612
LTS	—	(1,480)	53,052	(985)
Other	—	25	—	50
Equity in earnings (losses) from investments	$ 2,207	$ (1,685)	$ 52,359	$ (323)

The Company received cash distributions of $53,484 (including the $53,169 received by the Company in exchange for the Company's 15,191,205 common shares of LTS) and $855 from the Company's equity-method investments for the six months ended June 30, 2020 and 2019, respectively. The Company classified its cash distributions of $53,484 and $855 as operating activities on the condensed consolidated statements of cash flows for the six months ended June 30, 2020 and June 30, 2019, respectively.

(d) Equity Securities Without Readily Determinable Fair Values That Do Not Qualify for the NAV Practical Expedient

Equity securities without readily determinable fair values that do not qualify for the NAV practical expedient consisted of investments in the common stock of a reinsurance company and membership units of a commercial real estate limited liability company at June 30, 2020 and December 31, 2019, respectively. Membership units of a real estate limited liability company were also included in the balance as of December 31, 2019. The total carrying value of these investments was $5,200 as of June 30, 2020 and $6,200 as of December 31, 2019, and was included in "Other assets" on the condensed consolidated balance sheets. No impairment or other adjustments related to observable price changes in orderly transactions for identical or similar investments were identified for the three and six months ended June 30, 2020 and 2019, respectively.

(Dollars in Thousands, Except Per Share Amounts)

7. NEW VALLEY LLC

Investments in real estate ventures:

The components of "Investments in real estate ventures" were as follows:

	Range of Ownership [1]	June 30, 2020	December 31, 2019
Condominium and Mixed Use Development:			
New York City Standard Metropolitan Statistical Area ("SMSA")	3.1% - 49.5%	$ 42,851	$ 51,078
All other U.S. areas	15.0% - 77.8%	47,172	55,842
		90,023	106,920
Hotels:			
New York City SMSA	1.0% - 18.4%	3,107	2,462
International	49.0%	1,610	2,161
		4,717	4,623
Commercial:			
New York City SMSA	49.0%	2,076	1,852
All other U.S. areas	1.6%	7,567	7,634
		9,643	9,486
Other:	15.0% - 49.0%	10,994	10,527
Investments in real estate ventures		$ 115,377	$ 131,556

[1] The Range of Ownership reflects New Valley's estimated current ownership percentage. New Valley's actual ownership percentage as well as the percentage of earnings and cash distributions may ultimately differ as a result of a number of factors including potential dilution, financing or admission of additional partners.

Contributions:

The components of New Valley's contributions to its investments in real estate ventures were as follows:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Condominium and Mixed Use Development:		
New York City SMSA	$ 1,169	$ 21,537
All other U.S. areas	2,161	—
	3,330	21,537
Apartment Buildings:		
All other U.S. areas	76	—
	76	—
Hotels:		
New York City SMSA	—	172
	—	172
Other:	452	199
Total contributions	$ 3,858	$ 21,908

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 during the six months ended June 30, 2020 and June 30, 2019. New Valley's direct investment percentage for these ventures did not significantly change.

(Dollars in Thousands, Except Per Share Amounts)

Distributions:

The components of distributions received by New Valley from its investments in real estate ventures were as follows:

	Six Months Ended June 30,	
	2020	**2019**
Condominium and Mixed Use Development:		
New York City SMSA	$ 1,735	$ 571
All other U.S. areas	5,214	1,279
	6,949	1,850
Apartment Buildings:		
All other U.S. areas	—	3
	—	3
Hotels:		
New York City SMSA	—	21,572
	—	21,572
Commercial:		
New York City SMSA	3	9
All other U.S. areas	52	129
	55	138
Other	23	1,697
Total distributions	$ 7,027	$ 25,260

Of the distributions received by New Valley from its investment in real estate ventures, $1,855 and $2,060 were from distributions of earnings for the six months ended June 30, 2020 and 2019, respectively, and $5,172 and $23,200 were a return of capital for the six months ended June 30, 2020 and 2019, respectively. Distributions from earnings are included in cash from operations in the condensed consolidating statements of cash flows, while distributions that are returns of capital are included in cash flows from investing activities in the condensed consolidating statements of cash flows.

(Dollars in Thousands, Except Per Share Amounts)

Equity in (Losses) Earnings from Real Estate Ventures:

New Valley recognized equity in (losses) earnings from real estate ventures as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Condominium and Mixed Use Development:				
New York City SMSA	$ (5,104)	$ (1,120)	$ (8,451)	$ (3,226)
All other U.S. areas [1]	(6,489)	(2,258)	(9,288)	(2,366)
	(11,593)	(3,378)	(17,739)	(5,592)
Apartment Buildings:				
All other U.S. areas	(76)	3	(76)	3
	(76)	3	(76)	3
Hotels:				
New York City SMSA [1]	(542)	8,942	(649)	8,234
International	(90)	122	(551)	(364)
	(632)	9,064	(1,200)	7,870
Commercial:				
New York City SMSA	301	384	227	263
All other U.S. areas	(264)	79	(15)	371
	37	463	212	634
Other:	4	239	38	1,037
Equity in (losses) earnings from real estate ventures	$ (12,260)	$ 6,391	$ (18,765)	$ 3,952

[1] The Company recognized a liability, classified in Other current liabilities, of $2,498 as a result of recording equity in losses in excess of the joint ventures' carrying value.

During the six months ended June 30, 2019, New Valley's Park Lane joint venture sold 80.0% of its interest in the Park Lane Hotel, a hotel located in the New York City SMSA. New Valley recognized equity in earnings of $10,328 from the sale and received distributions of $20,788 for the six months ended June 30, 2019. The sale reduced New Valley's direct ownership percentage of the Park Lane Hotel from 5.2% to 1.0%. New Valley continues to account for its investment in the joint venture under the equity method of accounting because its ownership percentage in its direct investment continues to meet the threshold for equity method accounting.

As part of the Company's ongoing assessment of the carrying values of its investments in real estate ventures, the Company determined that the fair value of a New York City SMSA Condominium and Mixed Use Development venture was less than its carrying value as of June 30, 2020. The Company determined that the impairment was other than temporary. The Company recorded an impairment charge as a component of equity in losses from real estate ventures of $3,784 for the three and six months ended June 30, 2020.

As part of the Company's ongoing assessment of the carrying values of its investments in real estate ventures, the Company determined that the fair value of three New York City SMSA and one All other U.S. areas Condominium and Mixed Use Development ventures were less than their carrying value as of June 30, 2019. The Company determined that the impairment was other than temporary. The Company recorded an impairment charge as a component of equity in earnings from real estate ventures of $3,866 for the three and six months ended June 30, 2019.

(Dollars in Thousands, Except Per Share Amounts)

VIE Consideration:

The Company has determined that New Valley is the primary beneficiary of two real estate ventures because it controls the activities that most significantly impact economic performance of each of the two real estate ventures. Consequently, New Valley consolidates these variable interest entities (“VIEs”).

The carrying amount of the consolidated assets of the VIEs was $0 and $897 as of June 30, 2020 and December 31, 2019, respectively. Those assets are owned by the VIEs, not the Company. Neither of the two consolidated VIEs had recourse liabilities as of June 30, 2020 and December 31, 2019. A VIE’s assets can only be used to settle obligations of that VIE. The VIEs are not guarantors of the Company’s senior notes and other debts payable.

For the remaining investments in real estate ventures, New Valley determined that the entities were VIEs but New Valley was not the primary beneficiary. Therefore, New Valley’s investment in such real estate ventures has been accounted for under the equity method of accounting.

Maximum Exposure to Loss:

New Valley’s maximum exposure to loss from its investments in real estate ventures consisted of the net carrying value of the venture adjusted for any future capital commitments and/or guarantee arrangements. The maximum exposure to loss was as follows:

	June 30, 2020
Condominium and Mixed Use Development:	
New York City SMSA	$ 42,851
All other U.S. areas	47,172
	90,023
Hotels:	
New York City SMSA	3,107
International	1,610
	4,717
Commercial:	
New York City SMSA	2,076
All other U.S. areas	7,567
	9,643
Other:	24,641
Total maximum exposure to loss	$ 129,024

New Valley capitalized $1,004 and $2,257 of interest costs into the carrying value of its ventures whose projects were currently under development for the three and six months ended June 30, 2020. New Valley capitalized $1,688 and $3,003 of interest costs into the carrying value of its ventures whose projects were currently under development for the three and six months ended June 30, 2019.

Douglas Elliman is engaged by certain developers as a broker for several of the real estate ventures that New Valley invests in. Douglas Elliman earned gross commissions of approximately $7,698 and $11,223 from these projects for the six months ended June 30, 2020 and 2019, respectively.

Combined Financial Statements for Unconsolidated Subsidiaries:

The following summarized financial data for certain unconsolidated subsidiaries that meet certain thresholds pursuant to SEC Regulation S-X Rule 210.10-01(b) includes information for the West Hollywood Edition investment. New Valley has elected a one-month lag reporting period for the investment.

(Dollars in Thousands, Except Per Share Amounts)

Condominium and Mixed Use Development:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Income Statement				
Revenue	$ 1,830	$ —	$ 33,409	$ —
Cost of goods sold	—	—	22,100	—
Other expenses	14,013	6	31,926	75
Loss from continuing operations	$ (12,183)	$ (6)	$ (20,617)	$ (75)

Investments in Real Estate, net:

The components of “Investments in real estate, net” were as follows:

	June 30, 2020	December 31, 2019
Escena, net	$ 9,852	$ 9,972
Sagaponack	19,024	18,345
Investments in real estate, net	$ 28,876	$ 28,317

Escena. The assets of “Escena, net” were as follows:

	June 30, 2020	December 31, 2019
Land and land improvements	$ 8,911	$ 8,910
Building and building improvements	1,926	1,926
Other	1,673	1,659
	12,510	12,495
Less accumulated depreciation	(2,658)	(2,523)
	$ 9,852	$ 9,972

New Valley recorded operating losses of $629 and $354 for the three months ended June 30, 2020 and 2019, respectively, from Escena. New Valley recorded operating losses of $272 and operating income of $332 for the six months ended June 30, 2020 and 2019, respectively, from Escena. Escena is a master planned community, golf course, and club house in Palm Springs, California.

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, 2020 and December 31, 2019, the assets of Sagaponack consisted of land and land improvements of $19,024 and $18,345, respectively.

(Dollars in Thousands, Except Per Share Amounts)

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

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

	June 30, 2020	December 31, 2019
Vector:		
6.125% Senior Secured Notes due 2025	$ 850,000	$ 850,000
10.5% Senior Notes due 2026, net of unamortized discount of $3,221 and $3,392	551,779	551,608
5.5% Variable Interest Senior Convertible Debentures due 2020, net of unamortized discount of $0 and $5,276*	—	164,334
Liggett:		
Revolving credit facility	—	34,952
Equipment loans	143	347
Other	28,033	30,146
Notes payable, long-term debt and other obligations	1,429,955	1,631,387
Less:		
Debt issuance costs	(22,908)	(24,902)
Total notes payable, long-term debt and other obligations	1,407,047	1,606,485
Less:		
Current maturities	(8,853)	(209,269)
Amount due after one year	$ 1,398,194	$ 1,397,216

* The fair value of the derivatives embedded within the 5.5% Variable Interest Senior Convertible Debentures ($4,999 at December 31, 2019), is separately classified as a derivative liability in the condensed consolidated balance sheets.

6.125% Senior Secured Notes due 2025 — Vector:

As of June 30, 2020, the Company was in compliance with all debt covenants related to its 6.125% Senior Secured Notes due 2025.

10.5% Senior Notes due 2026 — Vector:

As of June 30, 2020, the Company was in compliance with all debt covenants related to its 10.5% Senior Notes due 2026.

5.5% Variable Interest Senior Convertible Debentures due 2020 — Vector:

In April 2020, the Company paid $169,610 of principal as full payment of its 5.5% Variable Interest Senior Convertible Debentures due 2020, which matured on April 15, 2020.

Revolving Credit Agreement — Liggett:

As of June 30, 2020, there was no outstanding balance due under the Third Amended and Restated Credit Agreement (the “Credit Agreement”), all of which was classified as current debt as of June 30, 2020. Availability, as determined under the Credit Agreement, was approximately $60,000 based on eligible collateral at June 30, 2020. As of June 30, 2020, the Company’s applicable subsidiaries were in compliance with all debt covenants under the Credit Agreement.

Other:

Other Notes Payable consist primarily of $27,500 of notes payable issued by New Valley. On December 31, 2018, New Valley acquired the remaining 29.41% interest in Douglas Elliman for a total purchase price of $40,000, which included $10,000 of cash paid and the remaining $30,000 of notes payable to the sellers. Interest on the outstanding principal balance of the notes accrued at the mid-term applicable federal rate (“AFR”) in effect as of December 31, 2018 until January 1, 2020 and thereafter is adjusted to the then-current AFR on each payment date. Principal and interest is payable in installments through October 1, 2022. $2,500 of principal has been repaid through June 30, 2020 and the remaining principal is due to be repaid as follows: (1) $2,500 in the remainder of 2020; (2) $12,500 in 2021; and (3) $12,500 in 2022.

(Dollars in Thousands, Except Per Share Amounts)

Non-Cash Interest Expense — Vector:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Amortization of debt discount, net	$ 847	$ 5,447	$ 5,447	$ 13,972
Amortization of debt issuance costs	889	1,053	2,047	2,238
	$ 1,736	$ 6,500	$ 7,494	$ 16,210

Fair Value of Notes Payable and Long-Term Debt:

	June 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Notes	$ 1,401,779	$ 1,380,787	$ 1,401,608	$ 1,409,920
Variable Interest Senior Convertible Debt	—	—	164,334	176,289
Liggett and other	28,176	28,188	65,445	65,456
Notes payable and long-term debt	$ 1,429,955	$ 1,408,975	$ 1,631,387 (1)	$ 1,651,665

(1) The carrying value does not include the carrying value of the embedded derivative. See Note 12.

Notes payable and long-term debt are carried on the condensed consolidated balance sheets at amortized cost. The fair value determinations disclosed above are classified as Level 2 under the fair value hierarchy disclosed in Note 12 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 a derived price based upon quoted market prices and trade activity as of June 30, 2020 to determine the fair value of its publicly-traded notes and debentures. The carrying value of the revolving credit facility is equal to 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.

9. 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"). The future financial impact of the risks and expenses of litigation are not quantifiable. For the six months ended June 30, 2020 and 2019, Liggett incurred tobacco product liability legal expenses and costs totaling $3,191 and $3,737, 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. Legal defense costs are expensed as incurred.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending cases. With the commencement of new cases, the defense costs and the risks relating to the unpredictability of litigation increase. 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. As of June 30, 2020, to obtain a stay of the judgment pending the appeal of the *Santoro* case, Liggett secured a $535 supersedeas bond.

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. 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 discussed in this Note 9: (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.

Although Liggett has generally been successful in managing the litigation filed against it, 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. 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. 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.

Individual Actions

As of June 30, 2020, there were 54 Individual Actions pending against Liggett, 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. The following table lists the number of Individual Actions by state:

State	Number of Cases
Florida	37
Illinois	9
Nevada	5
Louisiana	2
Massachusetts	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.

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, statute of repose, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

Engle Progeny Cases

In May 1994, the *Engle* case was filed as a class action 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." A trial was held and the jury returned a verdict adverse to the defendants (approximately $145,000,000 in punitive damages, including $790,000 against Liggett). Following an appeal to the Third District Court of Appeal, the Florida Supreme Court in July 2006 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 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.

Cautionary Statement About Engle Progeny Cases. Since 2009, judgments have been entered against Liggett and other cigarette manufacturers in *Engle* progeny cases. A number of the judgments were affirmed on appeal and satisfied by the defendants. Many were overturned on appeal. As of June 30, 2020, 25 *Engle* progeny cases where Liggett was a defendant at trial resulted in verdicts.

There have been 16 verdicts returned in favor of the plaintiffs and nine in favor of Liggett. In five of the cases, punitive damages were awarded against Liggett. Several of the adverse verdicts were overturned on appeal and new trials were ordered. 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 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. Except as discussed in this Note 9, 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, 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 the amount of their demand for damages. 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.

Engle Progeny Settlements.

In October 2013, the Company and Liggett 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 $61,600 paid in an initial lump sum and the balance of $48,000 to be paid in installments over 14 years starting in February 2015. In exchange, the claims of these plaintiffs were dismissed with prejudice against the Company and Liggett. The Company's future payments will be approximately $3,400 per annum through 2028, with a cost of living increase beginning in 2021.

Liggett subsequently entered into two separate agreements with a total of 152 *Engle* progeny plaintiffs where Liggett paid a total of $23,150 to settle their claims. On an individual basis, Liggett settled an additional 201 *Engle* progeny cases for approximately $8,100 in the aggregate. Two of these settlements occurred in the second quarter of 2020.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlements, 42 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 effect on the Company's consolidated financial position, results of operations and cash flows.

Judgments Paid in Engle Progeny Cases.

As of June 30, 2020, Liggett had paid in the aggregate $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*. An adverse verdict against Liggett for $265 in *Santoro* is currently on appeal.

Maryland Cases

Liggett was a defendant in 16 multi-defendant personal injury cases in Maryland alleging claims arising from asbestos and tobacco exposure ("synergy cases"). In July 2016, the Court of Appeals (Maryland's highest court) 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." The Court of Appeals remanded these issues to be determined at the trial court level. In June 2017, the trial court issued an order dismissing all synergy cases against the tobacco defendants, including Liggett, without prejudice. Plaintiffs may seek appellate review or file new cases against the tobacco companies.

Liggett Only Cases

There are currently two cases where Liggett is the sole defendant: *Cowart*, a Florida Individual Action, and *Tumin*, an *Engle* progeny case. It is possible that cases where Liggett is the only defendant could increase as a result of the remaining *Engle* progeny cases and newly filed Individual Actions.

Class Actions

As of June 30, 2020, two 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 two cases.

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. A stay order entered on March 16, 2016 stays the case pending completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co*.

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 claims arising from their exposure to cigarette smoke and asbestos fibers. The operative complaint seeks to recover unspecified compensatory and punitive damages on behalf of the putative class. The case is stayed as a result of the December 2000 bankruptcy of three of the defendants.

Health Care Cost Recovery Actions

As of June 30, 2020, 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 from Liggett and other cigarette manufacturers based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is dormant.

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, among other things, an unspecified amount of health care costs paid and to be paid by the federal government for smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants. In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. The judgment was affirmed on appeal. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court’s Final Judgment which ordered, among other things, 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 environmental tobacco smoke.

Upcoming Trials

As of June 30, 2020, there were three Individual Actions and one *Engle* progeny case scheduled for trial through June 30, 2021, where Liggett (and/or the Company) is a named defendant. Trial dates are subject to change and additional cases could be set for trial during this time.

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 “PMs”) 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 PMs. 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 PM 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 PMs from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; and prohibits PMs 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 PMs 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 PMs. 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.

Under the payment provisions of the MSA, PMs 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 PM and are not the responsibility of any parent or affiliate of a PM.

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 approximately 4.0% of the total cigarettes sold in the United States in 2019. 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, 2019, Liggett and Vector Tobacco pre-paid $140,000 of their approximate $169,000 2019 MSA obligation, the balance of which was paid in April 2020, subject to applicable disputes or adjustments.

Certain MSA Disputes

NPM Adjustment. Liggett and Vector Tobacco contend that they are entitled to an NPM Adjustment for each year from 2003 - 2019. The NPM Adjustment is a potential adjustment to annual MSA payments, available when PMs suffer a market share loss to NPMs for a particular year and an economic consulting firm selected pursuant to the MSA determines (or the parties agree) 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 - 2019, 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.

In June 2010, after the PMs prevailed in 48 of 49 motions to compel arbitration, the parties commenced the arbitration for the 2003 NPM Adjustment. That arbitration concluded in September 2013. It was followed by various challenges filed in state courts by states that did not prevail in the arbitration. Those challenges resulted in reductions, but not elimination of, the amounts awarded.

The PMs settled most of the disputed NPM Adjustment years with 37 states representing approximately 75% of the MSA share. The 2004 NPM Adjustment arbitration started in 2016 and separate court proceedings continue for states with which the PMs have not settled.

As a result of the settlement charge and arbitration award described above, Liggett and Vector Tobacco reduced cost of sales for years 2013 - 2019 by $48,032. Liggett and Vector Tobacco may be entitled to further adjustments. As of June 30, 2020, Liggett and Vector Tobacco had accrued approximately $13,400 related to the disputed amounts withheld from the non-settling states for 2004 - 2010, which may be subject to payment, with interest, if Liggett and Vector Tobacco lose the disputes for those years. As of June 30, 2020, there remains approximately $41,500 in the disputed payments account relating to Liggett and Vector Tobacco's 2011 - 2019 NPM Adjustment disputes with the non-settling states. If Liggett and Vector Tobacco lose the disputes for all or any of those years, pursuant to the MSA, no interest would be due on the amounts paid into the disputed payment account.

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 or resolutions 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. Further, the Attorneys General for Florida, Mississippi and Texas advised Liggett that they believed 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.

In January 2016, the Attorney General for Mississippi filed a motion in Chancery Court in Jackson County, Mississippi to enforce the March 1996 settlement agreement (the "1996 Agreement") alleging that Liggett owes Mississippi at least $27,000 in compensatory damages and additional amounts for interest, punitive damages and attorneys' fees. In April 2017, the Chancery Court ruled that the 1996 Agreement should be enforced and referred the matter to a Special Master for further proceedings to determine the amount of damages, if any, to be awarded. In June 2018, the Chancery Court granted Liggett's motion to compel arbitration as to two issues concerning damages and stayed the proceedings before the Special Master pending completion of the arbitration. In March 2019, the arbitration panel issued its final arbitration award on the two issues before it: (i) the panel ruled in favor of Liggett, finding that the $294,000 of proceeds from Eve Holdings' 1999 brand sale should not be included in Liggett's pre-tax income; and (ii) ruled in favor of Mississippi on the remaining issue, finding that compensatory damages to Mississippi, if any, would be based on 0.5% of Liggett's annual pre-tax income for the term of the settlement agreement. Following confirmation of the arbitration award, Mississippi voluntarily dismissed with prejudice its claims for punitive damages and attorneys' fees.

In July 2019, the parties stipulated that the unpaid principal (exclusive of interest) purportedly due from Liggett to Mississippi pursuant to the 1996 Agreement (from inception through 2019) is approximately $15,500, subject to Liggett's right to litigate and/or appeal the enforceability of the 1996 Agreement (and all issues other than the calculation of such principal amount). In September 2019, the Special Master held a hearing regarding the state's claim for approximately $17,500 in prejudgment interest as well as post-judgment interest in amounts to be determined. A decision is pending. Liggett continues to believe that the April 2017 Chancery Court order is in error because the most favored nations provision in the 1996 Agreement eliminated all of Liggett's payment obligations to Mississippi, and it reserved all rights to appeal this and other issues at the conclusion of the case. In the event Liggett appeals an adverse judgment, the posting of a bond may be required.

Liggett may be required to make additional payments to Mississippi and Texas which could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

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 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 Liggett may not be able to meet those requirements. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in this Note 9, 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, 2020 was 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 as of January 1, 2020	$ 34,116	$ 4,249	$ 38,365	$ 17,275	$ 20,594	$ 37,869
Expenses	96,215	28	96,243	—	—	—
Change in MSA obligations capitalized as inventory	(137)	—	(137)	—	—	—
Payments	(27,214)	(4,324)	(31,538)	—	—	—
Reclassification to/(from) non-current liabilities	(855)	3,252	2,397	855	(3,252)	(2,397)
Interest on withholding	—	238	238	—	932	932
Balance as of June 30, 2020	$ 102,125	$ 3,443	$ 105,568	$ 18,130	$ 18,274	$ 36,404

(Dollars in Thousands, Except Per Share Amounts)

The activity in the Company's accruals for the MSA and tobacco litigation for the six months ended June 30, 2019 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 as of January 1, 2019	$ 36,561	$ 310	$ 36,871	$ 16,383	$ 21,794	$ 38,177
Expenses	80,128	655	80,783	—	—	—
Change in MSA obligations capitalized as inventory	1,813	—	1,813	—	—	—
Payments	(31,959)	(355)	(32,314)	—	—	—
Reclassification to/(from) non-current liabilities	(892)	3,338	2,446	892	(3,338)	(2,446)
Interest on withholding	—	95	95	—	1,076	1,076
Balance as of June 30, 2019	$ 85,651	$ 4,043	$ 89,694	$ 17,275	$ 19,532	$ 36,807

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 effect on the capital expenditures, results of operations or competitive position of Liggett or Vector Tobacco.

Liggett and the Company have received three separate demands for indemnification from Altria Client Services, on behalf of Philip Morris, relating to lawsuits alleging smokers' use of L&M cigarettes. The indemnification demands are purportedly issued in connection with Eve Holdings' 1999 sale of certain brands to Philip Morris.

In addition to the foregoing, Douglas Elliman and certain of its subsidiaries are subject to numerous proceedings, lawsuits and claims in connection with their ordinary business activities. Many of these matters are covered by insurance or, in some cases, the Company is indemnified by third parties.

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 consolidated financial position, results of operations or cash flows.

(Dollars in Thousands, Except Per Share Amounts)

10. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	December 31, 2019	Impairment Losses	Amortization	June 30, 2020
Goodwill	$ 78,008	$ (46,252)	$ —	$ 31,756
Indefinite life intangibles:				
Intangible asset associated with benefit under the MSA	107,511	—	—	107,511
Trademark - Douglas Elliman	80,000	(12,000)	—	68,000
Intangibles with a finite life, net	474	—	(82)	392
Total goodwill and other intangible assets, net	$ 265,993	$ (58,252)	$ (82)	$ 207,659

Goodwill is evaluated for impairment annually or whenever the Company identifies certain triggering events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors (for example, interest rate and foreign exchange rate fluctuations, and loss of key personnel), supply costs, unanticipated competitive activities, and acts by governments and courts.

During the first quarter of 2020, the Company determined that a triggering event occurred related to the Douglas Elliman reporting unit due to a decline in sales and profitability projections for the reporting unit driven by the COVID-19 pandemic and related economic disruption. The Company utilized third-party valuation specialists to prepare a quantitative assessment of goodwill and trademark intangible asset related to Douglas Elliman.

For the goodwill testing, the Company utilized an income approach (a discounted cash flows “DCF” method) to estimate the fair value of the Douglas Elliman business. The estimated fair value of the trademark indefinite-life intangible asset related to the Douglas Elliman brand name was determined using an approach that values the Company’s cash savings from having a royalty-free license compared to the market rate it would pay for access to use the trade name.

The third-party quantitative assessments of the goodwill and trademark intangible asset reflected management’s assumptions regarding revenue growth rates, economic and market trends including current expectations of deterioration resulting from the COVID-19 pandemic, changes to cost structures and other expectations about the anticipated short-term and long-term operating results of Douglas Elliman. The quantitative assessments resulted in impairment charges to goodwill of $46,262 and to the trademark intangible asset of $12,000 during the three months ended March 31, 2020. If the Company fails to achieve the financial projections used in the quantitative assessments of fair value or the impacts of COVID-19 are more severe than expected, additional impairment charges could result in future periods, and such impairment charges could be material.

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

11. INCOME TAXES

The Company's effective income tax rate is based on expected income, statutory rates, valuation allowances against deferred tax assets, and any tax planning opportunities available to the Company. For interim financial reporting, the Company estimates the annual effective income tax rate based on full year projections and applies the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. The Company refines annual estimates as new information becomes available. The Company's tax rate does not bear a relationship to statutory tax rates due to permanent differences, which are primarily related to nondeductible compensation, and state taxes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Income before provision for income taxes	$ 36,690	$ 56,766	$ 32,481	$ 78,548
Income tax expense using estimated annual effective income tax rate	10,896	17,566	9,647	24,319
Changes in effective tax rates	(12)	(110)	—	—
Impact of discrete items, net	32	3	291	(111)
Income tax expense	$ 10,916	$ 17,459	$ 9,938	$ 24,208

The discrete items for the three months ended June 30, 2020 primarily relates to income tax expense on the changes in value of certain contingent consideration partially offset by income tax benefit related to stock-based compensation. The discrete items for the six months ended June 30, 2020 relate to income tax benefits on the goodwill and trademark impairment charges, changes in value of certain contingent consideration and stock-based compensation partially offset by the income tax expense related to the equity in earnings from investments associated with the one-time gain on sale of LTS. The discrete items for the three and six months ended June 30, 2019 related to an income tax benefit for stock-based compensation.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law. The Act includes several significant tax and payroll-related provisions for corporations, including the usage of net operating losses, bonus depreciation, interest expense, and certain payroll benefits. The Company continues to evaluate the impact this Act will have on its financial statements and required disclosures.

(Dollars in Thousands, Except Per Share Amounts)

12. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	Fair Value Measurements as of June 30, 2020			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds [(1)]	$ 455,669	$ 455,669	$ —	$ —
Commercial paper [(1)]	53,463	—	53,463	—
Certificates of deposit [(2)]	2,106	—	2,106	—
Money market funds securing legal bonds [(2)]	535	535	—	—
Investment securities at fair value				
Equity securities at fair value				
Marketable equity securities	11,091	11,091	—	—
Mutual funds invested in debt securities	22,667	22,667	—	—
Total equity securities at fair value	33,758	33,758	—	—
Debt securities available for sale				
U.S. government securities	12,754	—	12,754	—
Corporate securities	37,145	—	37,145	—
U.S. government and federal agency	4,984	—	4,984	—
Commercial mortgage-backed securities	2	—	2	—
Total debt securities available for sale	54,885	—	54,885	—
Total investment securities at fair value	88,643	33,758	54,885	—
Long-term investments				
Long-term investment securities at fair value [(3)]	33,232	—	—	—
Total	$ 633,648	$ 489,962	$ 110,454	$ —
Liabilities:				
Fair value of contingent liability	$ 1,317	$ —	$ —	$ 1,317
Total	$ 1,317	$ —	$ —	$ 1,317

(1) Amounts included in Cash and cash equivalents on the condensed consolidated balance sheet, except for $6,310 that is included in Other current assets and $1,907 that is included in Other assets.
(2) Amounts included in current restricted assets and non-current restricted assets on the condensed consolidated balance sheet.
(3) In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy.

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value Measurements as of December 31, 2019			
Assets:				
Money market funds [1]	$ 307,655	$ 307,655	$ —	$ —
Commercial paper [1]	47,328	—	47,328	—
Certificates of deposit [2]	2,193	—	2,193	—
Money market funds securing legal bonds [2]	535	535	—	—
Investment securities at fair value				
Equity securities at fair value				
Marketable equity securities	23,819	23,819	—	—
Mutual funds invested in debt securities	22,377	22,377	—	—
Total equity securities at fair value	46,196	46,196	—	—
Debt securities available for sale				
U.S. government securities	14,660	—	14,660	—
Corporate securities	54,413	—	54,413	—
U.S. government and federal agency	6,816	—	6,816	—
Commercial mortgage-backed securities	382	—	382	—
Commercial paper	5,887	—	5,887	—
Index-linked U.S. bonds	779	—	779	—
Foreign fixed-income securities	508	—	508	—
Total debt securities available for sale	83,445	—	83,445	—
Total investment securities at fair value	129,641	46,196	83,445	—
Long-term investments				
Long-term investment securities at fair value [3]	45,781	—	—	—
Total	$ 533,133	$ 354,386	$ 132,966	$ —
Liabilities:				
Fair value of contingent liability	$ 3,147	$ —	$ —	$ 3,147
Fair value of derivatives embedded within convertible debt	4,999	—	—	4,999
Total	$ 8,146	$ —	$ —	$ 8,146

(1) Amounts included in Cash and cash equivalents on the condensed consolidated balance sheet, except for $4,423 that is included in current restricted assets and $3,160 that is included in non-current restricted assets.
(2) Amounts included in current restricted assets and non-current restricted assets on the condensed consolidated balance sheet.
(3) In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy.

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 at fair value included in Level 1 is based on quoted market prices from various stock exchanges. The Level 2 investment securities at fair value are based on quoted market prices of securities that are thinly traded, quoted prices for identical or similar assets in markets that are not active or inputs other than quoted prices such as interest rates and yield curves.

(Dollars in Thousands, Except Per Share Amounts)

The long-term investments are based on NAV per share provided by the partnerships based on the indicated market value of the underlying assets or investment portfolio. In accordance with Subtopic 820-10, these investments are not classified under the fair value hierarchy disclosed above because they are measured at fair value using the NAV practical expedient.

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at June 30, 2020:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at June 30, 2020	Valuation Technique	Unobservable Input	Range (Actual)
Fair value of contingent liability	$ 1,317	Monte Carlo simulation model	Estimated fair value of the Douglas Elliman reporting unit	$ 169,000
			Risk-free rate for a 2.50 year term	0.17%
			Leverage-adjusted equity volatility of peer firms	64.78%

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at December 31, 2019:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at December 31, 2019	Valuation Technique	Unobservable Input	Range (Actual)
Fair value of derivatives embedded within convertible debt	$ 4,999	Discounted cash flow	Assumed annual stock dividend	5%
			Assumed remaining cash dividends - Q4 2019 and Q1 2020	$0.40/$0.20
			Stock price	$ 13.39
			Convertible trading price (as a percentage of par value)	103.94%
			Volatility	36.94%
			Risk-free rate	Term structure of US Treasury Securities
			Implied credit spread	1.0% - 3.0% (2.0%)
Fair value of contingent liability	$ 3,147	Monte Carlo simulation model	Estimated fair value of the Douglas Elliman reporting unit	$ 271,500
			Risk-free rate for a 3-year term	1.61%
			Leverage-adjusted equity volatility of peer firms	35.56%

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets and liabilities are recorded at fair value on a nonrecurring basis as a result of impairment charges. The Company had no nonrecurring nonfinancial assets subject to fair value measurements as of June 30, 2020 and December 31, 2019, respectively, except for investments in real estate ventures that were impaired as of June 30, 2020 and December 31, 2019.

(Dollars in Thousands, Except Per Share Amounts)

The Company's investments in real estate ventures subject to nonrecurring fair value measurements are as follows:

Description	Three Months Ended June 30, 2020 Impairment Charge	Fair Value Measurement Using: Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Investments in real estate ventures	$ 3,784	$ 1,980	$ —	$ —	$ 1,980

The Company estimated the fair value of its investments in real estate ventures using observable inputs such as market pricing based on recent events, however, significant judgment was required to select certain inputs from observed market data. The decrease in the investments in real estate ventures was attributed to the decline in the projected sales prices of the respective real estate venture. The $3,784 of impairment charges were included in equity in losses from real estate ventures for the three months June 30, 2020.

Description	Year Ended December 31, 2019 Impairment Charge	Fair Value Measurement Using: Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Investments in real estate ventures	$ 39,757	$ 18,335	$ —	$ —	$ 18,335

The Company estimated the fair value of its investments in real estate ventures using observable inputs such as market pricing based on recent events, however, significant judgment was required to select certain inputs from observed market data. The decrease in the investments in real estate ventures was attributed to the decline in the projected sales prices and the duration of the estimated sell out of the respective real estate ventures. The $39,757 of impairment charges were included in equity in losses from real estate ventures for the year ended December 31, 2019.

13. SEGMENT INFORMATION

The Company's business segments for the three and six months ended June 30, 2020 and 2019 were Tobacco and Real Estate. The Tobacco segment consisted of the manufacture and sale of conventional cigarettes. The Real Estate segment included the Company's investment in New Valley, 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.

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

Financial information for the Company's operations before taxes and non-controlling interests for the three and six months ended June 30, 2020 and 2019 were as follows:

	Tobacco		Real Estate		Corporate and Other	Total
Three months ended June 30, 2020						
Revenues	$ 312,510		$ 133,250		$ —	$ 445,760
Operating income (loss)	79,309	(1)	(6,875)	(2)	(5,637)	66,797
Equity in losses from real estate ventures	—		(12,260)		—	(12,260)
Depreciation and amortization	2,000		2,198		214	4,412
Three months ended June 30, 2019						
Revenues	$ 294,501		$ 243,931		$ —	$ 538,432
Operating income (loss)	68,651	(3)	14,453		(6,860)	76,244
Equity in earnings from real estate ventures	—		6,391		—	6,391
Depreciation and amortization	1,950		2,024		250	4,224
Six months ended June 30, 2020						
Revenues	$ 599,579		$ 300,669		$ —	$ 900,248
Operating income (loss)	148,495	(4)	(74,350)	(5)	(12,252)	61,893
Equity in losses from real estate ventures	—		(18,765)		—	(18,765)
Depreciation and amortization	4,042		4,511		434	8,987
Capital expenditures	2,973		3,249		20	6,242
Six months ended June 30, 2019						
Revenues	$ 551,257		$ 408,099		$ —	$ 959,356
Operating income (loss)	128,795	(6)	4,044		(14,005)	118,834
Equity in earnings from real estate ventures	—		3,952		—	3,952
Depreciation and amortization	3,907		4,525		500	8,932
Capital expenditures	2,753		3,567		—	6,320

(1) Operating income includes $53 of litigation settlement and judgment expense.

(2) Operating loss includes $2,961 of restructuring charges.

(3) Operating income includes $655 of litigation settlement and judgment expense.

(4) Operating income includes $53 of litigation settlement and judgment expense.

(5) Operating loss includes $58,252 of impairment charges related to the impairments of goodwill and intangible assets and $2,961 of restructuring charges.

(6) Operating income includes $655 of litigation settlement and judgment expense.

14. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The condensed consolidating financial information is based upon the following subsidiaries being subsidiary guarantors of unsecured debt securities that may be issued by the Company: VGR Holding LLC; Liggett Group LLC; Liggett Vector Brands LLC; Vector Research LLC; Vector Tobacco Inc.; Liggett & Myers Holdings Inc.; 100 Maple LLC; V.T. Aviation LLC; VGR Aviation LLC; Eve Holdings LLC; Zoom E-Cigs LLC; and DER Holdings LLC. 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 and the guarantors have filed a shelf registration statement for the offering of debt securities on a delayed or continuous basis and the Company is including this condensed consolidating financial information in connection therewith. Any such debt securities may be issued by the Company and guaranteed by the guarantors, but not by New Valley or any of its subsidiaries, other than DER Holdings LLC.

Presented herein are Condensed Consolidating Balance Sheets as of June 30, 2020 and December 31, 2019, the related Condensed Consolidating Statements of Operations for the three and six months ended June 30, 2020 and 2019, and the related Condensed Consolidating Statements of Cash Flows for the three and six months ended June 30, 2020 and 2019 of Vector Group Ltd. (Parent/Issuer), the guarantor subsidiaries (Subsidiary Guarantors) and the subsidiaries that are not guarantors (Subsidiary Non-Guarantors).

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING BALANCE SHEETS

	June 30, 2020				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	$ 261,167	$ 217,748	$ 61,448	$ —	$ 540,363
Investment securities at fair value	88,643	—	—	—	88,643
Accounts receivable - trade, net	—	13,222	19,538	—	32,760
Intercompany receivables	45,946	—	—	(45,946)	—
Inventories	—	98,609	—	—	98,609
Income taxes receivable, net	—	—	7,696	(7,696)	—
Other current assets	2,560	8,069	28,209	(475)	38,363
Total current assets	398,316	337,648	116,891	(54,117)	798,738
Property, plant and equipment, net	413	32,245	44,959	—	77,617
Investments in real estate, net	—	—	28,876	—	28,876
Long-term investment securities at fair value	33,232	—	—	—	33,232
Investments in real estate ventures	—	—	115,377	—	115,377
Operating lease right-of-use assets	6,521	3,918	138,223	—	148,662
Investments in consolidated subsidiaries	365,814	163,958	—	(529,772)	—
Goodwill and other intangible assets, net	—	107,511	100,148	—	207,659
Other assets	30,250	47,092	44,244	—	121,586
Total assets	$ 834,546	$ 692,372	$ 588,718	$ (583,889)	$ 1,531,747
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	$ —	$ 8,816	$ 8,787	$ (8,750)	$ 8,853
Intercompany payables	—	167	45,779	(45,946)	—
Income taxes payable, net	37,394	7,133	—	(7,696)	36,831
Current payments due under the Master Settlement Agreement	—	102,125	—	—	102,125
Current operating lease liability	754	1,694	15,820	—	18,268
Other current liabilities	45,267	223,205	63,780	(218)	332,034
Total current liabilities	83,415	343,140	134,166	(62,610)	498,111
Notes payable, long-term debt and other obligations, less current portion	1,378,871	18,827	19,246	(18,750)	1,398,194
Non-current employee benefits	51,599	9,426	—	—	61,025
Deferred income taxes, net	(17,310)	21,756	7,992	—	12,438
Non-current operating lease liability	6,787	2,790	149,719	—	159,296
Other liabilities, including litigation accruals and payments due under the Master Settlement Agreement	388	37,724	35,092	(1,317)	71,887
Total liabilities	1,503,750	433,663	346,215	(82,677)	2,200,951
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(669,204)	258,709	242,503	(501,212)	(669,204)
Non-controlling interest	—	—	—	—	—
Total stockholders' (deficiency) equity	(669,204)	258,709	242,503	(501,212)	(669,204)
Total liabilities and stockholders' deficiency	$ 834,546	$ 692,372	$ 588,718	$ (583,889)	$ 1,531,747

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2019				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	$ 272,282	$ 27,178	$ 71,881	$ —	$ 371,341
Investment securities at fair value	129,641	—	—	—	129,641
Accounts receivable - trade, net	—	15,646	21,313	—	36,959
Intercompany receivables	44,043	—	—	(44,043)	—
Inventories	—	98,762	—	—	98,762
Income taxes receivable, net	—	—	95	(95)	—
Other current assets	9,159	9,021	26,731	—	44,911
Total current assets	455,125	150,607	120,020	(44,138)	681,614
Property, plant and equipment, net	425	33,816	47,919	—	82,160
Investments in real estate, net	—	—	28,317	—	28,317
Long-term investment securities at fair value	45,781	—	—	—	45,781
Investments in real estate ventures	—	—	131,556	—	131,556
Operating lease right-of-use assets	7,085	4,830	137,663	—	149,578
Investments in consolidated subsidiaries	420,353	238,040	—	(658,393)	—
Goodwill and other intangible assets, net	—	107,511	158,482	—	265,993
Other assets	31,022	46,416	42,652	—	120,090
Total assets	$ 959,791	$ 581,220	$ 666,609	$ (702,531)	$ 1,505,089
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	$ 163,932	$ 45,210	$ 10,127	$ (10,000)	$ 209,269
Current portion of fair value of derivatives embedded within convertible debt	4,999	—	—	—	4,999
Intercompany payables	—	236	43,807	(44,043)	—
Income taxes payable, net	2,398	2,835	—	(95)	5,138
Current payments due under the Master Settlement Agreement	—	34,116	—	—	34,116
Current operating lease liability	508	2,015	15,771	—	18,294
Other current liabilities	52,065	78,947	59,202	(897)	189,317
Total current liabilities	223,902	163,359	128,907	(55,035)	461,133
Notes payable, long-term debt and other obligations, less current portion	1,377,108	20,089	20,019	(20,000)	1,397,216
Non-current employee benefits	50,806	17,047	—	—	67,853
Deferred income taxes, net	(14,492)	22,620	25,567	—	33,695
Non-current operating lease liability	7,558	3,402	146,003	—	156,963
Other liabilities, including litigation accruals and payments due under the Master Settlement Agreement	373	41,020	34,999	(3,147)	73,245
Total liabilities	1,645,255	267,537	355,495	(78,182)	2,190,105
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(685,464)	313,683	310,666	(624,349)	(685,464)
Non-controlling interest	—	—	448	—	448
Total stockholders' (deficiency) equity	(685,464)	313,683	311,114	(624,349)	(685,016)
Total liabilities and stockholders' deficiency	$ 959,791	$ 581,220	$ 666,609	$ (702,531)	$ 1,505,089

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2020				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 312,630	$ 133,250	$ (120)	$ 445,760
Expenses:					
Cost of sales	—	214,067	90,818	—	304,885
Operating, selling, administrative and general expenses	8,429	16,379	46,376	(120)	71,064
Litigation settlement and judgment expense	—	53	—	—	53
Management fee expense	—	3,114	—	(3,114)	—
Restructuring charges	—	—	2,961	—	2,961
Operating (loss) income	(8,429)	79,017	(6,905)	3,114	66,797
Other income (expenses):					
Interest expense	(28,666)	(690)	(106)	104	(29,358)
Change in fair value of derivatives embedded within convertible debt	1,669	—	—	—	1,669
Equity in losses from real estate ventures	—	—	(12,260)	—	(12,260)
Equity in earnings from investments	2,207	—	—	—	2,207
Equity in earnings in consolidated subsidiaries	46,526	(5,042)	—	(41,484)	—
Management fee income	3,114	—	—	(3,114)	—
Other, net	5,154	(78)	2,325	234	7,635
Income (loss) before provision for income taxes	21,575	73,207	(16,946)	(41,146)	36,690
Income tax benefit (expense)	4,199	(19,644)	4,529	—	(10,916)
Net income (loss)	25,774	53,563	(12,417)	(41,146)	25,774
Net income (loss) attributed to Vector Group Ltd.	$ 25,774	$ 53,563	$ (12,417)	$ (41,146)	$ 25,774
Comprehensive income (loss) attributed to Vector Group Ltd.	$ 26,531	$ 53,713	$ (12,417)	$ (41,296)	$ 26,531

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2019				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 294,621	$ 243,931	$ (120)	$ 538,432
Expenses:					
Cost of sales	—	204,461	163,713	—	368,174
Operating, selling, administrative and general expenses	9,515	18,167	65,797	(120)	93,359
Litigation settlement and judgment expense	—	655	—	—	655
Management fee expense	—	2,992	—	(2,992)	—
Operating (loss) income	(9,515)	68,346	14,421	2,992	76,244
Other income (expenses):					
Interest expense	(31,706)	(1,043)	(228)	224	(32,753)
Change in fair value of derivatives embedded within convertible debt	3,788	—	—	—	3,788
Equity in earnings from real estate ventures	—	—	6,391	—	6,391
Equity in losses from investments	(1,685)	—	—	—	(1,685)
Equity in earnings in consolidated subsidiaries	66,163	15,138	—	(81,301)	—
Management fee income	2,992	—	—	(2,992)	—
Other, net	3,702	447	632	—	4,781
Income before provision for income taxes	33,739	82,888	21,216	(81,077)	56,766
Income tax benefit (expense)	5,568	(17,118)	(5,909)	—	(17,459)
Net income	39,307	65,770	15,307	(81,077)	39,307
Net income attributed to Vector Group Ltd.	$ 39,307	$ 65,770	$ 15,307	$ (81,077)	$ 39,307
Comprehensive income attributed to Vector Group Ltd.	$ 39,912	$ 66,004	$ 15,307	$ (81,311)	$ 39,912

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Six Months Ended June 30, 2020				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 599,818	$ 300,669	$ (239)	$ 900,248
Expenses:					
Cost of sales	—	411,357	204,151	—	615,508
Operating, selling, administrative and general expenses	17,593	34,440	109,787	(239)	161,581
Litigation settlement and judgment expense	—	53	—	—	53
Impairments of goodwill and intangible assets	—	—	58,252	—	58,252
Management fee expense	—	6,228	—	(6,228)	—
Restructuring charges	—	—	2,961	—	2,961
Operating (loss) income	(17,593)	147,740	(74,482)	6,228	61,893
Other income (expenses):					
Interest expense	(63,405)	(1,576)	(222)	218	(64,985)
Change in fair value of derivatives embedded within convertible debt	4,999	—	—	—	4,999
Equity in losses from real estate ventures	—	—	(18,765)	—	(18,765)
Equity in earnings from investments	52,359	—	—	—	52,359
Equity in earnings in consolidated subsidiaries	43,185	(74,082)	—	30,897	—
Management fee income	6,228	—	—	(6,228)	—
Other, net	(5,700)	2,229	2,282	(1,831)	(3,020)
Income (loss) before provision for income taxes	20,073	74,311	(91,187)	29,284	32,481
Income tax benefit (expense)	2,470	(36,746)	24,338	—	(9,938)
Net income (loss)	22,543	37,565	(66,849)	29,284	22,543
Net income (loss) attributed to Vector Group Ltd.	$ 22,543	$ 37,565	$ (66,849)	$ 29,284	$ 22,543
Comprehensive income (loss) attributed to Vector Group Ltd.	$ 23,522	$ 37,864	$ (66,849)	$ 28,985	$ 23,522

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Six Months Ended June 30, 2019				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 551,496	$ 408,099	$ (239)	$ 959,356
Expenses:					
Cost of sales	—	381,764	272,430	—	654,194
Operating, selling, administrative and general expenses	19,346	34,858	131,708	(239)	185,673
Litigation settlement and judgment expense	—	655	—	—	655
Management fee expense	—	5,985	—	(5,985)	—
Operating (loss) income	(19,346)	128,234	3,961	5,985	118,834
Other income (expenses):					
Interest expense	(68,254)	(2,010)	(457)	448	(70,273)
Change in fair value of derivatives embedded within convertible debt	14,137	—	—	—	14,137
Equity in earnings from real estate ventures	—	—	3,952	—	3,952
Equity in losses from investments	(323)	—	—	—	(323)
Equity in earnings in consolidated subsidiaries	101,428	4,724	—	(106,152)	—
Management fee income	5,985	—	—	(5,985)	—
Other, net	10,285	600	1,336	—	12,221
Income before provision for income taxes	43,912	131,548	8,792	(105,704)	78,548
Income tax benefit (expense)	10,348	(32,066)	(2,490)	—	(24,208)
Net income	54,260	99,482	6,302	(105,704)	54,340
Net income attributed to non-controlling interest	—	—	(80)	—	(80)
Net income attributed to Vector Group Ltd.	$ 54,260	$ 99,482	$ 6,222	$ (105,704)	$ 54,260
Comprehensive income attributed to non-controlling interest	$ —	$ —	$ (80)	$ —	$ (80)
Comprehensive income attributed to Vector Group Ltd.	$ 55,446	$ 99,951	$ 6,222	$ (106,173)	$ 55,446

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2020				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash provided by (used in) operating activities	$ 126,021	$ 325,721	$ (5,489)	$ (104,924)	$ 341,329
Cash flows from investing activities:					
Sale of investment securities	19,555	—	—	—	19,555
Maturities of investment securities	31,574	—	—	—	31,574
Purchase of investment securities	(16,867)	—	—	—	(16,867)
Proceeds from sale or liquidation of long-term investments	23,407	—	—	—	23,407
Purchase of long-term investments	(5,238)	—	—	—	(5,238)
Investments in real estate ventures	—	—	(3,858)	—	(3,858)
Distributions from investments in real estate ventures	—	—	5,172	—	5,172
Increase in cash surrender value of life insurance policies	(340)	(411)	—	—	(751)
(Increase) decrease in restricted assets	(13)	100	—	—	87
Investments in subsidiaries	(9,164)	—	—	9,164	—
Capital expenditures	(20)	(2,973)	(3,249)	—	(6,242)
Pay downs of investment securities	415	—	—	—	415
Investments in real estate, net	—	—	(679)	—	(679)
Net cash provided by (used in) investing activities	43,309	(3,284)	(2,614)	9,164	46,575
Cash flows from financing activities:					
Proceeds from issuance of debt	—	—	531	—	531
Repayments of debt	(169,610)	(204)	(2,653)	—	(172,467)
Borrowings under revolver	—	130,641	—	—	130,641
Repayments on revolver	—	(165,593)	—	—	(165,593)
Capital contributions received	—	550	8,614	(9,164)	—
Intercompany dividends paid	—	(97,259)	(7,665)	104,924	—
Dividends and distributions on common stock	(63,478)	—	—	—	(63,478)
Distributions to non-controlling interest	—	—	(448)	—	(448)
Proceeds from issuance of Vector stock	52,563	—	—	—	52,563
Other	80	—	(75)	—	5
Net cash used in financing activities	(180,445)	(131,865)	(1,696)	95,760	(218,246)
Net (decrease) increase in cash, cash equivalents and restricted cash	(11,115)	190,572	(9,799)	—	169,658
Cash, cash equivalents and restricted cash, beginning of period	272,282	27,730	79,464	—	379,476
Cash, cash equivalents and restricted cash, end of period	$ 261,167	$ 218,302	$ 69,665	$ —	$ 549,134

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2019				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash provided by operating activities	$ 78,661	$ 148,639	$ 10,158	$ (139,356)	$ 98,102
Cash flows from investing activities:					
Sale of investment securities	12,942	—	—	—	12,942
Maturities of investment securities	28,610	—	—	—	28,610
Purchase of investment securities	(44,222)	—	—	—	(44,222)
Investments in real estate ventures	—	—	(21,908)	—	(21,908)
Investments in real estate, net	—	—	(1,153)	—	(1,153)
Purchase of subsidiaries	—	—	(668)	—	(668)
Distributions from investments in real estate ventures	—	—	23,200	—	23,200
Increase in cash surrender value of life insurance policies	(385)	(404)	—	—	(789)
(Increase) decrease in restricted assets	(15)	683	—	—	668
Pay downs of investment securities	545	—	—	—	545
Proceeds from sale of fixed assets	—	8	—	—	8
Investments in subsidiaries	(27,482)	—	—	27,482	—
Capital expenditures	—	(2,753)	(3,567)	—	(6,320)
Net cash used in investing activities	(30,007)	(2,466)	(4,096)	27,482	(9,087)
Cash flows from financing activities:					
Deferred financing costs	—	(33)	—	—	(33)
Repayments of debt	(230,000)	(621)	(150)	—	(230,771)
Borrowings under revolver	—	172,224	—	—	172,224
Repayments on revolver	—	(169,727)	—	—	(169,727)
Capital contributions received	—	575	26,907	(27,482)	—
Intercompany dividends paid	—	(102,739)	(36,617)	139,356	—
Dividends and distributions on common stock	(118,748)	—	—	—	(118,748)
Distributions to non-controlling interest	—	—	(285)	—	(285)
Net cash used in financing activities	(348,748)	(100,321)	(10,145)	111,874	(347,340)
Net (decrease) increase in cash, cash equivalents and restricted cash	(300,094)	45,852	(4,083)	—	(258,325)
Cash, cash equivalents and restricted cash, beginning of period	474,880	23,849	93,000	—	591,729
Cash, cash equivalents and restricted cash, end of period	$ 174,786	$ 69,701	$ 88,917	$ —	$ 333,404

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts)

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of Vector Group Ltd.'s financial statements with a narrative from our management's perspective. Our MD&A is divided into the following sections:

- Overview
- Recent Developments
- Results of Operations
- Summary of Real Estate Investments
- Liquidity and Capital Resources

Please read this discussion along with our MD&A and audited financial statements as of and for the year ended December 31, 2019 and Notes thereto, included in our 2019 Annual Report on Form 10-K, and our Condensed Consolidated Financial Statements and related Notes as of and for the quarterly period and six months ended June 30, 2020 and 2019.

Overview

We are a holding company and are engaged principally in two business segments:

- Tobacco: the manufacture and sale of cigarettes in the United States through our Liggett Group LLC ("Liggett") and Vector Tobacco Inc. ("Vector Tobacco") subsidiaries, and
- Real Estate: the real estate business through our subsidiary New Valley LLC ("New Valley"), which (i) owns Douglas Elliman Realty, LLC ("Douglas Elliman"), (ii) has interests in numerous real estate projects across the United States and (iii) is seeking to acquire or invest in additional real estate properties or projects. Douglas Elliman operates the largest residential brokerage company in the New York metropolitan area and also conducts residential real estate brokerage operations in Florida, California, Connecticut, Massachusetts, Colorado, New Jersey and Texas.

Recent Developments

COVID-19 Pandemic. The recent outbreak of the novel coronavirus, COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies and created economic uncertainty. Although much uncertainty still surrounds the pandemic, including its duration and ultimate overall impact on our operations and real estate ventures, we are carefully evaluating potential outcomes and working to mitigate risks. As with many other companies, our operations have been affected by COVID-19. We have implemented remote working for many employees and adopted the social distancing protocols recommended by public health authorities. The following provides a summary of our actions in our two segments - Tobacco and Real Estate - since COVID-19 was declared a pandemic.

Impact of COVID-19 on Tobacco Segment. To date, we have not experienced any material disruptions to our supply or distribution chains, and have not experienced any material adverse effects associated with governmental actions to restrict consumer movement or business operations. However, our suppliers and members of our distribution chain may be subject to government action requiring facility closures and remote working protocols. The majority of retail stores in which our tobacco products are sold, including convenience stores, have been deemed to be essential businesses by authorities and have remained open. We continue to monitor the risk that a supplier, a distributor or any other entity within our supply and distribution chain closes temporarily or permanently.

Although our tobacco segment has not been negatively impacted to date by COVID-19, there remains uncertainty as to how the pandemic may ultimately impact the market. We continue to monitor the macro-economic risks of COVID-19 and the effect on tobacco consumers, including purchasing behavior changes and changes in sales volumes and mix within the discount category. Our EAGLE 20's brand is priced in the deep discount category and our other brands are primarily priced in the traditional discount category.

Impact of COVID-19 on Real Estate Segment. Douglas Elliman is the largest residential real estate broker in the New York metropolitan area and approximately 70% of its revenues were derived from this region in 2018 and 2019. In addition, New Valley has investments in multiple real estate ventures and properties in the New York metropolitan area, which had a carrying value of $67,058 at June 30, 2020. Published reports and data indicate that the New York metropolitan area was initially impacted more than any other area in the United States. Consequently, various governmental agencies in the New York metropolitan area and in other markets where Douglas Elliman operates, instituted quarantines, "pause" orders, "shelter-in-place" rules, restrictions on travel and restrictions on the types of businesses that could operate. These restrictions adversely impacted Douglas Elliman's ability to conduct business during the three months ended June 30, 2020. For example, Douglas Elliman's agents were restricted from performing in-person showings of properties or conducting open houses in most of Douglas Elliman's markets from March 2020 to June 2020. Douglas Elliman experienced a severe decline in closed sales volume in New York City beginning in March 2020 which has continued. We anticipate that sales volume in New York City may continue to be slow through the fall of 2020, and possibly longer.

Beginning in April 2020, we made significant operating adjustments at Douglas Elliman, including a reduction of personnel expense of approximately 25% and reductions of other administrative expenses, as well as a reduction, deferral or elimination of certain office lease expenses. While we continue to evaluate other expense reduction measures, to the extent Douglas Elliman's business improves in the third quarter, we will begin to relinquish, as appropriate, some of the second quarter expense reductions, including advertising and personnel expenses.

The COVID-19 pandemic could continue to have a material impact on our Real Estate segment; the likelihood and magnitude of a material impact increases with the amount of time the virus affects activity levels in locations in which Douglas Elliman operates. Therefore, we are unable to predict the ultimate impact of the COVID-19 pandemic on the future financial condition, results of operations and cash flows from our Real Estate segment.

Ladenburg Thalmann Financial Services Inc. ("LTS"). On November 11, 2019, LTS entered into an Agreement and Plan of Merger with Advisor Group. On February 14, 2020, the merger was completed, and each share of LTS common stock was converted into a cash payment of $3.50 per share. We received proceeds of $53,169 from our 15,191,205 common shares of LTS, and we recorded a pre-tax gain of $53,052 from the transaction in the first quarter of 2020. We also tendered 240,000 shares of LTS's 8% Series A Cumulative Redeemable Preferred Stock for redemption and received an additional $6,009 in March 2020. At the closing of the transaction, our Executive Vice President resigned as Chairman, President and Chief Executive Officer of LTS, and our management agreement with LTS was terminated.

Maturity of 5.5% Variable Interest Senior Convertible Debentures due 2020. In April 2020, our 5.5% Variable Interest Senior Convertible Debentures due 2020 matured and we retired them with a cash payment for the principal balance of $169,610.

Issuance of Common Stock. On May 14, 2020, we announced the pricing of our underwritten public offering (the "Offering") of 5,000,000 shares of our common stock. We received approximately $53,000 in proceeds from the offering.

Recent Developments in Litigation

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. Liggett could be subjected to substantial liabilities and bonding requirements from litigation relating to cigarette products. Adverse litigation outcomes could have a negative impact on our ability to operate due to their impact on cash flows. It is possible that there could be adverse developments in pending cases including the certification of additional class actions. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. In addition, an unfavorable outcome in any tobacco-related litigation could have a material adverse effect on our consolidated financial position, results of operations or cash flows. Liggett could face difficulties in obtaining a bond to stay execution of a judgment pending appeal.

Critical Accounting Policies

There are no material changes except for the items listed below from the critical accounting policies set forth in Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," of our Annual Report on Form 10-K, for the year ended December 31, 2019. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

Current Expected Credit Losses. On January 1, 2020, we adopted *ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, therefore, our measurement of credit losses for most financial assets and certain other instruments has been modified as discussed in Note 3 to our condensed consolidated financial statements.

Goodwill and Indefinite Life Assets. Goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment on an annual basis, or whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable.

During the first quarter of 2020, we performed quantitative assessments of the goodwill associated with the Douglas Elliman reporting unit and its trademark intangible asset in conjunction with our quarterly review for indicators of impairment.

Based on the results of these assessments, we determined that the estimated fair value of the Douglas Elliman reporting unit in our Real Estate segment, for which the related goodwill had a carrying value of $78,008, exceeded the fair value, resulting in a non-cash goodwill impairment charge of $46,252. In addition, we recognized a non-cash impairment charge of $12,000 for intangible assets related to the Douglas Elliman trademark. These non-cash impairment charges are the result of consideration of potential impacts of COVID-19, including the possibility of an economic recession, on Douglas Elliman's business.

If we fail to meet the financial projections used in the quantitative assessments of goodwill and trademark intangible asset in future periods or the impacts of COVID-19 are more severe than expected, this would result in additional impairment charges related to the Company's goodwill and trademark intangible asset.

Results of Operations

The following discussion provides an assessment of our results of operations, capital resources and liquidity and should be read in conjunction with our condensed consolidated financial statements included elsewhere in this report. The condensed consolidated financial statements include the accounts of Liggett, Vector Tobacco, Liggett Vector Brands, New Valley and other less significant subsidiaries.

For purposes of this discussion and other consolidated financial reporting, our business segments for the three and six months ended June 30, 2020 and 2019 were Tobacco and Real Estate. The Tobacco segment consisted of the manufacture and sale of cigarettes. The Real Estate segment included our investment in New Valley, which includes ownership of Douglas Elliman, investments in real estate and investments in real estate ventures.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Tobacco	$ 312,510	$ 294,501	$ 599,579	$ 551,257
Real estate	133,250	243,931	300,669	408,099
Total revenues	$ 445,760	$ 538,432	$ 900,248	$ 959,356
Operating income (loss):				
Tobacco	$ 79,309 (1)	$ 68,651 (3)	$ 148,495 (4)	$ 128,795 (6)
Real estate	(6,875) (2)	14,453	(74,350) (5)	4,044
Corporate and Other	(5,637)	(6,860)	(12,252)	(14,005)
Total operating income	$ 66,797	$ 76,244	$ 61,893	$ 118,834

(1) Operating income includes $53 of litigation settlement and judgment expense.

(2) Operating loss includes $2,961 of restructuring charges.

(3) Operating income includes $655 of litigation settlement and judgment expense.

(4) Operating income includes $53 of litigation settlement and judgment expense.

(5) Operating loss includes $58,252 of impairment charges related to the impairments of goodwill and intangible assets and $2,961 of restructuring charges.

(6) Operating income includes $655 of litigation settlement and judgment expense.

Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Revenues. Total revenues were $445,760 for the three months ended June 30, 2020 compared to $538,432 for the three months ended June 30, 2019. The $92,672 (17.2%) decline in revenues was primarily due to a $110,681 decline in Real Estate revenues, which was primarily related to a decline in Douglas Elliman's brokerage revenues, offset by a $18,009 increase in Tobacco revenues.

Cost of sales. Total cost of sales was $304,885 for the three months ended June 30, 2020 compared to $368,174 for the three months ended June 30, 2019. The $63,289 (17.2%) decline in cost of sales was primarily due to a $72,895 decline in Real Estate cost of sales, which was primarily related to a decline in Douglas Elliman's commissions. This was offset by a $9,606 increase in Tobacco cost of sales.

Expenses. Operating expenses were $74,078 for the three months ended June 30, 2020 compared to $94,014 for the same period last year. The $19,936 (21.2%) decline in operating expenses was due to a $16,458 decline in Real Estate expenses, primarily at Douglas Elliman, including restructuring charges of $2,961 for the three months ended June 30, 2020, a $2,255 decline in Tobacco expenses, including a decline in litigation settlement and judgment expense of $602, and a $1,223 decline in Corporate and Other expenses.

Operating income. Operating income was $66,797 for the three months ended June 30, 2020 compared to $76,244 for the same period last year. The $9,447 (12.4%) decline in operating income was due to a $21,328 decline in Real Estate operating income, primarily related to Douglas Elliman. This was offset by a $10,658 increase in Tobacco operating income and a decline of $1,223 in Corporate and Other operating loss.

Other expenses. Other expenses were $30,107 and $19,478 for the three months ended June 30, 2020 and 2019, respectively. For the three months ended June 30, 2020, other expenses primarily consisted of interest expense of $29,358 and equity in losses from real estate ventures of $12,260. This was offset by income of $1,669 from changes in fair value of derivatives embedded within convertible debt, other income of $7,635 and equity in earnings from investments of $2,207. For the three months ended June 30, 2019, other expenses primarily consisted of interest expense of $32,753 and equity in losses from investments of $1,685. This was offset by income of $3,788 from changes in fair value of derivatives embedded within convertible debt, other income of $4,781, and equity in earnings from real estate ventures of $6,391.

Income before provision for income taxes. Income before income taxes was $36,690 and $56,766 for the three months ended June 30, 2020 and 2019, respectively.

Income tax expense. Income tax expense was $10,916 and $17,459 for the three months ended June 30, 2020 and 2019, respectively. Our provision for income taxes in interim periods is based on expected income, statutory rates, permanent differences, valuation allowances against deferred tax assets, and any tax planning opportunities available to us. For interim financial reporting, we estimate the annual effective income tax rate based on full year projections and apply the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. We refine annual estimates as new information becomes available. For the three months ended June 30, 2020, the annual effective tax rate applied to year-to-date income resulted in tax expense which was reduced by discrete items. The discrete items of $32 primarily relates to changes in value of certain contingent consideration and stock-based compensation.

Tobacco.

Tobacco revenues. Liggett increased the list price of EAGLE 20's by $0.11 per pack on June 22, 2020, $0.08 per pack in February 2020, and $0.08 per pack in October 2019. Liggett also increased the list price of PYRAMID, LIGGETT SELECT, EVE and GRAND PRIX by $0.11 per pack on June 22, 2020, $0.08 per pack in February 2020, $0.08 per pack in October 2019, and $0.06 per pack in June 2019.

All of our Tobacco sales were in the discount category in 2020 and 2019. For the three months ended June 30, 2020, Tobacco revenues were $312,510 compared to $294,501 for the three months ended June 30, 2019. Revenues increased by $18,009 (6.1%) due primarily to an increase in the average selling price of our brands for the three months ended June 30, 2020 along with a 1.0% (24.5 million units) increase in sales volume.

Tobacco cost of sales. The major components of our Tobacco cost of sales were as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019
Manufacturing overhead, raw materials and labor	$ 32,669	$ 33,197
Customer shipping and handling	1,361	1,503
Federal Excise Taxes, net	121,170	119,943
FDA expense	6,116	6,048
MSA expense, net of market share exemption	52,751	43,770
Total cost of sales	$ 214,067	$ 204,461

The Tobacco segment's MSA expense is included in cost of sales. Under the terms of the MSA, we have no payment obligations except to the extent that our tobacco subsidiaries' market share of the U.S. Cigarette market exceeds 1.92%. The calculation of our benefit from the MSA is an estimate based on U.S. domestic taxable cigarette shipments. As of June 30, 2020, we estimate taxable shipments in the U.S. will decline by 4.5% in 2020. Our annual MSA liability changes by approximately $1,700 for each percentage change in the estimated shipment volumes in the U.S. market. For the three months ended June 30, 2020, the estimated decline in taxable shipments in excess of the annual MSA inflation adjustment resulted in an increase in cost of sales of approximately $470 because the value of Liggett's market share exemption declined compared to the three months ended June 30, 2019.

Tobacco gross profit was $98,443 for the three months ended June 30, 2020 compared to $90,040 for the three months ended June 30, 2019. The increase in gross profit for the three months ended June 30, 2020 is primarily attributable to increased pricing associated with the EAGLE 20's and Pyramid brands. For the three months ended June 30, 2020, EAGLE 20's remains Liggett's primary low-cost cigarette brand and its percentage of Liggett's total unit volume sales has increased from 61% in the three months ended June 30, 2019 to 63% for the three months ended June 30, 2020. Pyramid, Liggett's second-largest brand, declined from 26% of total unit volume sales in the three months ended June 30, 2019 to 24% for the three months ended June 30, 2020. As a percentage of revenue (excluding Federal Excise Taxes), Tobacco gross profit declined from 51.6% in the 2019 period to 51.4% in the 2020 period primarily as a result of the continued growth of the lower-priced EAGLE 20's brand as well as a higher MSA expense associated with the increases in unit volume above the market share exemption. This was offset by price increases.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses, excluding settlements and judgments, were $19,081 and $20,734 for the three months ended June 30, 2020 and 2019, respectively. The decline of $1,653 is primarily due to decreased travel expenses incurred during the COVID-19 pandemic and the timing of compensation expenses. Total tobacco product liability legal expenses, including settlements and judgments, were $1,641 and $2,274 for the three months ended June 30, 2020 and 2019, respectively.

Tobacco operating income. Tobacco operating income was $79,309 for the three months ended June 30, 2020 compared to $68,651 for the same period last year. The increase in operating income for the three months ended June 30, 2020 of $10,658 is primarily attributable to higher gross profit, as discussed above, and lower operating, selling, general and administrative expenses.

Real Estate.

Real Estate revenues. Real Estate revenues were $133,250 and $243,931 for the three months ended June 30, 2020 and 2019, respectively. Real Estate revenues declined by $110,681 (45.4%), primarily related to a decline of $107,080 in Douglas Elliman's commission income. We believe the decline was attributable to two events: (i) the impact of the COVID-19 pandemic and (ii) the acceleration of real estate closings in the New York City market during the three months ended June 30, 2019 as a result of the increased transfer and "mansion" tax associated with resales of homes of more than $1,000, effective July 1, 2019.

Real Estate revenues and cost of sales for the three months ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30,	
	2020	2019
Real Estate Revenues:		
Commission and other brokerage income	$ 123,254	$ 230,334
Property management revenue	8,832	10,218
Title fees	843	2,400
Sales on facilities primarily from Escena	321	979
Total real estate revenues	$ 133,250	$ 243,931
Real Estate Cost of Sales:		
Real estate commissions	$ 90,116	$ 162,192
Cost of sales on facilities primarily from Escena	563	871
Title fees	139	650
Total real estate cost of sales	$ 90,818	$ 163,713

Brokerage cost of sales. Douglas Elliman real estate commissions decreased by $72,076 for the three months ended June 30, 2020 as a result of a decline in sales volume.

Douglas Elliman's gross margin on real estate brokerage income declined from 29.6% for the three months ended June 30, 2019 to 26.9% for the three months ended June 30, 2020 primarily as a result of declines in revenues in its development marketing division and existing-home sales in the New York City and Northeast regions, which traditionally earn higher gross margin percentages than the Southeast (Florida) and Western (primarily California) regions.

The COVID-19 pandemic has had a profound effect on the economy and, especially, in the New York metropolitan area, where approximately 70% of Douglas Elliman's commissions and other brokerage revenues were derived in 2018 and 2019. In response to the pandemic, various governmental agencies in the New York metropolitan area and in other markets where Douglas Elliman operates instituted restrictions on individuals and on the types of businesses that are permitted to operate from March 2020 to June 2020, which adversely impacted Douglas Elliman's business. We anticipate that sales volume may continue to be slow through the fall of 2020, and possibly longer.

Real Estate expenses. Real Estate expenses, which are primarily expenses at Douglas Elliman, were $49,307 and $65,765 for the three months ended June 30, 2020 and 2019, respectively. For the three months ended June 30, 2020, Real Estate expenses included restructuring charges of $2,961. The restructuring charges were the result of Douglas Elliman realigning its administrative support functions, and office locations as well as adjusting its business model to more efficiently serve its clients. In response to the COVID-19 pandemic, we have implemented significant expense reductions at Douglas Elliman, including a reduction of personnel by approximately 25% as well as reduction, deferral or elimination of leases across the country. As a result of the expense reductions, in additional to personnel expenses, Douglas Elliman's professional services, advertising, travel and other occupancy expenses were reduced during the three months ended June 30, 2020. While we continue to evaluate other expense reduction measures, to the extent Douglas Elliman's business improves in the third quarter, we will begin to relinquish, as appropriate, some of the second quarter expense reductions, including advertising and personnel expenses.

Real Estate operating (loss) income. The Real Estate segment had operating loss of $6,875 for the three months ended June 30, 2020 and operating income of $14,453 for the three months ended June 30, 2019. The decline in operating income of $21,328 was primarily related to reduced operating income at Douglas Elliman.

Corporate and Other.

Corporate and Other operating loss. The operating loss at the Corporate and Other segment was $5,637 for the three months ended June 30, 2020 compared to $6,860 for the same period in 2019 and the difference was due primarily to decreased administrative costs related to professional fees and travel expenses.

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenues. Total revenues were $900,248 for the six months ended June 30, 2020 compared to $959,356 for the six months ended June 30, 2019. The $59,108 (6.2%) decline in revenues was primarily due to a $107,430 decline in Real Estate revenues, which was primarily related to a decrease in Douglas Elliman's brokerage revenues. This was offset by a $48,322 increase in Tobacco revenues related to an increase in both unit volume and net pricing.

Cost of sales. Total cost of sales was $615,508 for the six months ended June 30, 2020 compared to $654,194 for the six months ended June 30, 2019. The $38,686 (5.9%) decline in cost of sales was primarily due to a $68,279 decline in Real Estate cost of sales, which was primarily related to increases Douglas Elliman's commissions. This was offset by a $29,593 increase in Tobacco cost of sales primarily related to increased sales volume and higher MSA expense.

Expenses. Operating expenses were $222,847 for the six months ended June 30, 2020 compared to $186,328 for the same period last year. The $36,519 (19.6%) increase was due to a $39,243 increase in Real Estate expenses, including impairment of goodwill and intangible asset charge at Douglas Elliman of $58,252 and restructuring charges of $2,961 for the six months ended June 30, 2020. This was offset by a $971 decline in Tobacco expenses, including a decline in litigation settlement and judgment expense of $602, and a $1,753 decline in Corporate and Other expense.

See *Critical Accounting Policies - Goodwill and Indefinite Life Assets* for detail of the Douglas Elliman impairment charge.

Operating income. Operating income was $61,893 for the six months ended June 30, 2020 compared to $118,834 for the same period last year, a decline of $56,941 (47.9%). Real Estate operating income declined $78,394 primarily related to the impairments of goodwill and intangible assets of $58,252 at Douglas Elliman and restructuring charges of $2,961. This was offset by an increase in Tobacco operating income of $19,700 and the Corporate and Other operating loss declined $1,753.

Other expenses. Other expenses were $29,412 for the six months ended June 30, 2020 compared to $40,286 for the six months ended June 30, 2019. For the six months ended June 30, 2020, other expenses primarily consisted of interest expense of $64,985, equity in losses from real estate ventures of $18,765 and other expenses of $3,020. This was offset by equity in earnings of investments of $52,359 and income of $4,999 from changes in fair value of derivatives embedded within convertible debt. For the six months ended June 30, 2019, other expenses primarily consisted of interest expense of $70,273 and equity in losses from investments of $323. This was offset by income of $14,137 from changes in fair value of derivatives embedded within convertible debt, other income of $12,221, and equity in earnings from real estate ventures of $3,952.

Income before provision for income taxes. Income before income taxes was $32,481 for the six months ended June 30, 2020 compared to $78,548 for the six months ended June 30, 2019.

Income tax expense. Income tax expense was $9,938 for the six months ended June 30, 2020 compared to $24,208 for the six months ended June 30, 2019. Our provision for income taxes in interim periods is based on expected income, statutory rates, permanent differences, valuation allowances against deferred tax assets, and any tax planning opportunities available to us. For interim financial reporting, we estimate the annual effective income tax rate based on full year projections and apply the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. We refine annual estimates as new information becomes available. Our income tax expense for the six months ended June 30, 2020 was increased by discrete items related to income tax benefits on the goodwill and trademark impairment charges, changes in value of certain contingent consideration and stock-based compensation partially offset by the income tax expense related to the equity in earnings from investments associated with the one-time gain on sale of LTS. Our income tax expense for the six months ended June 30, 2019 was decreased by discrete items related to an income tax benefit for stock-based compensation.

Tobacco.

Tobacco revenues. Liggett increased the list price of EAGLE 20's by $0.11 per pack on June 22, 2020, $0.08 per pack in February 2020, $0.08 per pack in October 2019, and $0.11 per pack in February 2019. Liggett also increased the list price of PYRAMID, LIGGETT SELECT, EVE and GRAND PRIX by $0.11 per pack on June 22, 2020, $0.08 per pack in February 2020, $0.08 per pack in October 2019, $0.06 per pack in June 2019, and $0.11 per pack in February 2019.

All of our Tobacco sales were in the discount category in 2020 and 2019. For the six months ended June 30, 2020, Tobacco revenues were $599,579 compared to $551,257 for the six months ended June 30, 2019. Revenues increased by $48,322 (8.8%) due primarily to an increase in the average selling price of our brands for the six months ended June 30, 2020 along with a 4.4% (196 million units) increase in unit sales volume.

Tobacco cost of sales. The major components of our Tobacco cost of sales were as follows:

	Six Months Ended June 30,	
	2020	2019
Manufacturing overhead, raw materials and labor	$ 65,534	$ 61,672
Customer shipping and handling	2,833	2,995
Federal Excise Taxes, net	234,309	224,576
FDA expense	12,466	12,393
MSA expense, net of market share exemption	96,215	80,128
Total cost of sales	$ 411,357	$ 381,764

The Tobacco segment's MSA expense is included in cost of sales. Under the terms of the MSA, we have no payment obligations except to the extent that our tobacco subsidiaries' market share of the U.S. Cigarette market exceeds 1.92%. The calculation of our benefit from the MSA is an estimate based on U.S. domestic taxable cigarette shipments. As of June 30, 2020, we estimate taxable shipments in the U.S. will decline by 4.5% in 2020. Our annual MSA liability changes by approximately $1,700 for each percentage change in estimated shipment volumes in the U.S. market. For the six months ended June 30, 2020, the estimated decline in taxable shipments in excess of the annual MSA inflation adjustment resulted in an increase in cost of sales of approximately $900 because the value of Liggett's market share exemption declined compared to the six months ended June 30, 2019.

Tobacco gross profit was $188,222 for the six months ended June 30, 2020 compared to $169,493 for the six months ended June 30, 2019, an increase of $18,729. The increase in gross profit for the six months ended June 30, 2020 was primarily attributable to increased pricing on the EAGLE 20's and Pyramid brands and increased EAGLE 20's volume. For the six months ended June 30, 2020, EAGLE 20's remains Liggett's primary low-cost cigarette brand and its percentage of Liggett's total unit volume sales has increased from approximately 59% in the six months ended June 30, 2019 to approximately 63% for the six months ended June 30, 2020. Pyramid, Liggett's second largest brand, declined from approximately 28% of total unit volume sales in the six months ended June 30, 2019 to 24% for the six months ended June 30, 2020. As a percentage of revenue (excluding Federal Excise Taxes), Tobacco gross profit decreased from 51.9% in the 2019 period to 51.5% in the 2020 period primarily as a result of the continued growth of the lower-priced EAGLE 20's brand as well as a higher MSA expense associated with the increases in unit volume above the market share exemption. This was offset by price increases.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses, excluding settlements and judgments, were $39,674 for the six months ended June 30, 2020 compared to $40,043 for the six months ended June 30, 2019. The decline of $369 was mainly due to lower travel related expenses partially offset by higher professional fees. Tobacco product liability legal expenses, including settlements and judgments, were $3,191 and $3,737 for the six months ended June 30, 2020 and 2019, respectively.

Tobacco operating income. Tobacco operating income was $148,495 for the six months ended June 30, 2020 compared to $128,795 for the same period last year, an increase of $19,700. The increase in operating income was primarily attributable to higher gross profit, as discussed above.

Real Estate.

Real Estate revenues. Real Estate revenues were $300,669 and $408,099 for the six months ended June 30, 2020 and 2019, respectively. Real Estate revenues declined by $107,430 (26.3%), which was primarily related to a decline of $103,427 in Douglas Elliman's Commission and other brokerage income, which we believe was because of the impact of the COVID-19 pandemic as well as the impact of the increased "mansion" tax in New York City for the six months ended June 30, 2019, which is discussed in *Results of Operations - Three Months ended June 30, 2020 compared to Three Months ended June 30, 2019*.

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Real Estate revenues and cost of sales for the six months ended June 30, 2020 and 2019, respectively, were as follows:

	Six Months Ended June 30,	
	2020	2019
Real Estate Revenues:		
Commission and other brokerage income	$ 279,220	$ 382,647
Property management revenue	17,611	18,569
Title fees	1,699	3,633
Sales on facilities primarily from Escena	2,139	3,250
Total real estate revenues	$ 300,669	$ 408,099
Real Estate Cost of Sales:		
Real estate commissions	$ 202,315	$ 269,542
Cost of sales on facilities primarily from Escena	1,559	1,958
Title fees	277	930
Total real estate cost of sales	$ 204,151	$ 272,430

Brokerage cost of sales. Douglas Elliman real estate commissions declined by $67,227 as a result of lower commission and other brokerage income.

Douglas Elliman's gross margin on real estate brokerage income declined from 29.6% for the six months ended June 30, 2019 to 27.5% for the six months ended June 30, 2020, primarily as a result of declines in revenues in its development marketing division and existing-home sales in the New York City and Northeast regions, which traditionally earn higher gross margin percentages than the Southeast (Florida) and West (primarily California) regions.

See *Results of Operations - Three Months ended June 30, 2020 compared to Three Months ended June 30, 2019* for a discussion of the impact of the COVID-19 pandemic on the Real Estate segment.

Real Estate expenses. Real Estate expenses were $170,868 and $131,625 for the six months ended June 30, 2020 and 2019. These expenses included the non-cash impairment of goodwill and intangible assets of $58,252 and restructuring charges of $2,961 at Douglas Elliman for the six months ended June 30, 2020. The non-cash impairment related to the evaluation of potential impacts of the COVID-19 pandemic, including the possibility of an economic recession, on Douglas Elliman's business. The restructuring charges were the result of Douglas Elliman realigning its administrative support functions, and office locations as well as adjusting its business model to more efficiently serve its clients. In response to the current COVID-19 pandemic, we have implemented significant expense reductions at Douglas Elliman, including a reduction of personnel by approximately 25%, as well as reduction, deferral or elimination of leases across the country. As a result of the expense reductions, in additional to personnel expenses, Douglas Elliman's professional services, advertising, travel and other occupancy expenses were reduced during the six months ended June 30, 2020. While we continue to evaluate other expense reduction measures, to the extent Douglas Elliman's business improves in the third quarter, we will begin to relinquish, as appropriate, some of the second quarter expense reductions, including advertising and personnel expenses.

Real Estate operating (loss) income. The Real Estate segment had operating loss of $74,350 and operating income of $4,044 for the six months ended June 30, 2020 and 2019, respectively. The increase in the Real Estate segment's operating loss was caused by the decreased gross margin discussed above, the impairment of goodwill and intangible assets of $58,252 at Douglas Elliman and restructuring charges of $2,961 at Douglas Elliman offset by the impact of expense-reduction initiatives at Douglas Elliman in 2020.

Corporate and Other.

Corporate and Other loss. The operating loss at the Corporate and Other segment was $12,252 for the six months ended June 30, 2020 compared to $14,005 for the same period in 2019 and the difference was due primarily to decreased administrative costs related to professional fees and travel expenses.

Summary of Real Estate Investments

We own and seek to acquire investment interests in various domestic and international real estate projects through debt and equity investments. Our real estate investments primarily include the following projects as of June 30, 2020:

(Dollars in Thousands. Area and Unit Information in Ones)

	Location	Date of Initial Investment	Percentage Owned (1)	Net Cash Invested (Returned)	Cumulative Earnings (Losses)	Carrying Value as of June 30, 2020	Future Capital Commit-ments from New Valley (2)	Projected Residential and/or Hotel Area		Projected Commercial Space		Projected Number of Residential Lots, Units and/or Hotel Rooms		Actual/Projected Construction Start Date	Projected Construction End Date
Sagaponack	Sagaponack, NY	April 2015	100%	$ 19,024	$ —	$ 19,024	$ —	TBD		N/A		1	R	N/A	N/A
Escena, net	Master planned community, golf course, and club house in Palm Springs, CA	March 2008	100%	2,243	7,609	9,852	—	450	Acres	—		667 450	R Lots H	N/A	N/A
Investments in real estate, net				$ 21,267	$ 7,609	$ 28,876	$ —								
Investments in real estate ventures:															
10 Madison Square West (1107 Broadway)	Flatiron District/NoMad neighborhood, Manhattan, NY	October 2011	5.0%	$ (43,671)	$ 43,671	$ —	$ —	260,000	SF	20,000	SF	124	R	August 2012	Completed
11 Beach Street	TriBeCa, Manhattan, NY	June 2012	49.5%	4,090	5,600	9,690	—	97,000	SF	—		27	R	May 2014	Completed
20 Times Square (701 Seventh Avenue)	Times Square, Manhattan, NY	August 2012	7.9%	(7,827)	7,827	—	—	252,000	SF	80,000	SF	452	H	September 2013	Completed
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	9.5%	6,393	(4,413)	1,980	—	330,000	SF	1,700	SF	157	R	September 2014	Completed
160 Leroy Street	West Greenwich Village, Manhattan, NY	March 2013	3.1%	(1,075)	1,075	—	—	130,000	SF	—		57	R	Fall 2015	Completed
The Dutch (25-19 43rd Avenue)	Long Island City, NY	May 2014	9.9%	(1,247)	1,385	138		65,000	SF	—		86	R	September 2014	Completed
87 Park (8701 Collins Avenue)	Miami Beach, FL	December 2013	15.0%	13,138	3,317	16,455	—	160,000	SF	TBD		70	R	October 2015	Completed
125 Greenwich Street	Financial District, Manhattan, NY	August 2014	13.4%	7,992	(7,992)	—	—	306,000	SF	16,000	SF	273	R	March 2015	TBD
West Hollywood Edition (9040 Sunset Boulevard) (4)	West Hollywood, CA	October 2014	48.5%	3,949	(6,153)	(2,204)	—	210,000	SF	—		20 190	R H	May 2015	Completed
The XI (76 Eleventh Avenue)	West Chelsea, Manhattan, NY	May 2015	5.1%	17,000	(17,000)	—	—	630,000	SF	85,000	SF	236 137	R H	September 2016	March 2021
Monad Terrace	Miami Beach, FL	May 2015	19.6%	7,635	(4,831)	2,804	—	160,000	SF	—		59	R	May 2016	September 2020
Takanasee (805 Ocean Ave)	Long Branch, NJ	December 2015	22.8%	6,144	(2,306)	3,838	—	63,000	SF	—		13	R	June 2017	TBD
Brookland (15 East 19th St)	Brooklyn, NY	April 2017	9.8%	402	45	447	—	24,000	SF	—		33	R	August 2017	Completed
Dime (209 Havemeyer St)	Brooklyn, NY	November 2017	16.5%	9,145	2,331	11,476	—	100,000	SF	150,000	SF	177	R	May 2017	September 2020
352 6th Avenue	Brooklyn, NY	February 2019	37.0%	500	61	561	—	5,200	SF	—		4	R	September 2019	December 2020
Meatpacking Plaza	Meatpacking District, NY	April 2019	16.9%	10,692	(1,515)	9,177	—	TBD	—	TBD	—	TBD	—	TBD	TBD
The Park on Fifth	Miami Beach, FL	September 2019	38.9%	14,132	723	14,855	—	434,000	SF	15,000	SF	302	R	April 2020	August 2023
9 DeKalb	Brooklyn, NY	April 2019	4.2%	5,000	544	5,544	—	450,000	SF	120,000	SF	540	R	March 2019	June 2022
West Hialeah	Miami, FL	December 2019	77.8%	12,522	536	13,058	—	1,400,000	SF	—		1,369	R	December 2019	February 2024
Condominium and Mixed Use Development				$ 64,914	$ 22,905	$ 87,819	$ —								
Maryland Portfolio	Primarily Baltimore County, MD	July 2012	7.6%	774	(774)	—	—	N/A		N/A		5,517	R	N/A	N/A
Apartment Buildings				$ 774	$ (774)	$ —	$ —								
Park Lane Hotel (36 Central Park South)	Central Park South, Manhattan, NY	November 2013	1.0%	$ 8,682	$ (6,519)	$ 2,163	$ —	446,000	SF	—		628	H	N/A	N/A
215 Chrystie Street (4)	Lower East Side, Manhattan, NY	December 2012	18.4%	(4,551)	4,257	(294)	—	246,000	SF	—		367	H	June 2014	Completed
Coral Beach and Tennis Club	Coral Beach, Bermuda	December 2013	49.0%	6,048	(4,438)	1,610	—	52	Acres	—		101	H	N/A	N/A
Parker New York	Central Park South, Manhattan, NY	July 2019	1.0%	1,000	(56)	944	—	TBD		—		589 99	H R	May 2020	February 2022
Hotels				$ 11,179	$ (6,756)	$ 4,423	$ —								
The Plaza at Harmon Meadow	Secaucus, NJ	March 2015	49.0%	$ 4,797	$ (2,721)	$ 2,076	$ —	—	—	219,000	SF	—	—	N/A	N /A
Wynn Las Vegas Retail	Las Vegas, NV	December 2016	1.6%	4,798	2,769	7,567	—	—	—	160,000	SF	—	—	N/A	N/A
Commercial				$ 9,595	$ 48	$ 9,643	$ —								
Witkoff GP Partners (3)	Multiple	March 2017	15.0%	$ 11,082	$ (1,038)	$ 10,044	$ 4,911	N/A		N/A		N/A		N/A	N/A
1 QPS Tower (23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4%	(14,406)	14,406	—	—	N/A		N/A		N/A		March 2014	Completed
Witkoff EB-5 Capital Partners	Multiple	September 2018	49.0%	516	434	950	8,735	N/A		N/A		N/A		N/A	N/A
Diverse Real Estate Portfolio				$ (2,808)	$ 13,802	$ 10,994	$ 13,646								
Investments in real estate ventures				$ 83,654	$ 29,225	$ 112,879	$ 13,646								
Total Carrying Value				$ 104,921	$ 36,834	$ 141,755									

(1) The Percentage Owned reflects our estimated current ownership percentage. Our actual ownership percentage as well as the percentage of earnings and cash distributions may ultimately differ as a result of a number of factors including potential dilution, financing or admission of additional partners.

(2) This column only represents capital commitments required under the various joint venture agreements. However, many of the operating agreements provide for the operating partner to call capital. If a joint venture partner, such as New Valley, declines to fund the capital call, then the partner's ownership percentage could either be diluted or, in some situations, the character of a funding member's contribution would be converted from a capital contribution to a member loan.

(3) The Witkoff GP Partners venture includes a $2,471 investment in 500 Broadway and a $7,573 investment in Fontainebleau Las Vegas.

(4) Equity in losses in excess of the joint ventures' carrying value were $2,498 as of June 30, 2020, and are classified in Other current liabilities.

N/A - Not applicable SF - Square feet H - Hotel rooms TBD -To be determined R - Residential Units R Lots - Residential lots

New Valley capitalizes net interest expense into the carrying value of its ventures whose projects were under development. Net capitalized interest costs included in Carrying Value as of June 30, 2020 were $7,547. This amount is included in the “Cumulative Earnings (Losses)” column in the table above. During the six months ended June 30, 2020, New Valley capitalized $2,257 of interest costs and utilized (reversed) $5,307 of previously capitalized interest in connection with the recognition of equity in (losses) earnings, gains and liquidations from various ventures.

Liquidity and Capital Resources

Cash, cash equivalents and restricted cash increased by $169,658 for the six months ended June 30, 2020 and decreased by $258,325 for the six months ended June 30, 2019.

Cash provided from operations was $341,329 and $98,102 for the six months ended June 30, 2020 and 2019, respectively. The increase primarily related to increases in working capital, particularly in increased excise tax payables, income tax payables and promotional accruals in the tobacco segment, at June 30, 2020 as well as the proceeds received from the sale of LTS in the 2020 period offset by lower operating income in 2020. The increases in excise tax payables related to the 90-day postponement of the payment due dates of U.S. excise taxes from March 1, 2020 to July 1, 2020. We expect this postponement resulted in an increase to the liquidity of our tobacco segment in the second quarter of 2020 of approximately $131,700 and will result in a corresponding decline in the third quarter of 2020.

Cash provided by investing activities was $46,575 for the six months ended June 30, 2020 and cash used in investing activities was $9,087 for the six months ended June 30, 2019. In the first six months of 2020, cash provided by investing activities was from the sale of investment securities of $19,555, pay downs of investment securities of $415, maturities of investment securities of $31,574, distributions from investments in real estate ventures of $5,172, a decrease in restricted assets of $87, and proceeds from the sale or liquidation of long-term investments of $23,407. This was offset by the purchase of investment securities of $16,867, investments in real estate ventures of $3,858, capital expenditures of $6,242, investments in real estate, net of $679, an increase in cash surrender value of life insurance policies of $751, and purchase of long-term investments of $5,238. In the first six months of 2019, cash used in investing activities was for the purchase of investment securities of $44,222, investments in real estate ventures of $21,908, capital expenditures of $6,320, investments in real estate, net of $1,153, an increase in cash surrender value of life insurance policies of $789, and purchase of subsidiaries of $668. This was offset by the sale of investment securities of $12,942, pay downs of investment securities of $545, maturities of investment securities of $28,610, and distributions from investments in real estate ventures of $23,200, a decrease in restricted assets of $668, and proceeds from the sale of fixed assets of $8.

Cash used in financing activities was $218,246 and $347,340 for the six months ended June 30, 2020 and 2019, respectively. In the first six months of 2020, cash was used for the dividends and distributions on common stock of $63,478, repayments of debt of $172,467, distributions to non-controlling interest of $448, and net repayments of debt under the revolver of $34,952. This was offset by proceeds from issuance of common stock of $52,563, proceeds from debt issuance of $531 and other of $5. In the first six months of 2019, cash was used for the dividends and distributions on common stock of $118,748, repayments of debt of $230,771, distributions to non-controlling interest of $285, deferred financing costs of $33, offset by net borrowings of debt under the revolver of $2,497.

The terms of our 10.5% Senior Notes due 2026 contain covenants that place significant limitations on our ability to pay dividends and distributions in the future. See "*10.5% Senior Notes due 2026*" below. For the next twelve months beginning June 30, 2020, we have significant liquidity commitments at the corporate level (not including our tobacco and real estate operations) that require the use of existing cash resources. These include cash interest expense of approximately $110,300 on our other debt and other corporate expenses and taxes. In addition, the board continues to evaluate our dividend policy on a quarterly basis. Based on the $0.20 per share quarterly dividend rate in 2020, payment of our quarterly dividend would require cash payments of approximately $128,900 over the next twelve months.

In order to meet these liquidity requirements as well as other liquidity needs in the normal course of business, we have in the past used cash flows from operations as well as existing cash and cash equivalents, which have, in the past, been generated from operations, monetization of investments and proceeds from debt issuances. Should these resources be insufficient to meet upcoming liquidity needs, we may also liquidate investment securities and other long-term investments, or, if available, draw on Liggett's credit facility. While there are actions we can take to reduce our liquidity needs, there can be no assurance that such measures will be successful. As of June 30, 2020, we had cash and cash equivalents of $540,363 (including $60,921 of cash at Douglas Elliman and $217,590 of cash at Liggett), investment securities, which were carried at $88,643 (see Note 6 to condensed consolidated financial statements), and long-term investments, which were carried at $33,232 (and, including in-transit redemptions at June 30, 2020, with a fair value of $35,380). As discussed elsewhere, we used $169,610 of cash to retire the convertible notes due in April 2020. As of June 30, 2020, our investments in real estate ventures were carried at $115,377 and our investments in real estate, net of accumulated depreciation, were carried at $28,876.

Limitation of interest expense deductible for income taxes. Since 2018, our interest expense that is deductible in the computation of our income tax liability has been limited to a percentage of adjusted taxable income, as defined, with certain exceptions. In 2019 and 2020, the amount is limited to 50% of taxable income before interest, depreciation and amortization and, in 2021, the amount is limited to 30% of taxable income before interest, depreciation and amortization. Beginning in 2022, the amount is limited to 30% of taxable income before interest thereafter for non-excepted trade or businesses. One such excepted trade or business is any electing real property trade or business, which portions of our real estate business may qualify. Interest expense allocable to an excepted trade or business is not subject to limitation. If any interest expense is disallowed, we are permitted to carry forward the disallowed interest expense indefinitely. Nonetheless, due to our high degree of leverage, a portion of our interest expense in future years may not be deductible, which could increase the after-tax cost of any new debt financings as well as the refinancing of our existing debt.

Tobacco Litigation. Adverse verdicts have been entered in 16 *Engle* progeny cases against Liggett. Liggett has paid $39,773, including interest and attorney's fees, to satisfy the final judgments entered against it. It is possible that additional cases could be decided unfavorably.

Notwithstanding the comprehensive nature of the *Engle* progeny settlements, 42 *Engle* progeny cases remain pending. In addition, 54 individual actions are pending. Therefore, we and Liggett may still be subject to periodic adverse judgments which could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Management cannot predict the cash requirements related to any future 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. Management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases. It is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

Vector.

6.125% Senior Secured Notes due 2025. In January 2017, we issued $850,000 of our 6.125% Senior Secured Notes due 2025 ("6.125% Senior Secured Notes"). The indenture governing our 6.125% Senior Secured Notes (the "2025 Indenture") contains covenants that restrict the payment of dividends if our consolidated earnings before interest, taxes, depreciation and amortization ("Consolidated EBITDA"), as defined in the 2025 Indenture, for the most recently ended four full quarters is less than $75,000. The 2025 Indenture also restricts the incurrence of debt if our Leverage Ratio and our Secured Leverage Ratio, as defined in the 2025 Indenture, exceed 3.0 and 1.5, respectively. Our Leverage Ratio is defined in the 2025 Indenture as the ratio of our guaranteeing subsidiaries' total debt less the fair market value of our cash, investment securities and long-term investments to Consolidated EBITDA, as defined in the 2025 Indenture. Our Secured Leverage Ratio is defined in the 2025 Indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness. The following table summarizes the requirements of these financial covenants and the results of the calculation, as defined in the 2025 Indenture.

Covenant	Indenture Requirement	June 30, 2020
Consolidated EBITDA, as defined	$75,000	$367,357
Leverage ratio, as defined	<3.0 to 1	2.08 to 1
Secured leverage ratio, as defined	<1.5 to 1	0.61 to 1

As of June 30, 2020 and December 31, 2019, we were in compliance with all debt covenants related to the 2025 Indenture.

10.5% Senior Notes due 2026. On November 2, 2018 and November 18, 2019, respectively, we sold $325,000 and $230,000 of our 10.5% Senior Notes due 2026 in private offerings exempt from the registration requirements of the Securities Act to qualified institutional buyers in accordance with Rule 144A of the Securities Act.

The indenture governing our 10.5% Senior Notes due 2026 (the "2026 Indenture") restricts our ability to pay dividends and make certain other distributions subject to certain exceptions, including exceptions for (1) dividends and other distributions in an amount up to 50% of our consolidated net income, plus certain specified proceeds received us, if no event of default has occurred, and we are in compliance with a Fixed Charge Coverage Ratio (as defined in the 2026 Indenture) of at least 2.0x, and (2) dividends and other distributions in an unlimited amount, if no event of default has occurred and we are in compliance with a Net Leverage Ratio (as defined in the 2026 Indenture) no greater than 4.0x. As a result, absent an event of default, we can pay dividends if the Net Leverage ratio is below 4.0x, regardless of the value of the Fixed Charge Coverage Ratio at the time. The 2026 Indenture also restricts our ability to incur debt if our Fixed Charge Coverage Ratio is less than 2.0x, and restricts our ability to secure debt other than secured debt incurred pursuant to a Secured Leverage Ratio no greater than 3.75x, unless the 10.5% Senior Notes are secured on an equal and ratable basis. In addition, the 2026 Indenture restricts our ability to spin-off or transfer New Valley and its subsidiaries as a whole, or DER Holdings LLC and its subsidiaries (including Douglas Elliman) as a whole, unless (1) such spin-off or transfer complies with the covenants restricting mergers and asset sales, or (2) our Net Leverage Ratio is no greater than 4.0x. Our Fixed Charge Coverage Ratio is defined in the 2026 Indenture as the ratio of our Consolidated EBITDA to our Fixed Charges (each as defined in the 2026 Indenture). Our Net Leverage Ratio is defined in the 2026 Indenture as the ratio of our and our guaranteeing subsidiaries' total debt less our cash, cash equivalents, and the fair market value of our investment securities, long-term investments, investments in real estate, net, and investments in real estate ventures, to Consolidated EBITDA, as defined in the 2026 Indenture. Our Secured Leverage Ratio is defined in the 2026 Indenture as the ratio of our and our guaranteeing subsidiaries' total secured debt, to Consolidated EBITDA, as defined in the 2026 Indenture.

Covenant	Indenture Requirement	June 30, 2020
Consolidated EBITDA, as defined	N/A	$270,637
Fixed charge coverage ratio, as defined	>2.0 to 1	2.68 to 1
Net leverage ratio, as defined	<4.0 to 1	2.16 to 1
Secured leverage ratio, as defined	<3.75 to 1	3.21 to 1

As of June 30, 2020 and December 31, 2019, we were in compliance with all of the debt covenants related to the 2026 Indenture.

Liggett Credit Facility and Liggett Term Loan Under Credit Facility. As of June 30, 2020, there was no outstanding balance under the Credit Agreement, which was primarily the result of the 90-day postponement of U.S. excise taxes due between March 1, 2020 and June 30, 2020. Availability as determined under the Credit Agreement was $60,000 based on eligible collateral at June 30, 2020. At June 30, 2020, Liggett was in compliance with all covenants under the Credit Agreement; Liggett's EBITDA, as defined, were $243,545 for the last twelve months ended June 30, 2020.

Anticipated Liquidity Obligations. We and our subsidiaries have significant indebtedness and debt service obligations. As of June 30, 2020, we and our subsidiaries had total outstanding indebtedness of approximately $1,433,200. Of this amount, $850,000 comprised of the outstanding amount under our 6.125% Senior Secured Notes due 2025, and $555,000 comprised of the outstanding amount under our 10.5% Senior Notes due 2026. There is a risk that we will not be able to generate sufficient funds to repay our debt. If we cannot service our fixed charges, it would have a material adverse effect on our business and results of operations.

We currently believe that our tobacco segment will be a positive cash-flow-generating unit and will continue to be able to sustain its operations in 2020 without any significant liquidity concerns. Our real estate segment has historically been a positive cash-flow generating segment, but we do not currently expect our real estate operations to generate positive cash-flow in 2020, primarily due to the COVID-19 pandemic and related economic disruption.

In order to meet the above liquidity requirements as well as other anticipated liquidity needs in the normal course of business, we had cash and cash equivalents of approximately $540,400, investment securities at fair value of approximately $88,600, long-term investments with an estimated value of approximately $35,400, and availability under Liggett's credit facility of approximately $60,000 at June 30, 2020. Management currently anticipates that these amounts, as well as expected cash flows from our operations, proceeds from public and/or private debt and equity financing to the extent available, management fees and other payments from subsidiaries should be sufficient to meet our liquidity needs over the next 12 months. Depending on market conditions, we may utilize our cash, investment securities and long-term investments to repurchase our 6.125% Senior Secured Notes due 2025 and 10.5% Senior Notes due 2026 in open-market purchases or privately negotiated transactions. We may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit our liquidity otherwise available.

Market Risk

We are exposed to market risks principally from fluctuations in interest rates, foreign currency exchange rates and equity prices. We seek to minimize these risks through our regular operating and financing activities and our long-term investment strategy. Our market risk management procedures cover all market risk sensitive financial instruments.

As of June 30, 2020, approximately $27,500 of our outstanding debt at face value had variable interest rates determined by various interest rate indices, which increases the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our variable rate borrowings, which could adversely affect our cash flows. As of June 30, 2020, there was no outstanding balance on the Liggett Credit Facility which also has variable interest rates. As of June 30, 2020, we had no interest rate caps or swaps. Based on a hypothetical 100 basis point increase or decrease in interest rates (1%), our annual interest expense could increase or decrease by approximately $300.

We held debt securities available for sale totaling $54,885 as of June 30, 2020. See Note 6 to our condensed consolidated financial statements. Adverse market conditions could have a significant effect on the value of these investments.

On a quarterly basis, we evaluate our debt securities available for sale and equity securities without readily determinable fair values that do not qualify for the NAV practical expedient to determine whether an impairment has occurred. If so, we also make a determination if such impairment is considered temporary or other-than-temporary. We believe that the assessment of temporary or other-than-temporary impairment is facts-and-circumstances driven. The impairment indicators that are taken into consideration as part of our analysis include (a) a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee, (b) a significant adverse change in the regulatory, economic, or technological environment of the investee, (c) a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates, and (d) factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

Equity Security Price Risk

As of June 30, 2020, we held various investments in equity securities with a total fair value of $66,990, of which $33,758 represents equity securities at fair value and $33,232 represents long-term investment securities at fair value. The latter securities represent long-term investments in various investment partnerships. These investments are illiquid and their ultimate realization is subject to the performance of the underlying entities. See Note 6 to our condensed consolidated financial statements, respectively, for more details on equity securities at fair value and long-term investment securities at fair value. The impact to our condensed consolidated statement of operations related to equity securities fluctuates based on changes in their fair value.

We record changes in the fair value of equity securities in net income. To the extent that we continue to hold equity securities, our operating results may fluctuate significantly. Based on our equity securities held as of June 30, 2020, a hypothetical decrease of 10% in the price of these equity securities would reduce the fair value of the investments and, accordingly, our net income by approximately $6,699.

New Accounting Pronouncements

Refer to Note 1, *Summary of Significant Accounting Policies*, to our financial statements for further information on New Accounting Pronouncements.

Legislation and Regulation

There are no material changes from the Legislation and Regulation section set forth in Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," of our Annual Report on Form 10-K for the year ended December 31, 2019, except as follows. The following paragraph of "Item. 1. Business--Legislation and Regulation-Advertising and Warnings on Packaging" from our Annual Report on Form 10-K, which is referenced therein, is amended and restated in its entirety:

On March 18, 2020, FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. This rule requires each cigarette package and advertisement to bear one of eleven textual warning statements accompanied by a corresponding graphic image covering 50% of the area of the front and rear panels of cigarette packages and at least 20% of the area at the top of cigarette advertisements. The rule establishes marketing requirements that include the random and equal display and distribution of the required warnings for cigarette packages and quarterly rotation of the required warnings for cigarette advertisements. The final rule provided for an effective date of June 18, 2021, 15 months after issuance of the final rule. The inclusion of new warnings and rotation requirements pursuant to the final rule would likely increase Liggett's production costs. On April 3, 2020, Liggett, along with other tobacco companies, commenced an action against the FDA in the United States District Court, District of Texas (Tyler Division) challenging the legality of the graphic warning final rule. On May 8, 2020, the court issued an updated scheduling order and granted a joint motion to postpone the effective date of the final rule by 120 days to October 16, 2021.

We cannot predict whether the court will delay the effective date and/or determine that some or all of the proposed textual and/or graphic warnings, or proposed prominence of the warnings, violate the First Amendment, Administrative Procedure Act, or other legal requirements, or what the impact of such a court ruling would have on the compliance timeline or requirements imposed on industry.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains "forward-looking statements" within the meaning of the federal securities law. Forward-looking statements include information relating to our intent, belief or current expectations, primarily with respect to, but not limited to:

- economic outlook,
- capital expenditures,
- cost reduction,

- legislation and regulations,
- cash flows,
- operating performance,
- litigation, and
- related industry developments (including trends affecting our business, financial condition and results of operations).

We identify forward-looking statements in this report by using words or phrases such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may be,” “objective,” “plan,” “seek,” “predict,” “project” and “will be” and similar words or phrases or their negatives.

The forward-looking information involves important risks and uncertainties that could cause our actual results, performance or achievements to differ materially from our anticipated results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, without limitation, the following:

- general economic and market conditions and any changes therein, due to acts of war and terrorism or otherwise,
- governmental regulations and policies,
- adverse changes in global, national, regional and local economic and market conditions, including those related to pandemics and health crises, such as the recent outbreak of COVID-19,
- significant changes in the price, availability or quality of tobacco, other raw materials or component parts, including as a result of the COVID-19 pandemic,
- potential dilution to our holders of or common stock as a result of issuances of additional shares of common stock to fund our financial obligations and other financing activities,
- the impacts of the Tax Cuts and Jobs Act of 2017, including the deductibility of interest expense and the impact of the markets on our Real Estate segment,
- effects of industry competition,
- impact of business combinations, including acquisitions and divestitures, both internally for us and externally in the tobacco industry,
- impact of legislation on our results of operations and product costs, i.e. the impact of federal legislation providing for regulation of tobacco products by FDA,
- impact of substantial increases in federal, state and local excise taxes,
- uncertainty related to product liability and other tobacco-related litigations including the *Engle* progeny cases pending in Florida and other individual and class action cases where certain plaintiffs have alleged compensatory and punitive damage amounts ranging into the hundreds of million and even billions of dollars; and,
- potential additional payment obligations for us under the MSA and other settlement agreements with the states.

Further information on the risks and uncertainties to our business include the risk factors discussed above in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and under Item 1A, “*Risk Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission.

Although we believe the expectations reflected in these forward-looking statements are based on reasonable assumptions, there is a risk that these expectations will not be attained and that any deviations will be material. The forward-looking statements speak only as of the date they are made.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk” is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective.

There have not been any changes in our internal control over financial reporting that occurred during the second quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 9, incorporated herein by reference, to our condensed consolidated financial statements included elsewhere in this report which contains a general description of certain legal proceedings to which our company, or its subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending smoking-related legal proceedings to which Liggett or us is a party. A copy of Exhibit 99.1 will be furnished without charge upon written request to us at our principal executive offices, 4400 Biscayne Boulevard, 10th Floor, Miami, Florida 33137, Attn. Investor Relations.

Item 1A. Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A, "Risk Factors," of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, except as set forth below:

New Valley is heavily dependent on the performance of the real estate market in the New York metropolitan area, which has been adversely impacted by COVID-19.

New Valley's business primarily depends on the performance of the real estate market in the New York metropolitan area. Our real estate brokerage businesses and our investments in real estate developments are largely located in the New York metropolitan area and to a lesser extent in South Florida, Los Angeles, and other markets.

Douglas Elliman's residential brokerage business primarily depends on volumes of sales transactions and sales prices for residential property in the New York metropolitan area and derived approximately 70% of its revenues in 2019 and 2018 from this region. Published reports and data indicate that the New York metropolitan area was impacted more than any other area in the United States by the COVID-19 pandemic. Consequently, various governmental agencies in the New York metropolitan area, and other markets where Douglas Elliman operates and where our real estate investments are located, instituted quarantines, "pause" orders, "shelter-in-place" rules, restrictions on travel and restrictions on the types of businesses that can operate. For example, Douglas Elliman's agents were restricted from performing personal showings of properties or conducting open houses in most of Douglas Elliman's markets from March 2020 to June 2020. As a result of such measures, volumes of residential property sales transactions in the New York metropolitan area have declined significantly, and the aggregate sales commissions earned by Douglas Elliman on sales transactions have correspondingly declined. This has had, and we expect will continue to have, a material adverse effect on Douglas Elliman's financial condition and results of operations, notwithstanding the mitigating actions we have initiated (including employee-related and other expense-reduction measures) and expect to continue during this crisis.

In addition, property development and investment activities are currently significantly lower than past levels and future growth in the property market in the New York metropolitan area, South Florida, Los Angeles, Las Vegas or elsewhere in the United States are currently uncertain which may have a material adverse effect on New Valley's real estate investments. As of June 30, 2020, we had investments in or were developing 16 projects in the New York metropolitan area. In addition, during the second quarter of 2020, construction was halted at many of the real estate projects that New Valley has made investments. Adverse developments in national and local economic conditions as a result of the COVID-19 pandemic, as measured by such factors as GDP growth, employment levels, job growth, consumer confidence, interest rates and population growth in the New York metropolitan area and the United States generally, particularly in the regions where our investments and brokerage businesses are located, have reduced, and we expect will continue to reduce demand and depress prices for our properties and services and have had and we expect will continue to have, a material adverse effect on our business, financial condition and results of operations.

We have made significant operating adjustments in Douglas Elliman's real estate brokerage business, including staff reductions, which could negatively impact the financial success of Douglas Elliman's brokerage business in the future.

Douglas Elliman's real estate brokerage offices generate revenue in the form of commissions and service fees. Accordingly, its financial results depend upon the operational and financial success of its brokerage offices and its agents. As a result of the impact of the COVID-19 pandemic on Douglas Elliman's brokerage business, in April 2020, we made significant operating adjustments at Douglas Elliman, including a reduction of personnel by approximately 25%, which resulted in a reduction in salaries and administrative expenses, as well as reduction, deferral or elimination of leases across the country. As a result of the expense reductions, in additional to personnel expenses, Douglas Elliman's professional services, advertising, travel and other occupancy expenses were reduced during the three months ended June 30, 2020. While such expense-reduction measures were necessary in order to mitigate the on-going financial impacts of the COVID-19 pandemic on Douglas Elliman's real estate brokerage business, there can be no assurance that we will be able to re-hire those employees in the event that economic conditions improve, and as a result, the staff reductions that we have made could negatively impact the financial success of Douglas Elliman's brokerage business in the future. Further, while we continue to evaluate other expense reduction measures, to the extent Douglas Elliman's business improves in the third quarter, we will begin to relinquish, as appropriate, some of the second quarter expense reductions, including advertising and personnel expenses.

The COVID-19 pandemic could continue to have a material impact on our Real Estate segment; the likelihood and magnitude of a material impact increases with the amount of time the virus impacts activity levels in locations in which Douglas Elliman operates. Therefore, we are unable to predict the ultimate impact of the COVID-19 pandemic on the future financial condition, results of operations and cash flows from our Real Estate segment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No equity securities of ours which were not registered under the Securities Act have been issued or sold by us during the three months ended June 30, 2020.

Issuer Purchase of Equity Securities

Our purchase of our common stock during the three months ended June 30, 2020 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2020	—	$ —	—	—
May 1 to May 31, 2020	5,423	11.44 (1)	—	—
June 1 to June 30, 2020	—	—	—	—
Total	5,423	$ 11.44	—	—

(1) Delivery of shares to us in payment of tax withholding in connection with an employee's vesting in restricted stock. The shares were immediately canceled.

Item 6. Exhibits:

10.1	Form of Restricted Shares Award Agreement under 2014 Management Incentive Plan.
31.1	Certification of Chief Executive Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Material Legal Proceedings.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (the cover page tabs are embedded within the Inline XBRL document).

* Incorporated by reference

SIGNATURE

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

VECTOR GROUP LTD.
(Registrant)

By: /s/ J. Bryant Kirkland III

J. Bryant Kirkland III
Senior Vice President, Treasurer and
Chief Financial Officer

Date: August 7, 2020

EXHIBIT 10.1

RESTRICTED SHARES AWARD AGREEMENT

PURSUANT TO THE

VECTOR GROUP LTD.

2014 MANAGEMENT INCENTIVE PLAN

THIS AGREEMENT (the "Agreement"), made as of May 27, 2020 ("Grant Date"), by and between Vector Group Ltd., a Delaware Corporation, with its principal office at 4400 Biscayne Boulevard, 10th Floor, Miami, FL 33137 (the "Company"), and [Participant] (the "Participant").

WHEREAS, the Board of Directors of the Company (the "Board") adopted the Vector Group Ltd. 2014 Management Incentive Plan on March 10, 2014 (approved by the stockholders of the Company on May 16, 2014) (as such plan may be amended from time to time, the "Plan");

WHEREAS, the Plan provides that the Company, through the Compensation Committee of the Board (the "Committee"), can grant awards of Restricted Shares to Employees, Non-Employee Directors and Consultants who provide services to the Company; and

WHEREAS, subject to the terms and conditions of this Agreement and the Plan, the Committee has determined that Participant, an Employee of the Company, shall be awarded Restricted Shares in the amount set forth below and subject to the terms, conditions and restrictions set forth herein.

NOW, THEREFORE, the Company and the Participant each agree as follows:

1. **Grant of Restricted Shares**. Subject to the terms, conditions and restrictions of the Plan and this Agreement, the Company hereby grants to the Participant [Amount Awarded] Restricted Shares effective as of the Grant Date. For the avoidance of doubt, the Participant is being granted the Restricted Shares at the closing price as of the Grant Date of $12.20 and on the same terms as were approved by the Committee on such date, and, accordingly, the Participant shall be entitled to all rights of a holder of shares of common stock of the Company ("Common Stock") set forth in Section 4 hereof as of the Grant Date. Pursuant to the Plan and Section 2 of this Agreement, the Restricted Shares are subject to certain restrictions, some of which shall expire in accordance with the provisions of the Plan and Section 2 hereof. A book entry in Participant's name evidencing the Restricted Shares will be made with the Company or its designated agent until such Restricted Shares are released to the Participant or forfeited in accordance with this Agreement. Unless otherwise provided herein, capitalized terms used herein that are not defined herein shall have the meanings attributable thereto in the Plan.

2. **Vesting**. (a) Except as otherwise provided in Sections 2(b) and 3 hereof, the Restricted Shares shall become vested in the following percentages and at the following times, subject to the Participant's continued employment or engagement with the Company through and on the applicable Vesting Date:

Percentage of Restricted Shares	Vesting Date
25%	First Anniversary of Grant Date
25%	Second Anniversary of Grant Date
25%	Third Anniversary of Grant Date
25%	Fourth Anniversary of Grant Date

There shall be no proportionate or partial vesting of the Restricted Shares in or during the months, days or periods prior to each Vesting Date, and all vesting of the Restricted Shares shall occur only on the applicable Vesting Date. Upon the termination or cessation of the Participant's employment or engagement with the Company, other than a Without Cause Termination or a Good Reason Termination, any portion of the Restricted Shares which is not yet then vested shall automatically and without notice terminate, be forfeited and be and become null and void except as otherwise provided herein.

(b) Notwithstanding any other term or provision of this Agreement, in the event that an Acceleration Event (as defined below) occurs, the Restricted Shares subject to this Agreement shall become immediately fully vested as of the date of the Acceleration Event. For purposes of this Agreement, an "Acceleration Event" shall mean the first to occur of any of the following: (i) a Change in Control (as defined below) provided that the Participant's employment or engagement with the Company and its Related Entities continues through and on the date of such Change in Control; or (ii) the Participant's employment or engagement with the Company and its Related Entities terminates through either a Without Cause Termination or a Good Reason Termination (as such quoted terms are defined below).

(c) For purposes of this Agreement, "Change in Control" shall be as defined in Section 13.3 of the Plan.

(d) For purposes of this Agreement, (i) a "Without Cause Termination" shall mean a termination of the Participant's employment by the Company or a subsidiary thereof other than for Cause (as defined below) or as a result of the Participant's death or disability, (ii) a "Good Reason Termination" shall mean a termination of the Participant's employment by the Participant for "good reason" pursuant to and in accordance with the Participant's written employment agreement with the Company or a subsidiary thereof (if any) on the date hereof, and (iii) "Cause" shall mean (x) the Participant's willful misconduct or gross negligence in the performance of his or her duties for the Company or a subsidiary thereof that is not cured by the Participant within thirty (30) days after his or her receipt of written notice from the Company or such subsidiary (as applicable); (y) the Participant's conviction of, or plea of guilty or *nolo contendere* to, a crime relating to the Company or a subsidiary thereof or any felony; or (z) a material breach by the Participant of the Participant's employment agreement, offer letter or other offer arrangement with the Company or a subsidiary, or any other material written agreement entered into between the Participant and the Company or any subsidiary thereof (if any) that is not cured by the Participant within thirty (30) days after his or her receipt of written notice from the Company or such subsidiary (as applicable).

3. **Effect of Vesting; Forfeiture**.

(a) Upon the vesting of any Restricted Shares, such vested Restricted Shares will no longer be subject to forfeiture as provided in this Agreement. Promptly after vesting, the Company will deliver to the Participant the Restricted Shares that have vested subject to applicable tax withholding obligations pursuant to Section 10.

(b) If the Participant's employment or engagement with the Company and the Related Entities is terminated for any reason other than a Without Cause Termination or a Good Reason Termination, the Participant shall automatically forfeit any unvested Restricted Shares and the Company shall acquire such unvested Restricted Shares for the amount paid by the Participant for such Restricted Shares (or, if no amount was paid by the Participant for such Restricted Shares, then the Company shall acquire such Restricted Shares for no consideration). The Committee shall have the power and authority to enforce on behalf of the Company any rights of the Company under this Agreement in the event of the Participant's forfeiture of the Restricted Shares pursuant to this Section 3.

4. **Rights as a Holder of Restricted Shares**. From and after the Grant Date, the Participant shall have, with respect to the Restricted Shares (whether vested or unvested), all of the rights of a holder of shares of Common Stock of the Company, including, without limitation, the right to vote the shares, to receive and retain all regular cash dividends payable to holders of shares of record on and after the Grant Date (although such dividends will be treated, to the extent required by applicable law, as additional compensation for tax purposes), and to exercise all other rights, powers and privileges of a holder of shares with respect to the Restricted Shares; provided, that, to the extent the Company issues a dividend in the form of shares or other property, such shares or other property shall be subject to the same restrictions that are then applicable to the Restricted Shares under the Plan and this Agreement and such restrictions shall expire at the same time as the restrictions on the Restricted Shares expire. Participant shall not be required to repay any dividends received with respect to Restricted Shares that are subsequently forfeited prior to vesting.

5. **Taxes; Section 83(b) Election**. The Participant acknowledges that (i) no later than the earlier of (x) the date on which any Restricted Shares shall have become vested or (y) the date on which the Participant makes a Section 83(b) election (if he or she so chooses to make such an election), the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any Federal, state or local or other taxes of any kind required by law to be withheld with respect to any Restricted Shares which shall have become so vested; (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any Federal, state or local or other taxes of any kind required by law to be withheld with respect to any Restricted Shares which shall have become so vested, including that the Company may, but shall not be required to, sell a number of Restricted Shares sufficient to cover applicable withholding taxes; and (iii) in the event that the Participant does not satisfy (i) above on a timely basis, the Company may, but shall not be required to, pay such required withholding and, to the extent permitted by applicable law, treat such amount as a demand loan to the Participant at the maximum rate permitted by law, with such loan, at the Company's sole discretion and provided the Company so notifies the Participant within thirty (30) days of the making of the loan, secured by the Restricted Shares and any failure by the Participant to pay the loan upon demand shall entitle the Company to all of the rights at law of a creditor secured by the Restricted Shares. The Company may hold as security any certificates representing any Restricted Shares and, upon demand of the Company, the Participant shall deliver to the Company any certificates in his or her possession representing the Restricted Shares together with a stock power duly endorsed in blank. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Code, and any corresponding provisions of state tax laws, if the Participant wishes to utilize such election.

6. **No Obligation to Continue Employment**. This Agreement is not an agreement of employment. Neither the execution of this Agreement nor the issuance of the Restricted Shares hereunder constitute an agreement by the Company or any Related Entity thereof to employ or to continue to employ the Participant during the entire, or any portion of, the term of this Agreement, including but not limited to any period during which any Restricted Shares are outstanding.

7. **Legend**. In the event that a certificate evidencing the Restricted Shares is issued, the certificate representing the Restricted Shares shall have endorsed thereon the following legends:

(a) "THE ANTICIPATION, ALIENATION, ATTACHMENT, SALE, TRANSFER, ASSIGNMENT, PLEDGE, ENCUMBRANCE OR CHARGE OF THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF VECTOR GROUP LTD. (THE "COMPANY") 2014 MANAGEMENT INCENTIVE PLAN ADOPTED BY THE COMPANY'S BOARD OF DIRECTORS ON MARCH 10, 2014 (APPROVED BY THE STOCKHOLDERS OF THE COMPANY ON MAY 16, 2014) (AS SUCH PLAN MAY BE

AMENDED FROM TIME TO TIME, THE "PLAN") AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE COMPANY DATED AS OF MAY 27, 2020. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY."

(b) Any legend required to be placed thereon by applicable blue sky laws of any state.

Notwithstanding the foregoing, in no event shall the Company be obligated to issue a certificate representing the Restricted Shares prior to vesting as set forth in Section 2 hereof.

8. **Power of Attorney**. The Company, its successors and assigns, is hereby appointed the attorney-in-fact, with full power of substitution, of the Participant for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest. The Company, as attorney-in-fact for the Participant, may in the name and stead of the Participant, make and execute all conveyances, assignments and transfers of the Restricted Shares provided for herein, and the Participant hereby ratifies and confirms that which the Company, as said attorney-in-fact, shall do by virtue hereof. Nevertheless, the Participant shall, if so requested by the Company, execute and deliver to the Company all such instruments as may, in the judgment of the Company, be advisable for this purpose.

9. **Transferability**. Unless otherwise determined by the Committee, the Restricted Shares shall not be subject to a Transfer (as defined below), otherwise than by will or under the applicable laws of descent and distribution, unless and until the shares become vested under Section 2 hereof. The terms of this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Participant. Except as otherwise permitted pursuant to the first sentence of this Section 9, any attempt to effect a Transfer of any Restricted Shares shall be void *ab initio*. For purposes of this Agreement, "Transfer" shall mean any sale, transfer, encumbrance, gift, donation, assignment, pledge, hypothecation, or other disposition, whether similar or dissimilar to those previously enumerated, whether voluntary or involuntary, and including, but not limited to, any disposition by operation of law, by court order, by judicial process, or by foreclosure, levy or attachment.

10. **Tax Withholding**. Upon each vesting of the Restricted Shares, the Company shall withhold shares of Common Stock having a Fair Market Value (as defined in the Plan) on the date the tax is to be determined equal to the minimum statutory amount to satisfy any federal, state or local taxes required by law to be withheld as a result of such vesting.

11. **Miscellaneous**.

(a) This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, personal legal representatives, successors, trustees, administrators, distributes, devisees and legatees. The Company may assign to, and require, any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree in writing to perform this Agreement. Notwithstanding the foregoing, the Participant may not assign this Agreement or any of the Participant's rights, interest or obligations hereunder.

(b) This award of Restricted Shares shall not affect in any way the right or power of the Board or stockholders of the Company to make or authorize an adjustment, recapitalization or other change in the capital structure or the business of the Company, any merger or consolidation of the Company or subsidiaries, any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Shares, the dissolution or liquidation of the Company, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding.

(c) The Participant agrees that the award of the Restricted Shares hereunder is special incentive compensation and that, with the exception of dividends paid thereon, will not be taken into account as “salary”, “Base Salary” (as defined in the Participant’s employment agreement), “compensation” or “bonus” in determining the amount of any matching payment under the Liggett Vector Brands Savings Plan or any other pension, retirement or profit-sharing plan of the Company or subsidiary thereof or any life insurance, disability or other benefit plan of the Company or subsidiary thereof.

(d) No modification or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by the party against whom it is sought to be enforced.

(e) This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one contract, and such execution may be evidenced by electronic means pursuant to any procedures established by the Company for electronic acceptance.

(f) The failure of any party hereto at any time to require performance by another party of any provision of this Agreement shall not affect the right of such party to require performance of that provision, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right under this Agreement.

(g) The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

(h) All notices, consents, requests, approvals, instructions and other communications provided for herein shall be in writing and validly given or made when delivered, or on the second succeeding business day after being mailed by registered or certified mail, whichever is earlier, to the persons entitled or required to receive the same, at the addresses set forth at the heading of this Agreement or to such other address as either party may designate by like notice. Notices to the Company shall be addressed to Vector Group Ltd. at 4400 Biscayne Boulevard, 10^{th} Floor, Miami, Florida 33137, Attn: Marc N. Bell, Senior Vice President, General Counsel and Secretary.

(i) This Agreement shall be construed and interpreted in accordance with and governed by the laws of the state of Florida (disregarding any choice of law rules which might look to the laws of any other jurisdiction).

12. **<u>Provisions of Plan Control</u>**. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted thereunder and as may be in effect from time to time. The Plan is incorporated herein by reference. A copy of the Plan has been delivered to the Participant. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof (other than any other documents expressly contemplated herein or in the Plan) and supersedes any prior agreements between the Company and the Participant.

[signature page(s) follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

VECTOR GROUP LTD.

By: ___________________________________
Duly Authorized Officer

Participant:

____

Address of Participant:

EXHIBIT 31.1

RULE 13a-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Howard M. Lorber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ Howard M. Lorber

Howard M. Lorber
President and Chief Executive Officer

EXHIBIT 31.2

RULE 13a-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, J. Bryant Kirkland III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ J. Bryant Kirkland III

J. Bryant Kirkland III
Senior Vice President, Treasurer and Chief Financial Officer

EXHIBIT 32.1

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of Vector Group Ltd. (the “Company”) on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Howard M. Lorber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2020

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

EXHIBIT 32.2

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of Vector Group Ltd. (the “Company”) on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J. Bryant Kirkland III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2020

/s/ J. Bryant Kirkland III

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Senior Vice President, Treasurer and Chief Financial Officer

Exhibit 99.1

I. INDIVIDUAL CASES

A. Engle Progeny Cases.

Pursuant to the Florida Supreme Court's ruling in *Engle v. Liggett Group Inc.*, which decertified the *Engle* class on a prospective basis, former class members had until January 2008 to file individual lawsuits. Lawsuits by individuals requesting the benefit of the *Engle* ruling are referred to as the "*Engle* progeny" cases. Liggett has resolved the claims of all but 42 *Engle* progeny plaintiffs. For more information on the *Engle* case and on the settlement, see "Note 9. Contingencies."

(i) Engle Progeny Cases with trial dates through June 30, 2021.

Blocker v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 2008-32507, Circuit Court of the 7th Judicial Circuit, Volusia County (case filed 7/18/08). One individual suing as personal representative of the estate and survivors of a deceased smoker. The case is set for trial period starting 01/11/2021.

(ii) Post-Trial Engle Progeny Cases.

Santoro v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 08-025807, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/05/08). This wrongful death action proceeded to jury trial in March 2017. On March 29, 2017, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $1,605,000. The jury apportioned fault as follows: Decedent - 36%, Philip Morris - 28%, R.J. Reynolds - 26% and Liggett - 10% ($160,500). In April 2017, a joint and several judgment was entered against defendants for $1,027,200 in compensatory damages as well as $15,000 in punitive damages against Liggett. Defendants filed post-trial motions seeking dismissal of all claims. In December 2017, the court granted the motion to set aside the verdict as to all claims other than conspiracy. Defendants moved for rehearing with respect to the conspiracy claim and plaintiff moved for entry of an amended final judgment to increase plaintiff's recovery by the percentage of decedent's fault. The court denied defendants' remaining post-trial motions and the motion for rehearing and granted, in part, plaintiff's motion to amend the final judgment. In light of the judge's ruling on defendants' motion for directed verdict, the parties agreed that the plaintiff was not entitled to punitive damages. A joint and several amended final judgment in the amount of $1,605,000 was entered in May 2018. Defendants appealed and Plaintiff cross-appealed. In May 2020, the Fourth District Court of Appeal affirmed the trial court on Defendants' appellate issues. On Plaintiff's cross-appeal, the appellate court reversed the trial court's order granting directed verdict on the strict liability and negligence claims and reinstated the jury's verdict, including the punitive damages award. Defendants moved for rehearing or rehearing *en banc*. A ruling on that motion is pending.

B. Other Individual Cases.

Florida

Barnes, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. 20-CA-000870, Circuit Court of the 8th Judicial Circuit, Alachua County (case filed 03/24/2020). Two individuals suing.

Baron, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-023133, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/21/17). Two individuals suing. The case is set for trial during the trial period starting 06/25/2021.

Bennett, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-023046, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/20/17). Three individuals suing on behalf of the estate and survivors of a deceased smoker.

Bennett v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 20-30196, Circuit Court of the 7th Judicial Circuit, Volusia County (case filed 02/27/2020). One individual suing on behalf of the estate and survivors of a deceased smoker. Vector Group was sued, but Liggett was not named as a defendant.

Broughton v. Philip Morris USA Inc., *et al.*, Case No. 18-CA-007187, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 07/25/18). One individual suing.

Bullock v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 19-028814, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 09/30/19). One individual suing.

Cellini v. Philip Morris USA, Inc., *et al.*, Case No. CACE20011084, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 07/08/2020). One individual suing. Both Liggett and Vector Group are named defendants.

Cole v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 19-000265, Circuit Court of the 6th Judicial Circuit, Pinellas County (case filed 01/11/19). One individual suing.

Cowart v. Liggett Group Inc., *et al.*, Case No. 98-01483-CA, Circuit Court of the 4th Judicial Circuit, Duval County (case filed 03/16/98). One individual suing. Liggett is the only defendant in this case. The case is dormant.

Cravens v. Philip Morris USA Inc., *et al.*, Case No. 19-CA-002944, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Cunningham v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 17-CA-000293, Circuit Court of the 19th Judicial Circuit, St. Lucie County (case filed 02/20/17). One individual suing on behalf of the estate and survivors of a deceased smoker.

Cupp v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-020257, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 11/06/17). One individual suing.

DaSilva, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-022955, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/19/17). Two individuals suing.

Davis v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 19-CA-001182, Circuit Court of the 12th Judicial Circuit, Manatee County (case filed 03/19/19). One individual suing.

Davis, M. v. Philip Morris USA Inc., *et al.*, Case No. 2020CA001655, Circuit Court of the 8th Judicial Circuit, Alachua County (case filed 06/19/2020). One individual suing on behalf of the estate and survivors of a deceased smoker. Vector Group was sued, but Liggett was not named as a defendant.

Feld v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-020119, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 11/03/17). One individual suing. The case is set for trial in 08/20.

Gonzalez v. Philip Morris USA Inc., *et al.*, Case No. 18-36558, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 11/03/17). One individual suing.

Gordon v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 19-1074, Circuit Court for the 2nd Judicial Circuit, Gadsden County (case filed 10/23/19). One individual suing. The case is set for trial starting 05/17/21.

Griffin v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 19-015066, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/17/19). One individual suing.

Harcourt v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-0202979, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 11/07/17). One individual suing.

Koedam v. Philip Morris USA Inc., *et al.*, Case No. 19-CA-002970, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 01/03/2020). One individual suing.

Lane, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. 17-011591, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/16/17). Two individuals suing.

McMakin, *et al.* v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 20-30329, Circuit Court of the 7th Judicial Circuit, Volusia County, (case filed 03/30/2020). One individual suing on behalf of the estate and survivors of two deceased smokers. Vector Group was sued, but Liggett was not named as a defendant.

Mendez v. Philip Morris USA Inc., *et al.*, Case No. 18-042377, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 12/21/18). One individual suing.

Moon v. Philip Morris USA Inc., *et al.*, Case No. 19-CA-002941, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Nicholson, *et al.* v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 2020-014354-CA-01, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 07/08/2020). Two individuals suing. Both Liggett and Vector Group are named defendants.

Perez-Gell v. Philip Morris USA Inc., *et al.*, Case No. 19-016287, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/30/19). One individual suing.

Roney v. Philip Morris USA Inc., *et al.*, Case No. 19-CA-002943, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Royal v. Philip Morris USA Inc., *et al.*, Case No. 17-CA-020204, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 10/16/17). One individual suing.

Santana v. Philip Morris USA Inc., *et al.*, Case No. 19-37329, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 01/03/20). One individual suing.

Schnitzer v. Philip Morris USA Inc., *et al.*, Case No. 18-026537, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 08/06/18). One individual suing on behalf of the estate and survivors of deceased smoker.

Siders v. Philip Morris USA Inc., *et al.*, Case No. 19-CA-002942, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Smith v. Philip Morris USA Inc., *et al.*, Case No. 20-008481, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 04/16/20). One individual suing as the personal representative of the estate and survivors of a deceased smoker.

Sweet v. Philip Morris USA Inc., *et al.*, Case No. 19-001243, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/23/19). One individual suing.

Taylor v. Philip Morris USA Inc., *et al.*, Case No. 19-CA-255, Circuit Court of the 2nd Judicial Circuit, Wakulla County (case file 12/18/19). One individual suing.

Voglio v. R.J. Reynolds Tobacco Company, *et al.*, Case No. 18-CA-000640, Circuit Court of the 19th Judicial Circuit, Martin County (case filed 08/29/18). One individual suing on behalf of the estate and survivors of a deceased smoker.

itehurst v. Philip Morris USA Inc., *et al.*, Case No. 19-016282, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/30/19). One individual suing.

Illinois

Akers, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. 2019-L-011779, Circuit Court of Cook County, Illinois (case filed 10/24/19). Two individuals suing.

Andersen v. Philip Morris USA Inc., *et al.*, Case No. 2019-L-007984, Circuit Court of Cook County, Illinois (case filed 07/19/19). One individual suing.

Bukowski, *et al.* v. Philip Morris USA, Inc., *et al*, Case No. 2019-L-010529, Circuit Court of Cook County, Illinois (case filed 09/24/19). Two individuals suing.

Clay v. Philip Morris USA Inc., *et al.*, Case No. 1:18-cv-03549, United States District Court, Northern District of Illinois (case filed 04/16/18). One individual suing.

Jones v. Philip Morris USA Inc., *et al.*, Case No. 1:20-cv-03349, United States District Court, Northern District of Illinois (case filed 05/04/20). One individual suing.

Mitchell v. Philip Morris USA Inc., *et al.*, Case No. 2018-L-011336, Circuit Court of Cook County, Illinois (case filed 10/22/18). One individual suing.

Prescott v. Philip Morris USA Inc., *et al.*, Case No. 2018-L-003905, Circuit Court of Cook County, Illinois (case filed 04/17/18). One individual suing on behalf of the estate of a deceased smoker.

Smith v. Philip Morris USA Inc., *et al.*, Case No. 2018-L-008907, Circuit Court of Cook County, Illinois (case filed 08/16/18). One individual suing.

Stoklosa v. Philip Morris USA Inc., *et al.*, Case No. 2019-L012409, Circuit Court of Cook County, Illinois (case filed 11/15/19). One individual suing.

Louisiana

Oser v. The American Tobacco Co., *et al.*, Case No. 97-9293, Circuit Court of the Civil District Court, Parish of Orleans (case filed 05/27/97). One individual suing. There has been no recent activity in this case.

Reese, *et al.* v. R. J. Reynolds, *et al.*, Case No. 2003-12761, Circuit Court of the 22nd Judicial District Court, St. Tammany Parish (case filed 06/10/03). Five individuals suing. There has been no recent activity in this case.

Massachusetts

Moschella v. R J Reynolds Tobacco Company, *et al.*, Case No. 2084CV01080, Superior Court, Suffolk County, Massachusetts (case filed 05/22/2020). One individual suing. Both Liggett and Liggett Vector Brands are named defendants.

Nevada

Camacho, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. A-19-807650C, District Court, Clark County, Nevada, (case filed 12/30/19). Two individuals suing.

Clark, *et al*. v. Philip Morris USA Inc., *et al.*, Case No. A-19-802987C, District Court, Clark County, Nevada, (case filed 10/04/19). Two individuals suing. The case is set for trial during the trial period starting 01/04/21.

Geist, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. A-19-807653C, District Court, Clark County, Nevada, (case filed 12/30/19). One individual suing on behalf of the estate and survivors of a deceased smoker.

Thompson v. Philip Morris USA Inc., *et al.*, Case No. A-20-811091C, District Court, Clark County, Nevada, (case filed 02/27/20). One individual suing.

Tully, *et al.* v. Philip Morris USA Inc., *et al.*, Case No. A-19-807657C, District Court, Clark County, Nevada, (case filed 12/30/19). Two individuals suing.

II. CLASS ACTION CASES

Parsons, *et al.* v. A C & S Inc., *et al.*, Case No. 00-C-7000, First Judicial Circuit, West Virginia, Ohio County (case filed 02/09/98). This purported class action is brought on behalf of plaintiff and all West Virginia residents who allegedly have claims arising from their exposure to cigarette smoke and asbestos fibers. The operative complaint seeks to recover unspecified compensatory and punitive damages on behalf of the putative class. The case is stayed as a result of the December 2000 bankruptcy petitions filed by three defendants (Nitral Liquidators, Inc., Desseaux Corporation of North America and Armstrong World Industries).

Young, *et al.* v. American Brands Inc., *et al.*, Case No. 97-19984cv, Civil District Court, Louisiana, Orleans Parish (case filed 11/12/97). This purported personal injury class action is brought on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, 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 an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co*.

III. HEALTH CARE COST RECOVERY ACTIONS

Crow Creek Sioux Tribe v. The American Tobacco Company, *et al.*, Case No. cv-97-09-082, Tribal Court of the Crow Creek Sioux Tribe, South Dakota (case filed 09/26/97). The plaintiff seeks to recover actual and punitive damages, restitution, funding of a clinical cessation program, funding of a corrective public education program and disgorgement of unjust profits from alleged sales to minors. The case is dormant.