
**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 March 31, 2017

VECTOR GROUP LTD.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
incorporation or organization)

1-5759

Commission File Number

65-0949535

(I.R.S. Employer Identification No.)

**4400 Biscayne Boulevard
Miami, Florida 33137
305-579-8000**

(Address, including zip code and telephone number, including area code,
of the principal executive offices)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

(Do not check if a smaller reporting
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.

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.

Yes No

At May 5, 2017, Vector Group Ltd. had 129,434,081 shares of common stock outstanding.

VECTOR GROUP LTD.

FORM 10-Q

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

	March 31, 2017	December 31, 2016
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 356,687	\$ 393,530
Investment securities available for sale	150,231	156,903
Accounts receivable - trade, net	14,490	18,801
Inventories	86,961	89,834
Income taxes receivable, net	19,342	16,110
Restricted assets	6,411	7,330
Other current assets	26,330	22,955
Total current assets	<u>660,452</u>	<u>705,463</u>
Property, plant and equipment, net	80,367	80,448
Investments in real estate, net	23,618	23,640
Long-term investments	73,796	53,197
Investments in real estate ventures	227,249	221,258
Restricted assets	3,750	3,986
Goodwill and other intangible assets, net	261,553	261,918
Prepaid pension costs	22,577	22,273
Other assets	33,710	31,852
Total assets	<u>\$ 1,387,072</u>	<u>\$ 1,404,035</u>
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 10,996	\$ 39,508
Current payments due under the Master Settlement Agreement	48,342	16,192
Current portion of employee benefits	937	937
Litigation accruals	5,707	3,659
Other current liabilities	125,106	135,852
Total current liabilities	<u>191,088</u>	<u>196,148</u>
Notes payable, long-term debt and other obligations, less current portion	1,143,771	1,132,943
Fair value of derivatives embedded within convertible debt	103,761	112,332
Non-current employee benefits	59,168	58,958
Deferred income taxes, net	92,859	93,085
Payments due under the Master Settlement Agreement	21,329	22,257
Litigation accruals	23,917	27,513
Other liabilities	15,449	14,071
Total liabilities	<u>1,651,342</u>	<u>1,657,307</u>
Commitments and contingencies (Note 7)		
Stockholders' deficiency:		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized	—	—
Common stock, par value \$0.10 per share, 250,000,000 shares authorized, 129,434,081 and 127,739,481 shares issued and outstanding	12,943	12,774
Accumulated deficit	(344,854)	(333,529)
Accumulated other comprehensive loss	(11,121)	(11,245)
Total Vector Group Ltd. stockholders' deficiency	<u>(343,032)</u>	<u>(332,000)</u>
Non-controlling interest	78,762	78,728
Total stockholders' deficiency	<u>(264,270)</u>	<u>(253,272)</u>
Total liabilities and stockholders' deficiency	<u>\$ 1,387,072</u>	<u>\$ 1,404,035</u>

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	
	March 31,	
	2017	2016
Revenues		
Tobacco*	\$ 257,454	\$ 221,015
Real estate	157,754	159,747
E-cigarettes	—	38
Total Revenues	<u>415,208</u>	<u>380,800</u>
Expenses:		
Cost of sales:		
Tobacco*	175,754	136,738
Real estate	100,169	99,678
E-cigarettes	—	6
Total cost of sales	<u>275,923</u>	<u>236,422</u>
Operating, selling, administrative and general expenses	84,769	79,828
Litigation settlement and judgment expense	1,585	2,350
Restructuring charges	—	41
Operating income	<u>52,931</u>	<u>62,159</u>
Other income (expenses):		
Interest expense	(46,221)	(30,720)
Loss on extinguishment of debt	(34,110)	—
Change in fair value of derivatives embedded within convertible debt	8,571	9,694
Equity in earnings (losses) from real estate ventures	11,113	(507)
Equity in losses from investments	(1,061)	(1,671)
Gain on sale of investment securities available for sale	150	567
Impairment of investment securities available for sale	(39)	(4,813)
Other, net	1,659	1,047
(Loss) income before provision for income taxes	<u>(7,007)</u>	<u>35,756</u>
Income tax (benefit) expense	<u>(2,782)</u>	<u>14,363</u>
Net (loss) income	<u>(4,225)</u>	<u>21,393</u>
Net income attributed to non-controlling interest	<u>(2)</u>	<u>(2,055)</u>
Net (loss) income attributed to Vector Group Ltd.	<u>\$ (4,227)</u>	<u>\$ 19,338</u>
Per basic common share:		
Net (loss) income applicable to common share attributed to Vector Group Ltd.	<u>\$ (0.03)</u>	<u>\$ 0.15</u>
Per diluted common share:		
Net (loss) income applicable to common share attributed to Vector Group Ltd.	<u>\$ (0.03)</u>	<u>\$ 0.15</u>
Dividends declared per share	<u>\$ 0.40</u>	<u>\$ 0.38</u>

* Revenues and cost of sales include federal excise taxes of \$109,368 and \$90,846, respectively.

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

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Dollars in Thousands)
Unaudited

	Three Months Ended	
	March 31,	
	2017	2016
Net (loss) income	\$ (4,225)	\$ 21,393
Net unrealized losses on investment securities available for sale:		
Change in net unrealized losses	(176)	(4,634)
Net unrealized (gains) losses reclassified into net (loss) income	(111)	4,246
Net unrealized losses on investment securities available for sale	(287)	(388)
Net change in forward contracts	1	9
Net change in pension-related amounts		
Amortization of loss	488	445
Net change in pension-related amounts	488	445
Other comprehensive income	202	66
Income tax effect on:		
Change in net unrealized losses on investment securities	76	1,908
Net unrealized (gains) losses reclassified into net (loss) income on investment securities	45	(1,745)
Forward contracts	(1)	(3)
Pension-related amounts	(198)	(183)
Income tax provision on other comprehensive income	(78)	(23)
Other comprehensive income, net of tax	124	43
Comprehensive (loss) income	(4,101)	21,436
Comprehensive income attributed to non-controlling interest	(2)	(2,055)
Comprehensive (loss) income attributed to Vector Group Ltd.	\$ (4,103)	\$ 19,381

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

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

	Vector Group Ltd. Stockholders' Deficiency						
	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Non-controlling	Total
	Shares	Amount	Capital	Deficit	Loss	Interest	
Balance as of January 1, 2017	127,739,481	\$ 12,774	\$ —	\$ (333,529)	\$ (11,245)	\$ 78,728	\$ (253,272)
Net (loss) income	—	—	—	(4,227)	—	2	(4,225)
Total other comprehensive income	—	—	—	—	124	—	124
Total comprehensive loss	—	—	—	—	—	—	(4,101)
Distributions and dividends on common stock	—	—	(46,069)	(7,098)	—	—	(53,167)
Issuance of common stock	2,000,000	200	43,030	—	—	—	43,230
Cancellation of shares under share lending agreement	(305,400)	(31)	31	—	—	—	—
Stock-based compensation	—	—	3,008	—	—	—	3,008
Distributions to non-controlling interest	—	—	—	—	—	32	32
Balance as of March 31, 2017	<u>129,434,081</u>	<u>\$ 12,943</u>	<u>\$ —</u>	<u>\$ (344,854)</u>	<u>\$ (11,121)</u>	<u>\$ 78,762</u>	<u>\$ (264,270)</u>

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net cash provided by (used in) operating activities	\$ 27,896	\$ (4,936)
Cash flows from investing activities:		
Sale of investment securities	13,456	51,218
Maturities of investment securities	7,174	343
Purchase of investment securities	(14,974)	(29,112)
Purchase of long-term investments	(22,400)	—
Investments in real estate ventures	(1,436)	(5,795)
Distributions from investments in real estate ventures	—	12
Increase in cash surrender value of life insurance policies	(49)	(62)
Decrease (increase) in restricted assets	1,156	(3,017)
Issuance of notes receivable	(1,500)	—
Proceeds from sale of fixed assets	2	—
Capital expenditures	(4,588)	(3,915)
Pay downs of investment securities	864	2,174
Investments in real estate, net	(70)	(49)
Net cash (used in) provided by investing activities	(22,365)	11,797
Cash flows from financing activities:		
Proceeds from issuance of debt	850,000	57
Deferred financing costs	(19,200)	—
Repayments of debt	(835,697)	(1,576)
Borrowings under revolver	39,956	59,426
Repayments on revolver	(68,305)	(41,482)
Dividends and distributions on common stock	(52,358)	(48,876)
Contributions from non-controlling interest	—	248
Distributions to non-controlling interest	—	(5,978)
Proceeds from issuance of Vector stock	43,230	—
Net cash used in financing activities	(42,374)	(38,181)
Net decrease in cash and cash equivalents	(36,843)	(31,320)
Cash and cash equivalents, beginning of period	393,530	240,368
Cash and cash equivalents, end of period	\$ 356,687	\$ 209,048

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

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The condensed consolidated financial statements of Vector Group Ltd. (the “Company” or “Vector”) include the accounts of VGR Holding LLC (“VGR Holding”), Liggett Group LLC (“Liggett”), Vector Tobacco Inc. (“Vector Tobacco”), Liggett Vector Brands LLC (“Liggett Vector Brands”), Zoom E-Cigs LLC (“Zoom”), New Valley LLC (“New Valley”) and other less significant subsidiaries. New Valley includes the accounts of Douglas Elliman Realty, LLC (“Douglas Elliman”) and other less significant subsidiaries. All 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. Zoom is engaged in the sale of electronic cigarettes in the United States. New Valley is engaged in the real estate business.

The unaudited, interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“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, 2016 filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

(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.

(c) Revenue Recognition:

Tobacco and E-Cigarettes sales: Revenues from sales are recognized upon the shipment of finished goods when title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sale price is fixed or determinable and collectibility is reasonably assured. The Company provides an allowance for expected sales returns, net of any related inventory cost recoveries (e.g. federal excise taxes). Certain sales incentives, including promotional price discounts, are classified as reductions of net sales. The Company includes federal excise taxes on tobacco sales in revenues and cost of goods sold. Since the Company’s primary line of business is tobacco, the Company’s financial position and its results of operations and cash flows have been and could continue to be materially adversely affected by significant unit sales volume declines at the Company and industry levels, regulation, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

Real estate sales: Revenue is recognized only when persuasive evidence of an arrangement exists, the price is fixed or determinable, the transaction has been completed and collectibility of the resulting receivable is reasonably assured. Real estate commissions earned by the Company’s real estate brokerage businesses are recorded as revenue on a gross basis upon the closing of a real estate transaction as evidenced when the escrow or similar account is closed, the transaction documents have been recorded and funds are distributed to all appropriate parties. Commissions expenses are recognized concurrently with related revenues. Property management fees and rental commissions earned are recorded as revenue when the related services are performed and the earnings process is complete.

(d) Earnings Per Share (“EPS”):

Information concerning the Company’s common stock has been adjusted to give retroactive effect to the 5% stock dividend paid to Company stockholders on September 29, 2016. All per share amounts and references to share amounts have been updated to reflect the retrospective effect of the stock dividends.

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

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

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

	Three Months Ended	
	March 31,	
	2017	2016
Net (loss) income attributed to Vector Group Ltd.	\$ (4,227)	\$ 19,338
Income attributed to participating securities	—	(633)
Net (loss) income available to common shares attributed to Vector Group Ltd.	<u>\$ (4,227)</u>	<u>\$ 18,705</u>

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

	Three Months Ended	
	March 31,	
	2017	2016
Weighted-average shares for basic EPS	125,568,396	123,961,803
Plus incremental shares related to stock options and non-vested restricted stock	—	204,145
Weighted-average shares for diluted EPS	<u>125,568,396</u>	<u>124,165,948</u>

The following were outstanding during the three months ended March 31, 2017 and 2016, but were not included in the computation of diluted EPS because the effect was anti-dilutive.

	Three Months Ended	
	March 31,	
	2017	2016
Weighted-average shares of non-vested restricted stock	1,959,376	1,260,000
Weighted-average expense per share	\$ 19.14	\$ 21.67
Weighted-average number of shares issuable upon conversion of debt	26,140,250	26,140,251
Weighted-average conversion price	<u>\$ 18.70</u>	<u>\$ 18.70</u>

(Dollars in Thousands, Except Per Share Amounts)
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(e) Fair Value of Derivatives Embedded within Convertible Debt:

The Company has estimated the fair value of the embedded derivatives based principally on the results of a valuation model. A readily determinable fair value of the embedded derivatives is not available. The estimated fair value of the derivatives embedded within the convertible debt is based principally on the present value of future dividend payments expected to be received by the convertible debt holders over the term of the debt. The discount rate applied to the future cash flows is estimated based on a spread in the yield of the Company's debt when compared to risk-free securities with the same duration. The valuation model assumes future dividend payments by the Company and utilizes interest rates and credit spreads for secured to unsecured debt, unsecured to subordinated debt and subordinated debt to preferred stock to determine the fair value of the derivatives embedded within the convertible debt. The valuation also considers other items, including current and future dividends and the volatility of Vector's stock price. At March 31, 2017, the range of estimated fair values of the Company's embedded derivatives was between \$103,371 and \$104,600. The Company recorded the fair value of its embedded derivatives at the approximate midpoint of the range at \$103,761 as of March 31, 2017. At December 31, 2016, the range of estimated fair values of the Company's embedded derivatives was between \$111,653 and \$113,090. The Company recorded the fair value of its embedded derivatives at the midpoint of the range at \$112,332 as of December 31, 2016. The estimated fair value of the Company's embedded derivatives could change significantly based on future market conditions. (See Note 6.)

(f) 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 entities in which the equity investors at risk have not provided enough equity at risk to finance its activities without additional subordinated support or the equity investors (1) cannot directly or indirectly make decisions about the entity's activities through their voting rights or similar rights; (2) do not have the obligation to absorb the expected losses of the entity; (3) do not have the right to receive the expected residual returns of the entity; or (4) 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 unconsolidated VIEs which is the carrying value. The Company's maximum exposure to loss in its investment in its consolidated VIEs is limited to its investment which is the carrying value of the investment net of the non-controlling interest. Creditors of the consolidated VIEs have no recourse to the general credit of the primary beneficiary.

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

(Dollars in Thousands, Except Per Share Amounts)
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(g) Other, Net:

Other, net consisted of:

	Three Months Ended	
	March 31,	
	2017	2016
Interest and dividend income	\$ 1,745	\$ 1,324
Loss on long-term investment	(35)	—
Impairment of long-term investments	—	(282)
Other (expense) income	(51)	5
Other, net	<u>\$ 1,659</u>	<u>\$ 1,047</u>

(h) Other Current Liabilities:

Other current liabilities consisted of:

	March 31, 2017	December 31, 2016
Accounts payable	\$ 11,170	\$ 10,573
Accrued promotional expenses	24,188	23,763
Accrued excise and payroll taxes payable, net	20,802	10,044
Accrued interest	20,114	35,449
Commissions payable	16,732	6,164
Accrued salary and benefits	13,232	26,958
Other current liabilities	18,868	22,901
Total other current liabilities	<u>\$ 125,106</u>	<u>\$ 135,852</u>

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

(i) Goodwill and Other Intangible Assets, Net:

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

	March 31, 2017	December 31, 2016
Goodwill	\$ 70,815	\$ 70,815
Indefinite life intangibles:		
Intangible asset associated with benefit under the MSA	107,511	107,511
Trademark - Douglas Elliman	80,000	80,000
Intangibles with a finite life, net	3,227	3,592
Total goodwill and other intangible assets, net	\$ 261,553	\$ 261,918

(j) New Accounting Pronouncements:

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-07, Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). ASU 2017-07 provides guidance that require an employer to report the service cost component separate from the other components of net benefit pension costs. The employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. If a separate line item is not used, the line item used in the income statement must be disclosed. The amendments of this ASU are effective for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. Other than the revised statement of operations presentation, the adoption of ASU 2017-07 is not expected to have a material impact on the Company’s condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) (“ASU 2016-18”). ASU 2016-18 provides guidance on the classification of restricted cash to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2017 using a retrospective adoption method and early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-18 will have on the Company’s condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, Interests Held through Related Parties That Are under Common Control (“ASU 2016-17”). ASU 2016-17 modifies existing guidance with respect to how a decision maker that holds an indirect interest in a VIE through a common control party determines whether it is the primary beneficiary of the VIE as part of the analysis of whether the VIE would need to be consolidated. Under ASU 2016-17, a decision maker would need to consider only its proportionate indirect interest in the VIE held through a common control party. As a result of ASU 2016-17, in certain cases, previous consolidation conclusions may change. ASU 2016-17 is effective for the Company’s fiscal year beginning January 1, 2017 with retrospective application to January 1, 2016. The adoption of ASU 2016-17 had no impact on the Company’s condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 is intended to reduce diversity in practice on how certain cash receipts and payments are presented and classified in the statement of cash flows. The standard provides guidance in a number of situations including, among others, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. ASU 2016-15 also provides guidance for classifying

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cash receipts and payments that have aspects of more than one class of cash flows. ASU 2016-15 is effective for the Company's fiscal year beginning January 1, 2018. Early adoption is permitted. The standard requires application using a retrospective transition method. The Company is currently assessing the impact the adoption of ASU 2016-15 will have on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 modifies U.S. GAAP by requiring the following, among others: (1) all excess tax benefits and tax deficiencies are to be recognized as income tax expense or benefit on the income statement (excess tax benefits are recognized regardless of whether the benefit reduces taxes payable in the current period); (2) excess tax benefits are to be classified along with other income tax cash flows as an operating activity in the statement of cash flows; (3) in the area of forfeitures, an entity can still follow the current U.S. GAAP practice of making an entity-wide accounting policy election to estimate the number of awards that are expected to vest or may instead account for forfeitures when they occur; and (4) classification as a financing activity in the statement of cash flows of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes. ASU 2016-09 is effective for the Company's fiscal year beginning January 1, 2017, including interim periods. The Company adopted ASU 2016-09 in the first quarter of 2017 and elected to apply this adoption prospectively. Prior periods have not been adjusted. See Note 9 for information regarding the impact on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). ASU 2016-08 does not change the core principle of the guidance stated in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ("ASU 2014-9"), instead, the amendments in this ASU are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis. ASU 2016-08 will have the same effective date and transition requirements as the new revenue standard issued in ASU 2014-09. In May 2014, FASB issued ASU 2014-9 that outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As amended by ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date the new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning subsequent to December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method. The Company is currently evaluating the method and impact the adoption of ASU 2016-08 and ASU 2014-09 will have on the Company's condensed consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force) ("ASU 2016-06"). ASU 2016-06 clarifies the requirement for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under ASU 2016-06 is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The amendments in ASU 2016-06 are effective for the Company's fiscal year beginning January 1, 2017, including interim periods. The adoption of ASU 2016-06 had no impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which provides guidance for accounting for leases. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or on a straight line basis over the term of the lease. Accounting for lessors remains largely unchanged from current U.S. GAAP. ASU 2016-02 will be effective for

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the Company's fiscal year beginning January 1, 2019 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the Company's condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such these investments may be measured at cost. ASU 2016-01 will be effective for the Company's fiscal year beginning January 1, 2018 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-01 will have on the Company's condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40)-Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 provides guidance to U.S. GAAP about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 (1) defines the term substantial doubt, (2) requires an evaluation of every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plan, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this update were effective for annual periods beginning after December 15, 2016 and interim periods within those reporting periods. The adoption of ASU 2014-15 did not have a material effect on the Company's condensed consolidated financial statements.

2. INVENTORIES

Inventories consist of:

	March 31, 2017	December 31, 2016
Leaf tobacco	\$ 43,111	\$ 46,253
Other raw materials	3,245	3,733
Work-in-process	430	633
Finished goods	65,862	65,052
Inventories at current cost	112,648	115,671
LIFO adjustments	(25,687)	(25,837)
	<u>\$ 86,961</u>	<u>\$ 89,834</u>

All of the Company's inventories at March 31, 2017 and December 31, 2016 are reported under the LIFO method. The \$25,687 LIFO adjustment as of March 31, 2017 decreases the current cost of inventories by \$17,632 for Leaf tobacco, \$215 for Other raw materials, \$29 for Work-in-process and \$7,811 for Finished goods. The \$25,837 LIFO adjustment as of December 31, 2016 decreased the current cost of inventories by \$17,632 for Leaf tobacco, \$214 for Other raw materials, \$29 for Work-in-process and \$7,962 for Finished goods.

Liggett enters into purchase commitments with third-party providers for leaf tobacco that will be used entirely for future production. The future quantities of leaf tobacco and prices are established at the date of the commitments. At March 31, 2017, Liggett had tobacco purchase commitments of approximately \$6,963. Liggett has a single source supply agreement for reduced ignition propensity cigarette paper through 2019.

Each period, the Company capitalizes in inventory that portion of its MSA liability that relates to cigarettes shipped to public warehouses but not sold. The amount of capitalized MSA cost in "Finished goods" inventory was \$17,554 and \$17,364 at March 31, 2017 and December 31, 2016, respectively. Federal excise tax in inventory was \$26,395 and \$25,888 at March 31, 2017 and December 31, 2016.

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3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The components of investment securities available for sale at March 31, 2017 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$ 34,944	\$ 15,481	\$ —	\$ 50,425
Mutual funds invested in fixed income securities	20,620	106	(1)	20,725
Marketable debt securities	78,811	270	—	79,081
Total investment securities available for sale	<u>\$ 134,375</u>	<u>\$ 15,857</u>	<u>\$ (1)</u>	<u>\$ 150,231</u>

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$ 34,956	\$ 16,141	\$ (254)	\$ 50,843
Mutual funds invested in fixed income securities	20,507	81	(6)	20,582
Marketable debt securities	85,297	181	—	85,478
Total investment securities available for sale	<u>\$ 140,760</u>	<u>\$ 16,403</u>	<u>\$ (260)</u>	<u>\$ 156,903</u>

The table below summarizes the maturity dates of marketable debt securities at March 31, 2017.

Investment Type:	Market Value	Under 1 Year	1 Year up to 5 Years	More than 5 Years
U.S. Government securities	\$ 28,494	\$ —	\$ 28,494	\$ —
Corporate securities	38,877	7,035	31,842	—
U.S. mortgage-backed securities	6,043	—	31	6,012
Commercial mortgage-backed securities	843	—	—	843
Commercial paper	1,999	1,999	—	—
Index-linked U.S. bonds	2,325	—	2,325	—
Foreign fixed-income securities	500	—	500	—
Total marketable debt securities by maturity dates	<u>\$ 79,081</u>	<u>\$ 9,034</u>	<u>\$ 63,192</u>	<u>\$ 6,855</u>

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

	In loss position for						Total Unrealized Losses
	Less than 12 months		12 months or more		Total Fair Value		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
March 31, 2017							
Mutual funds invested in fixed income securities	\$ 5,167	\$ (1)	\$ —	\$ —	\$ 5,167		\$ (1)
	<u>\$ 5,167</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,167</u>		<u>\$ (1)</u>
December 31, 2016							
Marketable equity securities	\$ 5,746	\$ (254)	\$ —	\$ —	\$ 5,746		\$ (254)
Mutual funds invested in fixed income securities	10,253	(6)	—	—	10,253		(6)
	<u>\$ 15,999</u>	<u>\$ (260)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,999</u>		<u>\$ (260)</u>

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

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

	Three Months Ended	
	March 31,	
	2017	2016
Gross realized gains on sales	\$ 215	\$ 759
Gross realized losses on sales	(65)	(192)
Gains on sale of investment securities available for sale	<u>\$ 150</u>	<u>\$ 567</u>
Gross realized losses on other-than-temporary impairments	<u>\$ (39)</u>	<u>\$ (4,813)</u>

The Company recorded an "Other-than-temporary impairment" charge of \$39 and \$4,813 during the three months ended March 31, 2017 and 2016, respectively. The largest component of the charge for the three months ended March 31, 2016 was \$4,772 related to an investment in the common stock of Morgans Hotel Group Co. ("MHGC"), a company where Vector's President and Chief Executive Officer served as Chairman of the Board of Directors until December 1, 2016 when MHGC merged with another company. As a result, the common shares of MHGC ceased to be outstanding.

Although management generally does not have the intent to sell any specific securities at the end of the period, in the ordinary course of managing the Company's investment securities portfolio, management may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements.

Proceeds from investment securities sales totaled \$13,456 and \$51,218 and proceeds from early redemptions by issuers totaled \$8,038 and \$2,517 in the three months ended March 31, 2017 and 2016, respectively, mainly from sales of Corporate securities and U.S. Government securities.

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4. LONG-TERM INVESTMENTS

Long-term investments consisted of the following:

	March 31, 2017	December 31, 2016
Investments accounted at cost	\$ 57,376	\$ 35,476
Investments accounted for under the equity method	16,420	17,721
	<u>\$ 73,796</u>	<u>\$ 53,197</u>

(a) Cost-Method Investments:

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

	March 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment partnerships	\$ 57,376	\$ 64,053	\$ 34,975	\$ 40,569
Real estate partnership	—	—	501	494
	<u>\$ 57,376</u>	<u>\$ 64,053</u>	<u>\$ 35,476</u>	<u>\$ 41,063</u>

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

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

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

The Company invested \$21,400 in five new investment funds and made an additional contribution of \$1,000 to one of its existing investments during the three months ended March 31, 2017. There were no cash contributions during the three months ended March 31, 2016. The Company received cash distributions of \$466 and \$1,000 from the Company's investments in long-term investments under the cost method for the three months ended March 31, 2017 and 2016, respectively.

The long-term investments are carried on the condensed consolidated balance sheet at cost. The fair value determination disclosed above would be classified as Level 3 under fair value hierarchy disclosed in Note 10 if such assets were recorded on the consolidated balance sheet at fair value. The fair value determinations disclosed above were based on company assumptions, and information obtained from the partnerships based on the indicated market values of the underlying assets of their investment portfolio.

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(b) Equity-Method Investments:

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

	March 31, 2017	December 31, 2016
Indian Creek Investors LP ("Indian Creek")	\$ 4,212	\$ 5,248
Boyar Value Fund ("Boyar")	8,138	7,816
Ladenburg Thalmann Financial Services Inc. ("LTS")	4,070	4,657
Castle Brands, Inc. ("Castle")	—	—
	<u>\$ 16,420</u>	<u>\$ 17,721</u>

At March 31, 2017, the Company's ownership percentages in Indian Creek, Boyar, LTS and Castle were 20.15%, 31.99%, 8.05% and 7.87%, respectively. The Company accounted for its Indian Creek and Boyar interests as equity-method investments because the Company's ownership percentage meets the threshold for equity-method accounting. The Company accounted for its LTS and Castle interests as equity-method investments because the Company has the ability to exercise significant influence over their operating and financial policies.

The value of Boyar, based on the quoted market price as of March 31, 2017, was \$8,138, equal to its carrying value. Ladenburg Thalmann Fund Management, LLC, an indirect subsidiary of LTS, is the manager of Boyar.

At March 31, 2017, the aggregate values of the LTS and Castle investments based on the quoted market price were \$37,674 and \$19,640, respectively.

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

The Company received cash distributions of \$240 and \$285 from the Company's investments in long-term investments under the equity method for the three months ended March 31, 2017 and 2016, respectively. The Company recognized equity in losses from investments under the equity method of \$1,061 and \$1,671 for the three months ended March 31, 2017 and 2016, respectively. The Company has suspended its recognition of equity in losses from Castle to the extent such losses exceed its basis.

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

The long-term investments are carried on the condensed consolidated balance sheet at cost under the equity method of accounting. The fair value determination disclosed above would be classified as Level 3 under fair value hierarchy disclosed in Note 10 if such assets were recorded on the condensed consolidated balance sheet at fair value.

5. NEW VALLEY LLC

Investments in real estate ventures:

New Valley also holds equity investments in various real estate projects domestically and internationally. The majority of New Valley's investment in real estate ventures were located in the New York City Standard Metropolitan Statistical Area ("SMSA"). New Valley aggregated the disclosure of its investments in real estate ventures by property type and operating characteristics.

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

	Range of Ownership	March 31, 2017	December 31, 2016
Condominium and Mixed Use Development:			
New York City SMSA	3.1% - 49.5%	\$ 137,529	\$ 131,770
All other U.S. areas	15.0% - 48.5%	42,761	40,950
		<u>180,290</u>	<u>172,720</u>
Apartment Buildings:			
All other U.S. areas	7.6% - 16.3%	8,212	8,287
		<u>8,212</u>	<u>8,287</u>
Hotels:			
New York City SMSA	5.2%	21,208	21,895
International	49.0%	2,486	3,037
		<u>23,694</u>	<u>24,932</u>
Commercial:			
New York City SMSA	49.0%	2,944	3,290
All other U.S. areas	2.1%	10,000	10,000
		<u>12,944</u>	<u>13,290</u>
Other	50.0%	2,109	2,029
Investments in real estate ventures		<u>\$ 227,249</u>	<u>\$ 221,258</u>

Contributions:

New Valley made contributions to its investments in real estate ventures as follows:

	March 31, 2017	March 31, 2016
Condominium and Mixed Use Development:		
New York City SMSA	\$ 91	\$ 1,102
All other U.S. areas	1,345	3,975
	<u>1,436</u>	<u>5,077</u>
Hotels:		
New York City SMSA	—	718
	<u>—</u>	<u>718</u>
Total contributions	<u>\$ 1,436</u>	<u>\$ 5,795</u>

New Valley contributed its proportionate share of additional capital along with contributions by the other investment partners during the three months ended March 31, 2017 and March 31, 2016. New Valley’s direct investment percentage for these ventures did not change.

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Distributions:

New Valley received distributions from its investments in real estate ventures as follows:

	March 31, 2017	March 31, 2016
Condominium and Mixed Use Development:		
New York City SMSA	\$ 6,200	\$ 258
	<u>6,200</u>	<u>258</u>
Apartment Buildings:		
All other U.S. areas	152	—
	<u>152</u>	<u>—</u>
Commercial:		
New York City SMSA	101	135
	<u>101</u>	<u>135</u>
Other		
	550	550
Total distributions	<u>\$ 7,003</u>	<u>\$ 943</u>

Of the distributions received by New Valley from its investment in real estate ventures, \$7,003 and \$931 were from distributions of earnings for the three months ended March 31, 2017 and March 31, 2016, respectively, and \$12 was a return of capital for the three months ended March 31, 2016.

Equity in Earnings (Losses) from Real Estate Ventures:

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

	March 31, 2017	March 31, 2016
Condominium and Mixed Use Development:		
New York City SMSA	\$ 12,180	\$ (669)
All other U.S. areas	(292)	(514)
	<u>11,888</u>	<u>(1,183)</u>
Apartment Buildings:		
All other U.S. areas	77	516
	<u>77</u>	<u>516</u>
Hotels:		
New York City SMSA	(687)	(580)
International	(550)	(75)
	<u>(1,237)</u>	<u>(655)</u>
Commercial:		
New York City SMSA	(245)	212
	<u>(245)</u>	<u>212</u>
Other		
	630	603
Total equity in earnings (losses) from real estate ventures	<u>\$ 11,113</u>	<u>\$ (507)</u>

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Investment in Real Estate Ventures Entered into during 2017:

In March 2017, New Valley invested \$1,170 for an approximate 15.0% interest in Witkoff GP Partners LLC. The purpose of the joint venture is to use contributed capital to invest in other real estate ventures. The venture is a variable interest entity; however, New Valley is not the primary beneficiary. New Valley accounts for this investment under the equity method of accounting. New Valley's maximum exposure to loss as a result of its investment in Witkoff GP Partners LLC was \$1,174 at March 31, 2017. New Valley has committed to contribute up to an additional \$18,830 to the venture.

VIE Consideration:

The Company has determined that New Valley is the primary beneficiary of two real state 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 \$14,456 and \$14,385 as of March 31, 2017 and December 31, 2016, respectively. Those assets are owned by the VIEs, not the Company. Neither of the two consolidated VIEs had recourse liabilities as of March 31, 2017 and December 31, 2016. 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 variable interest entities 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 was as follows:

	March 31, 2017
Condominium and Mixed Use Development:	
New York City SMSA	\$ 139,093
All other U.S. areas	48,523
	187,616
Apartment Buildings:	
All other U.S. areas	8,212
	8,212
Hotels:	
New York City SMSA	21,208
International	2,486
	23,694
Commercial:	
New York City SMSA	2,944
All other U.S. areas	10,000
	12,944
Other	2,109
Total maximum exposure to loss	\$ 234,575

New Valley capitalized \$446 and \$3,520 of interest expense into the carrying value of its ventures whose projects were currently under development during the three months ended March 31, 2017 and March 31, 2016, respectively.

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Douglas Elliman has been engaged by the developers as the sole broker or the co-broker for several of the real estate ventures that New Valley owns an interest. Douglas Elliman earned gross commissions of approximately \$3,310 and \$2,405 from these projects for the three months ended March 31, 2017 and March 31, 2016, respectively.

Combined Financial Statements for Unconsolidated Subsidiaries:

Pursuant to Rule 10-01(b), the following summarized financial data for unconsolidated subsidiaries includes information for the following: Condominium and Mixed Use Developments (10 Madison West and 11 Beach Street). New Valley has elected a one-month lag reporting period for 10 Madison and 11 Beach Street.

Condominium and Mixed Use Development:

	Three Months Ended March 31,	
	2017	2016
Income Statement		
Revenue	\$ 128,278	\$ 61,926
Cost of Goods Sold	102,195	32,803
Other Expenses	2,526	389
Income from continuing operations	<u>\$ 23,557</u>	<u>\$ 28,734</u>

Investments in Real Estate, net:

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

	March 31, 2017	December 31, 2016
Escena, net	\$ 10,700	\$ 10,792
Sagaponack	12,918	12,848
Investments in real estate, net	<u>\$ 23,618</u>	<u>\$ 23,640</u>

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

	March 31, 2017	December 31, 2016
Land and land improvements	\$ 8,907	\$ 8,907
Building and building improvements	1,878	1,878
Other	2,038	2,028
	12,823	12,813
Less accumulated depreciation	<u>(2,123)</u>	<u>(2,021)</u>
	<u>\$ 10,700</u>	<u>\$ 10,792</u>

New Valley recorded operating income of \$553 and \$508 for the three months ended March 31, 2017 and 2016, respectively, from Escena.

Investment in Sagaponack. In April 2015, New Valley invested \$12,502 in a residential real estate project located in Sagaponack, NY. The project is wholly owned and the balances of the project are included in the condensed consolidated financial statements of the Company. As of March 31, 2017, the assets of Sagaponack consisted of land and land improvements of \$12,918.

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

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

	March 31, 2017	December 31, 2016
Vector:		
7.75% Senior Secured Notes due 2021, including premium of \$0 and \$13,954	\$ —	\$ 848,954
6.125% Senior Secured Notes due 2025	850,000	—
7.5% Variable Interest Senior Convertible Notes due 2019, net of unamortized discount of \$100,513 and \$108,480*	129,487	121,520
5.5% Variable Interest Senior Convertible Debentures due 2020, net of unamortized discount of \$67,162 and \$71,247*	191,588	187,503
Liggett:		
Revolving credit facility	8,887	37,163
Term loan under credit facility	2,925	2,999
Equipment loans	3,874	4,519
Other	541	591
Notes payable, long-term debt and other obligations	1,187,302	1,203,249
Less:		
Debt issuance costs	(32,535)	(30,798)
Total notes payable, long-term debt and other obligations	1,154,767	1,172,451
Less:		
Current maturities	(10,996)	(39,508)
Amount due after one year	\$ 1,143,771	\$ 1,132,943

* The fair value of the derivatives embedded within the 7.5% Variable Interest Senior Convertible Notes (\$47,650 at March 31, 2017 and \$52,899 at December 31, 2016, respectively) and the 5.5% Variable Interest Senior Convertible Debentures (\$56,111 at March 31, 2017 and \$59,433 at December 31, 2016, respectively), is separately classified as a derivative liability in the condensed consolidated balance sheets.

Senior Secured Notes - Vector:

7.75% Senior Secured Notes due 2021 - Vector:

In February 2013, the Company issued \$450,000 of its 7.75% Senior Secured Notes due 2021. The aggregate net proceeds from the issuance of the 7.75% Senior Secured Notes were approximately \$438,250 after deducting offering expenses. On April 15, 2014, the Company completed the sale of an additional \$150,000 principal amount of its 7.75% Senior Secured Notes due 2021 for a price of 106.75%. The Company received net proceeds of approximately \$158,670 after deducting underwriting discounts, commissions, fees and offering expenses. On May 9, 2016, the Company completed the sale of an additional \$235,000 principal amount of its 7.75% Senior Secured Notes due 2021 for a price of 103.5%. The Company received net proceeds of approximately \$236,900 after deducting underwriting discounts, commissions, fees and offering expenses.

The 7.75% Senior Secured Notes paid interest on a semi-annual basis at a rate of 7.75% per year and had a maturity date of February 15, 2021. The 7.75% Senior Secured Notes were guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of the Company that are engaged in the conduct of the Company's cigarette businesses. (See Note 12.) In addition, some of the guarantees were collateralized by second priority or first priority security interests in certain collateral of some of the subsidiary guarantors, including their common stock, pursuant to security and pledge agreements.

On January 27, 2017, the Company completed the sale of \$850,000 of its 6.125% Senior Secured Notes due 2025 in a private offering to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933. The Company used the net cash proceeds from the 6.125% Senior Secured Notes offering, together with the proceeds of the concurrent sale of 2,000,000 of its common shares, to redeem all of the Company's outstanding 7.75% Senior Secured Notes due 2021 and to satisfy and discharge the indenture governing the existing 7.75% Senior Secured Notes due 2021.

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On February 26, 2017, the Company retired the outstanding \$835,000 principal amount of its 7.75% Senior Secured Notes at a premium of 103.875%, plus accrued and unpaid interest. The Company accounted for the redemption of the 7.75% senior secured notes as an extinguishment of the debt. The Company incurred a loss on the extinguishment of debt of \$34,110 for the three months ended March 31, 2017, which is comprised of \$32,356 of redemption premium and tender offer costs as well as net non-cash interest expense of \$1,754.

6.125% Senior Secured Notes due 2025 — Vector

The aggregate net proceeds from the sale of the 6.125% Senior Secured Notes were approximately \$831,100 after deducting underwriting discounts, commissions, fees and offering expenses. The 6.125% Senior Secured Notes pay interest on a semi-annual basis at a rate of 6.125% per year and mature on February 1, 2025. Prior to February 1, 2020, the Company may redeem some or all of the 6.125% Senior Secured Notes at any time at a make-whole redemption price and, thereafter, the Company may redeem some or all of the 6.125% Senior Secured Notes at a premium that will decrease over time, plus accrued and unpaid interest, if any, to the redemption date. In the event of a change of control, as defined in the indenture governing the 6.125% Senior Secured Notes, each holder of the 6.125% Senior Secured Notes may require the Company to repurchase some or all of its 6.125% Senior Secured Notes at a repurchase price equal to 101% of their aggregate principal amount plus accrued and unpaid interest, if any, to the date of purchase. If the Company sells certain assets and does not apply the proceeds as required pursuant to the indenture, it must offer to repurchase the 6.125% Senior Secured Notes at the prices listed in the indenture.

The 6.125% Senior Secured Notes are guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of the wholly-owned domestic subsidiaries of the Company that are engaged in the conduct of the Company's cigarette businesses. (See Note 12.) In addition, some of the guarantees are collateralized by first priority or second priority security interests in certain assets of some of the subsidiary guarantors, including their common stock, pursuant to security and pledge agreements.

The indenture contains covenants that restrict the payment of dividends by the Company if the Company's consolidated earnings before interest, taxes, depreciation and amortization, as defined in the indenture, for the most recently ended four full quarters is less than \$75,000. The indenture also restricts the incurrence of debt if the Company's Leverage Ratio and its Secured Leverage Ratio, as defined in the indenture, exceed 3.0 and 1.5, respectively. The Company's Leverage Ratio is defined in the indenture as the ratio of the Company's and the guaranteeing subsidiaries' total debt less the fair market value of the Company's cash, investments in marketable securities and long-term investments to Consolidated EBITDA, as defined in the indenture. The Company's Secured Leverage Ratio is defined in the indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness. As of March 31, 2017, the Company was in compliance with all debt covenants.

Variable Interest Senior Convertible Debt — Vector:

Share Lending Agreement

In connection with the offering of its 2019 Convertible Notes in November 2012, the Company lent Jefferies & Company ("Jefferies"), the underwriter for the offering, a total of 7,431,606 shares of the Company's common stock under the Share Lending Agreement. As of December 31, 2016, 1,579,879 shares were lent under the agreement. Jefferies is entitled to offer and sell such shares and use the sale to facilitate the establishment of a hedge position by investors in the notes and will receive all proceeds from the common stock offerings and lending transactions under the Share Lending Agreement. The Company received a nominal lending fee of \$0.10 per share for each share of common stock that the Company lent pursuant to the Share Lending Agreement.

The Share Lending Agreement requires that the shares borrowed be returned upon the maturity of the related debt, January 2019, or earlier, including the redemption of the notes or the conversion of the notes to shares of common stock pursuant to the terms of the indenture governing the notes. Borrowed shares are issued and outstanding for corporate law purposes and, accordingly, the holders of the borrowed shares will have all of the rights of a holder of the Company's outstanding shares. However, because the share borrower must return to the Company all borrowed shares (or identical shares), the borrowed shares are not considered outstanding for purposes of computing and reporting the Company's earnings per share in accordance with U.S. GAAP. Jefferies agreed to pay to the Company an amount equal to any dividends or other distributions that the Company pays on the borrowed shares.

The Company received a nominal fee for the loaned shares and determined the fair value of the Share Lending Agreement was \$3,204 at the date of issuance based on the present value of the future cash flows attributed to an estimated reduction in stated interest due to the presence of the Share Lending Agreement. The \$3,204 fair value was recognized as a debt financing charge and

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amortized to interest expense over the term of the notes. In March 2017, 305,400 shares were returned but no cash was exchanged. As of March 31, 2017, 1,274,479 shares were outstanding on the Share Lending Agreement and had a fair value of \$29,058. The issuance costs associated with the Share Lending Agreement were presented on the balance sheet as a direct deduction from the face amount of the related debt. The unamortized amount of these issuance costs was \$1,983 and \$2,140 at March 31, 2017 and December 31, 2016, respectively.

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

The conversion rates for all convertible debt outstanding as of March 31, 2017 and December 31, 2016, are summarized below:

	March 31, 2017		December 31, 2016	
	Conversion Price	Shares per \$1,000	Conversion Price	Shares per \$1,000
7.5% Variable Interest Senior Convertible Notes due 2019	\$ 15.22	65.7030	\$ 15.22	65.7030
5.5% Variable Interest Senior Convertible Debentures due 2020	\$ 23.46	42.6185	\$ 23.46	42.6185

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

As of March 31, 2017, a total of \$11,812 was outstanding under the revolving and term loan portions of the credit facility. Availability, as determined under the facility, was approximately \$42,100 based on eligible collateral at March 31, 2017.

Non-Cash Interest Expense - Vector:

	Three Months Ended March 31,	
	2017	2016
Amortization of debt discount, net	\$ 11,836	\$ 7,956
Amortization of debt issuance costs	1,970	1,168
Loss on extinguishment of 7.75% Senior Secured Notes	1,754	—
	\$ 15,560	\$ 9,124

Fair Value of Notes Payable and Long-Term Debt:

	March 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable and long-term debt	\$ 1,187,302 ⁽¹⁾	\$ 1,509,359	\$ 1,203,249 ⁽¹⁾	\$ 1,570,732

⁽¹⁾ The carrying value does not include the carrying value of the embedded derivative. See Note 10.

Notes payable and long-term debt are carried on the condensed consolidated balance sheet at amortized cost. The fair value determinations disclosed above are classified as Level 2 under the fair value hierarchy disclosed in Note 10 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 March 31, 2017 to determine the fair value of its publicly-traded notes and debentures. The carrying value of the revolving credit facility and term loan is equal to the fair value. The fair value of

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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.

7. CONTINGENCIES

Tobacco-Related Litigation:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. The cases have generally fallen into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs (“Individual Actions”); (ii) lawsuits by individuals requesting the benefit of the *Engle* ruling (“*Engle* progeny cases”); (iii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring, as well as cases alleging that use of the terms “lights” and/or “ultra lights” constitutes a deceptive and unfair trade practice, common law fraud or violation of federal law, purporting to be brought on behalf of a class of individual plaintiffs (“Class Actions”); and (iv) health care cost recovery actions brought by various foreign and domestic governmental plaintiffs and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits (“Health Care Cost Recovery Actions”). The future financial impact of the risks and expenses of litigation are not quantifiable. For the three months ended March 31, 2017 and 2016, Liggett incurred tobacco product liability legal expenses and costs totaling \$3,137 and \$4,171, 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. To obtain stays on judgments pending current appeals of the *Calloway*, *Boatright* and *Ward* cases Liggett, as of March 31, 2017, had secured \$4,241 in bonds.

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

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

Cautionary Statement About Engle Progeny Cases. Since 2009, judgments have been entered against Liggett and other industry defendants in more than 120 *Engle* progeny cases. A number of the judgments have been affirmed on appeal and satisfied by the defendants. Many have been overturned on appeal. As of March 31, 2017, 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 (although in two of these cases (*Irimi* and *Cohen*) the court granted defendants’ motion for a new trial) and nine in favor of Liggett. In five of the cases,

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punitive damages were awarded against Liggett (although in *Calloway*, the intermediate appellate court reversed the punitive and compensatory damages awards and remanded the case to the trial court for a new trial). 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 7 regarding the cases where an adverse verdict against Liggett remains on appeal, management is unable to estimate the possible loss or range of loss from the remaining *Engle* progeny cases as there are currently multiple defendants in each case and, in most cases, discovery has not occurred or is limited. As a result, the Company lacks information about whether plaintiffs are in fact *Engle* class members (non-class members' claims are generally time-barred), the relevant smoking history, the nature of the alleged injury and the availability of various defenses, among other things. Further, plaintiffs typically do not specify their demand for damages.

Although Liggett has generally been successful in managing litigation, litigation is subject to uncertainty and significant challenges remain, including with respect to the remaining *Engle* progeny cases. There can be no assurances that Liggett's past litigation experience will be representative of future results. Judgments have been entered against Liggett in the past, in Individual Actions and *Engle* progeny cases, and several of those judgments were affirmed on appeal and satisfied by Liggett. It is possible that the consolidated financial position, results of operations and cash flows of the Company could be materially adversely affected by an unfavorable outcome or settlement of any of the remaining smoking-related litigation. Liggett believes, and has been so advised by counsel, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. All such cases are and will continue to be vigorously defended, however, Liggett has entered into settlement discussions in individual cases or groups of cases where Liggett has determined it was in its best interest to do so, and it may continue to do so in the future, including with respect to the remaining *Engle* progeny cases. In October 2013, Liggett announced a settlement of the claims of more than 4,900 *Engle* progeny plaintiffs (see *Engle* Progeny Settlement I below). In December 2016, Liggett entered into an agreement to settle 124 *Engle* progeny cases for \$17,650 (see *Engle* Progeny Settlement II below). As of March 31, 2017, Liggett (and in certain cases the Company) had, on an individual basis, settled 179 *Engle* progeny cases for approximately \$6,240 in the aggregate, two of which occurred in the first quarter of 2017.

Individual Actions

As of March 31, 2017, there were 34 Individual Actions pending against Liggett and, in certain cases, the Company, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. These cases do not include the remaining *Engle* progeny cases or the individual cases pending in West Virginia state court as part of a consolidated action. The following table lists the number of Individual Actions by state:

State	Number of Cases
Maryland	16
Florida	6
New York	6
Louisiana	2
West Virginia	2
Missouri	1
Ohio	1

The plaintiffs' allegations of liability in cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, concealment, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity, violations of deceptive trade practice laws, the federal Racketeer Influenced and Corrupt Organizations Act ("RICO"), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including treble/multiple damages, medical monitoring, disgorgement of profits and punitive damages. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from state to state and jurisdiction to jurisdiction, compensatory

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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, equitable defenses such as “unclean hands” and lack of benefit, failure to state a claim and federal preemption.

Engle Progeny Cases

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

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

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

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

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

Engle Progeny Settlement II. In December 2016, the Company and Liggett entered into an agreement with 124 *Engle* progeny plaintiffs and their counsel. Pursuant to the terms of the settlement, Liggett agreed to pay \$17,650, \$14,000 of which was paid on December 7, 2016 with the balance of \$3,650 to be paid in equal quarterly payments starting in January 2018, with 5% interest. Due to the settlement, the Company recorded a charge of \$17,650 in the fourth quarter of 2016.

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Notwithstanding the comprehensive nature of the *Engle* Progeny Settlements, approximately 115 plaintiffs' claims remain pending in state court. Therefore, the Company and Liggett may still be subject to periodic adverse judgments which could have a material adverse affect on the Company's consolidated financial position, results of operations and cash flows.

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As of March 31, 2017, the following *Engle* progeny cases have resulted in judgments against Liggett:

Date	Case Name	County	Liggett Compensatory Damages (as adjusted) (1)	Liggett Punitive Damages	Status (2)
June 2002	<i>Lukacs v. R.J. Reynolds</i>	Miami-Dade	\$12,418	\$—	Liggett satisfied the judgment and the case is concluded.
August 2009	<i>Campbell v. R.J. Reynolds</i>	Escambia	156	—	Liggett satisfied the judgment and the case is concluded.
March 2010	<i>Douglas v. R.J. Reynolds</i>	Hillsborough	1,350	—	Liggett satisfied the judgment and the case is concluded.
April 2010	<i>Clay v. R.J. Reynolds</i>	Escambia	349	1,000	Liggett satisfied the judgment and the case is concluded.
April 2010	<i>Putney v. R.J. Reynolds</i>	Broward	17	—	On June 12, 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings regarding the amount of the award. Both sides sought discretionary review from the Florida Supreme Court. In February 2016, the Florida Supreme Court reinstated the jury's verdict. The defendants moved for clarification of that order. The court clarified that it reversed the district court's decision regarding the statute of repose only, leaving the remaining portions of the decision intact, which, among other things, reversed an approximately \$3,000 compensatory award against Liggett. The case was remanded to the trial court for proceedings consistent with those portions of the district court's decision that were not reversed. A hearing occurred on March 14, 2017. A decision is pending.
April 2011	<i>Tullo v. R.J. Reynolds</i>	Palm Beach	225	—	Liggett satisfied the judgment and the case is concluded.
January 2012	<i>Ward v. R.J. Reynolds</i>	Escambia	1	—	Liggett satisfied the merits judgment. Subsequently, the trial court entered a joint and several final judgment on attorneys' fees and costs for \$981 and defendants appealed that judgment. Briefing is underway.
May 2012	<i>Calloway v. R.J. Reynolds</i>	Broward	—	—	A joint and several judgment for \$16,100 was entered against R.J. Reynolds, Philip Morris, Lorillard and Liggett. On January 6, 2016, the Fourth District Court of Appeal reversed in part, including the \$7,600 punitive damages award against Liggett, and remanded the case to the trial court for a new trial on certain issues. Both sides moved for rehearing and in September 2016, the Fourth District Court of Appeal reversed the judgment in its entirety and remanded the case for a new trial. As a result, the \$1,530 compensatory award against Liggett was also reversed. The plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. The court declined to accept jurisdiction. This case was settled in December 2016 as part of <i>Engle</i> Progeny Settlement II.
December 2012	<i>Buchanan v. R.J. Reynolds</i>	Leon	2,750	—	Liggett satisfied the judgment and the case is concluded.
May 2013	<i>D. Cohen v. R.J. Reynolds</i>	Palm Beach	—	—	This case was settled in December 2016 as part of <i>Engle</i> Progeny Settlement II.
August 2013	<i>Rizzuto v. R.J. Reynolds</i>	Hernando	3,479	—	Liggett settled its portion of the judgment for \$1,500 and the case is concluded as to Liggett.
August 2014	<i>Irimi v. R.J. Reynolds</i>	Broward	—	—	This case was settled in December 2016 as part of <i>Engle</i> Progeny Settlement II.
October 2014	<i>Lambert v. R.J. Reynolds</i>	Pinellas	3,600	9,500	Liggett satisfied the judgment and the case is concluded.
November 2014	<i>Boatright v. R.J. Reynolds</i>	Polk	—	300	In November 2014, the jury awarded compensatory damages in the amount of \$15,000 with 15% fault apportioned to plaintiff and 85% to Philip Morris. A joint and several judgment was entered in the amount of \$12,750 on the compensatory damages. Judgment was also entered against Liggett for \$300 in punitive damages. Defendants appealed and plaintiff cross-appealed. The Second District Court of Appeal reversed the trial court's decision to reduce the judgment by plaintiff's assessed fault and affirmed as to all other issues on that appeal. In a separate appeal, the Second District Court of Appeal also reversed the trial court's ruling that plaintiff's proposals for settlement were invalid and remanded for determination of attorney's fees. Any potential liability as a result of the pending appeals is included in the amount Liggett will pay under <i>Engle</i> Progeny Settlement II.
June 2015	<i>Caprio v. R.J. Reynolds</i>	Broward	—	—	This case was settled in December 2016 as part of <i>Engle</i> Progeny Settlement II.
March 2017	<i>Santoro v. R.J. Reynolds</i>	Broward	160	15	In April 2017, a joint and several judgment was entered against R.J. Reynolds, Philip Morris and Liggett for \$1,027, for compensatory damages. Judgment was also entered against Liggett for \$15 in punitive damages. Post trial motions are pending but have not been set for hearing.
Total Damages Awarded:			24,505	10,815	
Amounts accrued, paid or compromised:			(24,328)	(10,800)	
Damages remaining on Appeal:			\$177	\$15	

(1) Compensatory damages are adjusted to reflect the jury's allocation of comparative fault and only include Liggett's jury allocated share, regardless of whether a judgment was joint and several. The amounts listed above do not include attorneys' fees or statutory interest.
(2) See Exhibit 99.1 for a more complete description of the cases currently on appeal.

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Through March 31, 2017, Liggett paid \$39,773, including interest and attorneys' fees, to satisfy the judgments in the following *Engle* progeny cases: *Lukacs, Campbell, Douglas, Clay, Tullo, Ward, Rizzuto, Lambert and Buchanan*.

Except as disclosed elsewhere in this Note 7, the Company is unable to determine a range of loss related to the remaining *Engle* progeny cases. As cases proceed through the appellate process, the Company will consider accruals on a case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

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

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

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

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

In April 2015, in *Hess*, a state court case, the Florida Supreme Court held that *Engle* defendants cannot raise a statute of repose defense to claims for concealment or conspiracy.

In April 2015, in *Graham*, a federal case, the Eleventh Circuit held that federal law impliedly preempts use of the *res judicata Engle* findings to establish claims for strict liability or negligence. In January 2016, the Eleventh Circuit Court of Appeals granted the plaintiff's motion for rehearing *en banc* and vacated the panel's decision. Defendants filed a motion requesting that the court enter a briefing order directing the parties to address both implied preemption and whether the application of the *Engle* findings violates federal due process. Oral argument on rehearing occurred in June 2016 and a decision is pending.

In January 2016, in *Marotta*, the Fourth District Court of Appeal disagreed with the *Graham* panel's decision. In April 2017, the Florida Supreme Court held that federal law does not implicitly preempt state law tort claims of strict liability and negligence by *Engle* progeny plaintiffs.

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In November 2015, in *Schoeff*, the Fourth District Court of Appeal affirmed the trial court's decision to reduce plaintiff's compensatory damages award by the jury's assessment of the deceased smoker's assigned comparative fault despite the jury's finding in favor of plaintiff on her claims for intentional torts. The Florida Supreme Court accepted discretionary jurisdiction of the issue based on a direct conflict with other district courts of appeal which have held that reduction of a compensatory damages award is inappropriate where a defendant is found liable for an intentional tort. Oral argument occurred on March 8, 2017. A decision is pending.

In March 2016, in *Soffer*, the Florida Supreme Court held that *Engle* progeny plaintiffs may seek punitive damages on their claims for non-intentional torts, rejecting the argument that plaintiffs are precluded from doing so because the *Engle* class did not pursue such damages on those claims.

Maryland Cases

Liggett is currently a defendant in 16 multi-defendant personal injury cases in Maryland that allege claims arising from asbestos and tobacco exposure. The tobacco defendants, including Liggett, moved to dismiss the cases. In the past, motions to dismiss have generally been successful, typically resulting in the dismissal without prejudice of the tobacco company defendants. Recently, however, a Maryland intermediate appellate court ruled, in *Stidham, et al. v. R. J. Reynolds Tobacco Company, et al.*, that dismissal of tobacco company defendants may not be appropriate where the asserted injury is based on both asbestos and tobacco exposure ("synergy cases"). In May 2016, the Court of Appeals for Maryland (Maryland's highest court) heard oral argument on the appeal of the intermediate appellate court's decision. In July 2016, the Court of Appeals ruled that joinder of tobacco and asbestos cases may be possible in certain circumstances, but plaintiffs must demonstrate at the trial court level how such cases may be joined while providing appropriate safeguards to prevent embarrassment, delay, expense or prejudice to defendants and "the extent to which, if at all, the special procedures applicable to asbestos cases should extend to tobacco companies." The Court of Appeals remanded these issues to be determined at the trial court level. It is possible that Liggett and other tobacco company defendants will not be dismissed from pending synergy cases, and may be named as defendants in asbestos-related personal injury actions in Maryland going forward, including approximately 20 additional synergy cases currently pending in Maryland state court.

Liggett Only Cases

There are currently two cases pending where Liggett is the only remaining defendant. Each of these cases is an Individual Action. In *Hausrath*, a New York case, a status conference is scheduled for June 1, 2017. There has been no recent activity in *Cowart*, a Florida case. It is possible that cases where Liggett is the only defendant could increase as a result of the remaining *Engle* progeny cases.

Class Actions

As of March 31, 2017, three actions were pending for which either a class had been certified or plaintiffs were seeking class certification where Liggett is a named defendant. Other cigarette manufacturers are also named in these actions.

Plaintiffs' allegations of liability in class action cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violation of deceptive trade practice laws and consumer protection statutes and claims under the federal and state anti-racketeering statutes. Plaintiffs in the class actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief.

Defenses raised in these cases include, among others, lack of proximate cause, individual issues predominate, assumption of the risk, comparative fault and/or contributory negligence, statute of limitations and federal preemption.

In November 1997, in *Young v. American Tobacco Co.*, a purported personal injury class action was commenced on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, allege they were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. The case has been stayed for a number of years, with the stay renewed every few years.

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The last stay was entered on March 16, 2016 and stays the case, including all discovery, pending the 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 personal injury claims arising from exposure to cigarette smoke and asbestos fibers. The complaint seeks to recover \$1,000 in compensatory and punitive damages individually and unspecified compensatory and punitive damages for the class. The case is stayed due to the December 2000 bankruptcy of three of the defendants.

Although not technically a class action, in *In Re: Tobacco Litigation (Personal Injury Cases)*, a West Virginia state court consolidated approximately 750 individual smoker actions that were pending prior to 2001 for trial of certain “common” issues. Liggett was severed from trial of the consolidated action. After two mistrials, in May 2013, the jury rejected all but one of the plaintiffs’ claims, finding in favor of plaintiffs on the claim that ventilated filter cigarettes between 1964 and July 1, 1969 should have included instructions on how to use them. The issue of damages was reserved for further proceedings. The court entered judgment in October 2013, dismissing all claims except the ventilated filter claim. The judgment was affirmed on appeal and remanded to the trial court for further proceedings. In April 2015, the plaintiffs filed a petition for writ of certiorari to the United States Supreme Court which subsequently declined review. In July 2015, the trial court ruled on the scope of the ventilated filter claim and determined that only 30 plaintiffs have potentially viable claims against the non-Liggett defendants, which may be pursued in a second phase of the trial. The court intends to try the claims of these plaintiffs in six consolidated trials, each with five plaintiffs. With respect to Liggett, the trial court requested that Liggett and plaintiffs brief whether any claims against Liggett survive given the outcome of the first phase of the trial. On May 23, 2016, the trial court ruled that the case may proceed against Liggett. Liggett requested that the trial court certify the matter to the West Virginia Supreme Court of Appeals for review, but the trial court refused. A scheduling order was entered governing the Phase I common issues pre-trial proceedings and discovery is underway. It is estimated that Liggett could be a defendant in approximately 90 individual cases.

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

Health Care Cost Recovery Actions

As of March 31, 2017, one Health Care Cost Recovery Action was pending against Liggett, *Crow Creek Sioux Tribe v. American Tobacco Company*, a South Dakota case filed in 1997, where the plaintiff seeks to recover damages based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is inactive. Other cigarette manufacturers are also named as defendants.

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

Department of Justice Lawsuit

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

In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. In May 2009, the United States Court of Appeals for the District of Columbia affirmed most of the district court’s

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decision. The United States Supreme Court denied review. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court's Final Judgment which ordered the following relief: (i) an injunction against "committing any act of racketeering" relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against "making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States' public and that misrepresents or suppresses information concerning cigarettes"; (iv) an injunction against conveying any express or implied health message through use of descriptors on cigarette packaging or in cigarette advertising or promotional material, including "lights," "ultra lights," and "low tar," which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of "corrective statements" in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking "low tar" or "lights" cigarettes, defendants' manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to environmental tobacco smoke; (vi) the disclosure of defendants' public document websites and the production of all documents produced to the government or produced in any future court or administrative action concerning smoking and health; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedules as defendants now follow in disclosing such data to the Federal Trade Commission for a period of ten years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette business within the United States; and (ix) payment of the government's costs in bringing the action. In June 2014, the court approved a consent agreement between the defendants and the Department of Justice regarding the "corrective statements" to be issued by the defendants. In May 2015, the court of appeals issued an opinion on the legality of the "corrective statements," affirming them in part and reversing them in part. The implementation of the "corrective statements" is uncertain as proceedings are ongoing.

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

Upcoming Trials

As of March 31, 2017, there was one Individual Action scheduled for trial through March 31, 2018, where Liggett (and/or the Company) is a named defendant. Trial dates are subject to change.

MSA and Other State Settlement Agreements

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

In November 1998, Philip Morris, R.J. Reynolds and two other companies (the "Original Participating Manufacturers" or "OPMs") and Liggett and Vector Tobacco (together with any other tobacco product manufacturer that becomes a signatory, the "Subsequent Participating Manufacturers" or "SPMs") (the OPMs and SPMs are hereinafter referred to jointly as the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of the Settling States. The MSA received final judicial approval in each Settling State.

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

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

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The MSA restricts tobacco product advertising and marketing within the Settling States and otherwise restricts the activities of Participating Manufacturers. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each Participating Manufacturer to one tobacco brand name sponsorship during any 12-month period; bans all outdoor advertising, with certain limited exceptions; prohibits payments for tobacco product placement in various media; bans gift offers based on the purchase of tobacco products without sufficient proof that the intended recipient is an adult; prohibits Participating Manufacturers from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; and prohibits Participating Manufacturers from using as a tobacco product brand name any nationally recognized non-tobacco brand or trade name or the names of sports teams, entertainment groups or individual celebrities.

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

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

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 1.65% of total cigarettes sold in the United States. Vector Tobacco has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 0.28% of total cigarettes sold in the United States. Liggett and Vector Tobacco’s domestic shipments accounted for 3.3% of the total cigarettes sold in the United States in 2016. 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 29, 2016, Liggett and Vector Tobacco pre-paid \$102,000 of their approximate \$118,600 2016 MSA obligation, the balance of which was paid in April 2017, subject to any 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 - 2016. The NPM Adjustment is a potential adjustment to annual MSA payments, available when the Participating Manufacturers suffer a market share loss to NPMs for a particular year and an economic consulting firm selected pursuant to the MSA determines that the MSA was a “significant factor contributing to” that loss. A Settling State that has “diligently enforced” its qualifying escrow statute in the year in question may be able to avoid its allocable share of the NPM Adjustment. For 2003 - 2016, Liggett and Vector Tobacco, as applicable, disputed that they owed the Settling States the NPM Adjustments as calculated by the independent auditor. As permitted by the MSA, Liggett and Vector Tobacco either paid subject to dispute, withheld payment or paid into a disputed payment account, the amounts associated with these NPM Adjustments.

The two requirements for application of the NPM Adjustment, a market share loss and a finding or agreement that the MSA was a significant factor in that loss, have been satisfied, and the Participating Manufacturers have engaged in disputes with certain of the Settling States over whether they diligently enforced their respective escrow statutes in each of the years from 2003 - 2016. After several years of litigation over whether the MSA’s arbitration clause required a multistate arbitration of the NPM Adjustment dispute, 48 of 49 state courts ultimately compelled the states to participate in a single, multistate arbitration of the 2003 NPM Adjustment. Notwithstanding, many states continued to refuse to arbitrate and agreed to do so only after the Participating Manufacturers agreed to a 20% reduction in their 2003 NPM Adjustment claims.

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

While the 2003 arbitration was underway, the Participating Manufacturers entered into a term sheet with 22 states settling the NPM Adjustment for 2003 - 2012 and agreed to terms to address the NPM Adjustment with respect to those states for future years. The parties have been working towards converting the binding term sheet into a final settlement agreement. In April 2017, both Rhode Island and Oregon joined the term sheet settlement.

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

Two of the states found non-diligent, Kentucky and Indiana, agreed to settle the dispute and enter into the term sheet described above. The remaining four non-diligent states pursued motions in their respective state courts seeking to vacate or reduce the amount of the arbitration award. The Pennsylvania, Maryland and Missouri courts refused to vacate the award but reduced the recovery by approximately 50%. In October 2016, the United States Supreme Court denied the Participating Manufacturers' petitions for certiorari from the Pennsylvania and Maryland decisions, and in February 2017, the Missouri Supreme Court affirmed the trial court's order reducing the award. In September 2016, the New Mexico trial court refused to vacate the award and reduced Liggett's recovery by approximately \$150. The Participating Manufacturers appealed that decision to the New Mexico Court of Appeals. Oral argument has not been scheduled.

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

As a result of the settlements and arbitration award described above, Liggett and Vector Tobacco reduced cost of sales in the aggregate by \$21,739 for years 2013 - 2016 and by an additional \$896 for the three months ended March 31, 2017. Liggett and Vector Tobacco may be entitled to further adjustments for 2015 forward. The remaining NPM Adjustment accrual of approximately \$19,000 at March 31, 2017 relates to the disputed amounts Liggett withheld from the non-settling states for 2004 - 2010, which may be subject to payment, with interest, if Liggett loses the disputes for those years. As of March 31, 2017, there remains approximately \$28,600 in the disputed payments account relating to Liggett's 2011 - 2015 NPM Adjustment disputes with the non-settling states.

Disputes over the NPM Adjustments for 2004 - 2016 remain to be arbitrated with the 19 states that have not settled. The disputes over the NPM Adjustments for 2015 and 2016 remain to be arbitrated with all the states except Oregon, which settled the dispute for 2015.

The arbitration for the 2004 NPM Adjustment dispute has commenced. Courts in three states, Pennsylvania, Maryland, and Missouri rejected arguments that those states' claims of diligent enforcement should be addressed by a separate state-specific panel and they are participating in the multistate arbitration. New Mexico's trial court recently granted a motion to compel it to participate as well, but New Mexico appealed that order. Discovery is underway in the 2004 NPM Adjustment proceeding and evidentiary hearings are possible in 2017.

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

In December 2012, the parties arbitrated the dispute. In February 2013, the arbitrators ruled that the independent auditor was precluded from recalculating Liggett's grandfathered market share exemption. The panel further determined, in a subsequent order, that the independent auditor shall compute Liggett's market share for all years after 2000 on a "net" basis, but adjust that computation to approximate "gross" market share by using actual returned product data for each year. In July 2015, the independent auditor issued calculations, purportedly based on the arbitrators' award, which indicated that Liggett owed approximately \$16,000 for years 2001 - 2013. Liggett disputed these calculations. In June 2016, the independent auditor issued revised calculations indicating that Liggett owed approximately \$8,100 for years 2001 - 2013. In September 2016, Liggett paid the \$8,100 and reduced cost of sales by \$370, but continued to dispute certain aspects of the independent auditor's revised calculations. Liggett may be required to make additional payments under the MSA as a result of this dispute, which could adversely affect the Company's consolidated financial position, results of operations and cash flows.

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

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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.

On January 12, 2016, the Attorney General for Mississippi filed a motion in state court in Jackson County, Mississippi (Chancery Division) to enforce the March 1996 settlement agreement alleging that Liggett owes Mississippi at least \$27,000 in damages (including interest), and \$20,000 in punitive damages and attorneys' fees. On April 21, 2017, the court ruled that the settlement 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.

Liggett may be required to make additional payments to Texas and Mississippi which could adversely affect the Company's condensed consolidated financial position, results of operations and cash flows.

Cautionary Statement

Management is not able to reasonably predict the outcome of the litigation pending or threatened against Liggett or the Company. Litigation is subject to many uncertainties. Liggett has been found liable in multiple *Engle* progeny cases and Individual Actions, several of which were affirmed on appeal and satisfied by Liggett. It is possible that other cases could be decided unfavorably against Liggett and that Liggett will be unsuccessful on appeal. Liggett may attempt to settle particular cases if it believes it is in its best interest to do so.

Management cannot predict the cash requirements related to any future defense costs, settlements or judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in this Note 7, management is unable to estimate the loss or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases and as a result has not provided any amounts in its consolidated financial statements for unfavorable outcomes.

The tobacco industry is subject to a wide range of laws and regulations regarding the marketing, sale, taxation and use of tobacco products imposed by local, state and federal governments. There have been a number of restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional litigation or legislation.

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

The activity in the Company's accruals for the MSA and tobacco litigation for the three months ended March 31, 2017 were as follows:

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	<i>Current Liabilities</i>			<i>Non-Current Liabilities</i>		
	<u>Payments due under Master Settlement Agreement</u>	<u>Litigation Accruals</u>	<u>Total</u>	<u>Payments due under Master Settlement Agreement</u>	<u>Litigation Accruals</u>	<u>Total</u>
Balance as of January 1, 2017	\$ 16,192	\$ 3,659	\$ 19,851	\$ 22,257	\$ 27,513	\$ 49,770
Expenses	31,928	1,610	33,538	—	—	—
NPM Settlement adjustment	33	—	33	(928)	—	(928)
Change in MSA obligations capitalized as inventory	189	—	189	—	—	—
Payments	—	(3,891)	(3,891)	—	—	—
Reclassification to/(from) non-current liabilities	—	4,266	4,266	—	(4,266)	(4,266)
Interest on withholding	—	63	63	—	670	670
Balance as of March 31, 2017	<u>\$ 48,342</u>	<u>\$ 5,707</u>	<u>\$ 54,049</u>	<u>\$ 21,329</u>	<u>\$ 23,917</u>	<u>\$ 45,246</u>

The activity in the Company's accruals for the MSA and tobacco litigation for the three months ended March 31, 2016 were as follows:

	<i>Current Liabilities</i>			<i>Non-Current Liabilities</i>		
	<u>Payments due under Master Settlement Agreement</u>	<u>Litigation Accruals</u>	<u>Total</u>	<u>Payments due under Master Settlement Agreement</u>	<u>Litigation Accruals</u>	<u>Total</u>
Balance as of January 1, 2016	\$ 29,241	\$ 22,904	\$ 52,145	\$ 20,094	\$ 24,718	\$ 44,812
Expenses	14,835	2,504	17,339	—	—	—
Change in MSA obligations capitalized as inventory	(406)	—	(406)	—	—	—
Payments	—	(21,171)	(21,171)	—	—	—
Reclassification from non-current liabilities	—	3,252	3,252	—	(3,252)	(3,252)
Interest on withholding	35	197	232	—	568	568
Balance as of March 31, 2016	<u>\$ 43,705</u>	<u>\$ 7,686</u>	<u>\$ 51,391</u>	<u>\$ 20,094</u>	<u>\$ 22,034</u>	<u>\$ 42,128</u>

Other Matters:

Liggett's and Vector Tobacco's management are unaware of any material environmental conditions affecting their existing facilities. Liggett's and Vector Tobacco's management believe that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material affect on the capital expenditures, results of operations or competitive position of Liggett or Vector Tobacco.

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Liggett Vector Brands entered into an agreement with a subsidiary of the Convenience Distribution Association to support a program to permit certain tobacco distributors to secure, on reasonable terms, tax stamp bonds required by state and local governments for the distribution of cigarettes. Under the agreement, Liggett Vector Brands has agreed to pay a portion of losses incurred by the surety under the bond program, with a maximum loss exposure of \$500. The Company believes the fair value of Liggett Vector Brands' obligation under the agreement was immaterial at March 31, 2017.

Liggett was contacted in October 2015, by one of its software vendors, who suggested that Liggett needed to purchase additional software licenses from it. Liggett believes that its use of the vendor's software is in compliance with the licenses previously purchased by Liggett. In January 2016, the software vendor requested to audit Liggett's use of the relevant software. Liggett has provided details of its use of the software and is continuing to cooperate with requests for information.

In addition to the foregoing, Douglas Elliman Realty, LLC and 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 have a material adverse affect on the Company's consolidated financial position, results of operations or cash flows.

8. EMPLOYEE BENEFIT PLANS

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

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Service cost — benefits earned during the period	\$ 141	\$ 137	\$ 1	\$ 1
Interest cost on projected benefit obligation	1,266	1,355	92	97
Expected return on assets	(1,356)	(1,519)	—	—
Amortization of net loss (gain)	501	464	(13)	(19)
Net expense	\$ 552	\$ 437	\$ 80	\$ 79

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9. INCOME TAXES

The Company's provision for income taxes in interim periods is based on an estimated annual effective income tax rate derived, in part, from estimated annual pre-tax results from ordinary operations. The annual effective income tax rate is reviewed and, if necessary, adjusted on a quarterly basis. As a result of adopting ASU 2016-09, all excess tax benefits and deficiencies in the current and future periods will be recognized as income tax expense in the Company's Condensed Consolidated Statement of Operations in the reporting period in which they occur. This may result in increased volatility in the Company's effective tax rate.

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

	Three Months Ended	
	March 31,	
	2017	2016
(Loss) income before provision for income taxes	\$ (7,007)	\$ 35,756
Income tax (benefit) expense using estimated annual effective income tax rate	(2,639)	14,314
Impact of discrete items, net	(143)	49
Income tax (benefit) expense	<u>\$ (2,782)</u>	<u>\$ 14,363</u>

The discrete item for the three months ended March 31, 2017 is related to an income tax deduction as a result of adopting ASU 2016-09. The discrete item for the three months ended March 31, 2016 is primarily related to the results of a recent state income tax audit.

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10. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

Description	Fair Value Measurements as of March 31, 2017				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Money market funds ⁽¹⁾	\$ 218,809	\$ 218,809	\$ —	\$ —	
Commercial paper ⁽¹⁾	48,335	—	48,335	—	
Certificates of deposit ⁽²⁾	2,985	—	2,985	—	
Bonds ⁽²⁾	4,240	4,240	—	—	
Investment securities available for sale					
Equity securities	50,425	50,425	—	—	
Mutual funds invested in fixed income securities	20,725	20,725	—	—	
Fixed income securities					
U.S. government securities	28,494	—	28,494	—	
Corporate securities	38,877	—	38,877	—	
U.S. government and federal agency	6,043	—	6,043	—	
Commercial mortgage-backed securities	843	—	843	—	
Commercial paper	1,999	—	1,999	—	
Index-linked U.S. bonds	2,325	—	2,325	—	
Foreign fixed-income securities	500	—	500	—	
Total fixed income securities	79,081	—	79,081	—	
Total investment securities available for sale	150,231	71,150	79,081	—	
Total	\$ 424,600	\$ 294,199	\$ 130,401	\$ —	
Liabilities:					
Fair value of derivatives embedded within convertible debt	\$ 103,761	\$ —	\$ —	\$ 103,761	

(1) Amounts included in cash and cash equivalents on the condensed consolidated balance sheet.
(2) Amounts included in current restricted assets and restricted assets on the condensed consolidated balance sheet.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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Fair Value Measurements as of December 31, 2016

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Money market funds ⁽¹⁾	\$ 248,552	\$ 248,552	\$ —	\$ —	
Commercial paper ⁽¹⁾	41,247	—	41,247	—	
Certificates of deposit ⁽²⁾	2,982	—	2,982	—	
Bonds ⁽²⁾	4,240	4,240	—	—	
Investment securities available for sale					
Equity securities	50,843	50,843	—	—	
Mutual funds invested in fixed income securities	20,582	20,582	—	—	
Fixed income securities					
U.S. government securities	30,642	—	30,642	—	
Corporate securities	36,687	—	36,687	—	
U.S. government and federal agency	6,500	—	6,500	—	
Commercial mortgage-backed securities	1,398	—	1,398	—	
Commercial paper	8,980	—	8,980	—	
Index-linked U.S. bonds	770	—	770	—	
Foreign fixed income securities	501	—	501	—	
Total fixed income securities	85,478	—	85,478	—	
Total investment securities available for sale	156,903	71,425	85,478	—	
Total	\$ 453,924	\$ 324,217	\$ 129,707	\$ —	
Liabilities:					
Fair value of derivatives embedded within convertible debt	\$ 112,332	\$ —	\$ —	\$ 112,332	
Nonrecurring fair value measurements					
Long-term investments ⁽³⁾	\$ 6,396			\$ 6,396	\$ (1,203)
	\$ 6,396			\$ 6,396	\$ (1,203)

(1) Amounts included in cash and cash equivalents on the condensed consolidated balance sheet

(2) Amounts included in current restricted assets and restricted assets on the condensed consolidated balance sheet.

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

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

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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.

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

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

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at March 31, 2017:

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at March 31, 2017	Valuation Technique	Unobservable Input	Range (Actual)
Fair value of derivatives embedded within convertible debt	\$ 103,761	Discounted cash flow	Assumed annual stock dividend	5%
			Assumed annual cash dividend	\$ 1.60
			Stock price	\$ 20.80
			Convertible trading price (as a percentage of par value)	112.94%
			Volatility	19.54%
			Risk-free rate	Term structure of US Treasury Securities
			Implied credit spread	4.0% - 5.0% (4.5%)

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at December 31, 2016:

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range (Actual)
Fair value of derivatives embedded within convertible debt	\$ 112,332	Discounted cash flow	Assumed annual stock dividend	5%
			Assumed annual cash dividend	\$ 1.60
			Stock price	\$ 22.74
			Convertible trading price (as a percentage of par value)	114.69%
			Volatility	19.47%
			Risk-free rate	Term structure of US Treasury Securities
			Implied credit spread	4.5% - 5.5% (5.0%)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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11. SEGMENT INFORMATION

The Company's business segments for the three months ended March 31, 2017 and 2016 were Tobacco, E-Cigarettes and Real Estate. The Tobacco segment consists of the manufacture and sale of conventional cigarettes. The E-Cigarettes segment includes the operations of the Company's e-cigarette business. The Real Estate segment includes the Company's investment in New Valley LLC, which includes Douglas Elliman, Escena, Sagaponack and investments in real estate ventures. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Financial information for the Company's operations before taxes and non-controlling interests for the three months ended March 31, 2017 and 2016 were as follows:

	<u>Tobacco</u>	<u>E-Cigarettes</u>	<u>Real Estate</u>	<u>Corporate and Other</u>	<u>Total</u>
<u>Three months ended March 31, 2017</u>					
Revenues	\$ 257,454	\$ —	\$ 157,754	\$ —	\$ 415,208
Operating income (loss)	59,770 ⁽¹⁾	(77)	620	(7,382)	52,931
Equity in earnings from real estate ventures	—	—	11,113	—	11,113
Depreciation and amortization	2,420	—	2,222	387	5,029
Capital expenditures	1,096	—	3,486	6	4,588
<u>Three months ended March 31, 2016</u>					
Revenues	\$ 221,015	\$ 38	\$ 159,747	\$ —	\$ 380,800
Operating income (loss)	61,483 ⁽²⁾	(193)	7,674	(6,805)	62,159
Equity in losses from real estate ventures	—	—	(507)	—	(507)
Depreciation and amortization	2,440	—	2,282	442	5,164
Capital expenditures	2,618	—	1,279	18	3,915

⁽¹⁾ Operating income includes \$895 of income from MSA Settlement, and \$1,585 of litigation judgment expense.

⁽²⁾ Operating income includes \$2,350 of litigation judgment expense and \$41 of restructuring expense.

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12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

The Company 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 filing this condensed consolidating financial information in connection therewith. Any such debt securities may be issued by the Company and guaranteed by the guarantors, but any such debt securities would not be guaranteed by any of the Company’s subsidiaries engaged in the real estate businesses conducted through its subsidiary New Valley.

Presented herein are Condensed Consolidating Balance Sheets as of March 31, 2017 and December 31, 2016, the related Condensed Consolidating Statements of Operations for the three months ended March 31, 2017 and 2016, and the related Condensed Consolidating Statements of Cash Flows for the three months ended March 31, 2017 and 2016 of Vector Group Ltd. (Parent/Issuer), the guarantor subsidiaries (Subsidiary Guarantors) and the subsidiaries that are not guarantors (Subsidiary Non-Guarantors).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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CONDENSED CONSOLIDATING BALANCE SHEETS

	March 31, 2017					Consolidated Vector Group Ltd.
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments		
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 221,781	\$ 36,138	\$ 98,768	\$ —		\$ 356,687
Investment securities available for sale	114,555	35,676	—	—		150,231
Accounts receivable - trade, net	—	10,673	3,817	—		14,490
Intercompany receivables	24,318	—	—	(24,318)		—
Inventories	—	86,961	—	—		86,961
Income taxes receivable, net	38,282	—	—	(18,940)		19,342
Restricted assets	240	5,257	914	—		6,411
Other current assets	423	3,846	22,061	—		26,330
Total current assets	399,599	178,551	125,560	(43,258)		660,452
Property, plant and equipment, net	954	46,819	32,594	—		80,367
Investments in real estate, net	—	—	23,618	—		23,618
Long-term investments	73,419	377	—	—		73,796
Investments in real estate ventures	—	—	227,249	—		227,249
Investments in consolidated subsidiaries	497,764	—	—	(497,764)		—
Restricted assets	1,491	2,259	—	—		3,750
Goodwill and other intangible assets, net	—	107,511	154,042	—		261,553
Prepaid pension costs	—	22,577	—	—		22,577
Other assets	7,499	12,165	14,046	—		33,710
Total assets	\$ 980,726	\$ 370,259	\$ 577,109	\$ (541,022)		\$ 1,387,072
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:						
Current liabilities:						
Current portion of notes payable and long-term debt	\$ —	\$ 10,821	\$ 175	\$ —		\$ 10,996
Current portion of employee benefits	—	937	—	—		937
Intercompany payables	—	845	23,473	(24,318)		—
Income taxes payable, net	—	13,625	5,315	(18,940)		—
Litigation accruals and current payments due under the Master Settlement Agreement	—	54,049	—	—		54,049
Other current liabilities	30,665	59,092	35,349	—		125,106
Total current liabilities	30,665	139,369	64,312	(43,258)		191,088
Notes payable, long-term debt and other obligations, less current portion	1,138,541	4,882	348	—		1,143,771
Fair value of derivatives embedded within convertible debt	103,761	—	—	—		103,761
Non-current employee benefits	43,255	15,913	—	—		59,168
Deferred income taxes, net	6,405	40,438	46,016	—		92,859
Other liabilities, primarily litigation accruals and payments due under the Master Settlement Agreement	1,131	45,316	14,248	—		60,695
Total liabilities	1,323,758	245,918	124,924	(43,258)		1,651,342
Commitments and contingencies						
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(343,032)	124,341	373,423	(497,764)		(343,032)
Non-controlling interest	—	—	78,762	—		78,762
Total stockholders' (deficiency) equity	(343,032)	124,341	452,185	(497,764)		(264,270)
Total liabilities and stockholders' deficiency	\$ 980,726	\$ 370,259	\$ 577,109	\$ (541,022)		\$ 1,387,072

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

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CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2016				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 279,815	\$ 14,798	\$ 98,917	\$ —	\$ 393,530
Investment securities available for sale	121,016	35,887	—	—	156,903
Accounts receivable - trade, net	—	11,775	7,026	—	18,801
Intercompany receivables	22,789	—	—	(22,789)	—
Inventories	—	89,834	—	—	89,834
Income taxes receivable, net	18,387	—	—	(2,277)	16,110
Restricted assets	—	6,416	914	—	7,330
Other current assets	517	4,428	18,010	—	22,955
Total current assets	442,524	163,138	124,867	(25,066)	705,463
Property, plant and equipment, net	1,134	48,314	31,000	—	80,448
Investments in real estate, net	—	—	23,640	—	23,640
Long-term investments	52,308	388	501	—	53,197
Investments in real estate ventures	—	—	221,258	—	221,258
Investments in consolidated subsidiaries	501,659	—	—	(501,659)	—
Restricted assets	1,728	2,258	—	—	3,986
Goodwill and other intangible assets, net	—	107,511	154,407	—	261,918
Prepaid pension costs	—	22,273	—	—	22,273
Other assets	7,534	12,118	12,200	—	31,852
Total assets	\$ 1,006,887	\$ 356,000	\$ 567,873	\$ (526,725)	\$ 1,404,035
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	\$ —	\$ 39,333	\$ 175	\$ —	\$ 39,508
Current portion of employee benefits	—	937	—	—	937
Intercompany payables	—	24	22,765	(22,789)	—
Income taxes payable, net	—	1,089	1,188	(2,277)	—
Litigation accruals and current payments due under the Master Settlement Agreement	—	19,851	—	—	19,851
Other current liabilities	47,968	49,492	38,392	—	135,852
Total current liabilities	47,968	110,726	62,520	(25,066)	196,148
Notes payable, long-term debt and other obligations, less current portion	1,127,180	5,372	391	—	1,132,943
Fair value of derivatives embedded within convertible debt	112,332	—	—	—	112,332
Non-current employee benefits	42,818	16,140	—	—	58,958
Deferred income taxes, net	7,420	40,136	45,529	—	93,085
Other liabilities, primarily litigation accruals and payments due under the Master Settlement Agreement	1,169	49,861	12,811	—	63,841
Total liabilities	1,338,887	222,235	121,251	(25,066)	1,657,307
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(332,000)	133,765	367,894	(501,659)	(332,000)
Non-controlling interest	—	—	78,728	—	78,728
Total stockholders' (deficiency) equity	(332,000)	133,765	446,622	(501,659)	(253,272)
Total liabilities and stockholders' deficiency	\$ 1,006,887	\$ 356,000	\$ 567,873	\$ (526,725)	\$ 1,404,035

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

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2017					Consolidated Vector Group Ltd.
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments		
Revenues	\$ —	\$ 257,573	\$ 157,754	\$ (119)	\$ 415,208	
Expenses:						
Cost of sales	—	175,754	100,169	—	275,923	
Operating, selling, administrative and general expenses	9,851	18,026	57,011	(119)	84,769	
Litigation settlement and judgment expense	—	1,585	—	—	1,585	
Management fee expense	—	2,767	—	(2,767)	—	
Operating (loss) income	(9,851)	59,441	574	2,767	52,931	
Other income (expenses):						
Interest expense	(45,347)	(868)	(6)	—	(46,221)	
Change in fair value of derivatives embedded within convertible debt	8,571	—	—	—	8,571	
Loss on extinguishment of debt	(34,110)	—	—	—	(34,110)	
Equity in earnings from real estate ventures	—	—	11,113	—	11,113	
Equity in losses from investments	(1,049)	(12)	—	—	(1,061)	
Gain on sale of investment securities available for sale	150	—	—	—	150	
Impairment of investment securities available for sale	(39)	—	—	—	(39)	
Equity in earnings in consolidated subsidiaries	43,451	—	—	(43,451)	—	
Management fee income	2,767	—	—	(2,767)	—	
Other, net	944	336	379	—	1,659	
(Loss) income before provision for income taxes	(34,513)	58,897	12,060	(43,451)	(7,007)	
Income tax benefit (expense)	30,286	(22,551)	(4,953)	—	2,782	
Net (loss) income	(4,227)	36,346	7,107	(43,451)	(4,225)	
Net income attributed to non-controlling interest	—	—	(2)	—	(2)	
Net (loss) income attributed to Vector Group Ltd.	\$ (4,227)	\$ 36,346	\$ 7,105	\$ (43,451)	\$ (4,227)	
Comprehensive income attributed to non-controlling interest	\$ —	\$ —	\$ (2)	\$ —	\$ (2)	
Comprehensive (loss) income attributed to Vector Group Ltd.	\$ (4,103)	\$ 36,381	\$ 7,105	\$ (43,486)	\$ (4,103)	

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

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2016					Vector Group Ltd.
	Parent/ Issuer	Subsidiary Guarantors	Non- Guarantors	Consolidating Adjustments		
Revenues	\$ —	\$ 221,142	\$ 159,747	\$ (89)	\$ 380,800	
Expenses:						
Cost of sales	—	136,744	99,678	—	236,422	
Operating, selling, administrative and general expenses	9,196	18,273	52,448	(89)	79,828	
Litigation settlement and judgment expense	—	2,350	—	—	2,350	
Management fee expense	—	2,662	—	(2,662)	—	
Restructuring charges	—	41	—	—	41	
Operating (loss) income	(9,196)	61,072	7,621	2,662	62,159	
Other income (expenses):						
Interest expense	(29,758)	(959)	(3)	—	(30,720)	
Change in fair value of derivatives embedded within convertible debt	9,694	—	—	—	9,694	
Equity in losses from real estate ventures	—	—	(507)	—	(507)	
Gain on sale of investment securities available for sale	176	391	—	—	567	
Impairment of investment securities available for sale	(41)	(4,772)	—	—	(4,813)	
Equity in losses from investments	(1,655)	(16)	—	—	(1,671)	
Equity in earnings in consolidated subsidiaries	35,610	—	—	(35,610)	—	
Management fee income	2,662	—	—	(2,662)	—	
Other, net	400	237	410	—	1,047	
Income before provision for income taxes	7,892	55,953	7,521	(35,610)	35,756	
Income tax benefit (expense)	11,446	(23,386)	(2,423)	—	(14,363)	
Net income	19,338	32,567	5,098	(35,610)	21,393	
Net income attributed to non-controlling interest	—	—	(2,055)	—	(2,055)	
Net income attributed to Vector Group Ltd.	\$ 19,338	\$ 32,567	\$ 3,043	\$ (35,610)	\$ 19,338	
Comprehensive income attributed to non-controlling interest	\$ —	\$ —	\$ (2,055)	\$ —	\$ (2,055)	
Comprehensive income attributed to Vector Group Ltd.	\$ 19,381	\$ 32,710	\$ 3,043	\$ (35,753)	\$ 19,381	

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

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2017				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash (used in) provided by operating activities	\$ (28,282)	\$ 95,873	\$ 7,962	\$ (47,657)	\$ 27,896
Cash flows from investing activities:					
Sale of investment securities	13,456	—	—	—	13,456
Maturities of investment securities	7,174	—	—	—	7,174
Purchase of investment securities	(14,974)	—	—	—	(14,974)
Purchase of long-term investments	(22,400)	—	—	—	(22,400)
Investments in real estate ventures	—	—	(1,436)	—	(1,436)
Increase in cash surrender value of life insurance policies	—	(49)	—	—	(49)
(Increase) decrease in restricted assets	(3)	1,159	—	—	1,156
Issuance of notes receivable	—	—	(1,500)	—	(1,500)
Investments in subsidiaries	(535)	—	—	535	—
Proceeds from sale of fixed assets	—	2	—	—	2
Capital expenditures	(6)	(1,096)	(3,486)	—	(4,588)
Pay downs of investment securities	864	—	—	—	864
Investments in real estate, net	—	—	(70)	—	(70)
Net cash (used in) provided by investing activities	(16,424)	16	(6,492)	535	(22,365)
Cash flows from financing activities:					
Proceeds from issuance of debt	850,000	—	—	—	850,000
Deferred financing costs	(19,200)	—	—	—	(19,200)
Repayments of debt	(835,000)	(654)	(43)	—	(835,697)
Borrowings under revolver	—	39,956	—	—	39,956
Repayments on revolver	—	(68,305)	—	—	(68,305)
Capital contributions received	—	100	435	(535)	—
Intercompany dividends paid	—	(45,646)	(2,011)	47,657	—
Dividends and distributions on common stock	(52,358)	—	—	—	(52,358)
Proceeds from issuance of Vector stock	43,230	—	—	—	43,230
Net cash used in financing activities	(13,328)	(74,549)	(1,619)	47,122	(42,374)
Net (decrease) increase in cash and cash equivalents	(58,034)	21,340	(149)	—	(36,843)
Cash and cash equivalents, beginning of period	279,815	14,798	98,917	—	393,530
Cash and cash equivalents, end of period	\$ 221,781	\$ 36,138	\$ 98,768	\$ —	\$ 356,687

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

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2016				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash provided by (used in) operating activities	\$ 12,633	\$ 30,671	\$ 1,917	\$ (50,157)	\$ (4,936)
Cash flows from investing activities:					
Sale of investment securities	46,497	4,721	—	—	51,218
Maturities of investment securities	343	—	—	—	343
Purchase of investment securities	(29,112)	—	—	—	(29,112)
Investments in real estate ventures	—	—	(5,795)	—	(5,795)
Investments in real estate, net	—	—	(49)	—	(49)
Distributions from investments in real estate ventures	—	—	12	—	12
Increase in cash surrender value of life insurance policies	—	(62)	—	—	(62)
Increase in restricted assets	(3)	(3,014)	—	—	(3,017)
Pay downs of investment securities	2,174	—	—	—	2,174
Investments in subsidiaries	(471)	—	—	471	—
Capital expenditures	(18)	(2,618)	(1,279)	—	(3,915)
Net cash provided by (used in) investing activities	19,410	(973)	(7,111)	471	11,797
Cash flows from financing activities:					
Proceeds from issuance of debt	—	—	57	—	57
Repayments of debt	—	(1,545)	(31)	—	(1,576)
Borrowings under revolver	—	59,426	—	—	59,426
Repayments on revolver	—	(41,482)	—	—	(41,482)
Capital contributions received	—	100	371	(471)	—
Intercompany dividends paid	—	(34,908)	(15,249)	50,157	—
Dividends and distributions on common stock	(48,876)	—	—	—	(48,876)
Contributions from non-controlling interest	—	—	248	—	248
Distributions to non-controlling interest	—	—	(5,978)	—	(5,978)
Net cash used in financing activities	(48,876)	(18,409)	(20,582)	49,686	(38,181)
Net (decrease) increase in cash and cash equivalents	(16,833)	11,289	(25,776)	—	(31,320)
Cash and cash equivalents, beginning of period	111,470	12,375	116,523	—	240,368
Cash and cash equivalents, end of period	\$ 94,637	\$ 23,664	\$ 90,747	\$ —	\$ 209,048

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 and 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, 2016 and Notes thereto, included in our 2016 Annual Report on Form 10-K, and our Consolidated Condensed Financial Statements and related Notes as of and for the quarterly period March 31, 2017 and 2016.

Overview

We are a holding company and are engaged principally in:

- the manufacture and sale of cigarettes in the United States through our Liggett Group LLC and Vector Tobacco Inc. subsidiaries, and
- the real estate business through our New Valley LLC subsidiary, which is seeking to acquire or invest in additional real estate properties or projects. New Valley owns 70.59% of Douglas Elliman, which operates the largest residential brokerage company in the New York metropolitan area.

Zoom E-cigs LLC ("Zoom") entered the United States e-cigarette market in limited retail distribution outlets in 2013. Zoom's operations are included in our "E-Cigarettes" reporting segment. We have seen significant changes in the e-cigarette market since entering the market with apparent declines in the sales of disposable and rechargeable e-cigarettes while open-system vapor products that feature refillable tanks and use low-cost flavored liquids have demonstrated mixed results. Additionally, we believe uncertainties exist related to the impact of recent regulation of e-cigarettes, the emergence of new technologies and ongoing consumer category acceptance. Given this backdrop, our primary focus on e-cigarettes is to stay prepared to pursue opportunities if they occur.

Recent Developments

Issuance of Senior Secured Notes due 2025. In January 2017, we issued \$850,000 of our 6.125% Senior Secured Notes due 2025 in a private offering to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933.

The 6.125% Senior Secured Notes pay interest on a semi-annual basis at a rate of 6.125% per year and mature on February 1, 2025. Prior to February 1, 2020, we may redeem some or all of the 6.125% Senior Secured Notes at any time at a make-whole redemption price and, thereafter, we may redeem some or all of the 6.125% Senior Secured Notes at a premium that will decline over time, plus accrued and unpaid interest, if any, to the redemption date.

The 6.125% Senior Secured Notes are guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of the wholly owned domestic subsidiaries of the Company that are engaged in the conduct of the Company's cigarette businesses. (See Note 12.) In addition, some of the guarantees are collateralized by first priority or second priority security interests in certain assets of some of the subsidiary guarantors, including their common stock, pursuant to security and pledge agreements.

The aggregate net proceeds from the issuance of the 6.125% senior secured notes were approximately \$831,100 after deducting offering expenses. We used the net proceeds of the issuance, together with the proceeds from the sale of 2,000,000 common shares, to redeem all of our outstanding 7.75% Senior Secured Notes due 2021 and to satisfy and discharge the indenture governing the existing notes.

Issuance of 2,000,000 common shares. On January 27, 2017, we sold 2,000,000 shares of our common stock at a public offering price for net proceeds of approximately \$43,200.

Redemption of Senior Secured Notes due 2021. On February 26, 2017, we retired \$835,000 of our 7.75% Senior Secured Notes at a premium of 103.875%, plus accrued and unpaid interest. We incurred a loss on the extinguishment of the debt of \$34,110 for the three months ended March 31, 2017, which is comprised of \$32,356 of redemption premium and tender offer costs as well as net non-cash interest expense of \$1,754.

Other State Settlements. On January 12, 2016, the Attorney General for Mississippi filed a motion in state court in Jackson County, Mississippi (Chancery Division) to enforce the March 1996 settlement agreement alleging that Liggett owes Mississippi at least \$27,000 in damages (including interest), and \$20,000 in punitive damages and attorneys' fees. On April 21, 2017, the court ruled that the settlement 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. Liggett may be required to make additional payments to Mississippi which could adversely affect our condensed consolidated financial position, results of operations and cash flows.

Recent Developments in Smoking-Related Litigation

There are no material changes from the Recent Developments in Smoking-Related Litigation 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, 2016. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

Critical Accounting Policies

There are no material changes 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, 2016. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

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 VGR Holding, Liggett, Vector Tobacco, Liggett Vector Brands, New Valley, Zoom and other less significant subsidiaries.

For purposes of this discussion and other consolidated financial reporting, our business segments for the three months ended March 31, 2017 and 2016 were Tobacco, E-Cigarettes and Real Estate. The Tobacco segment consists of the manufacture and sale of cigarettes. The E-Cigarettes segment includes the operations of Zoom. The Real Estate segment includes our investment in New Valley LLC, which includes Douglas Elliman, Escena, Sagaponack and investments in real estate ventures.

	Three Months Ended	
	March 31,	
	2017	2016
Revenues:		
Tobacco	\$ 257,454	\$ 221,015
E-Cigarettes	—	38
Real Estate	157,754	159,747
Total revenues	<u>\$ 415,208</u>	<u>\$ 380,800</u>
Operating income (loss):		
Tobacco	\$ 59,770 ⁽¹⁾	\$ 61,483 ⁽²⁾
E-Cigarettes	(77)	(193)
Real Estate	620	7,674
Corporate and Other	(7,382)	(6,805)
Total operating income	<u>\$ 52,931</u>	<u>\$ 62,159</u>

⁽¹⁾ Operating income includes \$895 of income from MSA Settlements and \$1,585 of litigation judgment expense.

⁽²⁾ Operating income includes \$2,350 of litigation judgment expense and \$41 of restructuring expense.

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Revenues. Total revenues were \$415,208 for the three months ended March 31, 2017 compared to \$380,800 for the three months ended March 31, 2016. The \$34,408 (9.0%) increase in revenues was primarily due to a \$36,439 increase in Tobacco revenues offset by a \$1,993 decline in Real Estate revenues, which was primarily related to a decline in Douglas Elliman's revenues.

Cost of sales. Total cost of sales were \$275,923 for the three months ended March 31, 2017 compared to \$236,422 for the three months ended March 31, 2016. The \$39,501 (16.7%) increase in cost of sales was due to a \$39,016 increase in Tobacco cost of sales primarily related to increased sales volume and a \$491 increase in Real Estate cost of sales, which was primarily related to Douglas Elliman. The Tobacco segment's MSA expense is included in cost of sales. The calculation of our benefit from the MSA is an estimate based on taxable unit shipments of cigarettes in the U.S. As of March 31, 2017, we estimate taxable shipments in the U.S. will decline by 3.75% in 2017. Our annual MSA expense changes by approximately \$1,800 for each percentage change in the estimated shipment volumes in the U.S. market.

Expenses. Operating, selling, general and administrative expenses were \$84,769 for the three months ended March 31, 2017 compared to \$79,828 for the same period last year. The \$4,941 (6.2%) increase was due to a \$4,570 increase in Real Estate operating, selling, general and administrative expenses primarily at Douglas Elliman and a \$577 increase in Corporate and Other expense. This was offset by a \$148 decline in E-Cigarettes operating, selling, general and administrative expenses of and a \$58 decline in Tobacco operating, selling, general and administrative expenses.

Operating income. Operating income was \$52,931 for the three months ended March 31, 2017 compared to \$62,159 for the same period last year, a decline of \$9,228 (14.8%). Tobacco operating income declined by \$1,713. Real Estate operating income declined by \$7,054 primarily related to Douglas Elliman. Corporate and Other expenses increased by \$577. This was offset by a decline of E-Cigarettes operating losses of \$116.

Other income (expenses). Other expenses were \$59,938 and \$26,403 for the three months ended March 31, 2017 and 2016, respectively. For the three months ended March 31, 2017, other expenses primarily consisted of interest expense of \$46,221, loss on extinguishment of debt of \$34,110, impairment of investment securities available for sale of \$39, and equity in losses from long-term investments of \$1,061. This was offset by income of \$8,571 from changes in fair value of derivatives embedded within convertible debt, equity in earnings from real estate ventures of \$11,113, other income of \$1,659 and gain on sale of investment securities available for sale of \$150. For the three months ended March 31, 2016, other expenses primarily consisted of interest expense of \$30,720, impairment of investment securities available for sale of \$4,813, equity in losses from long-term investments of \$1,671 and equity loss on real estate ventures of \$507. This was offset by income of \$9,694 from changes in fair value of derivatives embedded within convertible debt, gain on sale of investment securities available for sale of \$567 and other income of \$1,047.

(Loss) income before provision for income taxes. Loss before income taxes was \$7,007 for the three months ended March 31, 2017 compared to income before income taxes of \$35,756 for the three months ended March 31, 2016.

Income tax (benefit) expense. Income tax benefit was \$2,782 for the three months ended March 31, 2017 compared to income tax expense of \$14,363 for the three months ended March 31, 2016. Our provision for income taxes in interim periods is based on an estimated annual effective income tax rate derived, in part, from estimated annual income before provision for income taxes in accordance with guidance on accounting for income taxes on interim periods. For the three months ended March 31, 2017, our income tax benefit was impacted by \$143 due to an income tax deduction as a result of adopting ASU 2016-09.

Tobacco.

Tobacco revenues. All of our Tobacco sales were in the discount category in 2017 and 2016. For the three months ended March 31, 2017, Tobacco revenues were \$257,454 compared to \$221,015 for the three months ended March 31, 2016. Revenues increased by \$36,439 (16.5%) due to 21.0% increase in sales volume of \$33,203 (approximately 376.5 million units) and a favorable price variance of \$3,236.

Liggett increased the list price of PYRAMID, LIGGETT SELECT, EVE and GRAND PRIX by \$0.80 per carton in November 2016 and March 2017 and \$0.70 per carton in May 2016. Liggett increased the list price of EAGLE 20's by \$1.00 per carton in December 2016.

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

	Three Months Ended	
	March 31,	
	2017	2016
Manufacturing overhead, raw materials and labor	\$ 30,230	\$ 25,811
Federal Excise Taxes, net	109,368	90,846
FDA expense	5,123	5,246
MSA expense, net of market share exemption	31,033 ⁽¹⁾	14,835
Total cost of sales	<u>\$ 175,754</u>	<u>\$ 136,738</u>

⁽¹⁾ Includes \$895 reduction in expense from MSA Settlements.

Tobacco gross profit was \$81,700 for the three months ended March 31, 2017 compared to \$84,277 for the three months ended March 31, 2016. The \$2,577 (3.1%) decline was due primarily to higher estimated MSA unit costs partially offset by lower manufacturing unit costs. Gross profit for the three months ended March 31, 2016 includes \$5,010 related to a revision in Liggett's 2015 MSA cost estimate due to higher industry volume. As a percentage of revenues (excluding Federal Excise Taxes), Tobacco gross profit was 55.2% in the 2017 period and 64.7% in the 2016 period.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses were \$20,345 for the three months ended March 31, 2017 compared to \$20,403 for the three months ended March 31, 2016. Tobacco product liability legal expenses, including settlements and judgments, were \$3,137 and \$4,171 for the three months ended March 31, 2017 and 2016, respectively.

Tobacco operating income. Tobacco operating income was \$59,770 for the three months ended March 31, 2017 compared to \$61,483 for the same period last year. The Tobacco operating income decline of \$1,713 (2.8%) was primarily due to lower margins discussed above, which primarily related to the absence in 2017 of the \$5,010 benefit that was recorded in the 2016 period related to a revision in Liggett's 2015 MSA cost estimate.

E-Cigarettes.

E-Cigarettes revenues. There were no E-Cigarettes revenues for the three months ended March 31, 2017 compared to \$38 for the three months ended March 31, 2016.

E-Cigarettes cost of sales. There were no E-Cigarettes cost of sales for the three months ended March 31, 2017 compared to \$6 for the three months ended March 31, 2016.

E-Cigarettes expenses. E-Cigarettes operating, selling, general and administrative expenses were \$77 and \$225 for the three months ended March 31, 2017 and 2016, respectively. Operating losses from E-Cigarettes were \$77 and \$193 for the three months ended March 31, 2017 and 2016, respectively.

Real Estate.

Real Estate revenues. Real Estate revenues were \$157,754 and \$159,747 for the three months ended ended March 31, 2017 and 2016, respectively. Real Estate revenues declined by \$1,993 (1.2%), which was primarily related to a decline of \$2,461 in Douglas Elliman's commission and other brokerage income. The decline in commission and other brokerage income was related to lower revenues generated by Douglas Elliman's development marketing division and was offset by increased commission and other brokerage income in Douglas Elliman's expansion markets. In addition, Douglas Elliman's property management revenues increased by \$665 for the three months ended ended March 31, 2017.

Real Estate revenues and cost of sales for the three months ended ended March 31, 2017 were as follows:

	Three Months Ended	
	March 31,	
	2017	2016
Real Estate Revenues:		
Commission and other brokerage income	\$ 146,893	\$ 149,354
Property management income	7,783	7,118
Title fees	861	1,112
Sales on facilities primarily from Escena	2,217	2,160
Other	—	3
Total real estate revenues	<u>\$ 157,754</u>	<u>\$ 159,747</u>
Real Estate Cost of Sales:		
Commission and other brokerage income	\$ 98,370	\$ 98,412
Cost of sales on facilities primarily from Escena	1,120	1,117
Title fees	679	149
Total real estate cost of sales	<u>\$ 100,169</u>	<u>\$ 99,678</u>

Brokerage cost of sales. Douglas Elliman commission cost of sales declined by \$42 due to a decline in sales volume.

Real Estate expenses. Real Estate operating, selling, general and administrative expenses were \$56,965 and \$52,395 for the three months ended March 31, 2017 and 2016, respectively. The increase of \$4,570 was primarily due to increased expenses associated with the growth of Douglas Elliman, which included its continued expansion in new markets and its development marketing division.

Real Estate operating income. The Real Estate segment had operating income of \$620 and \$7,674 for the three months ended March 31, 2017 and 2016, respectively. The decline in operating income of \$7,054 was primarily related to a decline in profits due to lower operating income at Douglas Elliman.

Corporate and other.

Corporate and other loss. The operating loss at the corporate segment was \$7,382 for the three months ended March 31, 2017 compared to \$6,805 for the same period in 2016. The increase of \$577 was primarily due to increased stock-based compensation expense for the three months ended March 31, 2017.

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 March 31, 2017:

(Dollars in Thousands. Area and Unit Information in Ones)														
	Location	Date of Initial Investment	Percentage Owned	Net Cash Invested	Cumulative Earnings (Losses)	Carrying Value as of 3/31/2017	Future Capital Commitments from New Valley (1)	Projected Residential and/or Hotel Area	Projected Commercial Space	Projected Number of Residential Units and/or Hotel Rooms	Actual/Projected Construction Start Date	Projected Construction End Date		
Sagaponack	Sagaponack, NY	April 2015	100%	\$ 12,918	\$ —	\$ 12,918	\$ —	TBD	N/A	TBD	N/A	N/A		
Escena, net	Master planned community, golf course, restaurant and shop in Palm Springs, CA	March 2008	100%	2,644	8,056	10,700	—	450 Acres		667 R Lots 450 H	N/A	N/A		
Investments in real estate, net				\$ 15,562	\$ 8,056	\$ 23,618	\$ —							
Investments in real estate ventures:														
10 Madison Square West (1107 Broadway)	Flatiron District/NoMad neighborhood, Manhattan, NY	October 2011	5.0%	\$ (22,111)	\$ 22,111	\$ —	\$ —	260,000 SF	20,000 SF	124 R	August 2012	May 2017		
The Marquand (11 East 68th Street)	Upper East Side, Manhattan, NY	December 2011	18.0%	3,396	2,907	6,303	—	90,000 SF	—	29 R	June 2012	Completed		
11 Beach Street	TriBeCa, Manhattan, NY	June 2012	49.5%	13,513	7,315	20,828	—	97,000 SF	—	27 R	May 2014	August 2017		
20 Times Square (701 Seventh Avenue)	Times Square, Manhattan, NY	August 2012	7.9%	17,381	3,587	20,968	—	252,000 SF	80,000 SF	452 H	September 2013	January 2018		
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	9.5%	25,719	(769)	24,950	—	330,000 SF	1,700 SF	157 R	September 2014	September 2018		
160 Leroy Street (2)	West Greenwich Village, Manhattan, NY	March 2013	3.1%	2,293	1,998	4,291	—	130,000 SF	—	57 R	Fall 2015	March 2018		
215 Chrystie Street	Lower East Side, Manhattan, NY	December 2012	18.4%	5,297	742	6,039	—	246,000 SF	—	11 R 367 H	June 2014	November 2017		
The Dutch (25-19 43rd Avenue)	Long Island City, NY	May 2014	9.9%	980	228	1,208	—	65,000 SF	—	86 R	September 2014	July 2017		
1 QPS Tower (23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4%	14,711	2,306	17,017	—	260,000 SF	25,000 SF	391 R	March 2014	May 2017		
87 Park (8701 Collins Avenue)	Miami Beach, FL	December 2013	15.0%	11,210	956	12,166	—	160,000 SF	TBD	70 R	October 2015	May 2019		
125 Greenwich Street (2)	Financial District, Manhattan, NY	August 2014	13.3%	7,992	2,173	10,165	—	306,000 SF	16,000 SF	273 R	March 2015	February 2020		
West Hollywood Edition (9040 Sunset Boulevard)	West Hollywood, CA	October 2014	48.5%	19,308	2,029	21,337	—	210,000 SF	—	20 R 190 H	May 2015	July 2018		
76 Eleventh Avenue	West Chelsea, Manhattan, NY	May 2015	5.1%	17,000	3,263	20,263	—	620,000 SF	48,000 SF	250 H	September 2016	March 2019		
Monad Terrace	Miami Beach, FL	May 2015	24.3%	7,635	449	8,084	—	160,000 SF	—	59 R	May 2016	February 2019		
Takanasee	Long Branch, NJ	December 2015	22.8%	4,635	862	5,497	—	63,000 SF	—	13 R	June 2017	TBD		
Witkoff GP Partners	Santa Monica, CA	March 2017	15.0%	1,170	4	1,174	18,830	246,552 SF	57,640 SF	249 R	July 2018	August 2020		
Condominium and Mixed Use Development				\$ 130,129	\$ 50,161	\$ 180,290	\$ 18,830							
Maryland Portfolio	Primarily Baltimore County, MD	July 2012	7.6%	\$ 1,016	\$ (1,016)	\$ —	\$ —	N/A	N/A	5,517 R	N/A	N/A		
ST Portfolio	Houston, TX	November 2013	16.3%	5,857	2,355	8,212	—	400,000 SF	20,065 SF	396 R	N/A	N/A		
Apartment Buildings				\$ 6,873	\$ 1,339	\$ 8,212	\$ —							
Park Lane Hotel	Central Park South, Manhattan, NY	November 2013	5.2%	\$ 27,778	\$ (6,570)	\$ 21,208	\$ —	445,600 SF	—	628 H	N/A	N/A		
Coral Beach and Tennis Club	Coral Beach, Bermuda	December 2013	49.0%	6,048	(3,562)	2,486	—	52 Acres	—	101 H	N/A	N/A		
Hotels				\$ 33,826	\$ (10,132)	\$ 23,694	\$ —							
The Plaza at Harmon Meadow	Secaucus, NJ	March 2015	49.0%	\$ 4,835	\$ (1,891)	\$ 2,944	\$ —	—	219,382 SF	—	N/A	N/A		
Wynn Las Vegas Retail	Las Vegas, NV	December 2016	2.1%	10,000	—	10,000	—	—	90,000 SF	—	N/A	N/A		
Commercial				\$ 14,835	\$ (1,891)	\$ 12,944	\$ —							
Investments in real estate ventures				\$ 185,663	\$ 39,477	\$ 225,140	\$ 18,830							
Total Carrying Value				\$ 201,225	\$ 47,533	\$ 248,758								

(1) 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.

(2) Carrying value as of March 31, 2017, includes non-controlling interest of \$2,018 and \$1,828, respectively.

N/A - Not applicable SF - Square feet H - Hotel rooms

TBD -To be determined R - Residential Units R Lots - Residential lots

Other investments in real estate ventures relate to an investment in an insurance consulting company by Douglas Elliman with a carrying value of \$2,109 as of March 31, 2017. New Valley has capitalized \$21,807 of net interest expense since inception into the carrying value of its ventures whose projects were under development as of March 31, 2017. This amount is included in the "Cumulative Earnings (Losses)" column in the table above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$36,843 and \$31,320 for the three months ended March 31, 2017 and 2016, respectively.

Cash provided from operations was \$27,896 for the three months ended March 31, 2017 compared to cash used in operations of \$4,936 for the three months ended March 31, 2016. The increase primarily related to a decline in the amount of payments of tobacco litigation settlements and judgments and income taxes in 2017 compared to 2016 and increased distributions received from real estate joint ventures in 2017. These were offset by a decline in operating income and the payment of a redemption premium in 2017 to retire our 7.75% Senior Secured Notes due 2021.

Cash used in investing activities was \$22,365 for the three months ended March 31, 2017 compared to cash provided by investing of \$11,797 for the three months ended March 31, 2016. In the first three months of 2017, cash used in investing activities was for the purchase of investment securities of \$14,974, investments in real estate ventures of \$1,436, capital expenditures of \$4,588, investments in real estate, net of \$70, an increase in cash surrender value of corporate-owned life insurance policies of \$49, issuance of notes receivable of \$1,500 and purchase of long-term investments of \$22,400. This was offset by the sale of investment securities of \$13,456, pay downs of investment securities of \$864, the maturities of investment securities of \$7,174, a decrease in restricted assets of \$1,156, and proceeds from the sale of fixed assets of \$2. In the first three months of 2016, cash provided by investing activities was from the sale of investment securities of \$51,218, pay-downs of investment securities of \$2,174, the maturity of investment securities of \$343 and distributions from investments in real estate ventures of \$12. This was offset by the purchase of investment securities of \$29,112, investment in real estate ventures of \$5,795, capital expenditures of \$3,915, an increase in restricted assets of \$3,017, investment in real estate held for sale of \$49 and an increase in cash surrender value of corporate-owned life insurance policies of \$62.

Cash used in financing activities was \$42,374 and \$38,181 for the three months ended March 31, 2017 and 2016, respectively. In the first three months of 2017, cash was used for the dividends and distributions on common stock of \$52,358, repayments of debt of \$835,697, net repayments of debt under the revolver of \$28,349 and payment of deferred financing costs of \$19,200. This was offset by proceeds from debt issuance of \$850,000, and proceeds of issuance of our common stock of \$43,230. In the first three months of 2016, cash was used for the dividends and distributions on common stock of \$48,876, repayments of debt of \$1,576, and distributions to non-controlling interest of \$5,978. This was offset by proceeds from net borrowings of debt under the revolver of \$17,944, contributions from non-controlling interest of \$248, and proceeds of debt issuance of \$57.

In recent years, we have taken advantage of historically low interest rates and lowered our weighted average cost of capital by issuing debt at lower interest rates than our historical borrowing levels and, as discussed below, in January 2017, we issued \$850,000 of our 6.125% Senior Secured Notes. There can be no assurance that we would be able to continue to issue debt at a lower interest rate than our historical borrowing levels in the future and, in the event we pursue any capital markets activities, our ability to complete any offering would be subject to market conditions.

Liggett Credit Facility and Liggett Term Loan Under Credit Facility. As of March 31, 2017, \$11,812 was outstanding under the revolving and term loan portions of the credit facility. Availability as determined under the Credit Facility was approximately \$42,059 based on eligible collateral at March 31, 2017. At March 31, 2017, management believed that Liggett was in compliance with all covenants under the credit facility; Liggett's EBITDA, as defined, were approximately \$234,021 for the last twelve months ended March 31, 2017.

Vector. In January 2017, we issued \$850,000 of our 6.125% Senior Secured Notes due 2025. The aggregate net proceeds from the issuance of the 6.125% Senior Secured Notes were approximately \$831,100 after deducting offering expenses. We used the net proceeds of the issuance, together with the proceeds from the sale of 2,000,000 common shares, to redeem all of our outstanding 7.75% Senior Secured Notes due 2021 and to satisfy and discharge the indenture governing the existing notes. We retired the 7.75% Senior Secured Notes at 103.875%, plus accrued and unpaid interest, on January 27, 2017. We incurred a loss on the extinguishment of the debt of \$34,110 for the three months ended March 31, 2017, which included \$32,356 of premium and tender offer costs and non-cash interest expense of \$1,754 related to the write-off of net unamortized debt premium and deferred finance costs.

The indenture of our 6.125% Senior Secured Notes due 2025 contains covenants that restrict the payment of dividends if our consolidated earnings before interest, taxes, depreciation and amortization ("Consolidated EBITDA"), as defined in the indenture, for the most recently ended four full quarters is less than \$75,000. The indenture also restricts the incurrence of debt if our Leverage Ratio and our Secured Leverage Ratio, as defined in the indenture, exceed 3.0 and 1.5, respectively. Our Leverage Ratio is defined in the indenture as the ratio of our guaranteeing subsidiaries' total debt less the fair market value of our cash, investments in marketable securities and long-term investments to Consolidated EBITDA, as defined in the indenture. Our Secured Leverage Ratio is defined in the indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness. As of March 31, 2017, we were in compliance with all debt covenants. The following table summarizes the requirements of these financial covenants and the results of the calculation, as defined by the indenture.

Covenant	Indenture Requirement	March 31, 2017
Consolidated EBITDA, as defined	\$75,000	\$304,058
Leverage ratio, as defined	<3.0 to 1	2.02 to 1
Secured leverage ratio, as defined	<1.5 to 1	1.0 to 1

As of December 31, 2016, we were in compliance with all debt covenants in place at that time.

We and our subsidiaries have significant indebtedness and debt service obligations. At March 31, 2017, we and our subsidiaries had total outstanding indebtedness of \$1,354,977, of which \$230,000 of our 7.5% convertible notes mature in 2019, \$258,750 of our 5.5% variable interest senior convertible notes mature in 2020, and \$850,000 of our 6.125% Senior Secured Notes mature in 2025. In addition, subject to the terms of any future agreements, we and our subsidiaries will be able to incur additional indebtedness in the future. 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 believe that our cigarette and real estate operations are positive cash-flow-generating units and will continue to be able to sustain their operations without any significant liquidity concerns.

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 \$356,700, investment securities available for sale of approximately \$150,200, long-term investments with an estimated value of approximately \$80,500 and availability under Liggett's credit facility of approximately \$42,100 at March 31, 2017. 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, management fees and other payments from subsidiaries should be sufficient to meet our liquidity needs over the next 12 months. 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.

On a quarterly basis, we evaluate our investments 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. However, among the matters that are considered in making such a determination are the period of time the investment has remained below its cost or carrying value, the likelihood of recovery given the reason for the decrease in market value and our original expected holding period of the investment.

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 March 31, 2017, approximately \$11,800 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 March 31, 2017, 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 \$118.

In addition, as of March 31, 2017, \$321,075 (\$488,750 principal amount) of outstanding debt had a variable interest rate determined by the amount of the dividends on our common stock. The difference between the stated value of the debt and carrying value is due principally to certain embedded derivatives, which were separately valued and recorded upon issuance, and debt issuance costs. Changes to the estimated fair value of these embedded derivatives are reflected within our statements of operations as "Changes in fair value of derivatives embedded within convertible debt." The value of the embedded derivative is contingent on changes in interest rates of debt instruments maturing over the duration of the convertible debt as well as projections of future cash and stock dividends over the term of the debt and changes in the closing stock price at the end of each quarterly period. Based on a hypothetical 100 basis point increase or decrease in interest rates (1%), our annual "Changes in fair value of derivatives embedded within convertible debt" could increase or decrease by approximately \$1,246 with approximately \$418 resulting from the embedded derivative associated with the 7.5% variable interest senior convertible notes, and the remaining \$828 resulting from the embedded derivative associated with our 5.5% variable interest senior convertible debentures due 2020. An increase in our quarterly dividend rate by \$0.10 per share would increase interest expense by approximately \$10,700 per year.

We have estimated the fair market value of the embedded derivatives based principally on the results of a valuation model. The value of the embedded derivatives is contingent on changes in interest rates of debt instruments maturing over the duration of the convertible debt, our stock price as well as projections of future cash and stock dividends over the term of the debt. The interest rate component of the value of the embedded derivative is computed by calculating an equivalent non-convertible, unsecured and subordinated borrowing cost. This rate is determined by calculating the implied rate on our 7.5% Convertible Notes and our 5.5% Convertible Notes when removing the embedded option value within the convertible security. This rate is based upon market observable inputs and influenced by our stock price, convertible bond trading price, risk-free interest rates and stock volatility. The range of estimated fair market values of our embedded derivatives was between \$104,600 and \$103,371. We recorded the fair market value of our embedded derivatives at the approximate midpoint of the range at \$103,761 as of March 31, 2017. The estimated fair market value of our embedded derivatives could change significantly based on future market conditions.

We and New Valley also hold long-term investments in various investment partnerships. These investments are illiquid, and their ultimate realization is subject to the performance of the underlying entities.

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 other than those set forth below 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, 2016. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

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,
- impairment charges and cost saving associated with restructurings of our tobacco operations, 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,
- 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 competitors' payment obligations, results of operations and product costs, i.e. the impact of federal legislation eliminating the federal tobacco quota system and providing for regulation of tobacco products by the 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, 2016 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 were no changes in our internal control over financial reporting during the first quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 7, 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 Item 1A, "Risk Factors," of our Annual Report on 10-K for the year ended December 31, 2016, except as follows:

Liggett may have additional payment obligations under its individual state settlements.

In 2004, the Attorneys General of Mississippi and Texas advised Liggett that they believed that Liggett had failed to make all required payments under the respective settlement agreements with these states. Liggett believes these allegations are without merit, based, among other things, on the language of the most favored nation provisions of the settlement agreements. No amounts have been accrued in our consolidated financial statements for any additional amounts that may be payable by Liggett under the settlement agreements with Mississippi and Texas. In January 2016, Mississippi filed a motion to enforce the March 1996 settlement agreement alleging that Liggett owes at least \$27 million in compensatory damages (including interest), and \$20 million in punitive damages plus attorneys' fees. On April 21, 2017, the court ruled that the settlement 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. There can be no assurance that Liggett will prevail and that Liggett will not be required to make additional payments, which could materially adversely affect our condensed consolidated financial position, results of operations or cash flows and the value of our common stock.

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

No equity securities of ours which were not registered under a private offering of the Securities Act of 1933 have been issued or sold by us during the three months ended March 31, 2017.

Item 6. Exhibits:

- *4.1** Amendment No. 1 to Third Amended and Restated Credit Agreement, dated as of January 27, 2017, among Liggett Group LLC, 100 Maple LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to Vector's Form 8-K dated January 27, 2017).
- *4.2** Indenture, dated as of January 27, 2017, among Vector Group Ltd., the guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Vector's Form 8-K dated January 27, 2017).
- *4.3** Pledge Agreement, dated as of January 27, 2017, between VGR Holding LLC and U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 4.2 of Vector's Form 8-K dated January 27, 2017).
- *4.4** Security Agreement, dated as of January 27, 2017, by and between Vector Tobacco Inc. and U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 4.3 of Vector's Form 8-K dated January 27, 2017).
- *4.5** Security Agreement, dated as of January 27, 2017, among Liggett Group LLC, 100 Maple LLC and U.S. Bank National Association, as collateral agent (incorporated by reference to Exhibit 4.4 of Vector's Form 8-K dated January 27, 2017).
- *4.6** Amended and Restated Intercreditor and Lien Subordination Agreement, dated as of January 27, 2017, among Liggett Group LLC, 100 Maple LLC, U.S. Bank National Association and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.5 of Vector's Form 8-K dated January 27, 2017).
- [10.1](#) Stock Option Agreement, dated February 23, 2017 between Vector and Howard M. Lorber.
- [10.2](#) Stock Option Agreement, dated February 23, 2017 between Vector and Richard J. Lampen.
- [10.3](#) Stock Option Agreement, dated February 23, 2017 between Vector and James B. Kirkland III.
- [10.4](#) Stock Option Agreement, dated February 23, 2017 between Vector and Marc N. Bell.
- [12.1](#) Computation of Ratio of Earnings to Fixed Charges for each of the five years within the period ended December 31, 2016 and for each of the three months within the periods ended March 31, 2017 and 2016.
- [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**
- 101.SCH** XBRL Taxonomy Extension Schema
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase
- 101.LAB** XBRL Taxonomy Extension Label Linkbase
- 101.PRE** XBRL Taxonomy Extension Presentation Linkbase

* 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: May 5, 2017

**VECTOR GROUP LTD.
4400 Biscayne Blvd.
10th Floor
Miami, FL 33137**

February 23, 2017

Mr. Howard M. Lorber
[Address Redacted]

Dear Mr. Lorber:

We are pleased to inform you that, effective on the date hereof, Vector Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 250,000 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$22.80 per share, subject to adjustment, pursuant to the Company's 2014 Management Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on February 23, 2021. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 13.3 of the Plan or (ii) the termination of your employment with the Company, including by reason of death or disability or (iii) the termination of your employment with the Company by reason of retirement to the extent allowed by the Committee in accordance with Section 16 of the Plan.

2. From and after the date it vests and becomes exercisable pursuant to Section 1 hereof, the Option may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 14 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of one year from the date of termination or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) pursuant to a domestic relations order in accordance with Section 23.4 of the Plan, or (iii) to your family members or trusts or other entities whose beneficial owners are your family members or any other entity affiliated with you approved by the Committee. In the event of a transfer, all terms and conditions of the Option, including the provisions relating to termination of your employment with the Company shall continue to apply following a transfer.

5. In the event of your death or disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, at any time prior to earlier of the one year following the date of termination due to death or disability or the expiration of the option.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the Company shall make adjustments to the Option and/or provide for distributions, as appropriate, in accordance with the terms described in Section 12 of the Plan.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. Upon the exercise of any portion of the Option, 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 any federal state or local taxes required by law to be withheld as a result of such exercise.

9. You understand and acknowledge that Shares received upon exercise of the Option will be subject to the terms of the Company's Equity Retention policy as in effect at the time of exercise.

10. In the event of the payment of any dividends or other distributions (including distributions of securities of another issuer) in respect of the Common Stock beginning on or after the date hereof and continuing while you hold the Option, you shall receive, within ten days of the payment of such dividend or distribution, the amount of any such dividends or other distributions that would have been paid to you had you been, at the record date for such dividends or other distributions, a stockholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested (the "Dividend Equivalent"). In the event that the payment of such dividend or distribution occurs within the last ten days of a calendar year, the Dividend Equivalent shall be paid by the Company within the first ten days of the subsequent calendar year.

11. The Company represents and warrants to you as follows: (i) this letter agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

12. The Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Securities Act of 1933, as amended (the "Act"), the Shares issuable to you upon exercise of the Option and the resale thereof by you.

13. Unless at the time of the exercise of any portion of the Option a registration statement under the Act is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

14. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any resales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

VECTOR GROUP LTD.

By: /s/ J. Bryant Kirkland III
J. Bryant Kirkland III
Senior Vice President, Treasurer and CFO

AGREED TO AND ACCEPTED:

/s/ Howard M. Lorber
Howard M. Lorber

Vector Group Ltd.
4400 Biscayne Blvd
10th Floor
Miami, FL 33137

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Vector Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on February 23, 2017. Payment for the Shares will be made as follows:

my check in the amount of \$_____ which is enclosed.

_____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

pursuant to the attached irrevocable instructions, a broker will sell ____ Shares on my behalf and promptly deliver to you \$_____ in satisfaction of the exercise price and \$____ in satisfaction of applicable tax withholding.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates
and Denominations _____

Name _____

Address _____

Social Security No. _____

Dated:

Very truly yours,

Howard M. Lorber

VECTOR GROUP LTD.
4400 Biscayne Blvd.
10th Floor
Miami, FL 33137

February 23, 2017

Mr. Richard J. Lampen
[Address Redacted]

Dear Mr. Lampen:

We are pleased to inform you that, effective on the date hereof, Vector Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 62,500 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$22.80 per share, subject to adjustment, pursuant to the Company's 2014 Management Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on February 23, 2021. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 13.3 of the Plan or (ii) the termination of your employment with the Company, including by reason of death or disability or (iii) the termination of your employment with the Company by reason of retirement to the extent allowed by the Committee in accordance with Section 16 of the Plan.

2. From and after the date it vests and becomes exercisable pursuant to Section 1 hereof, the Option may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 14 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of one year from the date of termination or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) pursuant to a domestic relations order in accordance with Section 23.4 of the Plan, or (iii) to your family members or trusts or other entities whose beneficial owners are your family members or any other entity affiliated with you approved by the Committee. In the event of a transfer, all terms and conditions of the Option, including the provisions relating to termination of your employment with the Company shall continue to apply following a transfer.

5. In the event of your death or disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, at any time prior to earlier of the one year following the date of termination due to death or disability or the expiration of the option.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the

Company shall make adjustments to the Option and/or provide for distributions, as appropriate, in accordance with the terms described in Section 12 of the Plan.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. Upon the exercise of any portion of the Option, 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 any federal state or local taxes required by law to be withheld as a result of such exercise.

9. You understand and acknowledge that Shares received upon exercise of the Option will be subject to the terms of the Company's Equity Retention policy as in effect at the time of exercise.

10. In the event of the payment of any dividends or other distributions (including distributions of securities of another issuer) in respect of the Common Stock beginning on or after the date hereof and continuing while you hold the Option, you shall receive, within ten days of the payment of such dividend or distribution, the amount of any such dividends or other distributions that would have been paid to you had you been, at the record date for such dividends or other distributions, a stockholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested (the "Dividend Equivalent"). In the event that the payment of such dividend or distribution occurs within the last ten days of a calendar year, the Dividend Equivalent shall be paid by the Company within the first ten days of the subsequent calendar year.

11. The Company represents and warrants to you as follows: (i) this letter agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

12. The Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Securities Act of 1933, as amended (the "Act"), the Shares issuable to you upon exercise of the Option and the resale thereof by you.

13. Unless at the time of the exercise of any portion of the Option a registration statement under the Act is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

14. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any resales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

VECTOR GROUP LTD.

By: /s/ J. Bryant Kirkland III
J. Bryant Kirkland III
Senior Vice President, Treasurer and CFO

AGREED TO AND ACCEPTED:

/s/ Richard J. Lampen
Richard J. Lampen

Vector Group Ltd.
4400 Biscayne Blvd
10th Floor
Miami, FL 33137

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Vector Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on February 23, 2017. Payment for the Shares will be made as follows:

my check in the amount of \$_____ which is enclosed.

_____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

_____ pursuant to the attached irrevocable instructions, a broker will sell ____ Shares on my behalf and promptly deliver to you \$_____ in satisfaction of the exercise price and \$ _____ in satisfaction of applicable tax withholding.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates
and Denominations _____

Name _____

Address _____

Social Security No. _____

Dated:

Very truly yours,

Richard J. Lampen

VECTOR GROUP LTD.
4400 Biscayne Blvd.
10th Floor
Miami, FL 33137

February 23, 2017

Mr. James B. Kirkland III
[Address Redacted]

Dear Mr. Kirkland:

We are pleased to inform you that, effective on the date hereof, Vector Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 37,500 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$22.80 per share, subject to adjustment, pursuant to the Company's 2014 Management Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on February 23, 2021. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 13.3 of the Plan or (ii) the termination of your employment with the Company, including by reason of death or disability or (iii) the termination of your employment with the Company by reason of retirement to the extent allowed by the Committee in accordance with Section 16 of the Plan.

2. From and after the date it vests and becomes exercisable pursuant to Section 1 hereof, the Option may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 14 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of one year from the date of termination or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) pursuant to a domestic relations order in accordance with Section 23.4 of the Plan, or (iii) to your family members or trusts or other entities whose beneficial owners are your family members or any other entity affiliated with you approved by the Committee. In the event of a transfer, all terms and conditions of the Option, including the provisions relating to termination of your employment with the Company shall continue to apply following a transfer.

5. In the event of your death or disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, at any time prior to earlier of the one year following the date of termination due to death or disability or the expiration of the option.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the Company shall make adjustments to the Option and/or provide for distributions, as appropriate, in accordance with the terms described in Section 12 of the Plan.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. Upon the exercise of any portion of the Option, 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 any federal state or local taxes required by law to be withheld as a result of such exercise.

9. You understand and acknowledge that Shares received upon exercise of the Option will be subject to the terms of the Company's Equity Retention policy as in effect at the time of exercise.

10. In the event of the payment of any dividends or other distributions (including distributions of securities of another issuer) in respect of the Common Stock beginning on or after the date hereof and continuing while you hold the Option, you shall receive, within ten days of the payment of such dividend or distribution, the amount of any such dividends or other distributions that would have been paid to you had you been, at the record date for such dividends or other distributions, a stockholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested (the "Dividend Equivalent"). In the event that the payment of such dividend or distribution occurs within the last ten days of a calendar year, the Dividend Equivalent shall be paid by the Company within the first ten days of the subsequent calendar year.

11. The Company represents and warrants to you as follows: (i) this letter agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

12. The Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Securities Act of 1933, as amended (the "Act"), the Shares issuable to you upon exercise of the Option and the resale thereof by you.

13. Unless at the time of the exercise of any portion of the Option a registration statement under the Act is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

14. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any resales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

VECTOR GROUP LTD.

By: /s/ Howard M. Lorber
Howard M. Lorber
President and Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ James B. Kirkland III
James B. Kirkland III

Vector Group Ltd.
4400 Biscayne Blvd
10th Floor
Miami, FL 33137

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Vector Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on February 23, 2017. Payment for the Shares will be made as follows:

my check in the amount of \$_____ which is enclosed.

_____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

_____ pursuant to the attached irrevocable instructions, a broker will sell ____ Shares on my behalf and promptly deliver to you \$_____ in satisfaction of the exercise price and \$_____ in satisfaction of applicable tax withholding.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates
and Denominations _____

Name _____

Address _____

Social Security No. _____

Dated:

Very truly yours,

James B. Kirkland III

**VECTOR GROUP LTD.
4400 Biscayne Blvd.
10th Floor
Miami, FL 33137**

February 23, 2017

Mr. Marc N. Bell
[Address Redacted]

Dear Mr. Bell:

We are pleased to inform you that, effective on the date hereof, Vector Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 37,500 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$22.80 per share, subject to adjustment, pursuant to the Company's 2014 Management Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on February 23, 2021. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 13.3 of the Plan or (ii) the termination of your employment with the Company, including by reason of death or disability or (iii) the termination of your employment with the Company by reason of retirement to the extent allowed by the Committee in accordance with Section 16 of the Plan.

2. From and after the date it vests and becomes exercisable pursuant to Section 1 hereof, the Option may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 14 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of one year from the date of termination or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) pursuant to a domestic relations order in accordance with Section 23.4 of the Plan, or (iii) to your family members or trusts or other entities whose beneficial owners are your family members or any other entity affiliated with you approved by the Committee. In the event of a transfer, all terms and conditions of the Option, including the provisions relating to termination of your employment with the Company shall continue to apply following a transfer.

5. In the event of your death or disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, at any time prior to earlier of the one year following the date of termination due to death or disability or the expiration of the option.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the Company shall make adjustments to the Option and/or provide for distributions, as appropriate, in accordance with the terms described in Section 12 of the Plan.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. Upon the exercise of any portion of the Option, 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 any federal state or local taxes required by law to be withheld as a result of such exercise.

9. You understand and acknowledge that Shares received upon exercise of the Option will be subject to the terms of the Company's Equity Retention policy as in effect at the time of exercise.

10. In the event of the payment of any dividends or other distributions (including distributions of securities of another issuer) in respect of the Common Stock beginning on or after the date hereof and continuing while you hold the Option, you shall receive, within ten days of the payment of such dividend or distribution, the amount of any such dividends or other distributions that would have been paid to you had you been, at the record date for such dividends or other distributions, a stockholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested (the "Dividend Equivalent"). In the event that the payment of such dividend or distribution occurs within the last ten days of a calendar year, the Dividend Equivalent shall be paid by the Company within the first ten days of the subsequent calendar year.

11. The Company represents and warrants to you as follows: (i) this letter agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

12. The Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Securities Act of 1933, as amended (the "Act"), the Shares issuable to you upon exercise of the Option and the resale thereof by you.

13. Unless at the time of the exercise of any portion of the Option a registration statement under the Act is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

14. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any resales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

VECTOR GROUP LTD.

By: /s/ J. Bryant Kirkland III
J. Bryant Kirkland III
Senior Vice President, Treasurer and CFO

AGREED TO AND ACCEPTED:

/s/ Marc N. Bell
Marc N. Bell

Vector Group Ltd.
4400 Biscayne Blvd
10th Floor
Miami, FL 33137

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Vector Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on February 23, 2017. Payment for the Shares will be made as follows:

my check in the amount of \$_____ which is enclosed.

_____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

_____ pursuant to the attached irrevocable instructions, a broker will sell ____ Shares on my behalf and promptly deliver to you \$_____ in satisfaction of the exercise price and \$_____ in satisfaction of applicable tax withholding.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates
and Denominations _____

Name _____

Address _____

Social Security No. _____

Dated:

Very truly yours,

Marc N. Bell

VECTOR GROUP LTD.

Computation of Ratio of Earnings to Fixed Charges

(Dollars in Thousands, Except Ratios)

(Unaudited)

	Three Months Ended March 31,		Year Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
Earnings as defined:							
Pre-tax (loss) income	\$ (7,007)	\$ 35,756	\$ 126,429	\$ 107,705	\$ 82,279	\$ 60,720	53,806
Distributions from investees	7,243	931	24,793	7,152	6,568	6,262	21,467
Interest expense	37,650	21,026	111,272	96,236	146,787	147,084	132,538
(Income) loss in equity of affiliate	(10,052)	2,178	(2,446)	680	(7,243)	(26,051)	(30,028)
Interest portion of rental expense (1)	2,575	2,059	9,079	8,149	7,505	2,174	1,367
Total earnings	\$ 30,409	\$ 61,950	\$ 269,127	\$ 219,922	\$ 235,896	\$ 190,189	179,150
Fixed charges as defined:							
Interest expense	\$ 37,650	\$ 21,026	\$ 111,272	\$ 96,236	\$ 146,787	\$ 147,084	132,538
Interest portion of rent expense (1)	2,575	2,059	9,079	8,149	7,505	2,174	1,367
Total fixed charges	\$ 40,225	\$ 23,085	\$ 120,351	\$ 104,385	\$ 154,292	\$ 149,258	133,905
Ratio of earnings to fixed charges	0.76	2.68	2.24	2.11	1.53	1.27	1.34

(1) One third of rent expense is the portion deemed representative of the interest factor.

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: May 5, 2017

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

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: May 5, 2017

/s/ J. Bryant Kirkland III

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

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 March 31, 2017 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.

May 5, 2017

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

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 March 31, 2017 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.

May 5, 2017

/s/ J. Bryant Kirkland III

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

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. In October 2013, the Company announced a settlement of the claims of more than 4,900 *Engle* progeny plaintiffs. This settlement is referred to as *Engle* Progeny Settlement I. In December 2016, the Company announced the settlement of an additional 124 cases. This settlement is referred to as *Engle* Progeny Settlement II. Notwithstanding the settlements, the claims of approximately 115 *Engle* progeny plaintiffs remain pending. For more information on the *Engle* case and on the settlement, see "Note 7. Contingencies."

(i) Engle Progeny Cases with trial dates through March 31, 2018 (listed alphabetically).

None.

(ii) Post-Trial Engle Progeny Cases.

Boatright, et al. v. R.J. Reynolds, et al., Case No. 53-2011-CA-000158-000-WH, Circuit Court of the 10th Judicial Circuit, Polk County (case filed 01/12/11). This was a personal injury action filed by a smoker and his spouse that proceeded to jury trial in October 2014. At the close of plaintiff's case, the court granted directed verdict to Liggett on all claims other than the claim for conspiracy to conceal. In November 2014, the jury returned a verdict in favor of plaintiffs and awarded compensatory damages in the amount of \$15,000,000. The jury apportioned fault as follows: Plaintiff - 15%, Philip Morris - 85%. While the jury determined that Liggett's participation in an agreement to conceal was a legal cause of injury to plaintiffs, the court refused to allow the jury to consider apportioning fault to Liggett. In January 2015, a joint and several judgment was entered against the defendants for \$12,750,000 for the compensatory damages and \$300,000 in punitive damages was awarded against Liggett. The defendants appealed to the Second District Court of Appeal. In March 2015, plaintiffs' motion for attorneys' fees was denied by the court. Plaintiffs appealed that ruling. In April 2017, the Second District Court of Appeal affirmed the lower court but reversed and remanded the case as to the reduction of the award based on plaintiff's comparative fault. In addition, the appellate court reversed the lower court's decision regarding entitlement to attorneys' fees. Any liability resulting from this case is included in the settlement amount Liggett will pay pursuant to *Engle* Progeny Settlement II.

Putney v. R.J. Reynolds, et al., Case No. 07-36668, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/28/07). This was a wrongful death action that proceeded to jury trial in March 2010. In April 2010, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of \$15,000,000. The jury apportioned fault as follows: Decedent - 35%, R.J. Reynolds - 30%, Liggett - 20% (\$3,008,138) and Philip Morris - 15%. No punitive damages were awarded against Liggett. In June 2013, the Fourth District Court of Appeal held that the trial court erred in entering summary judgment against defendants on their statute of repose defense and in denying the defendant's motion for remittitur of the compensatory damages. As a result, the Fourth District Court of Appeal reversed and remanded for further proceedings. The Florida Supreme Court subsequently quashed that decision as it related to the statute of repose issue. On remand from the Florida Supreme Court, the Fourth District Court of Appeal concluded an *Engle* progeny plaintiff can prevail on an independent tort for conspiracy. The Fourth District Court of Appeal reiterated that the trial court erred in not granting defendants' motions for remittitur of the consortium award to decedent's adult children. Accordingly, on remand, the trial court will enter an order remitting that amount. Either party may elect to reject the trial court's remittitur. If the remittitur is rejected, the trial court will conduct a new trial on non-economic compensatory damages. A hearing occurred on March 14, 2017. A decision is pending. Plaintiff moved for an award of attorneys' fees against Liggett pursuant to the fee shifting provisions of Florida's proposal for settlement statute based on a settlement offer that was not accepted by Liggett. The court granted the attorneys' fee motion with the amount to be determined in a future proceeding, however, based on the appellate proceedings, there is not presently a judgment against Liggett that would support an award of attorneys' fees.

Santoro v. R.J. Reynolds, et al., Case No. 08-025807, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/05/08). This was a wrongful death action that 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 for compensatory damages as well as \$15,000 in punitive damages against Liggett. Post trial motions are pending but have not been set for hearing.

Ward v. R.J. Reynolds, et al., Case No. 2008-CA-2135, Circuit Court of the 1st Judicial Circuit, Escambia County (case filed 12/13/07). This was a wrongful death action that proceeded to jury trial in January 2012. In January 2012, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of \$1,000,000. The jury apportioned fault as follows: Decedent - 50%, R.J. Reynolds - 30%, Philip Morris - 10%, Lorillard - 9.9% and Liggett - 0.1% (\$1,000). No punitive damages were awarded against Liggett. Two of the defendants settled before trial. A joint and several judgment was entered against Liggett and the other defendant for \$487,000. In September 2013, the First District Court of Appeal affirmed. Liggett satisfied the merits judgment in January 2014. In November 2015, the trial court awarded plaintiff \$981,116 in attorneys' fees and costs and entered final judgment jointly and severally against Liggett and the other defendant. Defendants appealed that final judgment and briefing is underway. Other than the issue regarding attorneys' fees, this matter is concluded.

B. Other Individual Cases.

Florida

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 tobacco company defendant in this case. The case is dormant.

Cox v. R.J. Reynolds, et al., Case No. 05-CA-000677, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 01/21/05). One individual suing. There has been no recent activity in this case.

Ditslear v. R.J. Reynolds, et al., Case No. 05-CA-000899, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 01/28/05). One individual suing. There has been no recent activity in this case.

Fuchs v. R.J. Reynolds, et al., Case No. 05-CA-000681, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 01/21/05). One individual suing. Defendants moved to dismiss this case.

Gentile v. R.J. Reynolds, et al., Case No. 50215CA-005405XXXXMB, Circuit Court of the 15th Judicial Circuit, Palm Beach County (case filed 05/26/15). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is scheduled for trial starting 10/02/17.

Laschke, et al. v. R.J. Reynolds, et al., Case No. 96-8131-CI-008, Circuit Court of the 6th Judicial Circuit, Pinellas County (case filed 12/20/96). Two individuals suing. The dismissal of the case was reversed on appeal, and the case was remanded to the trial court. An amended complaint was filed by the plaintiffs. In January 2006, defendants moved to dismiss the amended complaint. A hearing has not been scheduled.

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.

Maryland

Bearman, et al. v. Union Carbide Corporation, et al., Case No. 24-X-14-000303, Circuit Court, Baltimore City (case filed 07/13/15). Two individuals suing. Plaintiff and his wife seek damages allegedly caused by exposure to asbestos and cigarettes, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In August 2015, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Church v. Union Carbide Corporation, et al., Case No. 24-X-15-000225, Circuit Court, Baltimore City (case filed 11/21/16). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In December 2016, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Cook, et al. v. Union Carbide Corporation, et al., Case No. 24-X-13-000445, Circuit Court, Baltimore City (case filed 09/12/13). Two individuals suing. Plaintiff and his wife seek damages allegedly caused by exposure to asbestos and cigarettes, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In November 2013, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Cowens, et al. v. John Crane-Houdaille Inc., et al., Case No. 24-X-11-000335, Circuit Court, Baltimore City (case filed 09/12/13). Three individuals suing. Plaintiffs are the surviving children of the decedent. Plaintiffs seek damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Vector Tobacco. In January 2014, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Culotta v. Union Carbide Corporation, et al., Case No. 24-X-12-000690, Circuit Court, Baltimore City (case filed 06/20/13). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In July 2013, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Danna v. Union Carbide Corporation, et al., Case No. 24-X-15-000155, Circuit Court, Baltimore City (case filed 08/19/15). One individual suing. Plaintiff seeks damages allegedly caused by his exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In September 2015, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Fales v. John Crane-Houdaille, Inc., et al., Case No. 24-X-11-000326, Circuit Court, Baltimore City (case filed 06/10/13). One individual suing. Plaintiff is the surviving child of decedent. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In July 2013, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Fike v. Union Carbide Corporation, et al., Case No. 24-X-16-000102, Circuit Court, Baltimore City (case filed 12/21/16). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In January 2017, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Lively v. Union Carbide Corporation, et al., Case No. 24-X-13-000710, Circuit Court, Baltimore City (case filed 03/20/15). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett and Vector Tobacco. In April 2015, defendants moved to dismiss the first amended

complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Majors v. Union Carbide Corporation, et al., Case No. 24-X-14-000397, Circuit Court, Baltimore City (case filed 06/09/15). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In August 2016, Liggett moved to dismiss the second amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Poist v. Union Carbide Corporation, et al., Case No. 24-X-14-000356, Circuit Court, Baltimore City (case filed 11/21/16). Two individuals suing. Plaintiffs seek damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In December 2016, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Ruth v. Union Carbide Corporation, et al., Case No. 24-X-13-000717, Circuit Court, Baltimore City (case filed 08/07/15). One individual suing. Plaintiff seeks damages allegedly caused by his exposure to asbestos, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In September 2015, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Sapp, et al. v. Union Carbide Corporation, et al., Case No. 24-X-14-000310, Circuit Court, Baltimore City (case filed 07/13/15). Four individuals suing. Plaintiffs seek damages allegedly caused by exposure to asbestos and cigarettes, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In August, 2015, Liggett moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Schwartz v. Union Carbide Corporation, et al., Case No. 24-X-15-000074, Circuit Court, Baltimore City (case filed 05/22/15). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett. In June 2015, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Thorpe, et al. v. Union Carbide Corporation, et al., Case No. 24-X-14-000225, Circuit Court, Baltimore City (case filed 05/16/14). Two individuals suing. Plaintiffs are the surviving children of the decedent. Plaintiffs seek damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett and Vector Tobacco. In July 2014, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Wilt, et al. v. Union Carbide Corporation, et al., Case No. 24-X-12-000529, Circuit Court, Baltimore City (case filed 04/24/14). Two individuals suing. Plaintiff and his wife seek damages allegedly caused by his exposure to asbestos and cigarettes, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett and Vector Tobacco. In July 2014, defendants moved to dismiss the first amended complaint. On March 6, 2017, the court heard argument on the outstanding motions to dismiss. A decision is pending.

Missouri

Nuzum, et al. v. Brown & Williamson Tobacco Corporation, et al., Case No. 03-cv-237237, Circuit Court, Jackson County (case filed 05/21/03). Two individuals suing. A case management conference occurred on June 24, 2016.

New York

Debobes v. The American Tobacco Company, et al., Case No. 29544/92, Supreme Court of New York, Nassau County (case filed 10/17/97). One individual suing. There has been no recent activity in this case.

Hausrath, et al. v. Liggett Group LLC, Case No. I2001-09526, Supreme Court of New York, Erie County (case filed 01/24/02). Two individuals suing. Liggett is the only remaining defendant. In July 2013, the court granted plaintiffs' motion to restore the case to the active docket calendar. Liggett appealed, and the intermediate appellate court affirmed the lower court's decision. In November 2015, the court entered a case management order providing discovery deadlines. A status conference is scheduled for June 1, 2017.

Shea, et al. v. The American Tobacco Company, et al., Case No. 008938/03, Supreme Court of New York, Nassau County (case filed 10/17/97). Two individuals suing. In December 2008, the trial court granted defendants' motion to dismiss plaintiffs' claims for punitive damages as barred by the industry's 1998 settlement with the New York Attorney General, but denied the defendants' motion to dismiss the case. The dismissal of the punitive damages claim was affirmed by the intermediate appellate court in May 2010. Plaintiffs' motion to reargue the decision was denied by the appellate court. The case is stayed.

Standish v. The American Tobacco Company, et al., Case No. 18418-97, Supreme Court of New York, Bronx County (case filed 07/28/97). One individual suing. There has been no recent activity in this case.

Tomasino, et al. v. The American Tobacco Company, et al., Case No. 027182/97, Supreme Court of New York, Nassau County (case filed 09/23/97). Two individuals suing. In June 2009, the trial court granted defendants' motion to dismiss plaintiffs' claims for punitive damages as barred by the industry's 1998 settlement with the New York Attorney General, but denied the defendants' motion to dismiss the case. The dismissal of the punitive damages claim was affirmed by the intermediate appellate court in May 2010. Plaintiffs' motion to reargue the decision was denied by the appellate court. The case is stayed.

Yedwabnick v. The American Tobacco Company, et al., Case No. 20525/97, Supreme Court of New York, Queens County (case filed 09/19/97). One individual suing. There has been no recent activity in this case.

Ohio

Croft, et al. v. Akron Gasket & Packing, et al., Case No. CV04541681, Court of Common Pleas, Cuyahoga County (case filed 08/25/05). Two individuals suing. There has been no recent activity in this case.

West Virginia

Brewer, et al. v. The American Tobacco Company, et al., Case No. 01-C-82, Circuit Court, Ohio County (case filed 03/20/01). Two individuals suing. There has been no recent activity in this case.

Little v. The American Tobacco Company, et al., Case No. 01-C-235, Circuit Court, Ohio County (case filed 06/04/01). One individual suing. There has been no recent activity in this case.

II. CLASS ACTION CASES

In Re: Tobacco Litigation (Personal Injury Cases), Case No. 00-C-5000, Circuit Court, West Virginia, Ohio County (case filed 01/18/00). Although not technically a class action, the court consolidated approximately 750 individual smoker actions that were pending prior to 2001 for trial of certain "common" issues. Liggett was severed from trial of the consolidated action. After two mistrials, in May 2013, the jury rejected all but one of the plaintiffs' claims, finding in favor of plaintiffs on the claim that ventilated filter cigarettes between 1964 and July 1, 1969 should have included instructions on how to use them. The issue of damages was reserved for further proceedings. The court entered judgment in October 2013, dismissing all claims except the ventilated filter claim. The judgment was affirmed on appeal and remanded to the trial court for further proceedings. In April 2015, the plaintiffs filed a petition for writ of certiorari to the United States Supreme Court which subsequently declined review. In July 2015,

the trial court ruled on the scope of the ventilated filter claim and determined that only 30 plaintiffs have potentially viable claims against the non-Liggett defendants, which may be pursued in a second phase of the trial. The court intends to try the claims of these plaintiffs in six consolidated trials, each with five plaintiffs. With respect to Liggett, the trial court requested that Liggett and plaintiffs brief whether any claims against Liggett survive given the outcome of the first phase of the trial. On May 23, 2016, the trial court ruled that the case could proceed against Liggett. Liggett requested that the trial court certify the matter to the West Virginia Supreme Court of Appeals, for review, but the trial court refused. It is estimated that Liggett could be a defendant in approximately 90 individual cases. A scheduling order was entered governing the Phase I common issues pre-trial proceedings and discovery is underway.

Parsons, et al. v. A C & S Inc., et al., Case No. 98-C-388, Circuit Court, West Virginia, Ohio County (case filed 02/09/98). This purported class action is brought on behalf of plaintiff's decedent and all West Virginia residents who allegedly have personal injury claims arising from their exposure to cigarette smoke and asbestos fibers. The complaint seeks to recover unspecified compensatory and punitive damages for all potential members of the class. The case is stayed as a result of the December 2000 bankruptcy petitions filed by three defendants (Nitril Liquidators, Inc., Desseaux Corporation of North America and Armstrong World Industries) in the United States Bankruptcy Court for the District of Delaware.

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. The case has been stayed for a number of years, with the stay renewed every few years. The last stay was entered on March 16, 2016 and stays 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.