VECTOR GROUP LTD
Form 10-K
March 08, 2016
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2015

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

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

4400 Biscayne Boulevard, Miami, Florida	33137
(Address of principal executive offices)	(Zip Code)

(305) 579-8000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. R Yes o No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. o Yes þ No

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. R Yes o No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

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

Large accelerated filer R Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of Vector Group Ltd. as of June 30, 2015 was approximately $1.979 billion.

At March 8, 2016, Vector Group Ltd. had 123,792,329 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III (Items 10, 11, 12, 13 and 14) from the definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant’s fiscal year covered by this report.

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PART I

ITEM 1. BUSINESS
Overview
Vector Group Ltd., a Delaware corporation, is a holding company and is principally engaged in:

- the manufacture and sale of cigarettes in the United States through our Liggett Group LLC ("Liggett") and Vector Tobacco Inc. ("Vector Tobacco") subsidiaries,
- the sale of electronic cigarettes ("e-cigarettes") in the United States through our Zoom E-Cigs LLC ("Zoom") subsidiary, 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 Realty, LLC ("Douglas Elliman Realty"), which operates the largest residential brokerage company in the New York metropolitan area.

Financial information relating to our business segments can be found in Note 19 to our consolidated financial statements. Our significant business segments for the year ended December 31, 2015 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 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.
Strategy
Our strategy is to maximize stockholder value by increasing the profitability of our subsidiaries in the following ways:
Liggett and Vector Tobacco

- Capitalize on our tobacco subsidiaries' cost advantage in the U.S. cigarette market due to the favorable treatment that they receive under the Master Settlement Agreement ("MSA");
- Focus marketing and selling efforts on the discount segment, continue to build volume and margin in core discount brands (EAGLE 20's, PYRAMID, GRAND PRIX, LIGGETT SELECT and EVE) and utilize core brand equity to selectively build distribution;
- Continue product development to provide the best quality products relative to other discount products in the marketplace;
- Increase efficiency by developing and adopting an organizational structure to maximize profit potential;
- Selectively expand the portfolio of private and control label partner brands utilizing a pricing strategy that offers long-term list price stability for customers;
- Identify, develop and launch relevant new tobacco products to the market in the future; and
- Pursue strategic acquisitions of smaller tobacco manufacturers.

New Valley

- Continue to grow Douglas Elliman Realty's operations by utilizing its strong brand name recognition and pursuing strategic and financial opportunities;
- Continue to leverage our expertise as direct investors by actively pursuing real estate investments in the United States and abroad which we believe will generate above-market returns;
- Acquire operating companies through mergers, asset purchases, stock acquisitions or other means; and
- Invest our excess funds opportunistically in situations that we believe can maximize stockholder value.

Tobacco Operations
General. Liggett is the operating successor to Liggett & Myers Tobacco Company, which was founded in 1873. Vector Tobacco is a discount cigarette manufacturer selling product in the deep discount category. In this report, certain references to "Liggett" refer to our tobacco operations, including the business of Liggett and Vector Tobacco, unless otherwise specified.
For the year ended December 31, 2015, Liggett was the fourth-largest manufacturer of cigarettes in the United States in terms of unit sales. Liggett's manufacturing facilities are located in Mebane, North Carolina where it manufactures most of Vector

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Tobacco's cigarettes pursuant to a contract manufacturing agreement. At the present time, Liggett and Vector Tobacco have no foreign operations.

According to data from Management Science Associates, Inc., Liggett's domestic shipments of approximately 8.7 billion cigarettes during 2015 accounted for 3.3% of the total cigarettes shipped in the United States during such year. Liggett's market share decreased 0.1% in 2015 from 3.4% in 2014. Market share in 2013 was 3.3%. Historically, Liggett produced premium cigarettes as well as discount cigarettes (which include among others, control label, private label, branded discount and generic cigarettes). Premium cigarettes are generally marketed under well-recognized brand names at higher retail prices to adult smokers with a strong preference for branded products, whereas discount cigarettes are marketed at lower retail prices to adult smokers who are more cost conscious. In recent years, the discounting of premium cigarettes has become far more significant in the marketplace. This has led to some brands that were traditionally considered premium brands becoming more appropriately categorized as branded discount, following list price reductions. Liggett's EVE brand falls into that category. All of Liggett's unit sales volume in 2015, 2014 and 2013 was in the discount segment, which Liggett's management believes has been the primary growth segment in the industry for more than a decade.

Liggett produces cigarettes in 117 combinations of length, style and packaging. Liggett's current brand portfolio includes:

- EAGLE 20's — a brand positioned in the deep discount segment for long-term growth re-launched as a national brand in 2013,
- PYRAMID — the industry's first deep discount product with a brand identity relaunched in the second quarter of 2009,
- GRAND PRIX — re-launched as a national brand in 2005,
- LIGGETT SELECT — a discount category brand originally launched in 1999,
- EVE — a 120 millimeter cigarette in the branded discount category, and
- USA and various Partner Brands and private label brands.

In April 2009, Liggett repositioned PYRAMID as a box-only brand with a low price to specifically compete with brands which are priced at the lowest level of the deep discount segment. PYRAMID is now the largest seller in Liggett's family of brands with 54.4% of Liggett's unit volume in 2015, 61.1% in 2014 and 65.5% in 2013. In January 2013, Liggett repackaged and relaunched EAGLE 20's to distributors and retailers on a national basis. EAGLE 20's is marketed to compete with brands positioned in the deep discount segment. EAGLE 20's represented 23.4% in 2015 and 13.4% in 2014 of Liggett's unit volume. According to Management Science Associates, Liggett held a share of approximately 11.8% of the overall discount market segment for 2015 and 2014 and 11.6% for 2013.

Under the MSA reached in November 1998 with 46 states and various territories, the three largest cigarette manufacturers must make settlement payments to the states and territories based on how many cigarettes they sell annually. Liggett, however, is not required to make any payments unless its market share exceeds approximately 1.65% of the U.S. cigarette market. Additionally, Vector Tobacco has no payment obligation unless its market share exceeds approximately 0.28% of the U.S. cigarette market. We believe our tobacco subsidiaries have a sustainable cost advantage over their competitors as a result of the settlement.

Liggett's and Vector Tobacco's payments under the MSA are based on each respective company's incremental market share above the minimum threshold applicable to each respective company. Thus, if Liggett's total market share is 3%, its MSA payment is based on 1.35%, which is the difference between Liggett's total market share of 3% and its approximate applicable grandfathered share of 1.65%. We anticipate that both Liggett's and Vector Tobacco's payment exemptions will be fully utilized in the foreseeable future.

The source of industry data in this report is Management Science Associates, Inc., an independent third-party database management organization that collects wholesale and retail shipment data from various cigarette manufacturers and distributors and provides analysis of market share, unit sales volume and premium versus discount mix for individual companies and the industry as a whole. Management Science Associates' information relating to unit sales volume and market share of certain of the smaller, primarily deep discount, cigarette manufacturers is based on estimates developed by Management Science Associates.

Business Strategy. Liggett's business strategy is to capitalize upon its cost advantage in the United States cigarette market resulting from the favorable treatment our tobacco subsidiaries receive under settlement agreements with the states and the MSA. Liggett's long-term business strategy is to continue to focus its marketing and selling efforts on the discount segment of the market, to continue to build volume and margin in its core discount brands (EAGLE 20's, PYRAMID, GRAND PRIX, LIGGETT SELECT and EVE) and to utilize its core brand equity to selectively build distribution. Liggett intends to continue its product development to provide the best quality products relative to other discount products in the market place. Liggett will continue to seek increases in efficiency by developing and adapting its organizational structure to maximize profit potential.

Sales, Marketing and Distribution. Liggett's products are distributed from a central distribution center in Mebane, North Carolina to 17 public warehouses located throughout the United States. These warehouses serve as local distribution centers for

Liggett's customers. Liggett's products are transported from the central distribution center to the public warehouses by third-party trucking companies to meet pre-existing contractual obligations to its customers.

Liggett's customers are primarily candy and tobacco distributors and large grocery, drug and convenience store chains. Two customers, accounted for 19% and 10% of Liggett's revenues in 2015 and 18% and 10% in 2013. One customer accounted for 19% of Liggett's revenues in 2014. Concentrations of credit risk with respect to trade receivables are generally limited due to the large number of customers, located primarily throughout the United States, comprising Liggett's customer base. Liggett's two largest customers, represented approximately 4% and 1%, respectively, of net accounts receivable at December 31, 2015 and 5% and 1%, respectively, at December 31, 2013. Liggett's largest customer represented approximately 11% of net accounts receivable at December 31, 2014. Ongoing credit evaluations of customers' financial condition are performed and, generally, no security is required. Liggett maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Trademarks. All of the major trademarks used by Liggett are federally registered or are in the process of being registered in the United States and other markets. Trademark registrations typically have a duration of ten years and can be renewed at Liggett's option prior to their expiration date.

In view of the significance of cigarette brand awareness among consumers, management believes that the protection afforded by these trademarks is material to the conduct of its business. These trademarks are pledged as collateral for certain of our senior secured debt.

Manufacturing. Liggett purchases and maintains leaf tobacco inventory to support its cigarette manufacturing requirements. Liggett believes that there is a sufficient supply of tobacco within the worldwide tobacco market to satisfy its current production requirements. Liggett stores its leaf tobacco inventory in warehouses in North Carolina and Virginia. There are several different types of tobacco, including flue-cured leaf, burley leaf, Maryland leaf, oriental leaf, cut stems and reconstituted sheet. Leaf components of American-style cigarettes are generally the flue-cured and burley tobaccos. While premium and discount brands use many of the same tobacco products, input ratios of tobacco products may vary between premium and discount products. Liggett purchases its tobacco requirements from both domestic and foreign leaf tobacco dealers, much of it under long-term purchase commitments. As of December 31, 2015, the majority of Liggett's commitments were for the purchase of foreign tobacco.

Liggett's cigarette manufacturing facility was designed for the execution of short production runs in a cost-effective manner, which enables Liggett to manufacture and market 117 different cigarette brand styles including private labels for other companies. Liggett's facility produced approximately 8.4 billion cigarettes in 2015, but maintains the capacity to produce approximately 16.4 billion cigarettes per year. Vector Tobacco has contracted with Liggett to produce most of its cigarettes at Liggett's manufacturing facility in Mebane.

Competition. Liggett's competition is divided into two segments. The first segment consists of the three largest manufacturers of cigarettes in the United States: Philip Morris USA Inc., RJ Reynolds Tobacco Company (which is now part of Reynolds American) ("RJ Reynolds") and ITG Brands LLC, which is owned by Imperial Brands Plc. These three manufacturers, while primarily premium cigarette-based companies, also produce and sell discount cigarettes. The second segment of competition is comprised of a group of smaller manufacturers and importers, most of which sell deep discount cigarettes.

The merger between RJ Reynolds and Lorillard in June 2015 consolidated more than 80% of the U.S. cigarette market within the control of two manufacturers, Philip Morris and RJ Reynolds. Consolidation in the industry could have a material adverse effect on our ability to compete in the U.S. cigarette market.

Historically, there have been substantial barriers to entry into the cigarette business, including extensive distribution organizations, large capital outlays for sophisticated production equipment, substantial inventory investment, costly promotional spending, regulated advertising and, for premium brands, strong brand loyalty. However, after the MSA was signed, some smaller manufacturers and importers that are not parties to the MSA were able to overcome these competitive barriers due to their cost advantage resulting from the MSA. These smaller manufacturers and importers that are not parties to the MSA have been impacted in recent years by the state statutes enacted pursuant to the MSA and have seen a decline in volume after years of growth. However, these companies still have significant market share through competitive discounting in this segment.

In the cigarette business, Liggett competes on a dual front. The two major manufacturers compete among themselves for premium brand market share based on advertising and promotional activities and trade rebates and incentives and compete with Liggett and others for discount market share, on the basis of cost and brand loyalty. These two competitors have substantially greater financial resources than Liggett, and most of their brands have greater sales and consumer recognition than Liggett's products. Liggett's discount brands must also compete in the marketplace with the smaller manufacturers' and importers' deep discount brands.

According to Management Science Associates' data, the unit sales of Philip Morris and RJ Reynolds accounted in the aggregate for approximately 78.5% of the domestic cigarette market in 2015. Liggett's domestic shipments of approximately 8.7

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billion cigarettes during 2015 accounted for 3.3% of the approximately 264 billion cigarettes shipped in the United States, compared to 8.9 billion cigarettes in 2014 (3.4%) and 9.1 billion cigarettes in 2013 (3.3%).

Industry-wide shipments of cigarettes in the United States have been declining for a number of years, with Management Science Associates' data indicating that domestic industry-wide shipments declined by approximately 0.1% (approximately 0.3 billion units) and 3.0% (approximately 8.0 billion units) in 2015 and 2014, respectively. Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking, and a wide variety of federal, state and local laws limiting smoking in restaurants, bars and other public places, as well as increases in federal and state excise taxes and settlement-related expenses which have contributed to higher cigarette prices in recent years.

Historically, because of their dominant market share, Philip Morris and RJ Reynolds, the two largest cigarette manufacturers, have been able to determine cigarette prices for the various pricing tiers within the industry. Market pressures have historically caused the other cigarette manufacturers to bring their prices in line with the levels established by these two major manufacturers. Off-list price discounting and similar promotional activity by manufacturers, however, has substantially affected the average price differential at retail, which can be significantly less than the manufacturers' list price gap. Recent discounting by manufacturers has been far greater than historical levels, and the actual price gap between premium and deep-discount cigarettes has changed accordingly. This has led to shifts in price segment performance depending upon the actual price gaps of products at retail.

Philip Morris and RJ Reynolds dominate the domestic cigarette market with a combined market share of approximately 78.5% at December 31, 2015. This concentration of United States market share makes it more difficult for Liggett to compete for shelf space in retail outlets and could impact price competition in the market, either of which could have a material adverse effect on its sales volume, operating income and cash flows.

E-Cigarettes

Our subsidiary, Zoom, entered the emerging United States e-cigarette market in limited retail distribution outlets in January 2014 with a cautious plan to minimize expense. In January of 2014, we announced the national rollout of our Zoom e-cigarette brand. Uncertainties regarding e-cigarettes are significantly greater today than they were a year ago and, at this point, the trend lines do not predict a bright future. In fact, we have seen significant changes in the e-cigarette market over the past year with disposable e-cigarettes in rapid decline, rechargeable e-cigarettes appearing to be in decline and open system vapor products, that feature refillable tanks and use low-cost flavored liquids, demonstrating mixed results with limited category volume growth but rapidly declining prices. Additionally, we believe uncertainties related to the regulation of e-cigarettes, including open system vapor products, exist. Given this backdrop, our primary focus on the e-cigarette product is to limit risk while staying prepared to pursue opportunities if they occur. Zoom incurred operating losses of $13.0 million and $13.1 million in 2015 and 2014, respectively, and approximately $1.0 million in operating losses during 2013 relating to startup costs.

Legislation, Regulation and Litigation

In the United States, tobacco products are subject to substantial and increasing legislation, regulation and taxation, which have a negative effect on revenue and profitability. In June 2009, legislation was passed providing for regulation of the tobacco industry by the United States Food and Drug Administration. See Item 7. "Management Discussion and Analysis of Financial Condition and Results of Operations — Legislation and Regulation."

The cigarette industry continues to be challenged on numerous fronts. The industry is facing increased pressure from anti-smoking groups and continued smoking and health litigation, the effects of which, at this time, we are unable to quantify. Product liability litigation, particularly in Florida in the Engle progeny cases, continues to adversely affect the cigarette industry. See Item 1A. "Risk Factors," Item 3. "Legal Proceedings" and Note 15 to our consolidated financial statements, which contain a description of litigation.

It is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any tobacco-related litigation or as a result of additional federal or state regulation relating to the manufacture, sale, distribution, advertising or labeling of tobacco products.

Liggett's management believes that it is in compliance in all material respects with the laws regulating cigarette manufacturers.

The MSA and Other State Settlement Agreements

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

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In November 1998, Philip Morris, Brown & Williamson, R.J. Reynolds and Lorillard (the “Original Participating Manufacturers” or “OPMs”) and Liggett (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 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 healthcare cost recovery and certain other claims of those Settling States. The MSA received final judicial approval in each Settling State.

In the Settling States, the MSA released Liggett and other participating tobacco product manufacturers from:

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

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

The MSA also requires Participating Manufacturers to affirm corporate principles to comply with the MSA and to reduce underage usage 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 \$9.0 billion (subject to applicable adjustments, offsets and reductions). 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, obligations of each Participating Manufacturer and are not the responsibility of any parent or affiliate of a Participating Manufacturer.

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

Liggett may have additional payment obligations under the MSA and its other settlement agreements with the states. See Item 1A. “Risk Factors” and Note 15 to our consolidated financial statements.

New Valley LLC

New Valley LLC, a Delaware limited liability company, is engaged in the real estate business and is seeking to acquire or invest in additional real estate properties and projects. New Valley owns a 70.59% interest in Douglas Elliman Realty which operates the largest residential brokerage company in the New York City metropolitan area, which is known as Douglas Elliman Real Estate or Douglas Elliman. New Valley also holds investment interests in various real estate projects domestically and internationally.

Business Strategy

New Valley's business strategy is to continue to operate its real estate business, to acquire additional real estate properties and to acquire operating companies through merger, purchase of assets, stock acquisition or other means, or to acquire control of operating companies through one of such means. New Valley may also seek from time to time to dispose of such businesses and properties when favorable market conditions exist. New Valley's cash and investments are available for general corporate purposes, including for acquisition purposes.

Douglas Elliman Realty, LLC

In addition to owning the largest residential brokerage company in the New York City metropolitan area, Douglas Elliman Realty owns Residential Management Group LLC, which conducts business as Douglas Elliman Property Management and is the New York metropolitan area's largest manager of rental, co-op and condominium housing and Title Services business.

Prior to December 2013, New Valley owned a 50% interest in Douglas Elliman and on December 13, 2013, an affiliate of New Valley LLC acquired an additional 20.59% interest in Douglas Elliman Realty from Prudential Real Estate Financial Services of America, Inc. for $60 million. The acquisition increased our ownership in Douglas Elliman Realty to 70.59%. Consequently, after December 13, 2013, we consolidate in our financial statements the operations and financial position of Douglas Elliman Realty.

Prior to December 31, 2013, we accounted for our interest in Douglas Elliman Realty under the equity method. We recorded income of $23.0 million for the period from January 1, 2013 to December 13, 2013 associated with Douglas Elliman Realty.

Real Estate Brokerage Business. Douglas Elliman Real Estate is engaged in the real estate brokerage business through its seven subsidiaries. The seven brokerage companies have 79 offices with approximately 5,900 real estate agents in the metropolitan New York area as well as South Florida, Beverly Hills, California, Connecticut and Aspen. The companies achieved combined sales of approximately $22.4 billion of real estate in 2015, approximately $18.2 billion of real estate in 2014 and approximately $14.9 billion of real estate in 2013. Douglas Elliman Real Estate was ranked as the fourth-largest residential brokerage company in the United States in 2014 based on closed sales volume by the Real Trends broker survey. Douglas Elliman had revenues of $637.0 in 2015, $543.2 million in 2014, and $435.6 million in 2013.

The New York City brokerage operation was founded in 1911 and has grown to be one of Manhattan's leading residential brokers by specializing in the highest end of the sales and rental marketplaces. It has 21 New York City offices, with approximately 2,719 real estate agents, 7,119 transactions, representing sales volume of approximately $12.7 billion of real estate in 2015. This is compared to approximately 6,950 transactions, representing approximately $11.5 billion of real estate in 2014, and approximately 7,102 transactions closed in 2013, representing approximately $9.6 billion of real estate.

The Long Island brokerage operation is headquartered in Huntington, New York and is the largest residential brokerage company on Long Island with 37 offices and approximately 2,091 real estate agents. Douglas Elliman of LI serves approximately 250 communities in Long Island and Queens, New York. The Westchester brokerage operation operates in a suburban area north of New York City with six offices and approximately 179 real estate agents. The Connecticut brokerage operation operates in Greenwich, Connecticut with one office and approximately 53 real estate agents. During 2015, the three brokerage operations closed approximately 9,764 transactions, representing sales volume of approximately $6.3 billion of real estate. This is compared to approximately 8,548 transactions, representing sales volume of approximately $5.4 billion of real estate in 2014, and approximately 8,197 transactions closed in 2013, representing approximately $4.6 billion of real estate.

In December 2013, Douglas Elliman Realty acquired from an affiliate of New Valley the membership interest in the Florida brokerage operation. Douglas Elliman Florida, LLC operates in South Florida with 14 offices located in downtown Miami, Miami Beach, Coconut Grove, North Miami, Ft. Lauderdale, Boca Raton and Palm Beach. The offices have approximately 751 real estate agents and closed approximately 2,088 transactions, representing sales volume of $2.4 billion of real estate in 2015. This compared to approximately 1,136 transactions, representing sales volume of approximately $1.2 billion of real estate in 2014, and approximately 1,624 transactions closed in 2013, representing approximately $0.8 billion of real estate.

Douglas Elliman Real Estate operates as a broker in residential real estate transactions. In performing these services, the company has historically represented the seller, either as the listing broker, or as a co-broker in the sale. In acting as a broker for the seller, their services include assisting the seller in pricing the property and preparing it for sale, advertising the property, showing the property to prospective buyers, and assisting the seller in negotiating the terms of the sale and in closing the transaction. In exchange for these services, the seller pays to the company a commission, which is generally a fixed percentage of the sales price. In a co-brokered arrangement, the listing broker typically splits its commission with the other co-broker involved in the transaction. The company also offers buyer brokerage services. When acting as a broker for the buyer, its services include assisting the buyer in locating properties that meet the buyer’s personal and financial specifications, showing the buyer properties, and assisting the buyer in negotiating the terms of the purchase and closing the transaction. In exchange for these services, a commission is paid to the company which also is generally a fixed percentage of the purchase price and is usually, based upon a co-brokerage agreement with the listing broker, deducted from, and payable out of, the commission payable to the listing broker. With the consent of a buyer and seller, subject to certain conditions, the company may, in certain circumstances, act as a selling broker and as a buying broker in the same transaction. The company’s sales and marketing services are provided by licensed real estate sales persons or associate brokers who have entered into independent contractor agreements with the company. The company recognizes revenue and commission expenses upon the consummation of the real estate sale.

Douglas Elliman Real Estate also offers relocation services to employers, which provide a variety of specialized services primarily concerned with facilitating the resettlement of transferred employees. These services include sales and marketing of transferees’ existing homes for their corporate employer, assistance in finding new homes, moving services, educational and school placement counseling, customized videos, property marketing assistance, rental assistance, area tours, international relocation, group move services, marketing and management of foreclosed properties, career counseling, spouse/partner employment assistance, and financial services. Clients can select these programs and services on a fee basis according to their needs.

DE Title Services. DE Title Services provides full-service title and settlement (i.e., closing and escrow) services to real estate companies and financial institutions. DE Title Services acts in the capacity of a title agent and sells title insurance to property buyers and mortgage lenders. DE Title Services is licensed as a title agent in New York.

elliman.com and AskElliman.com. Douglas Elliman Real Estate’s website, elliman.com, serves as a destination where consumers can search properties throughout the entire New York and South Florida markets and access current market information as well as comprehensive building and neighborhood guides and other interactive content. We have also recently launched AskElliman.com, our new web site that facilitates communication with consumers, providing them with access to information from real estate to mortgage financing, to specific neighborhoods.

Marketing. Douglas Elliman Real Estate offers real estate sales and marketing and relocation services, which are marketed by a multimedia program. This program includes direct mail, newspaper, internet, catalog, radio and television advertising and is conducted throughout Manhattan and Long Island. In addition, the integrated nature of the real estate brokerage companies services is designed to produce a flow of customers between their real estate sales and marketing business and their mortgage business.

Competition. The real estate brokerage business is highly competitive. However, Douglas Elliman Real Estate believes that its ability to offer their customers a range of inter-related services and its level of residential real estate sales and marketing help position them to meet the competition and improve their market share.

In the brokerage company’s traditional business of residential real estate sales and marketing, it competes with multi-office independent real estate organizations and, to some extent, with franchise real estate organizations, such as Century-21, ERA, RE/MAX International, Sotheby’s International Realty, Better Homes and Gardens Real Estate, Berkshire Hathaway HomeServices, and Coldwell Banker. Douglas Elliman believes that its major competitors in 2016 will also increasingly include multi-office real estate organizations, such as GMAC Home Services, NRT LLC (whose affiliates include the New York City-based Corcoran Group) and other privately-owned companies. Residential brokerage firms compete for sales and marketing business primarily on the basis of services offered, reputation, personal contacts, and, recently to a greater degree, price.

Government Regulation. Several facets of real estate brokerage businesses are subject to government regulation. For example, their real estate sales and marketing divisions are licensed as real estate brokers in the states in which they conduct their real estate brokerage businesses. In addition, their real estate sales associates must be licensed as real estate brokers or salespersons in the states in which they do business. Future expansion of the real estate brokerage operations of Douglas Elliman Real Estate into new geographic markets may subject it to similar licensing

requirements in other states.
A number of states and localities have adopted laws and regulations imposing environmental controls, disclosure rules, zoning and other land use restrictions, which can materially impact the marketability of certain real estate. However, Douglas Elliman Real Estate does not believe that compliance with environmental, zoning and land use laws and regulations has had, or will have, a materially adverse effect on its financial condition or operations.
RESPA and state real estate brokerage laws restrict payments that real estate brokers, title agencies, mortgage bankers, mortgage brokers and other settlement service providers may receive or pay in connection with the sales of residences and referral of settlement services (e.g., mortgages, homeowners insurance and title insurance). Such laws may, to some extent, restrict preferred alliance and other arrangements involving our real estate franchise, real estate brokerage, settlement services and relocation

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businesses. In addition, our relocation and title and settlement services businesses, RESPA and similar state laws require timely disclosure of certain relationships or financial interests with providers of real estate settlement services. On November 17, 2008, the United States Department of Housing and Urban Development ("HUD") published a rule that seeks to simplify and improve disclosures regarding mortgage settlement services and encourage consumers to compare prices for such services by consumers. The material provisions of the rule include: new Good Faith Estimate ("GFE") and HUD-1 forms, permissibility of average cost pricing by settlement service providers, implementation of tolerance limits on various fees from the issuance of the GFE and the HUD-1 provided at closing, and disclosure of the title agent and title underwriter premium splits. To date, there has not been any material impact (financial or otherwise) to us arising out of compliance with these new rules.

Pursuant to the Dodd-Frank Act, administration of RESPA has been moved from HUD to the new Consumer Financial Protection Bureau ("CFPB") and it is possible that the practices of HUD, taking very expansive broad readings of RESPA, will continue or accelerate at the CFPB creating increased regulatory risk. RESPA also has been invoked by plaintiffs in private litigation for various purposes.

Title Services Regulation. Many states license and regulate title agencies/settlement service providers or certain employees and underwriters through their Departments of Insurance or other regulatory body. In many states, title insurance rates are either promulgated by the state or are required to be filed with each state by the agent or underwriter, and some states promulgate the split of title insurance premiums between the agent and underwriter. States sometimes unilaterally lower the insurance rates relative to loss experience and other relevant factors. States also require title agencies and title underwriters to meet certain minimum financial requirements for net worth and working capital.

Franchises and Trade Names. The "Douglas Elliman" trade name is a registered trademark in the United States. The name has been synonymous with the most exacting standards of excellence in the real estate industry since Douglas Elliman's formation in 1911. Other trademarks used extensively in Douglas Elliman's business, which are owned by Douglas Elliman and registered in the United States, include "We are New York," "Bringing People and Places Together," "If You Clicked Here You'd Be Home Now" and "Picture Yourself in the Perfect Home."

The taglines "From Manhattan to Montauk" and "askelliman.com" are used extensively in the Douglas Elliman's brokerage operations. In addition, Douglas Elliman's brokerage operation continues to use the trade names of certain companies that it has acquired.

Residential Property Management Business. Douglas Elliman Realty is also engaged in the management of cooperatives, condominiums and apartments though its subsidiary, Residential Management Group, LLC, which conducts business as Douglas Elliman Property Management and is the leading New York City based manager of apartments, cooperatives and condominiums in the New York metropolitan area according to a survey in the September 2013 issue of The Real Deal. Residential Management Group provides full service third-party fee management for approximately 344 properties, representing approximately 41,800 units in New York City, Nassau County, Northern New Jersey and Westchester County. Among the notable properties currently managed are the Dakota, Museum Tower, Olympic Tower Condominium, Manhattan House, CitySpire Condominium and The Sovereign buildings in New York City. Residential Management Group employs approximately 270 people, of whom approximately 198 work at Residential Management Group's headquarters and the remainder at remote offices in the New York metropolitan area.

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 current real estate investments include the following projects:

Land Development

- Escena. We are developing a 450-acre approved master planned community in Palm Springs, CA. The development consisted of 667 residential lots, which include both single and multi-family lots, an 18-hole golf course, clubhouse restaurant, golf shop and seven-acre site approved for a 450-room hotel. In October 2013, we sold 200 single family lots for $22.7 million.
- Sagaponack. We are developing an oceanfront plot of land in Sagaponack, NY. We are the sole owner of the land. We plan on partially developing the land by obtaining the appropriate permits and architectural plans and then

subsequently selling it. The property is currently listed for sale.

Condominium and Mixed-Use Development

- 10 Madison Square West. We own an approximate 5.0% interest in a joint venture that is developing 10 Madison Square West. The joint venture is converting a 260,000-square-foot office building into a luxury residential condominium in the Flatiron District / NoMad neighborhood of Manhattan and is expected to be completed by August 2016.

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- The Marquand (11 East 68th Street). We own an approximate 18.0% interest in a joint venture that is converting a 12-story residential rental building into a luxury residential condominium. The building is located in Manhattan's Upper East Side. Thirteen of the 29 units were sold as of December 31, 2015.
- 11 Beach Street. We own an approximate 49.5% interest in a joint venture that is converting a 10-story, 250,000-square-foot office building into a luxury residential condominium. The building is located in the TriBeCa neighborhood of Manhattan and construction began in May 2014 and is expected to be completed by December 2016.
- 20 Times Square (701 7th Avenue). We own an approximate 7.1% interest in a joint venture that is developing a 340,000-square-foot multi-use project located in Times Square in Manhattan. The development includes retail space, hotel space and signage. Construction has started and is expected to be completed by January 2018.
- 111 Murray Street. We own a 9.5% interest (and a related note receivable) in a joint venture that is developing a mixed-use property that includes both commercial space and a 157-unit luxury residential condominium in the TriBeCa neighborhood of Manhattan. Development began in 2014 and is expected to be completed by September 2018.
- 160 Leroy Street. We own an approximate 3.1% interest in a development site in the West Greenwich Village neighborhood of Manhattan. The site is being developed as a high-rise condominium that will face the Hudson River. Development began in 2015 and is expected to be completed by March 2018.
- 215 Chrystie Street. We own an approximate 18.4% interest in a joint venture that owns a land development site in the Lower East Side neighborhood of Manhattan. The joint venture plans to develop the property into a 29-story mixed-use property with PUBLIC, an Ian Schrager-branded boutique hotel, and luxury condominium residences. Development began in 2014 and is expected to be completed by March 2017.
- The Dutch LIC (25-19 43rd Avenue). We own a 9.9% interest in a nine story, 87,000 square foot, condominium development in Long Island City, New York. Construction of the 86-unit building commenced in September 2014 and is anticipated to be completed by January 2017.
- Queens Plaza (23-10 Queens Plaza South). We own an approximate 45.4% interest in a joint venture that has purchased a pre-war building and a neighboring building in Queens, New York. The joint venture plans to develop a new apartment tower with 287,000 square feet of residential space and 10,000 square feet of retail space. Development began in 2014 and is expected to be completed by September 2016.
- 87 Park (8701 Collins Avenue). We own a 15.0% interest in an oceanfront development site in Miami Beach, Florida, which will be developed into a residential condominium building. Development is will begin in 2016 and be completed by September 2018.
- 125 Greenwich Street. We own a 13.3% interest in a development site in Manhattan's Financial District which will be developed into a high-rise condominium site along with a retail base. Development began in 2015 and is expected to be completed by October 2018.
- West Hollywood (9040 Sunset Boulevard). We own a 48.5% interest in a property at 9040 Sunset Boulevard which will be developed into a high-rise hotel and condominium complex. Development began in 2015 and is expected to be completed by April 2018.
- 76 Eleventh Avenue. We own a 5.1% in a joint venture that is developing a mixed-use property that may include hotel, retail, commercial space and a luxury residential condominium in the West Chelsea neighborhood of Manhattan. Development is expected to begin during September 2016 and to be completed by March 2019.
- Monad Terrace. We own an approximate 31.3% interest in a joint venture that is developing a 160,000-square-foot luxury condominium building in Miami Beach, FL. Development began is expected to begin during May 2016 and to be completed by May 2018.
- Takanasee. We own an approximate 22.8% interest in a joint venture that plans to develop luxury oceanfront single and multi-family homes in Long Branch, NJ.

Apartment Buildings

- Maryland Portfolio. We own an approximate 7.6% indirect interest in a joint venture that owns approximately 5,500 apartment units primarily located in Baltimore County, Maryland.
- ST Portfolio. We own a 16.3% interest in two Class A multi-family rental assets in partnership with Winthrop Realty Trust. The two buildings are located in Houston, Texas and Stamford, Connecticut. The buildings include 488

apartment units and 20,000 square feet of retail space. The Phoenix, Arizona and San Pedro, California buildings were sold in 2015 and 2014, respectively, and the proceeds were used to pay down debt.

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Hotels

- Park Lane Hotel. We own an approximate 5.2% interest in a joint venture that has acquired the Park Lane Hotel, which is presently a 47-story, 605-room independent hotel. The joint venture is developing plans for a future use.
- Hotel Taiwana. We own an approximate 17.0% interest in a joint venture that owns a luxury hotel located in St. Barthelemy, French West Indies that has been recently renovated.
- Coral Beach. We own a 49.0% interest in a joint venture that owns a 52-acre private club in Bermuda. The property consists of Horizons cottages, which includes 39 units, and Coral Beach and Tennis Club, which includes 62 hotel and cottage units. Renovation began on the Coral Beach and Tennis Club in 2014.

Commercial

- The Plaza at Harmon Meadow. We own an approximate 49.0% interest in a joint venture that has acquired Harmon Meadow, a 217,613 square foot retail shopping center in Secaucus, NJ.

In our real estate investment business, we seek to acquire investment interests in domestic and international real estate projects through debt and equity investments. We focus on new condominium development in Douglas Elliman markets and investing in well-located real estate assets that generate, or have the potential to generate, long-term, predictable and sustainable cash flows with attractive growth and development potential. We believe our ownership of Douglas Elliman provides us with a strategic advantage through its relationships with developers in New York City as well as its knowledge of the New York City residential real estate market. We and our partners seek to enhance the cash flows and returns from our investments by using varying levels of leverage. In addition, we and our partners may earn incentives on certain investments if the investments achieve rates of return that exceed targeted thresholds. Our real estate investments are located in the United States, Bermuda and the French West Indies and we may pursue growth in other markets where we identify attractive opportunities to invest in or acquire assets and to achieve strong risk-adjusted returns. We strive to invest at attractive valuations, capitalize on distressed situations where possible, create opportunities for superior valuation gains and cash flow returns and monetize assets at appropriate times to realize value. Our portfolio as of December 31, 2015 included interests in the 23 properties discussed above. As of December 31, 2015, our real estate investment business held interests in joint ventures recorded on our financial statements at approximately $217.2 million and approximately $23.3 million in consolidated real estate investments. For additional information concerning these investments, see Note 7 to our consolidated financial statements.

Long-Term Investments

Ladenburg Thalmann. We own 14,191,205 common shares of Ladenburg Thalmann Financial Services Inc. (NYSE MKT: LTS), which represents beneficial ownership of approximately 7.84% of the LTS, a publicly-traded entity engaged in independent brokerage and advisory services, investment banking, equity research, institutional sales and trading, asset management services, life insurance brokerage and trust services through its subsidiaries. We also own 1,000,000 warrants to purchase LTS common shares for $1.68 per share, 240,000 shares of LTS's 8% Series A Cumulative Redeemable Preferred Stock (Liquidation Preference $25.00 Per Share) ("LTS Preferred") and have provided a loan to LTS, which had a principal balance of $1.7 million at December 31, 2015 and bears interest at 11% per annum. Three of our directors, Howard M. Lorber, Henry C. Beinstein and Jeffrey S. Podell, also serve as directors of LTS. Mr. Lorber also serves as Vice Chairman of LTS. Richard J. Lampen, who along with Mr. Lorber is an executive officer of ours, also serves as a director of LTS and has served as the President and Chief Executive Officer of LTS since September 2006. See Note 17 to our consolidated financial statements.

Castle Brands. We own 12,671,159 shares of Castle Brands Inc. (NYSE MKT: ROX), a publicly-traded developer and importer of premium branded spirits, which represents beneficial ownership of approximately 8% of the Castle shares. Mr. Lampen is serving as the President, Chief Executive Officer and a director of Castle. Mr. Beinstein, a director of Vector, is also a director of Castle. See Note 17 to our consolidated financial statements. In 2013, we purchased in a private placement $200,000 of Castle's convertible debt, which bears interest at 5% per annum, is convertible into 222,222 shares of Castle common stock and is due on December 15, 2018.

As of December 31, 2015, long-term investments consisted primarily of investments in investment partnerships of approximately $62.7 million. In the future, we may invest in other investments including limited partnerships, real estate investments, equity securities, debt securities and certificates of deposit depending on risk factors and potential rates of return.

Employees

At December 31, 2015, we had 1,367 employees, of which approximately 874 were employed by Douglas Elliman primarily in the New York area, 250 were employed at Liggett's Mebane facility and approximately 220 were employed in sales and administrative functions at Liggett Vector Brands LLC ("LVB"), which coordinates our tobacco and e-cigarettes subsidiaries' sales and marketing efforts, along with certain support functions. Approximately 13% of our employees are hourly employees, who are

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represented by unions. We have not experienced any significant work stoppages since 1977, and we believe that relations with our employees and their unions are satisfactory.

Available Information

Our website address is www.vectorgroupltd.com. We make available free of charge on the Investor Relations section of our website (http://www.vectorgroupltd.com/investor-relations/) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. We also make available through our website other reports filed with the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act. Copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Audit Committee charter, Compensation Committee charter and Corporate Governance and Nominating Committee charter have been posted on the Investor Relations section of our website and are also available in print to any stockholder who requests it. We do not intend for information contained in our website to be part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Our business faces many risks. We have described below the known material risks that we and our subsidiaries face. There may be additional risks that we do not yet know of or that we do not currently perceive to be significant that may also impact our business or the business of our subsidiaries. Each of the risks and uncertainties described below could lead to events or circumstances that have a material adverse effect on the business, results of operations, cash flows, financial condition or equity of us or one or more of our subsidiaries, which in turn could negatively affect the value of our common stock. You should carefully consider and evaluate all of the information included in this report and any subsequent reports that we may file with the Securities and Exchange Commission or make available to the public before investing in any securities issued by us.

We have significant liquidity commitments.

During 2016, we have certain liquidity commitments that could require the use of our existing cash resources. As of December 31, 2015, our corporate expenditures (exclusive of Liggett, Vector Tobacco and New Valley) and other potential liquidity requirements over the next 12 months include the following:

- cash interest expense of approximately $96.6 million,
- dividends on our outstanding common shares of approximately $202.8 million, and
- other corporate expenses and taxes.

In order to meet the above liquidity requirements as well as other liquidity needs in the normal course of business, we will be required to use cash flows from operations and existing cash and cash equivalents. Should these resources be insufficient to meet the upcoming liquidity needs, we may also be required to liquidate investment securities available for sale and other long-term investments, or, if available, draw on Liggett's credit facility. While there are actions we can take to reduce our liquidity needs, there can be no assurance that such measures will be successful.

We are a holding company and depend on cash payments from our subsidiaries, which are subject to contractual and other restrictions, in order to service our debt and to pay dividends on our common stock.

We are a holding company and have no operations of our own. We hold our interests in our various businesses through our wholly-owned subsidiaries, VGR Holding LLC and New Valley. In addition to our own cash resources, our ability to pay interest on our debt and to pay dividends on our common stock depends on the ability of VGR Holding and New Valley to make cash available to us. VGR Holding's ability to pay dividends to us depends primarily on the ability of Liggett, its wholly-owned subsidiary, to generate cash and make it available to VGR Holding. Liggett's revolving credit agreement with Wells Fargo Bank, N.A. contains a restricted payments test that limits the ability of Liggett to pay cash dividends to VGR Holding. The ability of Liggett to meet the restricted payments test may be affected by factors beyond its control, including Wells Fargo's unilateral discretion, if acting in good faith, to modify elements of such test.

Our receipt of cash payments, as dividends or otherwise, from our subsidiaries is an important source of our liquidity and capital resources. If we do not have sufficient cash resources of our own and do not receive payments from our subsidiaries in an amount sufficient to repay our debts and to pay dividends on our common stock, we must obtain additional funds from other sources. There is a risk that we will not be able to obtain additional funds at all or on terms acceptable to us. Our inability to service these obligations and to continue to pay dividends on our common stock would significantly harm us and the value of our common stock.

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We and our subsidiaries have a substantial amount of indebtedness.

We and our subsidiaries have significant indebtedness and debt service obligations. As of December 31, 2015, we and our subsidiaries had total outstanding indebtedness of $1.1 billion. 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.

Our high level of debt may adversely affect our ability to satisfy our obligations.

There can be no assurance that we will be able to meet our debt service obligations. A default in our debt obligations, including a breach of any restrictive covenant imposed by the terms of our indebtedness, could result in the acceleration of the affected debt as well as other of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under the debt or such other indebtedness or that we would otherwise be able to repay the accelerated indebtedness or make other required payments. Even in the absence of an acceleration of our indebtedness, a default under the terms of our indebtedness could have an adverse impact on our ability to satisfy our debt service obligations and on the trading price of our debt and our common stock.

Our high level of indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our other obligations with respect to our debt, including repurchase obligations upon the occurrence of specified change of control events;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, reducing the amount of our cash flow available for dividends on our common stock and other general corporate purposes;
- require us to sell other securities or to sell some or all of our assets, possibly on unfavorable terms, to meet payment obligations;
- restrict us from making strategic acquisitions, investing in new capital assets or taking advantage of business opportunities;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- place us at a competitive disadvantage compared to competitors that have less debt.

Our 7.75% senior secured notes contain restrictive covenants that limit our operating flexibility.

The indenture governing our 7.75% senior secured notes due 2021 contains covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest, including restrictions on our ability to:

- incur or guarantee additional indebtedness or issue preferred stock;
- pay dividends or distributions on, or redeem or repurchase, capital stock;
- create liens with respect to our assets;
- make investments, loans or advances;
- prepay subordinated indebtedness;
- enter into transactions with affiliates; and
- merge, consolidate, reorganize or sell our assets.

In addition, Liggett’s revolving credit agreement requires us to meet specified financial ratios. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these and other provisions of the indenture governing the senior secured notes and the Liggett revolving credit agreement may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events beyond our control. The breach of any of these covenants, including those contained in the indenture governing the senior secured notes and Liggett’s credit agreement, could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

The indenture governing the senior secured notes contain restrictive covenants, which, among other things, restrict our ability to pay certain dividends or make other restricted payments or enter into transactions with affiliates if our

Consolidated EBITDA,

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as defined in the indenture, is less than $75 million for the four quarters prior to such transaction. Our Consolidated EBITDA for the four quarters ended December 31, 2015 exceeded $75 million.

Changes in respect of the debt ratings of our notes may materially and adversely affect the availability, the cost and the terms and conditions of our debt.

Both we and several issues of our notes have been publicly rated by Moody’s Investors Service, Inc., or Moody’s, and Standard & Poor’s Rating Services, or S&P, independent rating agencies. In addition, future debt instruments may be publicly rated. These debt ratings may affect our ability to raise debt. Any future downgrading of the notes or our other debt by Moody’s or S&P may affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the notes.

Liggett faces intense competition in the domestic tobacco industry.

Liggett is considerably smaller and has fewer resources than its major competitors, and, as a result, has a more limited ability to respond to market developments. Management Science Associates’ data indicate that in 2015 Philip Morris and RJ Reynolds, the two largest cigarette manufacturers, controlled approximately 78.5% of the United States cigarette market. Philip Morris is the largest manufacturer in the market, and its profits are derived principally from its sale of premium cigarettes. Philip Morris had approximately 60.3% of the premium segment and 47.6% of the total domestic market during 2015. During 2015, all of Liggett’s sales were in the discount segment, and its share of the total domestic cigarette market was 3.3%. Philip Morris and RJ Reynolds, the two largest cigarette manufacturers, historically, because of their dominant market share, have been able to determine cigarette prices for the various pricing tiers within the industry.

Consolidation in the industry could adversely affect our ability to compete in the U.S. cigarette market. For example, RJ Reynolds’ merger with Lorillard Tobacco Company could make it more difficult for Liggett and Vector Tobacco to compete for shelf space in retail outlets and could impact price competition in the market, either of which could have a material adverse effect on our sales volume, operating income and cash flows. Further, as part of the merger, RJ Reynolds and Lorillard Tobacco Company divested four of their brands to ITG Brands LLC, owned by Imperial Brands Plc.

Liggett’s business is highly dependent on the discount cigarette segment.

Liggett depends more on sales in the discount cigarette segment of the market, relative to the full-price premium segment, than its major competitors. Since 2004, all of Liggett’s unit volume was generated in the discount segment. The discount segment is highly competitive, with consumers having less brand loyalty and placing greater emphasis on price. While Philip Morris, RJ Reynolds, and Imperial compete with Liggett in the discount segment of the market, the strongest competition for market share has come from a group of smaller manufacturers and importers, most of which sell low quality, deep discount cigarettes. While Liggett’s share of the discount market was 11.8% in both 2015 and 2014 and 11.6% in 2013, Management Science Associates’ data indicate that the discount market share of these other smaller manufacturers and importers was approximately 24.8% in 2015, 34.1% in 2014, and 33.7% in 2013. If pricing in the discount market continues to be impacted by these smaller manufacturers and importers, margins in Liggett’s only current market segment could be negatively affected, which in turn could negatively affect the value of our common stock.

Liggett’s market share is susceptible to decline.

Liggett’s market share decreased in 2015, 2013 and 2012, after having increased in 2014. Liggett's market share increased during each of the years between 2000 and 2011 (except for 2008, which was unchanged). Earlier market share erosion resulted in part from Liggett’s highly leveraged capital structure that existed until December 1998 and its limited ability to match other competitors’ wholesale and retail trade programs, obtain retail shelf space for its products and advertise its brands. These declines also resulted from adverse developments in the tobacco industry, intense competition and changes in consumer preferences that have continued up to the current time. According to Management Science Associates' data, Liggett's overall domestic market share during 2015 was 3.3% compared to 3.4% during 2014, and 3.3% during 2013. Liggett's share of the discount segment was 11.8% in 2015,

11.8% in 2014 and 11.6% in 2013. Liggett's overall market share decreased by 0.1% in 2015 after increasing by 0.1% in 2014. If it were to decline substantially in the future, Liggett's sales volume, operating income and cash flows would be materially adversely affected, which in turn would negatively affect the value of our common stock.
The domestic cigarette industry has experienced declining unit sales in recent periods.

Industry-wide shipments of cigarettes in the United States have been declining for a number of years, with Management Science Associates' data indicating that domestic industry-wide shipments decreased by approximately 0.1% in 2015 as compared to 2014, and by approximately 3.0% in 2014 as compared to 2013. We believe that industry-wide shipments of cigarettes in the

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United States will continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking, and a wide variety of federal, state and local laws limiting smoking in restaurants, bars and other public places, as well as increases in federal and state excise taxes and settlement-related expenses which have contributed to high cigarette price levels in recent years . If this decline in industry-wide shipments continues and Liggett is unable to capture market share from its competitors, or if the industry as a whole is unable to offset the decline in unit sales with price increases, Liggett's sales volume, operating income and cash flows could be materially adversely affected, which in turn could negatively affect the value of our common stock.

Our tobacco operations are subject to substantial and increasing legislation, regulation and taxation, which has a negative effect on revenue and profitability.

Tobacco products are subject to substantial federal and state excise taxes in the United States. These taxes may continue to increase. On April 1, 2009, the federal excise tax increased from $0.39 to $1.01 per pack of cigarettes, and significant tax increases on other tobacco products, to fund expansion of the State Children's Health Insurance Program, referred to as SCHIP. The increases in federal excise tax under SCHIP are substantial, and, as a result, Liggett's sales volume and profitability has been and may continue to be adversely impacted. In addition, SCHIP created certain tax differentials between certain types of tobacco products. This has caused a dramatic increase in the sale of mis-labeled pipe tobacco as a substitute for roll-your-own, which has directly impacted sales of cigarettes.

In addition to federal and state excise taxes, certain city and county governments also impose substantial excise taxes on tobacco products. Increased excise taxes are likely to result in declines in overall sales volume and shifts by consumers to less expensive brands.

A wide variety of federal, state and local laws limiting the advertising, sale and use of cigarettes have proliferated in recent years. For example, many local laws prohibit smoking in restaurants and other public places. Private businesses also have adopted regulations that prohibit or restrict, or are intended to discourage, smoking. Such laws and regulations also are likely to result in a decline in the overall sales volume of cigarettes.

Over the years, various state and local governments have continued to increase regulation of tobacco products. These regulations include, among other things, disclosure of ingredient information, the imposition of significantly higher taxes, increases in the minimum age to purchase tobacco products, sampling and advertising bans or restrictions, ingredient and constituent disclosure requirements and significant tobacco control media campaigns. Additional state and local legislative and regulatory actions will likely be considered in the future, including, among other things, restrictions on the use of flavorings.

In addition to the foregoing, there have been a number of other restrictive regulatory actions from various federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration ("FDA"). There have also been adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry. In 2009, legislation was passed by Congress providing for regulation of cigarettes by the FDA. These developments generally receive widespread media attention. Additionally, a majority of states have passed legislation providing for reduced ignition propensity standards for cigarettes. 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 similar litigation or legislation. We are not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but our consolidated financial position, results of operations or cash flows could be materially adversely affected.

Additional federal or state regulation relating to the manufacture, sale, distribution, advertising, labeling, or information disclosure of tobacco products could further reduce sales, increase costs and have a material adverse effect on our business.

The Family Smoking Prevention and Tobacco Control Act may adversely affect our sales and operating profit.

On June 22, 2009, the President signed into law the Family Smoking Prevention and Tobacco Control Act (the "Tobacco Control Act"). The law grants FDA broad authority over the manufacture, sale, marketing and packaging of tobacco products, although FDA is prohibited from banning all cigarettes or all smokeless tobacco products. Among other measures, the law (under various deadlines):

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increases the number of health warnings required on cigarette and smokeless tobacco products, increases the size of warnings on packaging and in advertising, requires FDA to develop graphic warnings for cigarette packages, and grants FDA authority to require new warnings;

- imposes new restrictions on the sale and distribution of tobacco products, including significant new restrictions on tobacco product advertising and promotion, as well as the use of brand and trade names;
- bans the use of “light,” “mild,” “low” or similar descriptors on tobacco products;

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- bans the use of “characterizing flavors” in cigarettes other than tobacco or menthol;
- gives FDA the authority to impose tobacco product standards that are appropriate for the protection of the public health (by, for example, requiring reduction or elimination of the use of particular constituents or components, requiring product testing, or addressing other aspects of tobacco product construction, constituents, properties or labeling);
- requires manufacturers to obtain FDA review and authorization for the marketing of certain new or modified tobacco products, which could ultimately result in the FDA prohibiting Liggett from selling certain of its products;
- requires pre-market approval by FDA for tobacco products represented (through labels, labeling, advertising, or other means) as presenting a lower risk of harm or tobacco-related disease;
- requires manufacturers to report ingredients and harmful constituents and requires FDA to disclose certain constituent information to the public;
- mandates that manufacturers test and report on ingredients and constituents identified by FDA as requiring such testing to protect the public health, and allows FDA to require the disclosure of testing results to the public;
- requires manufacturers to submit to FDA certain information regarding the health, toxicological, behavioral or physiological effects of tobacco products;
- prohibits use of tobacco containing a pesticide chemical residue at a level greater than allowed under federal law;
- requires FDA to establish “good manufacturing practices” to be followed at tobacco manufacturing facilities;
- requires tobacco product manufacturers (and certain other entities) to register with FDA;
- authorizes FDA to require the reduction of nicotine (although it may not require the reduction of nicotine yields of a tobacco product to zero) and the potential reduction or elimination of other constituents, including menthol;
- imposes (and allows FDA to impose) various recordkeeping and reporting requirements on tobacco product manufacturers; and
- grants FDA the regulatory authority to impose broad additional restrictions.

It is likely that the tobacco law could result in a decrease in cigarette sales in the United States, including sales of Liggett’s and Vector Tobacco’s brands. Compliance and related costs are not possible to predict and depend substantially on the future requirements imposed by FDA under the law. Costs, however, could be substantial and could have a material adverse affect on the companies’ financial condition, results of operations, and cash flows. In addition, FDA has a number of investigatory and enforcement tools available to it. Failure to comply with the law and with FDA regulatory requirements could result in significant financial penalties and could have a material adverse effect on the business, financial condition and results of operation of both Liggett and Vector Tobacco. At present, we are not able to predict whether the law will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry, thus affecting our competitive position.

Litigation will continue to harm the tobacco industry.

Liggett could be subjected to substantial liabilities and bonding requirements from litigation relating to cigarette products. Adverse judgments could have a negative impact on our ability to operate due to their impact on cash flows. We and our Liggett subsidiary, as well as the entire cigarette industry, continue to be challenged on numerous fronts, particularly with respect to the Engle progeny cases in Florida (described below). New cases continue to be commenced against Liggett and other cigarette manufacturers. As of December 31, 2015, in addition to the Engle progeny cases, there were 40 individual product liability lawsuits, three purported class actions and one health care cost recovery action pending in the United States in which Liggett and/or us were named defendants. It is likely that similar legal actions, proceedings and claims will continue to be filed against Liggett. Punitive damages, often in amounts ranging into the billions of dollars, are specifically pled in certain cases, in addition to compensatory and other damages. It is possible that there could be adverse developments in pending cases including the certification of additional class actions. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. In addition, an unfavorable outcome in any tobacco-related litigation could have a material adverse effect on our consolidated financial position, results of operations or cash flows. Liggett could face difficulties in obtaining a bond to stay execution of a judgment pending appeal.

Liggett Only Cases. There are currently three cases pending where Liggett is the only remaining tobacco company defendant. Cases where Liggett is the only defendant could increase substantially as a result of the Engle progeny cases.

As new product liability cases are commenced against Liggett, the costs associated with defending these cases and the risks relating to the inherent unpredictability of litigation continue to increase.

Individual tobacco-related cases have increased as a result of the Florida Supreme Court's ruling in Engle.

In May 2003, a Florida intermediate appellate court overturned a $790.0 million punitive damages award against Liggett and decertified the Engle v. R. J. Reynolds Tobacco Co. smoking and health class action. In July 2006, the Florida Supreme Court affirmed in part and reversed in part the May 2003 intermediate appellate court decision. Among other things, the Florida Supreme Court affirmed the decision decertifying the class on a prospective basis and the order vacating the punitive damages award, but preserved several of the trial court's Phase I findings (including that: (i) smoking causes lung cancer, among other diseases; (ii) nicotine in cigarettes is addictive; (iii) defendants placed cigarettes on the market that were defective and unreasonably dangerous; (iv) the defendants concealed material information; (v) all defendants sold or supplied cigarettes that were defective; and (vi) all defendants were negligent) and allowed plaintiffs to proceed to trial on individual liability issues (using the above findings) and compensatory and punitive damage issues, provided they commence their individual lawsuits within one year of the date the court's decision became final on January 11, 2007, the date of the court's mandate. 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.

Pursuant to the Florida Supreme Court's July 2006 ruling in Engle, former class members had until January 2008 to file individual lawsuits. Cases were commenced on behalf of approximately 8,000 plaintiffs. 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 approximately 4,900 Engle progeny plaintiffs. Notwithstanding this comprehensive settlement, the claims of approximately 260 state court Engle progeny plaintiffs remain outstanding.

As of December 31, 2015, there were seven Engle progeny cases currently scheduled for trial in 2016. Through December 31, 2015, 15 adverse verdicts had been entered against Liggett in Engle progeny cases. Several of these were affirmed on appeal and were satisfied by Liggett. The remaining verdicts are at various stages of appeal although appellate efforts, to date, have generally not been successful. Liggett faces outstanding judgments of $12.7 million, plus interest and attorney fees, for the cases currently on appeal.

We cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met.

Excise tax increases adversely affect cigarette sales.

Cigarettes are subject to substantial and increasing federal, state and local excise taxes. In February 2009, Federal legislation to reauthorize SCHIP, which includes funding provisions that increase the federal cigarette excise tax from $0.39 to $1.01 per pack, was enacted, effective April 1, 2009. Additional increases in the federal cigarette excise tax have been proposed by Congress. Various states and other jurisdictions are considering, or have pending, legislation proposing further state excise tax increases. Management believes increases in excise and similar taxes have had, and will continue to have, an adverse effect on sales of cigarettes.

Liggett may have additional payment obligations under the MSA.

NPM Adjustment. In March 2006, an economic consulting firm selected pursuant to the MSA determined that the MSA was a "significant factor contributing to" the loss of market share of Participating Manufacturers for 2003. This is known as the "NPM Adjustment." The economic consulting firm subsequently rendered the same decision with respect to 2004 and 2005. In March 2009, a different economic consulting firm made the same determination for 2006. As a result, the manufacturers are entitled to potential NPM Adjustments to their 2003, 2004, 2005 and 2006 MSA payments. The Participating Manufacturers are also entitled to potential NPM Adjustments to their 2007, 2008 and 2009 payments pursuant to an agreement entered into in June 2009 between the OPMs and the settling states under which the OPMs agreed to make certain payments for the benefit of the settling states, in exchange for which the settling states stipulated that the MSA was a "significant factor contributing to" the loss of market share of Participating Manufacturers in 2007, 2008 and 2009. A settling state that has diligently enforced its qualifying escrow statute in the year in question may be able to avoid application of the NPM Adjustment to the payments made by the manufacturers for the benefit of that state or territory.

In December 2012, the Participating Manufacturers entered into a "term sheet" with 20 Settling States setting out terms for settlement of the NPM Adjustment for 2003 - 2012 and addressing the NPM Adjustment with respect to those states for future years. Certain of the non-settling states objected to the settlement. In March 2013, the arbitration panel entered a Stipulated Partial Settlement and Award which, among other things, overruled the objections of the non-settling states and directed the independent auditor to implement certain terms of the term sheet effective with the April 15, 2013 MSA payments. In May 2013, two additional states joined the settlement. Several non-settling states are attempting to vacate the settlement award by filing state court actions.

In September 2013, the panel issued its decisions with respect to the 15 states that did not enter into the stipulated partial settlement and award, finding that six states did not diligently enforce their MSA escrow statutes in 2003. As a result, in April 2014, Liggett received a credit for the 2003 NPM Adjustment, in the amount of $6.4 million including interest. This amount was recognized in the third quarter of 2013. All six of the states that were found to be non-diligent filed motions in state court seeking to vacate the arbitration award. Three of those states have subsequently settled the dispute. No assurance can be given as to the ultimate outcome of the remaining challenges.

For 2003 - 2014, 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 paid subject to dispute, withheld payment or paid into a disputed payment account the amounts associated with these NPM Adjustments.

"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 re-calculated 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 1.645% grandfathered market share ("GFMS") exemption. The arbitrators further ruled that, for purposes of calculating Liggett's payment obligations, Liggett's market share, calculated on a net basis, should be increased by a factor of 1.25%. Liggett filed a motion seeking correction of the part of the arbitrators' decision that would require the 1.25% increase in Liggett's market share.

In October 2014, the panel issued a Corrected Final Award that eliminated the 1.25% adjustment increase. The panel further determined that the independent auditor shall compute Liggett's market share for all years after 2000 on a "net" basis, but, adjust that computation to approximate "gross" market share by using actual returned product data for each year. In July 2015, the independent auditor issued calculations, purportedly based on the Corrected Final Award, which indicated that Liggett owed approximately $16,000 for years 2001 - 2013. The independent auditor subsequently issued revised draft calculations indicating that Liggett owes $6,200 for years 2001-2013. Based on these revised calculations, Liggett is fully accrued for this matter.

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 commenced an action against Liggett for alleged breach of contract. There can be no assurance that Liggett will prevail in these matters and that Liggett will not be required to make additional payments, which could materially adversely affect our consolidated financial position, results of operations or cash flows and the value of our common stock.

Zoom is subject to risks relating to the industry in which it operates

Zoom's e-cigarette business is subject to substantial risks, uncertainties and contingencies which include, without limitation, the challenges inherent in new product development initiatives, the ability to raise capital and manage the growth of its business, potential disputes concerning Zoom's intellectual property, potential extensive government regulation or prohibition, technology, obsolescence, and market acceptance of Zoom's products. Zoom is considerably smaller and has fewer resources than its major competitors, and, as a result, has a more limited ability to respond to market developments. Over the past year we have seen significant changes in the e-cigarette market with apparent declines in the sales of disposable and rechargeable e-cigarettes while open system vapor products that feature refillable tanks and low-cost flavored liquids have demonstrated mixed results. Given this backdrop, our primary focus on e-cigarettes is to stay prepared to pursue opportunities if they occur.

New Valley is subject to risks relating to the industries in which it operates.

Risks relating to the real estate industry.

The real estate industry is significantly affected by changes in economic and political conditions as well as real estate markets, which could adversely impact returns on our investments, trigger defaults in project financing, cause cancellations of property sales, reduce the value of our properties or investments and could affect our results of operations and liquidity. The real estate industry is cyclical and is significantly affected by changes in general and local economic conditions which are beyond our control.

These conditions include short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, levels of unemployment, consumer confidence and the general economic condition of the United States and the global economy. The real estate market also depends upon the strength of financial institutions, which are sensitive to changes in the general

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macroeconomic environment. Lack of available credit or lack of confidence in the financial sector could impact the real estate market, which in turn could adversely affect our business, financial condition and results of operations.
Any of the following could be associated with cyclicality in the real estate market by halting or limiting a recovery in the residential real estate market, and have an adverse effect on our business by causing periods of lower growth or a decline in the number of home sales and/or property prices which, in turn, could adversely affect our revenue and profitability:

- periods of economic slowdown or recession;
- rising interest rates;
- the general availability of mortgage financing;
- a negative perception of the market for residential real estate;
- commission pressure from brokers who discount their commissions;
- an increase in the cost of homeowners' insurance;
- weak credit markets;
- a low level of consumer confidence in the economy and/or the real estate market;
- instability of financial institutions;
- legislative, tax or regulatory changes that would adversely impact the real estate market, including but not limited to potential reform relating to Fannie Mae, Freddie Mac and other government sponsored entities that provide liquidity to the U.S. housing and mortgage markets, and potential limits on, or elimination of, the deductibility of certain mortgage interest expense and property taxes;
- adverse changes in economic and general business conditions in the New York metropolitan area;
- a decline in the affordability of homes;
- declining demand for real estate;
- decreasing home ownership rates, declining demand for real estate and changing social attitudes toward home ownership; and/or
- acts of God, such as hurricanes, earthquakes and other natural disasters, or acts or threats of war or terrorism.

New Valley is heavily dependent on the performance of the real estate market in the New York metropolitan area.
New Valley's business primarily depends on the performance of the real estate market in the New York metropolitan area. Our real estate brokerage businesses and our investments in real estate developments are largely located in the New York metropolitan area and to a lesser extent in South Florida. Further, as of December 31, 2015, we had investments in or were developing 14 projects in the New York metropolitan area. Douglas Elliman Real Estate's residential brokerage business primarily depends on volumes of sales transactions and sales prices for residential property in the New York metropolitan area. If volumes of residential property sales transactions in the New York metropolitan area decrease, the aggregate sales commission earned by Douglas Elliman Real Estate on sales transactions is also likely to decrease. Our business is and may continue to be heavily dependent on the continued growth of the property market in the New York metropolitan area, and any adverse developments in the supply and demand or in property prices in these areas would have an adverse effect on our financial condition and results of operations.
We cannot assure you that property development and investment activities will continue at past levels or that we will be able to benefit from future growth in the property market in the New York metropolitan area, South Florida or the United States. Any adverse developments in national and local economic conditions as measured by such factors as GDP growth, employment levels, job growth, consumer confidence, interest rates and population growth in the New York metropolitan area and the United States, particularly in the regions where our investments and brokerages are located, may reduce demand and depress prices for our properties and services and would have an adverse effect on our business, financial condition and results of operations.
New Valley is dependent on the attractiveness of New York City as a place to live and invest in and its status as an international center for business and commerce. Through its investments in Douglas Elliman Real Estate and 14 developments in the New York metropolitan area, New Valley is dependent on the attractiveness of New York City as

a place to live and invest in. If New York City's economy stagnates or contracts or if there are significant concerns or uncertainty regarding the strength of New York City's economy, due to domestic, international or global macroeconomic trends or other factors (including, in particular, any matters which adversely affect New York City's status as an international center for business and commerce or the economic benefits of New York City's financial services industry), the New York metropolitan area may become a less attractive place to live, work, study or to own residential property for investment purposes. The attractiveness of New York City may also be negatively affected

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by other factors, including high residential property sales prices or rents (or a risk or perceived risk of a fall in sales prices in the future), high costs of living, and negative perceptions surrounding quality of life, safety and security (including the risk or perceived risk of acts of terrorism or protests).

Any reduction in the attractiveness of New York City as a place to live or a place to invest in residential real estate and any matters which adversely affect New York City's status as an international center for business and commerce could result in a reduction, by volume and/or by value, in our investment in real estate developments and/or residential property sales transactions in the New York metropolitan area, which would adversely affect our business, financial condition and results of operations.

Risks associated with our real estate development business

Real estate development is a competitive industry, and competitive conditions may adversely affect our results of operations. The real estate development industry is highly competitive. Real estate developers compete not only for buyers, but also for desirable properties, building materials, labor and capital. We compete with other local, regional, national and international real estate asset managers, investors and property developers, who have significant financial resources and experience. Competitive conditions in the real estate development industry could result in: difficulty in acquiring suitable investments in properties at acceptable prices; increased selling incentives; lower sales volumes and prices; lower profit margins; impairments in the value of our investments in real estate developments and other assets; and increased construction costs, delays in construction and increased carry costs. Development projects are subject to special risks including potential increase in costs, changes in market demand, inability to meet deadlines which may delay the timely completion of projects, reliance on contractors who may be unable to perform and the need to obtain various governmental and third party consents.

If the market value of our properties or investments decline, our results of operations could be adversely affected by impairments and write-downs. We acquire land and invest in real estate projects in the ordinary course of our business. There is an inherent risk that the value of our land and investments may decline after purchase, which also may affect the value of existing properties under construction. The valuation of property is inherently subjective and based on the individual characteristics of each property. The market value of our land and investments in real estate projects depends on general and local real estate market conditions. These conditions can change and thereby subject valuations to uncertainty. Moreover, all valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. We may have acquired options on or bought and developed land at a cost we will not be able to recover fully or on which we cannot build and sell the property profitably. In addition, our deposits or investments in deposits for building lots controlled under option or similar contracts may be put at risk. If market conditions deteriorate, some of our assets may be subject to impairments and write-down charges which would adversely affect our operations and financial results.

If demand for residential or commercial real estate decreases below what was anticipated when we purchased interests in or developed such inventory, profitability may be adversely affected and we may not be able to recover the related costs when selling and building our properties and/or investments. We regularly review the value of our investments and will continue to do so on a periodic basis. Write-downs and impairments in the value of our properties and/or investments may be required, and we may in the future sell properties and/or investments at a loss, which could adversely affect our results of operations and financial condition.

We face risks associated with property acquisitions. We may be unable to finance acquisitions or investments on favorable terms or properties may fail to perform as expected. We may underestimate the costs necessary to bring an investment up to standards established for its intended market position. We may also acquire or invest in properties subject to liabilities and with recourse, with respect to unknown liabilities. The Company's acquisition of real estate investments are subject to several risks including: underestimated operating expenses for a property, possibly making it uneconomical or unprofitable; a property may fail to perform in accordance with expectations, in which case the Company may sustain lower-than-expected income or need to incur additional expenses for the property; and the Company may not be able to sell, dispose or refinance the property at a favorable price or terms, or at all, as the case may be; in addition to any potential loss on a sale, the Company may have no choice but to hold on to the property and continue to incur net operating losses if underperforming for an indefinite period of time, as well as incur continuing tax, environmental and other liabilities. Acquisition agreements will typically contain conditions to closing, including

completion of due diligence to our satisfaction or other conditions that are not within our control, which may not be satisfied. Each of these factors could have an adverse effect on our results of operations and financial condition.
Our success depends on the availability of suitable real estate investments at acceptable prices and having sufficient liquidity to acquire such investments. Our success in investing in real estate depends in part upon the continued availability of suitable real estate assets at acceptable prices. The availability of properties for investment at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on real estate assets. Should suitable opportunities become less available, the number of properties we develop and invest in would be reduced, which would reduce revenue and

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profits. In addition, our ability to make investments will depend upon whether we have sufficient liquidity to fund such purchases and investments.

If we, or the entities we invest in, are not able to develop and market our real estate developments successfully or within expected timeframes or at projected pricing, our business and results of operations will be adversely affected. Before a property development generates any revenues, material expenditures are incurred to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model offices, showrooms, apartments or homes and sales facilities. It generally takes several years for a real estate development to achieve cumulative positive cash flow. If we, or the entities we invest in, are unable to develop and market our real estate developments successfully or to generate positive cash flows from these operations within expected timeframes, it could have a material adverse effect on our business and results of operations.

Because certain of our assets are illiquid, we may not be able to sell these assets when appropriate or when desired. Large real estate development like the ones that we retain investments in can be hard to sell, especially if local market conditions are poor. Such illiquidity could limit our ability to diversify our assets promptly in response to changing economic or investment conditions. Additionally, financial difficulties of other property owners resulting in distressed sales could depress real estate values in the markets in which we operate in times of illiquidity. These restrictions reduce our ability to respond to changes in the performance of our assets and could adversely affect our financial condition and results of operations.

Guaranty risks; risks of joint ventures. New Valley has a number of real estate-related investments in which other partners hold significant interests. New Valley must seek approval from these other parties for important actions regarding these joint ventures. Since the other parties' interests may differ from those of New Valley, a deadlock could arise that might impair the ability of the ventures to function. Such a deadlock could significantly harm the ventures. If our partners face adverse financial conditions, it may impair their ability to fund capital calls or satisfy their share of any guarantees on project financing. In addition, we are typically obligated to execute guarantees or indemnify our partners for guarantees they may execute in connection with the acquisition or construction financing for our projects. The guarantees that we might be obligated to sign include guarantees for environmental liability at a project, "bad boy" acts committed by New Valley, as well as a "carry" guarantee and completion guarantee for a project. In the event of a default, if a lender were to exercise its rights under these guarantees, it could have a material adverse effect on our business and results of operations.

Our real estate investments and the real estate market in general could be adversely impacted by changes in the law. Many different laws govern the development of real estate. Changes to laws such as affordable housing, zoning, air rights and others, could adversely impact our real estate projects. The Financial Crimes Enforcement Network of the Treasury Department has recently issued Geographic Targeting Orders that will temporarily require certain United States title insurance companies to identify the natural persons who directly or indirectly beneficially own companies that pay all cash for high-end residential real estate in the Borough of Manhattan in New York City and in Miami-Dade County in Florida. No assurances can be given as to the impact such requirements may have on the continued purchasing of high-end residential properties in Manhattan and Miami-Dade County by such individuals for so long as such requirements are in effect, and no assurances can be given as to the impact such requirements may have in the event they are extended to other markets throughout the country in which New Valley is engaged in high-end residential properties.

The real estate developments we invest in may be subject to losses as a result of construction defects. Real estate developers, are subject to construction defect and warranty claims arising in the ordinary course of their business. These claims are common in the real estate development industry and can be costly.

Claims may be asserted against the real estate developments we invest in for construction defects, personal injury or property damage caused by the developer, general contractor or subcontractors, and if successful these claims may give rise to liability. Subcontractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the industry; however, if U.S. or other regulatory agencies or courts reclassify the employees of sub-contractors as employees of real estate developers, real estate developers using subcontractors could be responsible for wage, hour and other employment-related liabilities of their subcontractors.

In addition, where the real estate developments in which we invest hire general contractors, unforeseen events such as the bankruptcy of, or an uninsured or under-insured loss claimed against, the general contractor, may sometimes result in the real estate developer becoming responsible for the losses or other obligations of the general contractor. The costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies may be limited. There can be no assurance that this coverage will not be further restricted and become more costly. If the real estate developments in our real estate portfolio are not able to obtain adequate insurance against these claims in the future, our business and results of operations may be adversely affected. Increasingly in recent years, individual and class action lawsuits have been filed against real estate developers asserting claims of personal injury and property damage caused by a variety of issues, including faulty materials and the presence of mold in residential dwellings. Furthermore, decreases in home values as a result of general economic conditions may result in an increase

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in both non-meritorious and meritorious construction defect claims, as well as claims based on marketing and sales practices. Insurance may not cover all of the claims arising from such issues, or such coverage may become prohibitively expensive. If real estate developments in our real estate portfolio are not able to obtain adequate insurance against these claims, they may experience litigation costs and losses that could reduce our revenues from these investments. Even if they are successful in defending such claims, we may incur significant losses.

Our real estate investments may face substantial damages as a result of existing or future litigation, arbitration or other claims. The real estate developments we invest in are exposed to potentially significant litigation, arbitration proceedings and other claims, including breach of contract, contractual disputes and disputes relating to defective title, property misdescription or construction defects. Class action lawsuits can be costly to defend, and if our assets were to lose any certified class action suit, it could result in substantial liability. With respect to certain general liability exposures, including construction defect and product liability claims, interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation process requires us to exercise significant judgment due to the complex nature of these exposures, with each exposure exhibiting unique circumstances. Furthermore, once claims are asserted for construction defects, it is difficult to determine the extent to which the assertion of these claims will expand geographically. As a result, we may suffer losses on our investments which could adversely affect our business, financial condition and results of operations.

Our investments in real estate are susceptible to adverse weather conditions and natural and man-made disasters. Adverse weather conditions and natural and man-made disasters such as hurricanes, tornadoes, storms, earthquakes, floods, droughts, fires, snow, blizzards, as well as terrorist attacks, riots and electrical outages, can have a significant effect on the assets in our real estate portfolio. These adverse conditions can cause physical damage to work in progress and new developments, delays and increased costs in the construction of new developments and disruptions and suspensions of operations, whether caused directly or by disrupting or suspending operations of those upon whom our real estate developments rely in their operations. Such adverse conditions can mutually cause or aggravate each other, and their incidence and severity are unpredictable. If insurance is unavailable to the real estate developments we invest in or is unavailable on acceptable terms, or if insurance is not adequate to cover business interruptions or losses resulting from adverse weather or natural or man-made disasters, the real estate developments we invest in and our results of operations will be adversely affected. In addition, damage to properties in our real estate portfolio caused by adverse weather or a natural or man-made disaster may cause insurance costs for these properties to increase.

A major health and safety incident relating to our real estate investments could be costly in terms of potential liabilities and reputational damage. Building sites are inherently dangerous, and operating in the real estate development industry poses certain inherent health and safety risks. Due to regulatory requirements, health and safety performance is critical to the success of the real estate investments we invest in. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could generate significant negative publicity and have a corresponding impact on the reputation and relationships of the developer with relevant regulatory agencies or governmental authorities, which in turn could have an adverse effect on our investment and operating results.

Insurance may not cover some potential losses or may not be obtainable at commercially reasonable rates, which could adversely affect our financial condition and results of operations. Real estate properties in our real estate portfolio maintain insurance on their properties in amounts and with deductibles that we believe are comparable with what owners of similar properties carry; however, such insurance may not cover some potential losses or may not be obtainable at commercially reasonable rates in the future. There also are certain types of risks (such as war, environmental contamination such as toxic mold, and lease and other contract claims) which are either uninsurable or not economically insurable. Should any uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more properties.

The volatility in the capital and credit markets has increased in recent years. Because the volatility in capital and credit markets may create additional risks in the upcoming months and possibly years, we will continue to perform additional assessments to determine the impact, if any, on our consolidated financial statements. Thus, future impairment charges may occur.

Risks associated with Douglas Elliman Realty

Douglas Elliman Real Estate depends on a strong brand, and any failure to maintain, protect and enhance the Douglas Elliman brand would have an adverse effect on its ability to grow its real estate brokerage business. Douglas Elliman Real Estate has developed a strong brand that we believe has contributed significantly to the success of its business. Maintaining, protecting and enhancing Douglas Elliman Real Estate as a premium real estate brokerage brand is critical to growing its business. If Douglas Elliman Real Estate does not successfully build and maintain a strong brand, its real estate brokerage business could be negatively impacted. Maintaining and enhancing the quality of the Douglas Elliman Real Estate brand may require us to make substantial investments in areas such as marketing, community relations, outreach and employee training. Douglas Elliman Real Estate actively engages in print and online advertisements, targeted promotional mailings and email communications, and engages on a regular basis in public relations and sponsorship activities. There is no assurance that those activities will enhance the brand awareness.

Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to the way Douglas Elliman Real Estate manages its relationship with its agents, our growth strategies or the ordinary course of its business or its brokerage business. Other incidents may arise from events that are or may be beyond its ability to control and may damage its brand, such as actions taken (or not taken) by one or more agents relating to health, safety, welfare or other matters; litigation and claims; failure to maintain high ethical and social standards for all of its operations and activities; failure to comply with local laws and regulations; and illegal activity targeted at Douglas Elliman Real Estate or others. Douglas Elliman Real Estate's brand value could diminish significantly if any such incidents or other matters erode consumer confidence in it, which may result in a decrease in its total agent count and, ultimately could adversely affect its business and operating results.

The real estate brokerage business in the New York metropolitan area, South Florida, Aspen, Colorado and Beverly Hills, California is extremely competitive. Douglas Elliman Real Estate competes with other multi-office independent real estate organizations and with franchise real estate organizations competing in local areas. Competition is particularly intense in the densely populated metropolitan areas of New York and South Florida in which it operates. In addition, in the real estate brokerage industry, new participants face minimal barriers to entry into the market. Douglas Elliman Real Estate also competes for the services of qualified licensed agents. The ability of its brokerage offices to retain agents is generally subject to numerous factors, including the sales commissions they receive, advertising support and its perception of brand value.

The financial results of Douglas Elliman Real Estate's real estate brokerage business is affected directly by the success of its agents. Douglas Elliman Real Estate's real estate brokerage offices generate revenue in the form of commissions and service fees. Accordingly, its financial results depend upon the operational and financial success of its brokerage offices and its agents.

Infringement, misappropriation or dilution of Douglas Elliman Real Estate's intellectual property could harm its business. We regard the Douglas Elliman Real Estate trademark portfolio as having significant value and as being an important factor in the marketing of its brand. Douglas Elliman Real Estate believes that this and other intellectual property are valuable assets that are critical to its success. Douglas Elliman Real Estate relies on a combination of protections provided by contracts, as well as copyright, trademark, and other laws, to protect our intellectual property from infringement, misappropriation or dilution. It has registered certain trademarks and service marks and has other trademark and service mark registration applications pending in the U.S. and foreign jurisdictions. Although Douglas Elliman Real Estate monitors its trademark portfolio both internally and through external search agents and imposes an obligation on agents to notify it upon learning of potential infringement, there can be no assurance that it will be able to adequately maintain, enforce and protect its trademarks or other intellectual property rights.

Douglas Elliman Real Estate is not aware of any challenges to its right to use any of its brand names or trademarks. It is commonly involved in numerous proceedings, generally on a small scale, to enforce its intellectual property and protect its brand. Unauthorized uses or other infringement of its trademarks or service marks, including ones that are currently unknown to us, could diminish the value of its brand and may adversely affect its business. Failure to adequately protect its intellectual property rights could damage its brand and impair its ability to compete effectively. Even where it has effectively secured statutory protection for its trademarks and other intellectual property, its competitors may misappropriate its intellectual property. Defending or enforcing our trademark rights, branding practices and other intellectual property, and seeking an injunction and/or compensation for misappropriation of confidential information, could result in the expenditure of significant resources and divert the attention of management, which in turn may adversely affect our business and operating results.

Moreover, unauthorized third parties may use Douglas Elliman Real Estate's intellectual property to trade on the goodwill of its brand, resulting in consumer confusion or dilution. Any reduction of its brand's goodwill, consumer confusion, or dilution is likely to impact sales, and could adversely affect its business and operating results.

Douglas Elliman Real Estate relies on traffic to its websites, including its flagship website, elliman.com, directed from search engines. If these websites fail to rank prominently in unpaid search results, traffic to these websites could decline and its business would be adversely affected. Douglas Elliman Real Estate's success depends in part on its ability to attract users through unpaid Internet search results on search engines. The number of users it attract to its websites, including its flagship website elliman.com, from search engines is due in large part to how and where its websites rank in unpaid search results. These rankings can be affected by a number of factors, many of which are not under our direct control, and they may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to Douglas Elliman Real Estate’s websites may not be prominent enough to drive traffic to its websites, and we may not know how or otherwise be in a position to influence the results. In some instances, search engine companies may change these rankings in order to promote their own competing services or the services of one or more of its competitors. It websites have experienced fluctuations in search result rankings in the past, and it anticipates fluctuations in the future. Any reduction in the number of users directed to its websites could adversely affect its real estate brokerage business and results of operations. Further, a failure of Douglas Elliman Real Estate’s websites or website-based technology, which are subject to factors beyond our control, could significantly disrupt its business and lead to reduced revenue and reputational damage as Douglas Elliman Real Estate may not be able to effectively scale and adapt its existing technology and network infrastructure to ensure its platforms is accessible.

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Potential new investments we may make are unidentified and may not succeed.
We currently hold a significant amount of marketable securities and cash not committed to any specific investments. This subjects a security holder to increased risk and uncertainty because a security holder will not be able to evaluate how this cash will be invested and the economic merits of particular investments. There may be substantial delay in locating suitable investment opportunities. In addition, we may lack relevant management experience in the areas in which we may invest. There is a risk that we will fail in targeting, consummating or effectively integrating or managing any of these investments.
Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company. In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and intellectual property, and that of our clients and personally identifiable information of our customers. Additionally, we increasingly rely on third-party data storage providers, including cloud storage solution providers. The secure processing, maintenance and transmission of this information are critical to our operations and with respect to information collected and stored by our third-party service providers, we are reliant upon their security procedures. While we and our third-party service providers have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. Cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties, including personally identifiable information) and the disruption of business operations. Our business interruption insurance may be insufficient to compensate us for losses that may occur. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of the services we provide to our customers, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations.
We depend on our key personnel.
We depend on the efforts of our executive officers and other key personnel. While we believe that we could find replacements for these key personnel, the loss of their services could have a significant adverse effect on our operations.
We have concluded that there are material weaknesses in our internal control over financial reporting, which have not been fully remediated as of the filing date of this Form 10-K and we cannot assure you that other material weaknesses will not be identified in the future. If we fail to maintain an effective system of internal controls, the accuracy and timing of our financial reporting may be adversely affected.
As reported in “Item 9A: Controls and Procedures” of this Form 10-K, we have concluded that there are material weaknesses in our internal control over financial accounting and we did not maintain effective monitoring controls in certain areas relating to year-end financial reporting process at Douglas Elliman Realty, LLC for the years ended December 31, 2015 and 2014, respectively, and these material weaknesses have not been fully remediated as of the filing date of this Form 10-K. Nonetheless, since the identification of the material weaknesses, management has begun the evaluation process associated with the remediation of these weaknesses and will continue to take measures, including engaging service providers that may be necessary and advisable to address these weaknesses. We could incur significant expense and devote management resources in remediating these material weaknesses in 2016.
It is necessary for us to maintain effective internal control over financial reporting to prevent fraud and errors and to maintain effective disclosure controls and procedures so that we can provide timely and reliable financial and other information. A failure to maintain adequate internal controls may adversely affect our ability to provide financial statements that accurately reflect our financial condition and timely report information. This could cause investors to lose confidence in our reported financial and other information, cause our securities to trade at a decreased price and cause an adverse effect on our business and results of operations. A failure to correct material weaknesses in our internal controls could result in restatements of financial statements and correction of other information filed with the

SEC.

The price of our common stock may fluctuate significantly.

The trading price of our common stock has ranged between $19.64 and $25.60 per share over the past 52 weeks. We expect that the market price of our common stock will continue to fluctuate.

The market price of our common stock may fluctuate in response to numerous factors, many of which are beyond our control. These factors include the following:

- actual or anticipated fluctuations in our operating results;

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- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- the operating and stock performance of our competitors;
- announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the initiation or outcome of litigation;
- the failure or significant disruption of our operations from various causes related to our critical information technologies and systems including cybersecurity threats to our data and customer data as well as reputational or financial risks associated with a loss of any such data;
- changes in interest rates;
- general economic, market and political conditions;
- additions or departures of key personnel; and
- future sales of our equity or convertible securities.

We cannot predict the extent, if any, to which future sales of shares of common stock or the availability of shares of common stock for future sale, may depress the trading price of our common stock.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our common stock, regardless of our operating performance. Furthermore, stockholders may initiate securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management. These factors, among others, could significantly depress the price of our common stock.

We have many potentially dilutive securities outstanding.

As of December 31, 2015, we had outstanding options granted to employees, including restricted shares, to purchase approximately 5,940,244 shares of our common stock, with a weighted-average exercise price of $8.71 per share, of which options 2,035,345 shares were exercisable as of December 31, 2015. We also have outstanding convertible notes and debentures maturing in January 2019 and April 2020, which are currently convertible into 24,894,522 shares of our common stock. The issuance of these shares will cause dilution which may adversely affect the market price of our common stock. The availability for sale of significant quantities of our common stock could adversely affect the prevailing market price of the stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in Miami, Florida. We lease 12,390 square feet of office space in an office building in Miami, which we share with various of our subsidiaries. The lease is with an affiliate of the Company and expires in March 2018, subject to two five-year renewal options.

We lease approximately 9,000 square feet of office space in New York, New York under a lease that expires in 2020.

New Valley’s operating properties are discussed above under the description of New Valley’s business and in Note 7 to our consolidated financial statements.

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Douglas Elliman leases 86 offices throughout New York, Connecticut, Florida, California and Colorado. Leases expire at various times between 2015 and 2031. As of December 31, 2015, the properties leased by Douglas Elliman are as follows:

Type	Number of Offices	Location	Owned or Leased	Approximate Total Square Footage
Offices	21	New York City, NY	Leased	149,000
Offices	37	Long Island, NY	Leased	133,000
Offices	14	South Florida	Leased	20,000
Offices	6	Westchester County, NY	Leased	12,000
Offices	2	California	Leased	11,000
Offices	6	Other	Leased	9,000

Liggett's tobacco manufacturing facilities, and several of the distribution and storage facilities, are currently located in or near Mebane, North Carolina. Various of such facilities are owned and others are leased. As of December 31, 2015, the principal properties owned or leased by Liggett are as follows:

Type	Location	Owned or Leased	Approximate Total Square Footage
Storage Facilities	Danville, VA	Owned	578,000
Office and Manufacturing Complex	Mebane, NC	Owned	240,000
Warehouse	Mebane, NC	Owned	60,000
Warehouse	Mebane, NC	Leased	125,000
Warehouse	Mebane, NC	Leased	22,000

LVB leases approximately 22,000 square feet of office space in Morrisville, North Carolina. The lease expires in January 2019.

Liggett's management believes that its property, plant and equipment are well maintained and in good condition and that its existing facilities are sufficient to accommodate a substantial increase in production.

ITEM 3. LEGAL PROCEEDINGS

Liggett and other United States cigarette manufacturers have been named as defendants in various types of cases predicated on the theory, among other things, that they should be liable for damages from adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes.

Reference is made to Note 15 to our consolidated financial statements, which contains a description of certain legal proceedings to which the Company, Liggett or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1, Material Legal Proceedings, incorporated herein, for additional information regarding the pending tobacco-related legal proceedings to which we or Liggett are parties. A copy of Exhibit 99.1 will be furnished without charge upon written request to us at our principal executive offices, 4400 Biscayne Boulevard, Miami, Florida 33137, Attn: Investor Relations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed and traded on the New York Stock Exchange under the symbol "VGR." The following table sets forth, for the periods indicated, high and low sale prices for a share of our common stock on the NYSE, as reported by the NYSE, and quarterly cash dividends declared on shares of common stock:

Year	High	Low	Cash Dividends
2015:			
Fourth Quarter	$25.60	$22.13	$0.40
Third Quarter	24.64	21.14	0.38
Second Quarter	22.54	20.58	0.38
First Quarter	22.19	19.64	0.38
2014:			
Fourth Quarter	$21.53	$18.78	$0.38
Third Quarter	21.77	18.15	0.36
Second Quarter	19.82	17.58	0.36
First Quarter	19.73	14.63	0.36

At February 19, 2016, there were approximately 1,639 holders of record of our common stock.

The declaration of future cash dividends is within the discretion of our Board of Directors and is subject to a variety of contingencies such as market conditions, earnings and our financial condition as well as the availability of cash.

Liggett's revolving credit agreement currently permits Liggett to pay dividends to VGR Holding only if Liggett's borrowing availability exceeds $5 million for the 30 days prior to payment of the dividend and after giving effect to the dividend, and so long as no event of default has occurred under the agreement, as defined under the Credit Facility, including Liggett's compliance with the covenants in the credit facility, including maintaining minimum levels of EBITDA (as defined) if its borrowing availability is less than $20 million and not exceeding maximum levels of capital expenditures (as defined).

Our 7.75% Senior Secured Notes due 2021 prohibit our payment of cash dividends or distributions on our common stock if, at the time of such payment, our Consolidated EBITDA (as defined) for the most recently completed four full fiscal quarters is less than $75 million. Our Consolidated EBITDA for the four quarters ended December 31, 2015 exceeded $75 million.

We paid 5% stock dividends on September 29, 2015, September 26, 2014, and September 27, 2013 to the holders of our common stock. All information presented in this report is adjusted for the stock dividends.

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Performance Graph

The following graph compares the total annual return of our Common Stock, the S&P 500 Index, the S&P MidCap 400 Index and the NYSE Arca Tobacco Index, formerly known as the AMEX Tobacco Index, for the five years ended December 31, 2015. The graph assumes that $100 was invested on December 31, 2010 in the Common Stock and each of the indices, and that all cash dividends and distributions were reinvested.

	12/10	12/11	12/12	12/13	12/14	12/15
Vector Group Ltd.	100	118	114	145	213	266
S&P 500	100	102	118	157	178	181
S&P MidCap	100	98	116	155	170	166
NYSE Arca Tobacco	100	118	140	154	153	185

Unregistered Sales of Equity Securities and Use of Proceeds

No securities of ours which were not registered under the Securities Act of 1933 were issued or sold by us during the three months ended December 31, 2015.

Issuer Purchases of Equity Securities

There were no purchases of our common stock during the three months ended December 31, 2015.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The table below, together with the accompanying text, presents certain information regarding all our current executive officers as of March 8, 2016. Each of the executive officers serves until the election and qualification of such individual's successor or until such individual's death, resignation or removal by the Board of Directors.

Name	Age	Position	Year Individual Became an Executive Officer
Howard M. Lorber	67	President and Chief Executive Officer	2001
Richard J. Lampen	62	Executive Vice President	1996
J. Bryant Kirkland III	50	Vice President, Chief Financial Officer and Treasurer	2006
Marc N. Bell	55	Vice President, General Counsel and Secretary	1998
Ronald J. Bernstein	62	President and Chief Executive Officer of Liggett	2000

Howard M. Lorber has been our President and Chief Executive Officer since January 2006. He served as our President and Chief Operating Officer from January 2001 to December 2005 and has served as a director of ours since January 2001. From November 1994 to December 2005, Mr. Lorber served as President and Chief Operating Officer of New Valley, where he also served as a director. Mr. Lorber was Chairman of the Board of Hallman & Lorber Assoc., Inc., consultants and actuaries of qualified pension and profit sharing plans, and various of its affiliates from 1975 to December 2004 and has been a consultant to these entities since January 2005; Chairman of the Board of Directors since 1987 and Chief Executive Officer from November 1993 to December 2006 of Nathan's Famous, Inc., a chain of fast food restaurants; Chairman of the Board of Ladenburg Thalmann Financial Services from May 2001 to July 2006 and Vice Chairman since July 2006; member of the Board of Directors since March 2015 and Chairman since May 2015 of Morgans Hotel Group Co. Mr. Lorber was a Director of Borders Group Inc. from May 2010 until January 2012 and was a director from 1991 to 2011 of United Capital Corp., a real estate investment and diversified manufacturing company, which ceased to be a public reporting company in 2011. He is also a trustee of Long Island University.

Richard J. Lampen has served as our Executive Vice President since July 1996. From October 1995 to December 2005, Mr. Lampen served as the Executive Vice President and General Counsel of New Valley, where he also served as a director. Since September 2006, he has served as President and Chief Executive Officer of Ladenburg Thalmann Financial Services. From November 1998 to November 2011, he served as President and Chief Executive Officer of CDSI Holdings Inc., an affiliate of New Valley, which is now known as SG Blocks Inc. Since October 2008, Mr. Lampen has served as President and Chief Executive Officer of Castle Brands Inc. Mr. Lampen is a director of Castle and Ladenburg Thalmann Financial Services and served as a director of SG Blocks Inc. until January 2014.

J. Bryant Kirkland III has been our Vice President, Chief Financial Officer and Treasurer since April 2006. Mr. Kirkland has served as a Vice President of ours since January 2001 and served as New Valley's Vice President and Chief Financial Officer from January 1998 to December 2005. He has served since July 1992 in various financial capacities with us, Liggett and New Valley. Mr. Kirkland served as Vice President, Treasurer and Chief Financial Officer of CDSI Holdings Inc. (now known as SG Blocks Inc.) from January 1998 to November 2011 and as a director of SG Blocks Inc. (formerly known as CDSI Holdings Inc.) from November 1998 to September 2015. Mr. Kirkland has served as Chairman of the Board of Directors, President and Chief Executive Officer of Multi Soft II, Inc. and Multi Solutions II, Inc. since July 2012.

Marc N. Bell has been our General Counsel and Secretary since May 1994 and our Vice President since January 1998 and the Senior Vice President and General Counsel of Vector Tobacco since April 2002. From November 1994 to December 2005, Mr. Bell served as Associate General Counsel and Secretary of New Valley and from February 1998 to December 2005, as a Vice President of New Valley. Mr. Bell previously served as Liggett's General Counsel and currently serves as an officer, director or manager for many of Vector's or New Valley's subsidiaries. Mr. Bell served as a member of the Board of Directors of SG Blocks Inc. from March 2014 to September 2015.

Ronald J. Bernstein has served as President and Chief Executive Officer of Liggett since September 1, 2000 and of Liggett Vector Brands since March 2002 and has been a director of ours since March 2004. From July 1996 to December 1999, Mr. Bernstein served as General Director and, from December 1999 to September 2000, as Chairman of Liggett-Ducat, our former Russian tobacco business sold in 2000. Prior to that time, Mr. Bernstein served in various positions with Liggett commencing in 1991, including Executive Vice President and Chief Financial Officer.

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ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)				
Statement of Operations Data:					
Revenues (1)	$1,657,197	$1,591,315	$1,079,921	$1,084,546	$1,133,380
Operating income	$199,920 (3)	$212,438 (3)	$111,186 (3)	$154,083	$142,621
Net income attributed to Vector Group Ltd.	$59,198	$36,856	$37,300 (4)	$30,675	$74,478
Per basic common share (2):					
Net income applicable to common shares attributed to Vector Group Ltd.	$0.49	$0.33	$0.36	$0.31	$0.72
Per diluted common share (2):					
Net income applicable to common shares attributed to Vector Group Ltd.	$0.49	$0.33	$0.36	$0.31	$0.72
Cash distributions declared per common share (2)	$1.54	$1.47	$1.40	$1.33	$1.27
Balance Sheet Data:					
Current assets	$583,739	$751,397	$484,388	$579,336	$426,996
Total assets	$1,310,756	$1,423,254	$1,115,793	$986,928	$824,979
Current liabilities	$216,292	$212,424	$359,376	$167,860	$279,313
Notes payable, embedded derivatives, long-term debt and other obligations, less current portion	$1,030,291	$1,029,213	$633,700	$759,074	$542,371
Non-current employee benefits, deferred income taxes and other long-term liabilities	$186,334	$202,297	$173,322	$149,064	$113,303
Stockholders' deficiency	$(122,161)	$(20,680)	$(50,605)	$(89,070)	$(110,008)

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(1) Revenues include federal excise taxes of $439,647, $446,086, $456,703, $508,027 and $552,965, respectively.

(2) Per share computations include the impact of 5% stock dividends on September 29, 2015, September 26, 2014, September 27, 2013, September 28, 2012, and September 29, 2011.

(3) Operating income includes $4,364, $1,419 and $11,823 of income from MSA Settlements, $0, $0 and $86,213 of Engle progeny settlement charge, and $20,072, $2,475 and $1,893 of litigation judgment and settlement expense for the years ended December 31, 2015, 2014 and 2013, $7,257 of restructuring expense for the year ended December 31, 2015, and $1,607 of pension settlement expense ended December 31, 2015, respectively.

(4) Net income includes a gain of $36,140, net of taxes, to account for the difference between the carrying value and the fair value of the previously held 50% interest in Douglas Elliman.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts)

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,
- the sale of electronic cigarettes in the United States through our Zoom E-Cigs LLC subsidiary, 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.

All of our tobacco operations' unit sales volume in 2015, 2014 and 2013 was in the discount segment, which management believes has been the primary growth segment in the industry for over a decade. The significant discounting of premium cigarettes in recent years has led to brands, such as EVE, that were traditionally considered premium brands to become more appropriately categorized as discount, following list price reductions.

Our tobacco subsidiaries' cigarettes are produced in 117 combinations of length, style and packaging. Liggett's current brand portfolio includes:

- EAGLE 20's — a brand positioned in the deep discount segment for long-term growth re-launched as a national brand in 2013,
- PYRAMID — the industry's first deep discount product with a brand identity re-launched in the second quarter of 2009,
- GRAND PRIX — re-launched as a national brand in 2005,
- LIGGETT SELECT — a discount category brand originally launched in 1999,
- EVE — a 120 millimeter cigarette in the branded discount category, and
- USA and various Partner Brands and private label brands.

In April 2009, Liggett repositioned PYRAMID as a box-only brand with a new low price to specifically compete with brands which are priced at the lowest level of the deep discount segment. PYRAMID is now the largest seller in Liggett's family of brands with 54.4% of Liggett's unit volume in 2015, 61.1% in 2014 and 65.5% in 2013. In January 2013, Liggett repackaged and relaunched EAGLE 20's to distributors and retailers on a national basis. EAGLE 20's is marketed to compete with brands positioned in the deep discount segment. EAGLE 20's represented 23.4% in 2015, 13.4% in 2014 and 6.6% in 2013 of Liggett's unit volume. According to Management Science Associates, Liggett held a share of approximately 11.8% of the overall discount market segment for each of 2015 and 2014 compared to 11.6% for 2013.

Under the Master Settlement Agreement ("MSA") reached in November 1998 with 46 states and various territories, the three largest cigarette manufacturers must make settlement payments to the states and territories based on how many cigarettes they sell annually. Liggett, however, is not required to make any payments unless its market share exceeds 1.65% of the U.S. cigarette market. Additionally, Vector Tobacco has no payment obligation unless its market share exceeds approximately 0.28% of the U.S. market. Liggett's and Vector Tobacco's payments under the MSA are based on each company's incremental market share above the minimum threshold applicable to such company. We believe that our tobacco subsidiaries have gained a sustainable cost advantage over their competitors as a result of the settlement.

The discount segment is a challenging marketplace, with consumers having less brand loyalty and placing greater emphasis on price. Liggett's competition is now divided into two segments. The first segment consists of the three largest manufacturers of cigarettes in the United States: Philip Morris USA Inc., RJ Reynolds Tobacco Company (which is now part of Reynolds American) ("RJ Reynolds") and ITG Brands LLC, which is owned by Imperial Brands Plc. These three manufacturers, while primarily premium cigarette-based companies, also produce and sell discount cigarettes.

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 over the past year 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 regulation of e-cigarettes, including open-system vapor products. Given this backdrop, our primary focus on e-cigarettes is to stay prepared to pursue opportunities if they occur.

Recent Developments

Liggett Restructuring. On October 5, 2015, our Tobacco segment commenced a restructuring of its operations by realigning its sales force and adjusting its business model to more efficiently serve its chain and independent accounts. In connection with the restructuring, the segment's workforce declined by 95 full-time employees (or 17% of the Tobacco segment's workforce).

The total costs of the restructuring were $7,257 for the year ended December 31, 2015. The restructuring costs are included as “Restructuring charges” in our consolidated statements of operations and are attributable to our Tobacco segment.

The restructuring plan is expected to yield approximately $10,000 of annual cost savings consisting of approximately $8,000 in reduced sales, general and administrative expenses and approximately $2,000 in reduced manufacturing expenses, beginning in the fourth quarter of 2015. We plan to reinvest the entire amount of cost savings into the Tobacco segment’s promotional and marketing programs.

Restructuring and impairment expense recognized for the year ended December 31, 2015 consisted of $5,438 related to employee pension benefits, $1,094 related to the elimination of sales and administrative positions, $454 related to a reserve for excess marketing point-of-sale material inventories and $271 of other charges .

As part of the restructuring plan, we offered voluntary termination and early retirement benefits to manufacturing employees meeting certain age and service requirements. The package consisted of enhanced pension benefits or severance based on past service and, for some employees, ongoing company contributions to insurance coverage until age 65. We expensed $5,438 in 2015 related to these benefits. All pension benefits were paid from existing pension plan assets.

We also recorded $203 for contract termination expenses related to cars leased on behalf of the terminated sales employees and an additional $68 for other related restructuring expenses.

Approximately $700 of non-pension related severance and benefits were paid in 2015. Payment of the remaining $400 of severance and benefits costs is expected in 2016. All non-pension-related restructuring payments are expected to be funded by ongoing operations and cash reserves.

Our estimates of the savings from the restructuring are based on a number of assumptions and actual results may differ from these estimates.

Liggett NPM. 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 settlement, Liggett reduced cost of sales by approximately $5,700 for the year ended December 31, 2015.

Liggett Retirement Window. Liggett recorded a charge of $1,607 for the year ended December 31, 2015 in connection with a window offered to terminated participants in two Defined Benefit Plans in 2015.

Liggett Credit Facility. On January 14, 2015, our subsidiaries, Liggett Group LLC (“Liggett”) and 100 Maple LLC (“Maple”), entered into a Third Amended and Restated Credit Agreement (the “Credit Agreement”), dated as of January 14, 2015, with Wells Fargo Bank, National Association (“Wells Fargo”), as agent and lender. The Credit Agreement governs a $60,000 credit facility (the “Credit Facility”) that consists of a revolving credit facility of up to $60,000 borrowing capacity (the “Revolver”) and a $3,600 term loan (the “Term Loan”) that is within the $60,000 commitment under the Credit Facility and reduces the amount available under the Revolver. All borrowings under the Credit Facility (other than the Term Loan) are limited to a borrowing base equal to roughly (1) the lesser of (a) 85% of the net amount of eligible accounts receivable and (b) $10,000 plus (2) the lesser of (a) the sum of (I) 80% of the value of eligible inventory consisting of packaged cigarettes plus (II) the lesser of (x) 60% multiplied by Liggett’s eligible cost of eligible inventory consisting of leaf tobacco and (y) 85% of the net orderly liquidation value of eligible inventory consisting of leaf tobacco and (b) $60,000, less (3) certain reserves against accounts receivable, inventory, bank products or other items which Wells Fargo, as agent, may establish from time to time in its permitted discretion. The obligations under the Credit Facility are secured on a first priority basis by all inventories, receivables and certain other personal property of Liggett and Maple, a mortgage on Liggett’s manufacturing facility and certain real property of Maple, subject to certain permitted liens. The Credit Facility amended and restated Liggett’s existing $50,000 credit facility with Wells Fargo and Maple's existing $3,600 term loan with Wells Fargo. The term of the Credit Facility expires on March 31, 2020. Prime rate loans under the Credit Facility bear interest at a rate equal to the greatest of (i) the Federal Funds rate plus 0.50%, (ii) LIBOR plus 1.0% and (ii) the prime rate of Wells Fargo. LIBOR rate loans under the Credit Facility bear interest at a rate equal to LIBOR plus 2.25%. Monthly principal payments of $25 are due under the Term Loan on the first day of each month with the unpaid principal balance due at maturity on March 31, 2020. The Credit Facility contains customary affirmative and negative covenants, including covenants that limit Liggett's, Maple's and their subsidiaries' ability to incur, create or assume certain indebtedness, to incur or assume certain liens, to purchase, hold or acquire certain investments, to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. The Credit Facility also requires us to comply with specified financial covenants, including that Liggett's earnings before interest, taxes, depreciation and amortization, as defined under the Credit Facility, on a trailing twelve month basis, shall not be less than $100,000 if Liggett's excess availability, as defined under the Credit Facility, is less than $20,000. The covenants also require that annual capital expenditures, as defined under the Credit Facility (before a maximum carryover amount of $10,000), shall not exceed $20,000 during any fiscal year. The Credit Facility also contains customary events of default.

Vector 6.75% Variable Interest Senior Convertible Note due 2014. On March 14, 2014, the holder of the 6.75% Variable Interest Senior Convertible Note due 2014 converted $25,000 principal balance of the $50,000 Note into 2,338,930 of our common shares. On November 14, 2014, the terms of the Note were amended to extend the maturity date to February 15, 2015. No other terms were modified. In February 2015, the holder of the 6.75% Variable Interest Senior Convertible Note due 2014 converted the remaining $25,000 principal balance of the $50,000 Note into 2,338,930 of our common shares.

Investments in Ladenburg Thalmann Financial Services (“LTS”) and Castle Brands Inc. (”Castle”). The Company adopted the equity method of accounting for its investments in LTS and Castle in 2015 because the Company determined that it had significant influence due to the evolution of the relationships with each company. The Company has adjusted its consolidated financial statements, retroactively, as if the equity method had been in effect since inception.

New Valley Real Estate Ventures:

Takanasee. In December 2015, New Valley invested $4,428 for an approximate 22.8% interest in Takanasee Developers LLC. The joint venture plans to develop a luxury oceanfront community composed of single and multi family homes in Long Branch, NJ. The investment 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 Takanasee was $4,428 at December 31, 2015.

76 Eleventh Avenue. In May 2015, New Valley invested $17,000 for an approximate 5.1% interest in HFZ 76 Eleventh Holdco LLC. The joint venture plans to develop luxury residential condominium building in the Chelsea neighborhood of Manhattan, NY. The investment 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 76 Eleventh Avenue was $17,000 as of December 31, 2015.

Monad Terrace. In May 2015, New Valley invested $6,438 for an approximate 31.3% interest in Monad Terrace LLC. The joint venture plans to develop luxury residential condominium building in Miami Beach, FL. The investment 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 recorded equity loss of $196 for the year ended December 31, 2015. New Valley’s maximum exposure to loss as a result of its investment in Monad Terrace was $6,242 at December 31, 2015.

Harmon Meadow. In March 2015, New Valley invested $5,931 to acquire a 49.0% in CSV-NV Harmon Meadow GP LLC. The purpose of the joint venture is to own and operate the Harmon Meadow retail shopping center in Secaucus, NJ. The investment 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. During 2015, New Valley received distributions of $480 and recorded equity loss of $2. New Valley’s investment percentage did not change. New Valley’s maximum exposure to loss as a result of its investment in Harmon Meadow was $5,449 as of December 31, 2015.

Stock Compensation. On November 10, 2015, we granted our President and Chief Executive Officer an award of 1,200,000 shares of our Common Stock subject to service and performance-based vesting. The Award Shares were issued pursuant to the terms of an agreement that provides that both a performance requirement and a continued employment requirement must be met over a seven-year performance period to earn vested rights with respect to the Award Shares. The maximum potential amount of the Award Shares reflects recognition of the CEO’s contributions as CEO since January 1, 2006 and the value of his management and real estate expertise to us. We will expense the value of the grant of approximately $28,400 over an estimated seven-year period.

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Recent Developments in Smoking-Related Litigation

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

Notwithstanding the comprehensive nature of the Engle Progeny Settlement, approximately 260 plaintiffs did not participate in the settlement and, therefore, we and Liggett may still be subject to periodic adverse judgments which could have a material adverse affect on the our consolidated financial position, results of operations and cash flows. In February 2016, two adverse verdicts in Engle progeny cases, Buchanan and Lambert, were affirmed on appeal. Liggett has accrued for these cases as of December 31, 2015.

Critical Accounting Policies

General. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Significant estimates subject to material changes in the near term include impairment charges, inventory valuation, deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans, the estimated fair value of embedded derivative liabilities, settlement accruals, long-term investments and impairments, accounting for investments in equity securities, and litigation and defense costs. Actual results could differ from those estimates.

Revenue Recognition. Revenues from sales of cigarettes and e-cigarettes 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. We provide an allowance for expected sales returns, net of any related inventory cost recoveries. In accordance with authoritative guidance on how taxes collected from customers and remitted to governmental authorities should be presented in the income statement (that is, gross versus net presentation), we include federal excise taxes on cigarettes in revenues and cost of goods sold. Such revenues and cost of sales totaled $439,647, $446,086, and $456,703 for the years ended December 31, 2015, 2014 and 2013, respectively. Since our primary line of business is tobacco, our financial position and our results of operations and cash flows have been and could continue to be materially adversely affected by significant unit sales volume declines, regulation, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

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.

Contingencies. We record Liggett’s product liability legal expenses and other litigation costs as operating, selling, administrative and general expenses as those costs are incurred. As discussed in Note 15 to our consolidated financial statements, legal proceedings regarding Liggett’s tobacco products are pending or threatened in various jurisdictions against Liggett and us.

We record provisions in our consolidated financial statements for pending litigation when we 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 Note 15 to our consolidated financial statements and discussed below related to the 15 cases where an adverse verdict was entered against Liggett: (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 estimate the possible loss or range of loss that could result from an unfavorable outcome of any of the pending tobacco-related cases and, therefore, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

Although Liggett has generally been successful in managing litigation in the past, litigation is subject to uncertainty and significant challenges remain, particularly with respect to the Engle progeny cases.

Adverse verdicts have been entered against Liggett in 15 state court Engle progeny cases (see Note 15 to our consolidated financial statements), and several of these verdicts have been affirmed on appeal and satisfied by Liggett.

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Except as discussed in Note 15 regarding the cases where an adverse verdict was entered against Liggett and that remain 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.

There is other tobacco-related litigation pending against Liggett, which is discussed in Note 15 to our consolidated financial statements. This litigation is also evaluated on a quarterly basis. Management is not able to predict the outcome of any of the other tobacco-related litigation pending or threatened against Liggett.

A reader should not infer from the absence of any reserve in our consolidated financial statements that we will not be subject to significant tobacco-related liabilities in the future. Litigation is subject to many uncertainties, and it is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

There may be several other proceedings, lawsuits and claims pending against us and certain of our consolidated subsidiaries unrelated to tobacco or tobacco product liability. We are of the opinion that the liabilities, if any, ultimately resulting from such other proceedings, lawsuits and claims should not materially affect our financial position, results of operations or cash flows.

Settlement Agreements. As discussed in Note 15 to our consolidated financial statements, Liggett and Vector Tobacco are participants in the MSA. Liggett and Vector Tobacco have no payment obligations under the MSA except to the extent their market shares exceed approximately 1.65% and 0.28%, respectively, of total cigarettes sold in the United States. Their obligations, and the related expense charges under the MSA, are subject to adjustments based upon, among other things, the volume of cigarettes sold by Liggett and Vector Tobacco, their relative market shares and inflation. Since relative market shares are based on cigarette shipments, the best estimate of the allocation of charges under the MSA is recorded in cost of goods sold as the products are shipped. Settlement expenses under the MSA recorded in the accompanying consolidated statements of operations were $113,919 for 2015, $116,650 for 2014 and $103,530 for 2013. Adjustments to these estimates are recorded in the period that the change becomes probable and the amount can be reasonably estimated.

Embedded Derivatives and Beneficial Conversion Feature. We measure all derivatives, including certain derivatives embedded in other contracts, at fair value and recognize them in the consolidated balance sheet as an asset or a liability, depending on our rights and obligations under the applicable derivative contract. We have issued variable interest senior convertible debt in a series of private placements where a portion of the total interest payable on the debt is computed by reference to the cash dividends paid on our common stock. This portion of the interest payment is considered an embedded derivative within the convertible debt, which we are required to separately value. As a result, we have bifurcated this embedded derivative and estimated the fair value of the embedded derivative liability. The resulting discount created by allocating a portion of the issuance proceeds to the embedded derivative is then amortized to interest expense over the term of the debt using the effective interest method.

As of December 31, 2015 and 2014, the fair value of derivative liabilities was estimated at $144,042 and $169,386, respectively. The decrease is due to the gains on the changes in fair value of convertible debt and the conversion of the Vector 6.75% Variable Interest Senior Convertible Note due 2015 (as amended).

Changes to the fair value of these embedded derivatives are reflected on our consolidated 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. We recognized gains of $24,455, $19,409 and $18,935 in 2015, 2014 and 2013, respectively, due to changes in the fair value of the embedded derivatives.

After giving effect to the recording of embedded derivative liabilities as a discount to the convertible debt, our common stock had a fair value at the issuance date of the notes in excess of the conversion price, resulting in a beneficial conversion feature. The intrinsic value of the beneficial conversion feature was recorded as additional paid-in capital and as a further discount on the debt. The discount is then amortized to interest expense over the term

of the debt using the effective interest rate method.
We recognized non-cash interest expense of $18,529, $32,071 and $21,482 in 2015, 2014 and 2013, respectively, due to the amortization of the debt discount attributable to the embedded derivatives and $8,681, $19,401 and $14,896 in 2015, 2014 and 2013, respectively, due to the amortization of the debt discount attributable to the beneficial conversion feature.
Stock-Based Compensation. Our stock-based compensation uses a fair-value-based method to recognize non-cash compensation expense for share-based transactions. Under the fair value recognition provisions, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line basis over the requisite service period of the award. We recognized stock-based compensation expense of $1,675, $1,573 and $2,212 in 2015, 2014 and 2013, respectively, related to the amortization of stock option awards and $3,945, $1,678 and $307, respectively, related to the amortization of restricted stock grants. As of December 31, 2015 and 2014, there was $3,775

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and $2,829, respectively, of total unrecognized cost related to employee stock options and $44,632 and $20,181, respectively, of total unrecognized cost related to restricted stock grants. See Note 14 to our consolidated financial statements.

Employee Benefit Plans. The determination of our net pension and other postretirement benefit income or expense is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and healthcare costs. We determine discount rates by using a quantitative analysis that considers the prevailing prices of investment grade bonds and the anticipated cash flow from our two qualified defined benefit plans and our postretirement medical and life insurance plans. These analyses construct a hypothetical bond portfolio whose cash flow from coupons and maturities match the annual projected cash flows from our pension and retiree health plans. As of December 31, 2015, our benefit obligations were computed assuming a discount rate between 3.75% - 4.50%. As of December 31, 2015, our service cost was computed assuming a discount rate of 2.75% - 4.25%. In determining our expected rate of return on plan assets, we consider input from our external advisors and historical returns based on the expected long-term rate of return which is the weighted average of the target asset allocation of each individual asset class. Our actual 10-year annual rate of return on our pension plan assets was 6.0%, 6.6% and 7.2% for the years ended December 31, 2015, 2014 and 2013, respectively, and our actual five-year annual rate of return on our pension plan assets was 6.3%, 9.8% and 13.6% for the years ended December 31, 2015, 2014 and 2013, respectively. In computing expense for the year ended December 31, 2016, we will use an assumption of a 6.0% annual rate of return on our pension plan assets. In accordance with accounting principles generally accepted in the United States of America, actual results that differ from our assumptions are accumulated and amortized over future periods and therefore, generally affect our recognized income or expense in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our future net pension and other postretirement benefit income or expense.

Net pension expense for defined benefit pension plans and other postretirement expense was $6,556 and $1,304 for 2015 and 2013, respectively, while net pension benefit for defined benefit pension plans and other postretirement expense was $345 a for 2014 and we currently anticipate benefit expense will be approximately $3,101 for 2016. In contrast, our funding obligations under the pension plans are governed by the Employee Retirement Income Security Act (“ERISA”). To comply with ERISA’ s minimum funding requirements, we do not currently anticipate that we will be required to make any funding to the tax qualified pension plans for the pension plan year beginning on January 1, 2016 and ending on December 31, 2016.

Long-Term Investments and Impairments. At December 31, 2015, we had long-term investments of $62,726, which consisted primarily of investment partnerships investing in investment securities and real estate. 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. The estimated fair value of the investment partnerships is provided by the partnerships based on the indicated market values of the underlying assets or investment portfolio. Gains are recognized when realized in our consolidated statement of operations. Losses are recognized as realized or upon the determination of the occurrence of an other-than-temporary decline in fair value. On a quarterly basis, we evaluate our investments to determine whether an impairment has occurred. If so, we also make a determination of whether 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 severity of the decline, the likelihood of recovery given the reason for the decrease in market value and our original expected holding period of the investment.

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

The Company’s goodwill and trademarks are related to Douglas Elliman. The Company's intangible asset associated with the benefit under MSA is related to Vector Tobacco.

The Company follows ASC 350, Intangibles -- Goodwill and Other, included in ASU 2011-08, Testing Goodwill for Impairment. The amendments permit entities to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the results of the qualitative assessment, if the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would then perform the first step of the goodwill impairment test; otherwise, no further impairment test would be required. The Company performed the first step of the two step method for the year ended December 31, 2015 and determined that performing the second step of the two-step impairment test was unnecessary.

The fair value of the intangible asset associated with the Douglas Elliman trademark is calculated using a "relief from royalty payments" method. This approach involves two steps: (i) estimating reasonable royalty rates for its trademark associated with the Douglas Elliman trademark and (ii) applying these royalty rates to a net sales stream and discounting the resulting cash flows to determine fair value. This fair value is then compared with the carrying value of the trademark. The Company performed its impairment test for the year ended December 31, 2015 and no impairment was noted.

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The fair value of the intangible asset associated with the benefit under the MSA is calculated using discounted cash flows. This approach involves two steps: (i) estimating future cash savings due to the payment exemption under the MSA and (ii) discounting the resulting cash flow savings to determine fair value. This fair value is then compared with the carrying value of the intangible asset associated with the benefit under the MSA. To the extent that the carrying amount exceeds the implied fair value of the intangible asset, an impairment loss is recognized. The Company performed its impairment test as of December 31, 2015 and no impairment was noted.

Income Taxes. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time and, as a result, changes in our subjective assumptions and judgments may materially affect amounts recognized in our consolidated financial statements. See Note 13 to our consolidated financial statements for additional information regarding our accounting for income taxes and uncertain tax positions.

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 consolidated financial statements and related notes included elsewhere in this report. The consolidated financial statements include the accounts of VGR Holding, Liggett, Vector Tobacco, Liggett Vector Brands, New Valley and other less significant subsidiaries.

Our significant business segments were Tobacco, E-Cigarettes and Real Estate for the three years ended December 31, 2015, 2014 and 2013. 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, our previous investment in Indian Creek, 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 and can be found in Note 1 to our consolidated financial statements.

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Revenues:			
Tobacco	$1,017,761	$1,021,259	$1,014,341
E-Cigarettes	(1,970)	8,589	—
Real Estate	641,406	561,467	65,580
Total revenues	$1,657,197	$1,591,315	$1,079,921
Operating income (loss):			
Tobacco	$209,393 (1)	$199,119 (2)	$113,039 (3)
E-Cigarettes	(13,037)	(13,124)	(1,018)
Real Estate	24,087	42,354	15,805
Corporate and Other	(20,523)	(15,911)	(16,640)
Total operating income	$199,920	$212,438	$111,186

(1) Operating income includes $4,364 of income from MSA Settlement, $20,072 of litigation judgment expense, $7,257 of restructuring expense, and $1,607 of pension settlement expense.

(2) Operating income includes $1,419 of income from NPM Settlement and $2,475 of litigation settlement charges and judgment expense.

(3) Operating income includes $11,823 of income from MSA Settlements, $86,213 of Engle progeny settlement charge, and $1,893 of litigation judgment expense for the year ended and December 31, 2013.

2015 Compared to 2014

Revenues. Total revenues were $1,657,197 for the year ended December 31, 2015 compared to $1,591,315 for the year ended December 31, 2014. The $65,882 (4.1%) increase in revenues was due to an increase in Real Estate revenues of $79,939, primarily related to increases in Douglas Elliman's commissions, offset by a decline of $10,559 in E-Cigarettes revenues and a decline of $3,498 in Tobacco revenues.

Cost of sales. Total cost of sales were $1,109,727 for the year ended December 31, 2015 compared to $1,097,060 for the year ended December 31, 2014. The $12,667 (1.2%) increase in cost of sales was due to an increase in Real Estate cost of sales of $56,259, primarily related to an increase in Douglas Elliman's commissions expense, offset by a decline of $37,825 in Tobacco cost of sales due to lower sales volume and the elimination of the Tobacco Quota Buyout and a decline of $5,767 in E-Cigarettes cost of sales due to lower sales volume.

Expenses. Operating, selling, general and administrative expenses were $320,221 for the year ended December 31, 2015 compared to $279,342 for the year ended December 31, 2014. This was an increase of $40,879 (14.6%) of which $41,947 was related to the operating, selling and administrative expenses of Real Estate primarily related to the Douglas Elliman brokerage expenses and $4,612 of Corporate and Other expenses. This was offset by a decline of $4,880 in E-Cigarettes expenses and $800 in Tobacco expenses.

Operating income. Operating income was $199,920 for the year ended December 31, 2015 compared to $212,438 for the same period last year, a decline of $12,518 (5.9%). Real Estate operating income declined by $18,267 and Corporate and Other expenses increased by $4,612. This was offset by an increase in Tobacco operating income of $10,274 and a decline in operating losses related to E-Cigarettes of $87.

Other expenses. Other expenses were $92,215 and $130,159 for the years ended December 31, 2015 and 2014, respectively. For the year ended December 31, 2015, other expenses primarily consisted of equity in losses from long-term investments of $2,681, impairment of investment securities available for sale of 12,846 and interest expense of $120,691. The decline in interest expense in 2015 was primarily attributable to lower average debt balances and the capitalization of interest expense allocated to our equity method investments in entities developing real estate projects. This was offset by income of $24,455, from changes in fair value of derivatives embedded within convertible debt, gain on sale of investment securities available for sale of $11,138, equity in earnings from real estate ventures of $2,001 and interest and other income of $6,409. For the year ended December 31, 2014, other expenses consisted primarily of interest expense of $160,991, accelerated interest expense of $5,205 related to the debt conversions of the 6.75% Variable Interest Senior Convertible Note and loss on sale of investment securities available for sale of $11. The increase in interest expense in 2014 was primarily attributable to higher average debt balances. This was offset by a benefit of $19,409 from changes in fair value of derivatives embedded within convertible debt, equity earnings in income from real estate ventures of $4,103, equity income on long-term investments of $3,140 and interest and other income of $9,396.

The value of the embedded derivatives is contingent on changes in implied interest rates of the convertible debt, our 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 our 2020 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. We recognized benefits from reductions in the value of embedded derivatives of $24,455 and $19,409 for the years ended December 31, 2015 and 2014, respectively.

Income before provision for income taxes. Income before income taxes was $107,705 and $82,279 for the years ended December 31, 2015, and 2014, respectively. The increase is attributable to the items discussed above.

Income tax expense. Income tax expense was $41,233 for the year ended December 31, 2015, compared to $33,165 for the year ended December 31, 2014. Our income tax rates for the years ended December 31, 2015 and 2014 do not bear a customary relationship to statutory income tax rates as a result of the impact of nondeductible expenses, state income taxes and interest and penalties accrued on unrecognized tax benefits offset by the impact of the domestic production activities deduction.

Tobacco.

Tobacco revenues. Liggett increased the list price of PYRAMID, LIGGETT SELECT, EVE and GRAND PRIX by $0.70 per carton in November 2015, May 2015 and November 2014 and $0.60 per carton in May 2014. Liggett increased the list price of EAGLE 20's by $1.00 per carton in December 2015.

All of our Tobacco sales were in the discount category in 2015 and 2014. For the year ended December 31, 2015, Tobacco revenues were $1,017,761 compared to $1,021,259 for the year ended December 31, 2014. Revenues for 2015 declined by 0.3% ($3,498) due to a decline in sales volume of $36,981 (approximately 172.3 million units) offset by a favorable price variance of $33,483 related to the prices increases in 2015.

Tobacco cost of sales. Our Tobacco cost of sales declined from $735,725 for the year ended December 31, 2014 to $697,900 for the year ended December 31, 2015. The major components of our Tobacco cost of sales are as follows:

	Year Ended December 31,	
	2015	2014
Manufacturing overhead, raw materials and labor	$124,814	$128,157
Federal Excise Taxes	439,647	446,086
Tobacco quota buyout expense [1]	664	27,122
FDA expense	18,856	17,710
MSA expense, net of market share exemption [2]	113,919	116,650
Total cost of sales	$697,900	$735,725

[1] The quarterly assessments due under the Fair and Equitable Tobacco Reform Act (shown as "Tobacco quota buyout expense" above) expired at the end of 2014. The $664 for the twelve months ended December 31, 2015 represents a final assessment for the fourth quarter of 2014 that was received in the second quarter of 2015.
[2] Includes $4,364 and $1,419 of income from MSA Settlement for the twelve months ended December 31, 2015 and 2014, respectively.

Tobacco gross profit was $319,861 for the year ended December 31, 2015 compared to $285,534 for the year ended December 31, 2014. The $34,327 (12.0%) increase was due to higher margins that were generated from the absence of the tobacco quota buyout in 2015, price increases in 2015, primarily on the PYRAMID brand, and lower MSA expense due to increased income in 2015 from the MSA Settlement. This was offset by increased FDA expenses of $1,146. As a percentage of revenues (excluding Federal Excise Taxes), Tobacco gross profit was 55.3% in the 2015 period and 49.6% in the 2014 period.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses were $83,140 for the year ended December 31, 2015 compared to $83,940 for the year ended December 31, 2014. The $800 decline in expenses primarily related to reduced legal expenses and savings related to the October 2015 restructuring. In addition, tobacco operating, selling, general and administrative expenses increased during 2015 due to litigation, settlement and judgments expense of $20,072 and $7,257 for restructuring expenses.

Tobacco operating income. Tobacco operating income was $209,393 for the year ended December 31, 2015 compared to $199,119 for the year ended December 31, 2014. The Tobacco operating income increase of $10,274 was primarily due to the higher gross profit margins of $34,327 discussed above. This was partially offset by an increase in litigation, settlement and judgments of $17,597 and $7,257 of restructuring expenses for the year ended December 31, 2015.

E-Cigarettes.

E-Cigarettes revenues. E-Cigarettes revenues were negative $1,970 for the year ended December 31, 2015 compared to revenues of $8,589 for the year ended December 31, 2014. Revenues declined because of lower sales volume and an increase in the estimate for the customer returns allowance of $2,849.

E-Cigarettes cost of sales. Cost of sales associated with our E-Cigarettes segment were $1,540 for the year ended December 31, 2015 compared to $7,307 for the year ended December 31, 2014. Cost of sales decreased by $5,767 due to lower sales volumes.

E-Cigarettes expenses. E-Cigarettes operating, selling, general and administrative expenses were $9,526 and $14,406 for the years ended December 31, 2015 and 2014, respectively. The decline was due to lower advertising and marketing expenses. Operating losses from E-Cigarettes were $13,037 and $13,124 for the years ended December 31, 2015 and 2014, respectively.

Real Estate.

Real Estate revenues. Real Estate revenues were $641,406 and $561,467 for the years ended December 31, 2015 and 2014, respectively. Real Estate revenues increased by $79,939 (14.2%), primarily related to an increase of $92,601 in Douglas Elliman's Commission and other brokerage income, offset primarily by the absence of the $13,234 revenue from the sale of Indian Creek in 2014.

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Real Estate revenues and cost of sales were as follows:

	Year Ended December 31,	
	2015	2014
Real Estate Revenues:		
Commission and other brokerage income	$601,937	$509,336
Property management income	28,522	28,974
Title fees	4,616	3,152
Real estate held for sale	1,166	14,400
Sales on facilities primarily from Escena	5,165	5,166
Other	—	439
Total Real Estate revenues	$641,406	$561,467
Real Estate Cost of Sales:		
Commission and other brokerage expense	$405,678	$339,543
Real estate held for sale	—	9,987
Cost of sales on facilities primarily from Escena	3,865	4,050
Title fees	743	448
Total Real Estate cost of sales	$410,286	$354,028

Real estate held for sale revenues and cost of sales for the year ended December 31, 2015 related to the sale of our residential real estate project located on Indian Creek, Florida. Real estate held for sale revenues and cost of sales for the year ended December 31, 2014 related to the sale of our residential real estate project located on Indian Creek, Florida.

Real Estate expenses. Real Estate operating, selling, general and administrative expenses were $207,032 and $165,085 for the years ended December 31, 2015 and 2014, respectively. The increase of $41,947 was primarily due to an increase of expenses at Douglas Elliman related to its strategic investments fueled by its expansion into new markets, its development marketing division and increased advertising and marketing expenses to strengthen the long-term value of the Douglas Elliman brand name.

Real Estate operating income. The Real Estate segment had operating income of $24,087 and $42,354 for the years ended December 31, 2015 and 2014, respectively. The decrease in operating income of $18,267 was primarily related to an increase in in Douglas Elliman operating, selling, general and administrative expenses, offset by higher profits and the absence of the operating income related to the 2014 sale of Indian Creek.

Corporate and other.

Corporate and other loss. The operating loss at the corporate segment was $20,523 for the year ended December 31, 2015 compared to $15,911 for the same period in 2014. The increase was primarily due to increased non-cash compensation expense and increased professional fees for the year ended December 31, 2015.

2014 Compared to 2013

Revenues. Total revenues were $1,591,315 for the year ended December 31, 2014 compared to $1,079,921 for the year ended December 31, 2013. The $511,394 (47.4%) increase in revenues was due to an increase in Real Estate revenues of $495,887 primarily related to the addition of Douglas Elliman revenues for the entire year in 2014 (we began to consolidate the operations of Douglas Elliman on December 13, 2013), an increase of $8,589 in E-Cigarettes revenues associated with the Zoom e-cigarette brand and an increase of $6,918 in Tobacco revenues.

Cost of sales. Total cost of sales was $1,097,060 for the year ended December 31, 2014 compared to $767,031 for the year ended December 31, 2013. The $330,029 (43.0%) increase in cost of sales was due to an increase in Real Estate cost of sales of $316,390 primarily related to the addition of Douglas Elliman's real estate commissions expense for the entire year in 2014, $7,307 of E-Cigarettes cost of sales associated with the Zoom e-cigarette brand and a $6,332 increase in Tobacco cost of sales.

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Expenses. Operating, selling, general and administrative expenses were $279,342 for the year ended December 31, 2014 compared to $113,598 for the same period last year. This was an increase of $165,744 (145.9%) of which $152,949 was related to the operating, selling and administrative expenses of Real Estate, $13,388 related to E-Cigarettes and $136 to Tobacco. This was offset by a decline of Corporate and Other expenses of $729.

Operating income. Operating income was $212,438 for the year ended December 31, 2014 compared to $111,186 for the same period last year, an increase of $101,252 (91.1%). Tobacco operating income increased by $86,080 and Real Estate operating income increased by $26,549 and Corporate and Other expenses declined by $729. This was offset by an increase in operating losses related to E-Cigarettes of $12,106.

Other expenses. Other expenses were $130,159 and $50,466 for the years ended December 31, 2014 and 2013, respectively. For the year ended December 31, 2014, other expenses primarily consisted of interest expense of $160,991 and accelerated interest expense of $5,205 related to the debt conversions of the 6.75% Variable Interest Senior Convertible Note and loss on sale of investment securities available for sale of $11. The increase in interest expense in 2014 was primarily attributable to higher average debt balances. This was offset by income of $19,409 from changes in fair value of derivatives embedded within convertible debt, equity earnings in income from real estate ventures of $4,103, equity income on long-term investments of $3,140 and interest and other income of $9,396. For the year ended December 31, 2013, other expenses primarily consisted of interest expense of $132,147, loss on extinguishment of the 11% Senior Secured Notes of $21,458 and accelerated interest expense of $12,414 related to the conversion of the 3.875% Variable Interest Senior Convertible Debentures. This was offset by the gain on the Douglas Elliman acquisition of $60,842, equity in earnings from real estate ventures of $22,925, income of $18,935 from changes in fair value of derivatives embedded within convertible debt, gain on sale of investment securities available for sale of $5,152, equity income on long-term investments of $3,126 and interest and other income of $4,573.

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. We recognized benefits from reductions in the value of embedded derivatives of $19,409 and $18,935 for the years ended December 31, 2014 and 2013, respectively.

Income before income taxes. Income before income taxes was $82,279 and $60,720 for the years ended December 31, 2014 and 2013, respectively. The increase is attributable to the items discussed above.

Income tax expense. The income tax expense was $33,165 for the year ended December 31, 2014, compared to $23,672 for the year ended December 31, 2013. Our income tax rates for the years ended December 31, 2014 and 2013 do not bear a customary relationship to statutory income tax rates as a result of the impact of nondeductible expenses, state income taxes and interest and penalties accrued on unrecognized tax benefits offset by the impact of the domestic production activities deduction.

Tobacco.

Tobacco revenues. Liggett increased the list price of PYRAMID, LIGGETT SELECT, EVE and GRAND PRIX by $0.60 per carton in June 2013 and May 2014 and $0.70 per carton in December 2013 and November 2014.

All of our Tobacco sales were in the discount category in 2014 and 2013. For the year ended December 31, 2014, Tobacco revenues were $1,021,259 compared to $1,014,341 for the year ended December 31, 2013. Revenues for 2014 increased by 0.7% ($6,918) due to a favorable price variance of $38,677 offset by a decline in sales volume of $31,759 (approximately 211.1 million units).

Tobacco cost of sales. Our Tobacco cost of sales increased from $729,393 for the year ended December 31, 2013 to $735,725 for the year ended December 31, 2014. The major components of our Tobacco cost of sales are as follows:

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	Year Ended December 31,	
	2014	2013
Manufacturing overhead, raw materials and labor	$128,157	$123,258
Federal Excise Taxes, net	446,086	456,703
Tobacco quota buyout expense	27,122	28,691
FDA expense	17,710	17,211
MSA expense, net of market share exemption	116,650	103,530
Total cost of sales	$735,725	$729,393

Adjusting for the MSA settlements, Tobacco gross profit was $284,115 for the year ended December 31, 2014 compared to $273,125 for the year ended December 31, 2013. The $10,990 (4.0%) increase was due to higher margins associated with price increases primarily on the PYRAMID brand. As a percentage of revenues (excluding Federal Excise Taxes and adjusting for the MSA settlements), Tobacco gross profit was 49.4% in the 2014 period and 49.0% in the 2013 period.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses excluding litigation settlement judgment expenses were $83,940 for the year ended December 31, 2014 compared to $83,804 for the year ended December 31, 2013.

Tobacco operating income. Tobacco operating income was $199,119 for the year ended December 31, 2014 compared to $113,039 for the same period in 2013. The Tobacco operating income increase of $86,080 was primarily associated with the absence of the $86,213 Engle progeny settlement charge offset by a decline in benefit from the MSA settlements of $10,404 in 2013.

E-Cigarettes.

Zoom entered the emerging United States e-cigarette market in limited retail distribution outlets in 2013 and expanded distribution in 2014. E-Cigarettes revenues were $8,589 and E-Cigarettes cost of sales were $7,307 for the year ended December 31, 2014. E-Cigarettes operating, selling, general and administrative expenses were $14,406 and $1,018 for the years ended December 31, 2014 and 2013, respectively. The increase was due to additional selling and administrative costs in 2014 associated with marketing and promotions activity. E-Cigarettes operating losses were $13,124 and $1,018 for the years ended December 31, 2014 and 2013, respectively.

Real Estate.

Real Estate revenues. Real Estate revenues were $561,467 and $65,580 for the years ended ended December 31, 2014 and 2013, respectively. Real Estate revenues increased by $495,887 primarily related to the Douglas Elliman operations. Douglas Elliman became a consolidated subsidiary of ours in December 2013.

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Real Estate revenues and cost of sales were as follows:

	Year Ended December 31,	
	2014	2013
Real Estate Revenues:		
Commission and other brokerage income	$509,336	$36,238
Property management income	28,974	1,134
Title fees	3,152	155
Real estate held for sale	14,400	22,734
Sales on facilities primarily from Escena	5,166	5,104
Other	439	215
Total Real Estate revenues	$561,467	$65,580
Real Estate Cost of Sales:		
Commission and other brokerage expense	$339,543	$30,787
Real estate held for sale	9,987	2,548
Cost of sales on facilities primarily from Escena	4,050	4,263
Title fees	448	40
Total Real Estate cost of sales	$354,028	$37,638

Real estate held for sale revenues and cost of sales for the year ended December 31, 2014 related to the sale of our residential real estate project located on Indian Creek, Florida. Real estate held for sale revenues and cost of sales for the year ended December 31, 2013 related to the sale of 200 of the 867 residential lots of our residential real estate project, Escena, located in Palm Springs, California. Other revenues are New Valley marketing revenues.

Real Estate expenses. Real Estate operating, selling, general and administrative expenses were $165,085 and $12,136 for the years ended December 31, 2014 and 2013, respectively. Real Estate operating, selling, general and administrative expenses increased by $152,949 primarily related to the Douglas Elliman operations.

Real Estate operating income (loss). The Real Estate segment had operating income of $42,354 for the year ended December 31, 2014 compared to operating income of $15,805 for the year ended December 31, 2013. The increase in operating income of $26,549 was primarily related to a full year of the Douglas Elliman operations in 2014.

Corporate and other.

Corporate and other loss. The operating loss at the corporate segment was $15,911 for the year ended December 31, 2014 compared to $16,640 for the same period in 2013.

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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 current real estate investments primarily include the following projects as of December 31, 2015:

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

	Location	Date of Initial Investment	Percentage Owned	Net Cash Invested	Cumulative Earnings (Losses) (3)	Carrying Value as of December 31, 2015	Future Capital Commitments from New Valley (1)	Projected Residential and/or Hotel Area	Projected Commercial Space	Projected Number of Residential Lots, Units and/or Hotel Rooms	Projected Construc Start Dat
Sagaponack	Sagaponack, NY	April 2015	100 %	$12,602	$—	$12,602	$—	TBD	N/A	TBD	N/A
Escena, net	Master planned community, golf course, restaurant and shop in Palm Springs, CA	March 2008	100 %	$1,975	$8,741	$10,716	$—	450 Acres		667 R Lots 450 H	N/A
Real estate held for sale, net				14,577	8,741	23,318	—				
10 Madison Square West (1107 Broadway)	Flatiron District/NoMad neighborhood, Manhattan, NY	October 2011	5.0 %	$7,346	$4,045	$11,391	—	260,000 SF	20,000 SF	124 R	August 2
The Marquand (11 East 68th Street)	Upper East Side, Manhattan, NY	December 2011	18.0%	7,000	6,900	13,900	—	90,000 SF	—	29 R	June 201
11 Beach Street	TriBeCa, Manhattan, NY	June 2012	49.5%	12,327	882	13,209	—	97,000 SF	—	27 R	May 201
20 Times Square (701 Seventh Avenue)	Times Square, Manhattan, NY	August 2012	7.1 %	13,516	1,469	14,985	—	252,000 SF	80,000 SF	452 H	Septembe 2013
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	9.5 %	25,732	(165)	25,567	—	330,000 SF	1,700 SF	157 R	Septembe 2014
160 Leroy Street (2)	West Greenwich Village, Manhattan, NY	March 2013	3.1 %	2,169	1,783	3,952	—	130,000 SF	—	57 R	Fall 2015
215 Chrystie Street	Lower East Side, Manhattan, NY	December 2012	18.4%	5,297	295	5,592	—	246,000 SF	—	11 R 367 H	June 201

The Dutch (25-19 43rd Avenue)	Long Island City, NY	May 2014	9.9 %	980	97	1,077		65,000	SF	—		86	R	Septembe 2014
Queens Plaza (23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4 %	14,712	1,465	16,177	—	260,000	SF	25,000	SF	391	R	March 20
87 Park (8701 Collins Avenue)	Miami Beach, FL	December 2013	15.0 %	8,275	383	8,658	—	160,000	SF	TBD		70	R	October 2
125 Greenwich Street (2)	Financial District, Manhattan, NY	August 2014	13.3 %	8,319	1,431	9,750	—	306,000	SF	16,000	SF	275	R	March 20
West Hollywood Edition (9040 Sunset Boulevard)	West Hollywood, CA	October 2014	48.5 %	9,727	783	10,510	—	210,000	SF	—		20 190	R H	May 201
76 Eleventh Avenue	West Chelsea, Manhattan, NY	May 2015	5.1 %	17,000	967	17,967	—	620,000	SF	48,000	SF	250	H	Septembe 2016
Monad Terrace	Miami Beach, FL	May 2015	31.3 %	6,437	171	6,608	—	160,000	SF	—		TBD	R	May 201
Takanasee	Long Branch, NJ	December 2015	22.8 %	$4,428	$252	$4,680	$—	TBD		N/A		TBD	R	TBD
Condominium and Mixed Use Development				$143,265	$20,758	$164,023	$—							
Maryland Portfolio	Primarily Baltimore County, MD	July 2012	7.6 %	$1,637	$(1,637)	$—	—	N/A		N/A		5,517	R	N/A
ST Portfolio	Houston, TX and Stamford, CT	November 2013	16.3 %	14,442	1,312	15,754	—	640,576	SF	20,065	SF	488	R	N/A
Apartment Buildings				$16,079	$(325)	$15,754	$—							
Park Lane Hotel	Central Park South, Manhattan, NY	November 2013	5.2 %	$23,695	$(3,998)	$19,697	—	445,600	SF	—		628	H	N/A
Hotel Taiwana	St. Barthelemy, French West Indies	October 2011	17.0 %	7,942	(873)	7,069	—	61,300	SF	4,300	SF	22	H	N/A
Coral Beach and Tennis Club	Coral Beach, Bermuda	December 2013	49.0 %	5,558	(2,399)	3,159	—	52	Acres	—		101	H	N/A
Hotels				$37,195	$(7,270)	$29,925	$—							
The Plaza at Harmon	Secaucus, NJ	March 2015	49.0 %	$5,451	$(2)	$5,449	$—	—		217,613	SF	—	—	N/A

Meadow Commercial	$5,451	$(2)	$5,449	$—
Total Carrying Value	216,567	21,902	248,397	

(1) This column only represents capital commitments required under the various joint venture agreements. However, many of t
agreements provide for the operating partner to call capital. If a joint venture partner, such as New Valley, declines to fund the
the partner's ownership percentage could either be diluted or, in some situations, the character of a funding member's contribut
converted from a capital contribution to a member loan.
(2) Carrying value as of December 31, 2015, includes non-controlling interest of $1,924 and $1,916, 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 company by Douglas Elliman with a carrying value of $2,017 as of December 31, 2015. New Valley capitalized $9,928 of interest expense into the carrying value of its ventures whose projects were currently under development during the year ended December 31, 2015. This amount captured in the "Cumulative Earnings "Loses" column in the table above.

Liquidity and Capital Resources

Net cash and cash equivalents decreased by $85,997 and $171,389 in 2015 and 2013, respectively, and increased by $91,899 in 2014.

Net cash provided from operations was $144,479, $107,376 and $52,026 in 2015, 2014 and 2013, respectively. The change in the 2015 period, when compared to the 2014 period, was primarily due to the absence of a one-time payment in 2014 related to the the Engle progeny settlement as well as lower cash interest payments in 2015. The increase in cash provided from operations for the nine months ended December 31, 2015 was offset by higher income tax payments in 2015. In October 2013, we entered into a settlement with approximately 4,900 Engle progeny plaintiffs and their counsel. Liggett agreed to pay a total of approximately $110,000 under this settlement, which consisted of a $61,600 lump sum payment in 2014 and agreed to pay the balance in installments over 14 years, beginning in February 2015. The change in the 2014 period, when compared to the 2013 period, primarily related to the consolidation of Douglas Elliman and increased operating income at Liggett in 2014 and the absence of cash payments in 2014 associated with the extinguishment of our 11% Senior Secured Notes in 2013 and was partially offset by higher settlement payments in the 2014 period, which were primarily associated with the Engle progeny settlement and higher cash interest expenditures in 2014.

Cash used in investing activities was $22,363, $221,434 and $91,952 in 2015, 2014 and 2013, respectively. Our investment philosophy is to maximize return on investments using a reasonable expectation for return. For example, we expect our investment returns to exceed the comparable return on cash or short-term U.S. Treasury Bills when investing in equity and debt securities and more than our weighted-average cost of capital when investing in non-consolidated real estate businesses and capital expenditures. Our investing activities decreased in 2015 compared to 2014. In 2015, cash used in investing activities was for the purchase of investment securities of $214,146, investments in real estate ventures of $70,272, capital expenditures of $10,977, purchase of long-term investments of $10,000, issuance of notes receivable of $4,410, an increase in non-current restricted assets of $6,889, investments in real estate held for sale of $12,603 and an increase in cash surrender value of corporate-owned life insurance policies of $1,742. This was offset by the proceeds from the sale of investment securities of $270,576, the repayment of notes receivable of $4,000, distributions from investments in real estate ventures of $17,563, proceeds from the sale or liquidation of long-term investments of $1,303, the pay down of investment securities of $8,739, the maturities of investment securities of $5,491, proceeds from sale of preferred securities of $1,000 and the proceeds from the sale of fixed assets of $4. In 2014, cash used in investing activities was for the purchase of investment securities of $305,731, investment in real estate ventures of $40,916, capital expenditures of $23,404, purchase of long-term investments of $12,000, issuance of notes receivable of $8,250, purchase of preferred securities of $1,000, an increase in non-current restricted assets of $872, the purchase of subsidiaries of $750 and increase in cash surrender value of corporate-owned life insurance policies of $484. This was offset by the sale of investment securities of $154,615, the maturities of investment securities of $930, the repayment of notes receivable of $4,850, distributions from investments in real estate ventures of $7,309, proceeds from the sale or liquidation of long-term investments of $2,416, the settlement of investment securities of $1,849 and the proceeds from the sale of fixed assets of $4. In 2013, cash used in investing activities was for the purchase of investment securities of $170,463, investment in real estate ventures of $75,731, the purchase of subsidiaries of $67,616, capital expenditures of $13,275, the issuance of notes receivable of $8,600, the purchase of long-term investments of $5,501 and an increase in cash surrender value of corporate-owned life insurance policies of $628. This was offset by the cash acquired in the Douglas Elliman Realty consolidation of $116,935, the sale of investment securities of $117,021, distributions from investments in real estate ventures of $3,142, a decrease in non-current restricted assets of $1,081, the proceeds from the sale or liquidation of long-term investments of $10,927, the pay down of investment securities of $681, the maturity of investment securities of $27 and the proceeds from the sale of fixed assets of $48.

Cash used in financing activities was $208,113 and $131,463 in 2015 and 2013, respectively. Cash provided by financing activities was $205,957 in 2014. In 2015, cash used for financing activities was for the dividends and distributions on common stock of $188,151, repayment of debt of $6,684, net repayments of debt under the revolver of $14,554, payment of deferred financing costs of $624 and distributions to non-controlling interest of $3,280. This was offset by proceeds from issuance of debt of $2,105, contributions from non-controlling interest of $813, proceeds from the exercise of Vector options of $1,441 and tax benefit of options exercised of $821. In 2014 and 2013, we took 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. In 2014, cash provided by financing activities was from proceeds from issuance of debt of $413,914, proceeds from the exercise of Vector options of $5,151 and tax benefit of options exercised of $1,178. This was offset by cash used for dividends and distributions on common stock of $167,328, repayments of debt of $12,601, net repayments of debt under the revolver of $12,658, payment of deferred financing costs of $12,360 and distributions to non-controlling interest of $9,339. In 2013, cash used in financing activities was for repayment of debt of $422,581, dividends and distributions on common stock of $144,711, distributions to non-controlling interest of $11,764, and deferred financing costs of $11,750. This was offset by proceeds from issuance of debt of $457,767, net borrowings of debt under the revolver of $994, proceeds from the exercise of Vector options of $544, and tax benefit of options exercised of $38.

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Tobacco Litigation. To date, 15 verdicts have been entered in Engle progeny cases against Liggett in the total amount of approximately $47,173, plus attorneys' fees and interest. Several of these verdicts have been affirmed on appeal and have been, or will be shortly, satisfied by Liggett. It is possible that additional cases could be decided unfavorably. On October 23, 2013, we 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. In 2013, we recorded a charge of $86,213 in connection with the settlement. The Company's future payments will be approximately $3,400 per annum through 2028, with a cost of living increase beginning in 2021. Notwithstanding the comprehensive nature of the Engle Progeny Settlement, approximately 260 plaintiffs' claims remain outstanding. Therefore, we 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. Management cannot predict the cash requirements related to any future settlements or judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. Management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases. It is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

Vector.

6.75% Variable Interest Senior Convertible Note due 2014. On March 14, 2014, the holder of the 6.75% Variable Interest Senior Convertible Note due 2014 converted $25,000 principal balance of the $50,000 Note into 2,338,930 of our common shares. On November 14, 2014, the terms of the Note were amended to extend the maturity date to February 15, 2015. No other terms were modified. In February 2015, the holder of the 6.75% Variable Interest Senior Convertible Note due 2014 converted the remaining $25,000 principal balance of the $50,000 Note into 2,338,930 of our common stock.

6.75% Variable Interest Senior Convertible Exchange Notes due 2014. In May 2014, August 2014 and November 2014, holders of the 6.75% Variable Interest Senior Convertible Exchange Notes due 2014 converted $107,530 principal balance of the $107,530 Notes into 8,867,443 of our common shares.

5.5% Variable Interest Senior Convertible Notes due 2020. On March 24, 2014, we completed the sale of $258,750 of our 5.5% Variable Interest Convertible Senior Notes due 2020 and received net proceeds from the sale of the Notes of approximately $250,300.

3.875% Variable Interest Senior Convertible Debentures due 2026. On October 29, 2013, we issued a Notice of Optional Redemption to each holder of our 3.875% Variable Interest Senior Convertible Debentures due 2026. Pursuant to the Notice of Optional Redemption, we intended to redeem all of the remaining Debentures outstanding under the Indenture on November 29, 2013. During November 2013, all of the outstanding $43,222 was converted into 3,274,610 shares of our common stock. The conversions resulted in non-cash accelerated interest expense of $12,414 for the year ended December 31, 2013. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $43,222.

7.75% Senior Secured Notes due 2021. In February 2013, we issued $450,000 of our 7.75% senior secured notes due 2021 in a private offering to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933. The aggregate net proceeds from the issuance of the 7.75% senior secured notes were approximately $438,250 after deducting offering expenses. We used the net proceeds of the issuance for a cash tender offer for any existing 11% senior secured notes announced on January 29, 2013 with respect to any and all of the outstanding $415,000 of our 11% senior secured notes due 2015. We retired $336,315 of the 11% senior secured notes at a premium of 104.292%, plus accrued and unpaid interest, on February 12, 2013. We called and then retired the remaining $78,685 of the 11% senior secured notes at a redemption price of 103.667% plus accrued and unpaid interest, on March 14, 2013. We recorded a loss on the extinguishment of the debt of $21,458 for the twelve months ended December 31, 2013, which included $17,820 of premium and tender offer costs and non-cash interest expense of $3,638 related to the write-off of net unamortized debt discount and deferred finance costs.

On April 15, 2014, we completed the sale of $150,000 principal amount of our 7.75% Senior Secured Notes due 2021 for a price of 106.750% in a private offering to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933. We received net proceeds of approximately $158,700 after deducting underwriting discounts, commissions, fees and offering expenses.

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In August 2014, we completed an offer to exchange the 7.75% senior secured notes issued in April 2014 for an equal amount of newly issued 7.75% senior secured notes due 2021. The new 7.75% senior secured notes have substantially the same terms as the original notes, except that the new 7.75% senior secured notes have been registered under the Securities Act.

The 7.75% senior secured notes pay interest on a semi-annual basis at a rate of 7.75% per year and mature on February 15, 2021. We may redeem some or all of the 7.75% senior secured notes at any time prior to February 15, 2016 at a make-whole redemption price. On or after February 15, 2016 we may redeem some or all of the 7.75% senior secured notes at a premium that will decrease over time, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date.

The 7.75% senior secured notes are guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of our 100% owned domestic subsidiaries that are engaged in the conduct of our cigarette businesses. In addition, some of the guarantees are 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.

The indenture contains covenants that restrict the payment of dividends if our consolidated earnings before interest, taxes, depreciation and amortization ("Consolidated EBITDA"), as defined in the 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. The following table summarizes the requirements of these financial covenants and the results of the calculation, as defined by the indenture.

Covenant	Indenture Requirement	December 31, 2015	December 31, 2014
Consolidated EBITDA, as defined	$75,000	$268,870	$244,100
Leverage ratio, as defined	<3.0 to 1	1.95 to 1	1.23 to 1
Secured leverage ratio, as defined	<1.5 to 1	0.9 to 1	0.1 to 1

Liggett Financing. In 2015, Liggett entered into two financing agreements for a total of $1,765 related to the purchase of equipment. The weighted average interest rate of the outstanding debt is 4.79% per annum and the interest rates on the two notes range from 4.49% to 4.85%. Total monthly installments are approximately $33.

In 2014, Liggett entered into three financing agreements for a total of $5,115 related to the purchase of equipment. The weighted average interest rate of the outstanding debt is 5.02% per annum and the interest rates on the three notes are from 4.98% to 5.04%. Total monthly installments are approximately $95. Liggett also refinanced $2,843 of debt related to equipment purchased in 2011. The refinanced debt had an interest rate of 5.63% and a remaining term of 21 months. The refinanced debt carries an interest rate of 4.99% and a term of 36 months.

In 2013, Liggett entered into two financing agreements for a total of $6,580 related to the purchase of equipment. The weighted average interest rate of the outstanding debt is 4.49% per annum and the interest rate on the two notes are 3.28% and 4.93%. Total monthly installments are approximately $181.

Liggett Credit Facility. On January 14, 2015, Liggett and 100 Maple LLC ("Maple"), a subsidiary of Liggett, entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement"), with Wells Fargo Bank, National Association ("Wells Fargo"), as agent and lender. The Credit Agreement governs a $60,000 credit facility (the "Credit Facility") that consists of a revolving credit facility of up to $60,000 borrowing capacity (the "Revolver") and a $3,600 term loan (the "Term Loan") that is within the $60,000 commitment under the Credit Facility and reduces the amount available under the Revolver. All borrowings under the Credit Facility (other than the Term Loan) are limited to a borrowing base equal to roughly (1) the lesser of (a) 85% of the net amount of eligible accounts receivable and (b) $10,000 plus (2) the lesser of (a) the sum of (I) 80% of the value of eligible inventory consisting of packaged cigarettes plus (II) the lesser of (x) 60% multiplied by Liggett's eligible cost of eligible inventory consisting of leaf tobacco and (y) 85% of the net orderly liquidation value of eligible inventory consisting of leaf tobacco and (b) $60,000, less (3) certain reserves against accounts receivable, inventory, bank products or other items which Wells Fargo, as agent, may establish from time to time in its permitted discretion. The obligations under the Credit Facility are collateralized on a first priority basis by all inventories, receivables and certain other personal property of Liggett and Maple, a mortgage on Liggett's manufacturing facility and certain real property of Maple, subject to certain permitted liens. The Credit Facility amended and restated Liggett's previous $50,000 credit facility with Wells Fargo and Maple's existing $3,600 term loan with Wells Fargo.

The term of the Credit Facility expires on March 31, 2020. Prime rate loans under the Credit Facility bear interest at a rate equal to the greatest of (i) the Federal Funds rate plus 0.50%, (ii) LIBOR plus 1.0% and (ii) the prime rate of Wells Fargo. LIBOR rate loans under the Credit Facility bear interest at a rate equal to LIBOR plus 2.25%. The interest rate applicable to this Credit Facility at December 31, 2015 was 2.70%.

The Credit Facility permits the guaranty of the 7.75% Senior Secured Notes due 2021 by each of Liggett and Maple and the pledging of certain assets of Liggett and Maple on a subordinated basis to secure their guarantees. The credit facility also grants to Wells Fargo a blanket lien on all the assets of Liggett and Maple, excluding any equipment pledged to current or future purchase money or other financiers of such equipment and excluding any real property, other than the Mebane Property and other real property to the extent its value is in excess of $5,000. Wells Fargo, Liggett, Maple and the collateral agent for the holders of our 7.75% senior secured notes have entered into an intercreditor agreement, pursuant to which the liens of the collateral agent on the Liggett and Maple assets will be subordinated to the liens of Wells Fargo on the Liggett and Maple assets.

The Credit Facility contains customary affirmative and negative covenants, including covenants that limit Liggett’s, Maple’s and their subsidiaries’ ability to incur, create or assume certain indebtedness, to incur or assume certain liens, to purchase, hold or acquire certain investments, to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. The Credit Facility also requires the Company to comply with specified financial covenants, including that Liggett's earnings before interest, taxes, depreciation and amortization, as defined under the Credit Facility, on a trailing twelve month basis, shall not be less than $100,000 if Liggett's excess availability, as defined under the Credit Facility, is less than $20,000. The covenants also require that annual capital expenditures, as defined under the Credit Facility (before a maximum carryover amount of $10,000), shall not exceed $20,000 during any fiscal year. The Credit Facility also contains customary events of default. The Credit Facility requires Liggett’s compliance with certain financial and other covenants including a restriction on Liggett’s ability to pay cash dividends unless Liggett’s borrowing availability, as defined, under the credit facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, was at least $5,000 and no event of default had occurred under the agreement, including Liggett’s compliance with the covenants in the credit facility. Liggett was in compliance with these covenants as of December 31, 2015.

We and our subsidiaries have significant indebtedness and debt service obligations. As of December 31, 2015, we and our subsidiaries had total outstanding indebtedness of $1,105,409. Approximately, $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 $600,000 of our 7.75% senior secured notes mature in 2021. 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 operations are positive cash-flow-generating units and will continue to be able to sustain our operations without any significant liquidity concerns. In addition, subject to the terms of any future agreements, we and our subsidiaries will be able to incur additional indebtedness in the future.

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 $240,400, investment securities available for sale of approximately $182,000, long-term investments with an estimated value of approximately $66,300 and availability under Liggett’s credit facility of approximately $51,500 as of December 31, 2015. 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.

The total amount of unrecognized tax benefits was $1,744 as of January 1, 2015 and decreased $221 during the year ended December 31, 2015, primarily from the expiration of various state statute of limitations. The total amount of unrecognized tax benefits was $3,122 as of January 1, 2014 and decreased $1,378 during the year ended December 31, 2014, primarily from the expiration of various state statute of limitations.

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Contractual Obligations
Our significant contractual obligations as of December 31, 2015 were as follows:

Contractual Obligations	2016	2017	2018	2019	2020	Thereafter	Total
Notes payable, long-term debt and other obligations (1)	$8,919	$2,254	$2,001	$231,160	$261,075	$600,000	$1,105,409
Operating leases (2)	25,463	21,064	18,928	14,912	11,835	72,888	165,090
Inventory purchase commitments (3)	15,466	—	—	—	—	—	15,466
Capital expenditure purchase commitments (4)	832	—	—	—	—	—	832
Interest payments (5)	97,046	98,852	100,855	78,671	59,000	23,250	457,674
Engle progeny settlement	3,426	3,426	3,426	3,426	3,426	27,409	44,539
Total (6)	$151,152	$125,596	$125,210	$328,169	$335,336	$723,547	$1,789,010

(1) Notes payable, long-term debt and other obligations is shown before discount. For more information concerning our long-term debt, see “Liquidity and Capital Resources” above and Note 9 to our consolidated financial statements.
(2) Operating lease obligations represent estimated lease payments for facilities and equipment.
(3) Inventory purchase commitments represent primarily purchase commitments under our leaf inventory management program. See Note 4 to our consolidated financial statements.
(4) Capital expenditure purchase commitments represent purchase commitments for machinery and equipment at Liggett. See Note 5 to our consolidated financial statements.
(5) Interest payments are based on current interest rates at December 31, 2015 and the assumption our current policy of a cash dividend of $0.40 per quarter and an annual 5% stock dividend will continue. For more information concerning our long-term debt, see “Liquidity and Capital Resources” above and Note 9 to our consolidated financial statements.
(6) Because their future cash outflows are uncertain, the above table excludes our pension and post benefit plans unfunded obligations of $55,970 at December 31, 2015.

Payments under the MSA, discussed in Note 15 to our consolidated financial statements, and the Food and Drug Administration ("FDA") user fees, discussed in “Legislation and Regulation” below, are excluded from the table above, as the payments are subject to adjustment for several factors, including inflation, overall industry volume, our market share and the market share of non-participating manufacturers.

Off-Balance Sheet Arrangements
We have various agreements in which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations related to such matters as title to assets sold and licensed or certain intellectual property rights. Payment by us under such indemnification clauses is generally conditioned on the other party making a claim that is subject to challenge by us and dispute resolution procedures specified in the particular contract. Further, our obligations under these arrangements may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, payments made by us under these agreements have not been material. As of December 31, 2015, we were not aware of any indemnification agreements that would or are reasonably expected to have a current or future material adverse impact on our financial position, results of operations or cash flows.

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In February 2004, Liggett Vector Brands entered into a five-year agreement with a subsidiary of the American Wholesale Marketers 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. This agreement has been extended through February 2016. 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. To secure its potential obligations under the agreement, Liggett Vector Brands posted a $100 letter of credit and agreed to fund up to an additional $400. In the third quarter of 2013, Liggett paid $83 for obligations under this program, and therefore, is only committed to fund an additional $317 over the letter of credit. The Company believes the fair value of Liggett Vector Brands' obligation under the agreement was immaterial as of December 31, 2015.

As of December 31, 2015, we had outstanding approximately $1,674 of letters of credit, collateralized by certificates of deposit. The letters of credit have been issued as security deposits for leases of office space, to secure the performance of our subsidiaries under various insurance programs and to provide collateral for various subsidiary borrowing and capital lease arrangements.

We have a leaf inventory management program whereby, among other things, we are committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the commitment date. At December 31, 2015, Liggett had tobacco purchase commitments of approximately $15,466. We have a single source supply agreement for fire safe cigarette paper through 2019.

Future machinery and equipment purchase commitments at Liggett were $832 at December 31, 2015.

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 December 31, 2015, approximately $6,500 of our outstanding debt at face value had variable interest rates determined by various interest rate indices, which increases the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our variable rate borrowings, which could adversely affect our cash flows. As of December 31, 2015, 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 $65.

In addition, as of December 31, 2015, $270,495 ($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. 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 $1,403 resulting from the embedded derivative associated with our 5.5% exchange notes due 2020, and the remaining $1,013 resulting from the embedded derivative associated with the 7.5% variable interest senior convertible notes. An increase in our quarterly dividend rate by $0.10 per share would increase interest expense by approximately $10,060 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 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 $144,660 and $143,422. We recorded the fair market value of our embedded derivatives at the midpoint of the inputs at $144,042 as of December 31, 2015. The estimated fair market value of our embedded derivatives could change significantly based on future market conditions.

We held investment securities available for sale totaling $181,976 as of December 31, 2015. See Note 3 to our consolidated financial statements. Adverse market conditions could have a significant effect on the value of these investments.

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.

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New Accounting Pronouncements

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

Legislation and Regulation

Reports with respect to the alleged harmful physical effects of cigarette smoking have been publicized for many years and, in the opinion of Liggett's management, have had and will continue to have an adverse effect on cigarette sales. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports stating that cigarette smoking is a causative factor with respect to a variety of health hazards, including cancer, heart disease and lung disease, and have recommended various government actions to reduce the incidence of smoking. In 1997, Liggett publicly acknowledged that, as the Surgeon General and respected medical researchers have found, smoking causes health problems, including lung cancer, heart and vascular disease, and emphysema.

On June 22, 2009, the President signed into law the Family Smoking Prevention and Tobacco Control Act (the "Tobacco Control Act"). The law grants the FDA broad authority over the manufacture, sale, marketing and packaging of tobacco products, although FDA is prohibited from banning all cigarettes or all smokeless tobacco products. Among other measures, the law (under various deadlines):

- increases the number of health warnings required on cigarette and smokeless tobacco products, increases the size of warnings on packaging and in advertising, requires FDA to develop graphic warnings for cigarette packages, and grants FDA authority to require new warnings;
- imposes new restrictions on the sale and distribution of tobacco products, including significant new restrictions on tobacco product advertising and promotion, as well as the use of brand and trade names;
- bans the use of "light," "mild," "low" or similar descriptors on tobacco products;
- bans the use of "characterizing flavors" in cigarettes other than tobacco or menthol;
- gives FDA the authority to impose tobacco product standards that are appropriate for the protection of the public health (by, for example, requiring reduction or elimination of the use of particular constituents or components, requiring product testing, or addressing other aspects of tobacco product construction, constituents, properties or labeling);
- requires manufacturers to obtain FDA review and authorization for the marketing of certain new or modified tobacco products;
- requires pre-market approval by FDA for tobacco products represented (through labels, labeling, advertising, or other means) as presenting a lower risk of harm or tobacco-related disease;
- requires manufacturers to report ingredients and harmful constituents and requires FDA to disclose certain constituent information to the public;
- mandates that manufacturers test and report on ingredients and constituents identified by FDA as requiring such testing to protect the public health, and allows FDA to require the disclosure of testing results to the public;
- requires manufacturers to submit to FDA certain information regarding the health, toxicological, behavioral or physiological effects of tobacco products;
- prohibits use of tobacco containing a pesticide chemical residue at a level greater than allowed under federal law;
- requires FDA to establish "good manufacturing practices" to be followed at tobacco manufacturing facilities;
- requires tobacco product manufacturers (and certain other entities) to register with FDA;
- authorizes FDA to require the reduction of nicotine (although it may not require the reduction of nicotine yields of a tobacco product to zero) and the potential reduction or elimination of other constituents, including menthol;
- imposes (and allows FDA to impose) various recordkeeping and reporting requirements on tobacco product manufacturers; and
- grants FDA the regulatory authority to impose broad additional restrictions.

The law also required establishment, within FDA's new Center for Tobacco Products, of a Tobacco Products Scientific Advisory Committee ("TPSAC") to provide advice, information and recommendations with respect to the safety, dependence or health issues related to tobacco products, including:

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- a recommendation on modified risk applications;
- a recommendation on the effects of tobacco product nicotine yield alteration and whether there is a threshold level below which nicotine yields do not produce dependence;
- a report on the public health impact of the use of menthol in cigarettes; and
- a report on the public health impact of dissolvable tobacco products.

TPSAC completed its review of the use of menthol in cigarettes and issued a report with recommendations to FDA in March 2011. The report stated that "removal of menthol cigarettes from the marketplace would benefit public health in the United States," but did not expressly recommend that FDA ban menthol cigarettes. On July 24, 2013, FDA made available its preliminary scientific evaluation ("PSE") of public health issues related to the use of menthol in cigarettes, in which it concluded that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. FDA also issued and accepted public comment on an Advance Notice of Proposed Rulemaking ("ANPR") seeking input related to potential regulatory options it might consider in determining what future regulatory action, if any, it believes is warranted. A decision by FDA to ban menthol in tobacco products could have a material adverse effect on us. On July 21, 2014, the federal district court for the District of Columbia ruled on cross-motions for summary judgment in a lawsuit brought by several cigarette manufacturers against FDA challenging the composition of the TPSAC. The district court granted, in part, the plaintiffs' motion for summary judgment, ordering FDA to reconstitute the TPSAC and barring the agency from relying on the March 2011 TPSAC report on menthol in any manner. On September 18, 2014, FDA appealed the decision to the U.S. Court of Appeals for the District of Columbia Circuit. The D.C. Circuit issued an opinion on January 15, 2016, that vacated the district court's decision due to the plaintiffs' lack of standing and lifted the prohibition on FDA relying on the March 2011 TPSAC report. The D.C. Circuit's decision does not preclude future challenges if FDA ultimately relies on the March 2011 TPSAC report to ban menthol in cigarettes.

The Tobacco Control Act imposes user fees on certain tobacco product manufacturers in order to fund tobacco-related FDA activities. User fees will be allocated among tobacco product classes according to a formula set out in the legislation, and then among manufacturers and importers within each class based on market share. FDA user fees for Liggett and Vector Tobacco for 2015 were $18,856 and could increase in the future.

The Tobacco Control Act also imposes significant new restrictions on the advertising and promotion of tobacco products. For example, as required under the law, FDA reissued certain regulations previously issued by them in 1996 (which were struck down by the Supreme Court in 2000 as beyond FDA's authority). Subject to limitations imposed by a federal injunction (discussed below), these regulations took effect on June 22, 2010. As written, these regulations significantly limit the ability of manufacturers, distributors and retailers to advertise and promote tobacco products, by, for example, restricting the use of color and graphics in advertising, limiting the use of outdoor advertising, restricting the sale and distribution of non-tobacco items and services, gifts, and sponsorship of events, and imposing restrictions on the use for cigarette or smokeless tobacco products of trade or brand names that are used for nontobacco products.

In August 2009, several cigarette manufacturers filed a federal lawsuit against FDA challenging the constitutionality of a number of the restrictions imposed by the Tobacco Control Act, including the ban on color and graphics in advertising, the color graphic and non-graphic warning label requirement, limits on the right to make truthful statements regarding modified risk tobacco products, restrictions on the placement of outdoor advertising, and a ban on the distribution of product samples. In January 2010, a federal district court in Kentucky ruled that the regulations' ban on the use of color and graphics in certain tobacco product advertising was unconstitutional and prohibited FDA from enforcing that ban. The court, however, let stand numerous other advertising and promotion restrictions. In March 2010, both parties appealed this decision. In May 2010, FDA issued a guidance document indicating that it intends to exercise its enforcement discretion and not commence enforcement actions based upon these provisions during the pendency of the litigation. In March 2012, a federal appellate court reviewing the district court's decision also let stand numerous advertising and promotion restrictions, but held that the ban on the use of color and graphics in advertising was unconstitutional. In May 2012, the federal appellate court denied the cigarette manufactures' petition for rehearing en banc. In October 2012, the cigarette manufacturers filed a petition for writ of certiorari in the United States Supreme Court which was denied in April 2013.

In April 2010, a number of cigarette manufacturers filed a federal lawsuit against FDA challenging the restrictions on trade or brand names based upon First Amendment and other grounds. In May 2010, FDA issued a guidance document indicating that FDA was aware of concerns regarding the trade and brand name restrictions and while the agency was considering the matter, it intended to exercise its enforcement discretion and not commence trade or brand name enforcement actions for the duration of its consideration where: (1) the trade or brand name of the cigarettes or smokeless tobacco product was registered, or the product was marketed, in the United States on or before June 22, 2009; or (2) the first marketing or registration in the United States of the tobacco product occurs before the first marketing or registration in the United States of the non-tobacco product bearing the same name; provided, however, that the tobacco and non-tobacco product are not owned, manufactured, or distributed by the same, related, or affiliated entities (including as a licensee). The lawsuit was stayed by agreement of the parties. In November 2011, FDA

issued a proposal to amend its trade name restrictions and the lawsuit was dismissed in November 2013. FDA's proposal remains under consideration. We cannot predict the future impact of the proposed amendment.
In June 2011, FDA issued a final rule that would have modified the required warnings that appear on cigarette packages and in cigarette advertisements. The rule would have required each cigarette package and advertisement to bear one of nine new textual warning statements accompanied by graphic images. The warnings would appear on at least the top 50% of the front and rear panels of cigarette packages and occupy at least 20% of cigarette advertisements. In August 2011, a number of cigarette manufacturers, including Liggett, filed a federal lawsuit against FDA challenging the constitutionality of these new graphic images on First Amendment and other grounds and seeking an injunction staying implementation of the graphic images, and other related labeling requirements. In February 2012, on First Amendment grounds, the court granted the industry's motion for summary judgment permanently enjoining implementation of FDA's graphic warnings regulation. This decision was affirmed on appeal and FDA did not seek United States Supreme Court review. Should FDA ultimately issue new graphic warnings that are deemed constitutionally valid, the decision provides that such warnings would go into effect 15 months after they are issued. We cannot predict how the inclusion of new warnings, if ultimately required by FDA in new rulemaking, would impact product sales or whether it would have a material adverse effect on us.

The Tobacco Control Act requires premarket review of "new tobacco products." A "new tobacco product" is one that was not commercially marketed in the U.S. as of February 15, 2007 or that was modified after that date. In general, before a company may commercially market a "new tobacco product," it must either (a) submit an application and obtain an order from FDA permitting the product to be marketed; or (b) submit a report and receive an FDA order finding the product to be "substantially equivalent" to a "predicate" tobacco product that was commercially marketed in the U.S. prior to February 15, 2007. A "substantially equivalent" tobacco product is one that has the "same characteristics" as the predicate or one that has "different characteristics" but does not raise "different questions of public health." Manufacturers of products first introduced after February 15, 2007 and before March 22, 2011 who submitted a substantial equivalence report to FDA prior to March 23, 2011 may continue to market the tobacco product unless FDA issues an order that the product is not substantially equivalent. Failure to timely submit the report, or FDA's conclusion that such a "new tobacco product" is not substantially equivalent, will cause the product to be deemed misbranded and/or adulterated. After March 22, 2011, a "new tobacco product" may not be marketed without an FDA substantial equivalence determination. Prior to the deadline, Liggett and Vector Tobacco submitted substantial equivalence reports to FDA for numerous products. It is possible that FDA could determine some, or all, of these products are not "substantially equivalent" to a preexisting tobacco product. Such a determination could prevent us from marketing these products in the United States and could have a material adverse effect on us.

Liggett and Vector Tobacco have begun to receive feedback from FDA regarding certain of their substantial equivalence reports, including "Preliminary Finding" letters and other FDA correspondence requesting additional information that would support FDA's determinations of substantial equivalence. Liggett and Vector Tobacco have timely responded to FDA's requests. Liggett and Vector Tobacco cannot predict whether FDA will deem these responses sufficient to support determinations of substantial equivalence for the products covered by these substantial equivalence reports.

On April 14, 2015, a number of cigarette manufacturers filed a federal lawsuit challenging FDA's March 4, 2015 "guidance" document, "Guidance for Industry: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions." The guidance document would have required FDA's prior approval for all changes to the label of a tobacco product that would render the product "distinct" and a "new tobacco product," even though there was no change to the product itself. Similarly, the guidance document would have required prior approval for changes in the quantity of products sold within a package. The complaint alleged that FDA's guidance was contrary to and exceeded FDA's authority under the Federal Food, Drug, and Cosmetic Act ("FDCA"); violated First Amendment rights because it restricted and chilled protected commercial speech; and was issued under the guise of "guidance" to avoid the notice-and-comment rulemaking requirements of the Administrative Procedure Act and the

FDCA and subsequent judicial review. The plaintiffs requested that the court prevent FDA from enforcing the guidance. In May 2015, FDA adopted an “Interim Enforcement Policy,” which stated that FDA was considering regulatory comments and that it did not “intend to issue any warning letters or take steps to initiate any judicial or administrative adversarial proceedings” pursuant to its March 4, 2015 guidance document, during that period of review and consideration. Plaintiffs, therefore, dismissed the case without prejudice. On September 8, 2015, FDA issued a revised version of the same document entitled, “Guidance for Industry: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions (Edition 2).” The revised version did not materially change the requirements set forth in the prior version regarding changes to product labels and changes to the quantity of products sold within a package. Accordingly, on September 30, 2015, the cigarette manufacturers filed a federal lawsuit challenging FDA’s September 2015 “guidance” document. The September 2015 complaint contains arguments and allegations that are substantially similar to those contained in the April 2015 complaint. The plaintiffs have again requested that the court prevent FDA from enforcing the revised version of its guidance. Implementation of the guidance document could have a material adverse impact on our product sales.

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On April 25, 2014, FDA issued a proposed deeming regulation that could extend the agency's authority under the Tobacco Control Act to other tobacco products not currently regulated by the agency, such as e-cigarettes, cigars, pipe tobacco and hookah. The deeming regulation, as proposed, could, among other things:

• establish minimum age and identification restrictions to prevent underage sales;
•require specific health warnings;
•require registration with FDA and reporting of product and ingredient listings;
•prohibit distribution of free samples of the newly deemed products;
•prohibit most vending machine sales; and
•require FDA review to market new tobacco products introduced after the proposed grandfathered date of February 15, 2007.

The proposed deeming regulation was open for public comment through August 8, 2014. The FDA will evaluate all comments it has received from the various stakeholders in preparation for issuance of a final rule. We cannot predict how long the regulatory process to finalize and implement the rule may take.

It is likely that the Tobacco Control Act will result in a decrease in cigarette sales in the United States, including sales of Liggett's and Vector Tobacco's brands. Total compliance and related costs are not possible to predict and depend on the future requirements imposed by FDA under the new law. Costs, however, could be substantial and could have a material adverse effect on the companies' financial condition, results of operations, and cash flows. Failure to comply with the Tobacco Control Act and with FDA regulatory requirements could result in significant financial penalties and could have a material adverse effect on the business, financial condition and results of operation of both Liggett and Vector Tobacco. At present, we are not able to predict whether the Tobacco Control Act will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry, thus affecting its competitive position.

In October 2004, the Fair and Equitable Tobacco Reform Act of 2004 ("FETRA") was signed into law. FETRA provides for the elimination of the federal tobacco quota and price support program through an industry funded buyout of tobacco growers and quota holders. Pursuant to the legislation, manufacturers of tobacco products have been assessed $10,140,000 over a ten year period, commencing in 2005, to compensate tobacco growers and quota holders for the elimination of their quota rights. For 2014, cigarette manufacturers were responsible for approximately 88% of the assessment based on relative unit volume of domestic cigarette shipments. Liggett's and Vector Tobacco's assessment was $27,122 for 2014. The annual assessments expired in September 2014. The Company made its final $664 payment in 2015.

Cigarettes are subject to substantial and increasing federal, state and local excise taxes. On April 1, 2009, the federal cigarette excise tax increased from $0.39 to $1.01 per pack. State excise taxes vary considerably and, when combined with sales taxes, local taxes and the federal excise tax, can exceed $4.00 per pack. Both the federal government and many states are considering, or have pending, legislation proposing further excise tax increases. Management believes increases in excise and similar taxes have had, and will continue to have, an adverse effect on sales of cigarettes.

All 50 states and the District of Columbia have enacted virtually identical legislation requiring cigarettes to meet a laboratory test standard for reduced ignition propensity. Cigarettes that meet this standard are referred to as "fire standards compliant" or "FSC," and are sometimes commonly called "self-extinguishing." All of the cigarettes that Liggett and Vector Tobacco manufacture are fire standards compliant.

A wide variety of federal, state and local laws limiting the advertising, sale and use of cigarettes have proliferated in recent years. For example, many local laws prohibit smoking in restaurants and other public places, and many employers have initiated programs restricting or eliminating smoking in the workplace. There are various other legislative efforts pending at the federal, state or local level which seek to, among other things, eliminate smoking in public places, curtail affirmative defenses of tobacco companies in product liability litigation, and further restrict the sale, marketing and advertising of cigarettes and other tobacco products. This trend has had, and is likely to continue to have, an adverse effect on us. It is not possible to predict what, if any, additional legislation, regulation or other governmental action will be enacted or implemented.

In addition to the foregoing, there have been a number of other 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 similar litigation or legislation.

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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 th 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 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 litigation including the Engle progeny cases pending in Florida; and,
- potential additional payment obligations for us under the MSA and other settlement agreements with the states.

Further information on the risks and uncertainties that we face include the risks discussed above under Item 1A. “Risk Factors” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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 7A. 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements and Notes thereto, together with the report thereon of Deloitte & Touche LLP dated March 8, 2016, are set forth beginning on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed, in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Form 10-K, the Company carried out an evaluation under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, as of December 31, 2015, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2015, the Company's disclosure controls and procedures were not effective because of the material weaknesses principally at our subsidiary described below under "Management's Annual Report on Internal Control Over Financial Reporting."

To address the material weaknesses described below, the Company performed additional analysis and other procedures to ensure that the Company's consolidated financial statements were prepared in accordance with U.S. GAAP. Accordingly, the Company's management believes that the consolidated financial statements included in this Form 10-K fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented and that this Form 10-K 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 periods covered by this report.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed 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 and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the

Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, has conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, based on the criteria in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

In 2014, management was required to include in its assessment of internal control over financial reporting the controls of Douglas Elliman Realty, LLC ("Douglas Elliman"), which became a consolidated subsidiary of the Company on December 13, 2013. In making its assessment, management has identified material weaknesses in internal control over financial reporting at the Company's Douglas Elliman subsidiary as follows.

i. The Company did not maintain effective monitoring of controls in certain areas relating to the period-end financial reporting process at Douglas Elliman. This material weakness contributed to additional material weaknesses related to the analysis and review of significant account reconciliations and the interim and annual financial statements, segregation of duties of finance and accounting personnel, processing and recording of recurring and non-recurring journal entries and supervision of access of rights and privileges of users of Douglas Elliman’s information technology system for finance and accounting as described below.

ii. The Company did not maintain effective controls over Douglas Elliman’s period-end financial reporting processes, including controls over the preparation, analysis and review of certain significant account reconciliations required to assess the appropriateness of account balances at period-end, as well as controls over the preparation and review of the interim and annual financial statements. This lack of controls over the preparation and review of interim and annual financial statements impacted the Company’s ability to identify and accumulate all information required to determine the completeness and accuracy of the financial statements and disclosures.

iii. The Company did not maintain effective controls over the segregation of duties of finance and accounting personnel at Douglas Elliman. Specifically, finance and accounting personnel at Douglas Elliman were authorized to perform interrelated functions that could have resulted in either erroneous or inappropriate actions that could have affected the Company’s financial statements.

iv. The Company did not maintain effective controls over the processing and recording of recurring and non-recurring journal entries at Douglas Elliman. Specifically, effective controls did not exist to ensure that journal entries were either prepared with sufficient documentation or were reviewed and approved to verify the accuracy and completeness of the journal entries.

v. The Company did not maintain effective controls over access to Douglas Elliman’s information technology system for finance and accounting (“IT System”). Specifically, access review controls to Douglas Elliman’s IT System were not effectively designed to restrict access to certain financial applications and data. This impacted controls over financial reporting at Douglas Elliman that depended on the effective operation of restricted access.

In 2015, the Company remediated controls (i), (ii) and (iv).

As it relates to (iii), the Company has determined that Douglas Elliman's controls over segregation of duties were correctly designed, but not operating effectively at December 31, 2015. Further, with respect to (v), the Company did not have properly designed and operating general computer controls over Douglas Elliman's information technology system for finance and accounting (the "IT System"). Specifically, root level access to Douglas Elliman’s IT system was shared with the third party software provider which allowed unrestricted and unmonitored access to the application and it database. The Company also did not have an effective change management process to reasonably assure that changes to the IT System were properly documented, tracked, reviewed, tested and approved.

Because the Company has determined its controls over the segregation of duties at Douglas Elliman were not operating effectively, and its controls over Douglas Elliman’s IT System were not designed and operating effectively, the Company’s internal control over financial reporting was not effective based on the criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

These material weaknesses did not result in any material misstatements to the financial statements. However, these material weaknesses could result in misstatement of the aforementioned account balances or disclosures that would result in material misstatements to the annual or interim consolidated financial statements that would not be prevented or detected.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2015 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report which appears herein.

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Management’s Remediation Initiatives

Since the identification of the material weaknesses in 2015, management has begun the evaluation process associated with the remediation of these weaknesses and will continue to take measures, including engaging service providers that may be necessary and advisable to address these weaknesses. In addition, under the direction of the Audit Committee of the Board of Directors, management will continue to review and make necessary changes to the overall design of the Company’s internal control environment, specifically related to Douglas Elliman, as well as to policies and procedures to improve the overall effectiveness of internal control over financial reporting of the Company.

Further, no system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls will be met, and no evaluation of controls can provide absolute assurance that all control deficiencies or material weaknesses have been or will be detected. There is no assurance that the remediation will be fully effective. As described above and in Item 1A (Risk Factors), these material weaknesses have not been fully remediated as of the filing date of this Form 10-K. If these remediation efforts do not prove effective and control deficiencies and material weaknesses persist or occur in the future, the accuracy and timing of our financial reporting may be adversely affected.

Changes in Internal Control Over Financial Reporting

There were no changes to the Company’s internal control over financial reporting during the fourth quarter of 2015 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Vector Group Ltd.:

We have audited Vector Group Ltd.'s and subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

The Company has determined at its Douglas Elliman subsidiary that controls over segregation of duties were correctly designed, but not operating effectively at December 31, 2015. Further, the Company did not have properly designed and operating general computer controls over Douglas Elliman's information technology system for finance and accounting (the "IT System"). Specifically, root level access to Douglas Elliman's IT system was shared with the third party software provider which allowed unrestricted and unmonitored access to the application and its database. The Company also did not have an effective change management process to reasonably assure that changes to the IT System were properly documented, tracked, reviewed, tested or approved.

Because the Company has determined its controls over the segregation of duties at Douglas Elliman were not operating effectively, and its controls over Douglas Elliman's IT System were not designed and operating effectively, the Company’s internal control over financial reporting was not effective based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weaknesses identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015, of the Company and our report dated March 8, 2016, expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Certified Public Accountants
Miami, Florida
March 8, 2016

ITEM 9B. OTHER INFORMATION
None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the following headings in our definitive Proxy Statement for our 2016 Annual Meeting of Stockholders (the “2016 Proxy Statement”), to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this report pursuant to Regulation 14A under the Securities Exchange Act of 1934, is incorporated herein by reference: “Board Proposal 1 — Nomination and Election of Directors” and “Section 16(a) Beneficial Ownership Compliance.” See Item 5 of this report for information regarding our executive officers.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the headings “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation” in our 2016 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained under the headings “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management” in our 2016 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained under the headings “Certain Relationships and Related Party Transactions” and “Board of Directors and Committees” in our 2016 Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained under the headings “Audit and Non-Audit Fees” and “Pre-Approval Policies and Procedures” in our 2016 Proxy Statement is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
(a)(1) INDEX TO 2015 CONSOLIDATED FINANCIAL STATEMENTS:
Our consolidated financial statements and the notes thereto, together with the report thereon of Deloitte & Touche LLP for the year ended December 31, 2015, dated March 8, 2016 and the reports thereon of PricewaterhouseCoopers LLP for the two years ended December 31, 2014, dated March 8, 2016 appear beginning on page F-1 of this report.
(a)(2) FINANCIAL STATEMENT SCHEDULES:

(c) OTHER FINANCIAL STATEMENTS REQUIRED BY REGULATION S-X:
Liggett Group LLC
The consolidated financial statements of Liggett Group LLC for the three years ended December 31, 2015 are filed as Exhibit 99.2 to this report and are incorporated by reference.
Vector Tobacco Inc.
The financial statements of Vector Tobacco Inc. for the three years ended December 31, 2015 are filed as Exhibit 99.3 to this report and are incorporated by reference.
Douglas Elliman Realty LLC
The consolidated financial statements of Douglas Elliman Realty LLC for the period ended December 13, 2013 are filed as Exhibit 99.4 to the Company's Form 10-K for the year ended December 31, 2013 and are incorporated by reference.
(a)(3) EXHIBITS
(a) The following is a list of exhibits filed herewith as part of this Annual Report on Form 10-K:
INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
* 3.1	Amended and Restated Certificate of Incorporation of Vector Group Ltd. (formerly known as Brooke Group Ltd.) ("Vector") (incorporated by reference to Exhibit 3.1 in Vector's Form 10-Q for the quarter ended September 30, 1999).
* 3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Vector (incorporated by reference to Exhibit 3.1 in Vector's Form 8-K dated May 24, 2000).
* 3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Vector Group Ltd. (incorporated by reference to Exhibit 3.1 in Vector's Form 10-Q for the quarter ended June 30, 2007).
* 3.4	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Vector Group Ltd. (incorporated by reference to Exhibit 3.1 in Vector's Form 10-Q for the quarter ended June 30, 2014).
* 3.5	Amended and Restated By-Laws of Vector Group Ltd. (incorporated by reference to Exhibit 3.4 in Vector's Form 8-K dated October 19, 2007).
* 4.1	Third Amended and Rested Loan and Security Agreement by and between Wells Fargo Bank, National Association, successor to Wachovia Bank, National Association as Lender, Liggett Group LLC as Borrower, and 100 Maple LLC, dated as of January 14, 2015 (incorporated by reference to Exhibit 4.4 of Vector's Form 10-K for the year ended December 31, 2014).

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EXHIBIT NO.	DESCRIPTION
* 4.2	Share Lending Agreement, dated as of November 15, 2012, between Vector Group Ltd. and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.1 of Vector's Form 8-K dated November 15, 2012).
* 4.3	Indenture, dated as of November 20, 2012, by and between Vector Group Ltd. and Wells Fargo Bank, N. A., as trustee, relating to the 7.5% Variable Interest Senior Convertible Notes due 2019 (incorporated by reference to Exhibit 4.1 of Vector's Form 8-K dated November 20, 2012).
* 4.4	First Supplemental Indenture, dated as of November 20, 2012, to the Indenture dated November 20, 2012, by and between Vector Group Ltd. and Wells Fargo Bank, N. A., as trustee, relating to the 7.5% Variable Interest Senior Convertible Notes due 2019 (incorporated by reference to Exhibit 4.2 of Vector's Form 8-K dated November 20, 2012).
* 4.5	Second Supplemental Indenture, dated as of March 24, 2014, to the Base Indenture, by and between Vector Group Ltd. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of Vector's Form 8-K dated March 24, 2014).
* 4.6	Form of Global Note, relating to the 7.5% Variable Interest Senior Convertible Notes due 2019 (incorporated by reference to Exhibit 4.3 of Vector's Form 8-K dated November 20, 2012).
* 4.7	Form of Global Note, relating to the 5.5% Variable Interest Senior Convertible Notes due 2020 (incorporated by reference to Exhibit 4.3 of Vector's Form 8-K dated March 24, 2014).
* 4.8	Indenture, dated as of February 12, 2013, among Vector, the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 7.75% Senior Secured Notes due 2021, including Form of Note (incorporated by reference to Exhibit 4.1 of Vector's Form 8-K dated February 12, 2013).
* 4.9	First Supplemental Indenture, dated as of September 10, 2013, among Vector Group Ltd., Zoom E-Cigs LLC, the Subsidiary Guarantors and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Vector's Form 10-Q dated September 30, 2013).
* 4.10	Second Supplemental Indenture, dated as of April 15, 2014, among Vector Group Ltd., the guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 in Vector's Form 8-K dated April 15, 2014).
*4.11	Third Supplemental Indenture, dated as of February 20, 2015, among Vector Group Ltd., the guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.17 of Vector's Form 10-K for the year ended December 31, 2014).
* 4.12	Pledge Agreement, dated as of February 12, 2013, by and between VGR Holding LLC U.S. Bank National Association, as collateral agent, relating to the 7.75% Senior Secured Notes due 2021 (incorporated by reference to Exhibit 4.3 of Vector's Form 8-K dated February 12, 2013).
* 4.13	Security Agreement, dated as of February 12, 2013, by and between Vector Tobacco Inc. and U.S. Bank National Association, as collateral agent, relating to the 7.75% Senior Secured Notes due 2021 (incorporated by reference to Exhibit 4.4 of Vector's Form 8-K dated February 12,

	2013).
* 4.14	Security Agreement, dated as of February 12, 2013, among Liggett Group LLC, 100 Maple LLC and U.S. Bank National Association, as collateral agent, relating to the 7.75% Senior Secured Notes due 2021 (incorporated by reference to Exhibit 4.5 of Vector's Form 8-K dated February 12, 2013).
* 10.1	Corporate Services Agreement, dated as of June 29, 1990, between Vector and Liggett (incorporated by reference to Exhibit 10.10 in Liggett's Registration Statement on Form S-1, No. 33-47482).

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EXHIBIT NO.	DESCRIPTION
* 10.2	Services Agreement, dated as of February 26, 1991, between Brooke Management Inc. (“BMI”) and Liggett (the “Liggett Services Agreement”) (incorporated by reference to Exhibit 10.5 in VGR Holding’s Registration Statement on Form S-1, No. 33-93576).
* 10.3	First Amendment to Liggett Services Agreement, dated as of November 30, 1993, between Liggett and BMI (incorporated by reference to Exhibit 10.6 in VGR Holding’s Registration Statement on Form S-1, No. 33-93576).
* 10.4	Second Amendment to Liggett Services Agreement, dated as of October 1, 1995, between BMI, Vector and Liggett (incorporated by reference to Exhibit 10(c) in Vector’s Form 10-Q for the quarter ended September 30, 1995).
* 10.5	Third Amendment to Liggett Services Agreement, dated as of March 31, 2001, by and between Vector and Liggett (incorporated by reference to Exhibit 10.5 in Vector’s Form 10-K for the year ended December 31, 2003).
* 10.6	Fourth Amendment to Service Agreement dated as of October 4, 2006, between Vector Group Ltd. and Liggett Group LLC (incorporated by reference to Exhibit 10.1 in Vector’s Form 10-Q dated June 30, 2012).
* 10.7	Fifth Amendment to Service Agreement dated as of November 30, 2011, between Vector Group Ltd. and Liggett Group LLC (incorporated by reference to Exhibit 10.2 in Vector’s Form 10-Q dated June 30, 2012).
* 10.8	Corporate Services Agreement, dated January 1, 1992, between VGR Holding and Liggett (incorporated by reference to Exhibit 10.13 in Liggett’s Registration Statement on Form S-1, No. 33-47482).
* 10.9	Service Agreement dated as of October 1, 2006 between Vector Group Ltd. and Vector Tobacco Ltd. (incorporated by reference to Exhibit 10.3 in Vector’s Form 10-Q dated June 30, 2012).
* 10.10	Tax sharing agreement dated May 24, 1999 between Brooke Group Ltd., BGLS Inc., Liggett Group Inc., Epic Holdings Inc., and Carolina Tobacco Express Company Inc. (incorporated by reference to Exhibit 10.4 in Vector’s Form 10-Q dated June 30, 2012).
* 10.11	Settlement Agreement, dated March 15, 1996, by and among the State of West Virginia, State of Florida, State of Mississippi, Commonwealth of Massachusetts, and State of Louisiana, Brooke Group Holding and Liggett (incorporated by reference to Exhibit 15 in the Schedule 13D filed by Vector on March 11, 1996, as amended, with respect to the common stock of RJR Nabisco Holdings Corp.).
* 10.12	Addendum to Initial States Settlement Agreement (incorporated by reference to Exhibit 10.43 in Vector’s Form 10-Q for the quarter ended March 31, 1997).
* 10.13	Settlement Agreement, dated March 12, 1998, by and among the States listed in Appendix A thereto, Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.35 in Vector’s Form 10-K for the year ended December 31, 1997).

* 10.14	Master Settlement Agreement made by the Settling States and Participating Manufacturers signatories thereto (incorporated by reference to Exhibit 10.1 in Philip Morris Companies Inc.'s Form 8-K dated November 25, 1998, Commission File No. 1-8940).

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EXHIBIT NO.	DESCRIPTION
* 10.15	General Liggett Replacement Agreement, dated as of November 23, 1998, entered into by each of the Settling States under the Master Settlement Agreement, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.34 in Vector's Form 10-K for the year ended December 31, 1998).
* 10.16	Stipulation and Agreed Order regarding Stay of Execution Pending Review and Related Matters, dated May 7, 2001, entered into by Philip Morris Incorporated, Lorillard Tobacco Co., Liggett and Brooke Group Holding Inc. and the class counsel in Engel, et. al., v. R.J. Reynolds Tobacco Co., et. al. (incorporated by reference to Exhibit 99.2 in Philip Morris Companies Inc.'s Form 8-K dated May 7, 2001).
* 10.17	Term Sheet agreed to by Liggett, certain other Participating Manufacturers, 18 states, the District of Columbia and Puerto Rico (incorporated by reference to Exhibit 10.1 to Reynolds American Inc.'s (Commission File Number 1-32258) Form 8-K, dated March 12, 2013).
* 10.18	Settlement Agreement as of October 22, 2013, by, between and among: (a) Liggett and Vector and (b) Plaintiffs' Coordinating Counsel, Participating Plaintiffs' Counsel, and their respective clients who are plaintiffs in certain Engle Progeny Actions (incorporated by reference to Exhibit 10.18 to Vector's Form 10-K for the year ended December 31, 2013).
* 10.19	Settlement Agreement as of October 22, 2013, by, between and among: (a) Liggett Group LLC and Vector, and (b) Plaintiffs' Coordinating Counsel, The Wilner Firm, and The Wilner Firm's clients who are plaintiffs in certain federal and state Engle Progeny Actions (incorporated by reference to Exhibit 10.19 to Vector's Form 10-K for the year ended December 31, 2013).
* 10.20	Amended and Restated Employment Agreement dated as of January 27, 2006, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated January 27, 2006).
* 10.21	Employment Agreement, dated as of January 27, 2006, between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.3 in Vector's Form 8-K dated January 27, 2006).
* 10.22	Amendment to the Employment Agreement dated as of February 22, 2012 between Vector Group Ltd. and Richard J. Lampen (incorporated by reference to Exhibit 10.3 in Vector's Form 8-K/A dated February 21, 2012).
* 10.23	Amended and Restated Employment Agreement, dated as of January 27, 2006, between Vector and Marc N. Bell (incorporated by reference to Exhibit 10.4 in Vector's Form 8-K dated January 27, 2006).
* 10.24	Employment Agreement, dated as of November 11, 2005, between Liggett Group Inc. and Ronald J. Bernstein (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated November 11, 2005).
* 10.25	Amendment to Employment Agreement, dated as of January 14, 2011, between Liggett and Ronald J. Bernstein (incorporated by reference to Exhibit 10.17 in Vector's Form 10-K for the year ended December 31, 2011).

* 10.26	Amendment to Employment Agreement, dated as of October 29, 2013, between Liggett and Ronald J. Bernstein (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated October 28, 2013).
* 10.27	Employment Agreement, dated as of January 27, 2006, between Vector and J. Bryant Kirkland III (incorporated by reference to Exhibit 10.5 in Vector's Form 8-K dated January 27, 2006).
* 10.28	Vector Group Ltd. Amended and Restated 1999 Long-Term Incentive Plan (incorporated by reference to Appendix A in Vector's Proxy Statement dated April 21, 2004).

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EXHIBIT NO.	DESCRIPTION
* 10.29	Vector Group Ltd. Management Incentive Plan (incorporated by reference to Exhibit 10.3 of Vector's Form 8-K dated March 10, 2014).
* 10.30	Stock Option Agreement, dated December 3, 2009, between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.19 in Vector's Form 10-K dated December 31, 2009).
* 10.32	Stock Option Agreement, dated December 3, 2009, between Vector and Marc N. Bell (incorporated by reference to Exhibit 10.20 in Vector's Form 10-K dated December 31, 2009).
* 10.33	Stock Option Agreement, dated December 3, 2009, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.22 in Vector's Form 10-K dated December 31, 2009).
* 10.34	Stock Option Agreement, dated December 3, 2009, between Vector and J. Bryant Kirkland III (incorporated by reference to Exhibit 10.23 in Vector's Form 10-K dated December 31, 2009).
* 10.35	Option Letter Agreement, dated as of November 11, 2005 between Vector and Ronald J. Bernstein (incorporated by reference to Exhibit 10.3 in Vector's Form 8-K dated November 11, 2005).
* 10.36	Stock Option Agreement, dated January 14, 2011, between Vector and Howard M. Lorber (incorporated by reference to Exhibit S to Schedule 13D, as amended, dated January 21, 2011 filed by Howard M. Lorber).
* 10.37	Stock Option Agreement, dated February 26, 2013, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.1 to Vector's Form 10-Q dated March 31, 2013).
* 10.38	Stock Option Agreement, dated February 26, 2013, between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.2 to Vector's Form 10-Q dated March 31, 2013).
* 10.39	Stock Option Agreement, dated February 26, 2013, between Vector and J. Bryant Kirkland III (incorporated by reference to Exhibit 10.3 to Vector's Form 10-Q dated March 31, 2013).
* 10.40	Stock Option Agreement, dated February 26, 2013, between Vector and Marc N. Bell (incorporated by reference to Exhibit 10.4 to Vector's Form 10-Q dated March 31, 2013).
* 10.41	Stock Option Agreement, dated February 26, 2014, as amended on May 16, 2014, between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.1 to Vector's Form 10-Q dated June 30, 2014).
* 10.42	Stock Option Agreement, dated February 26, 2014, as amended on May 16, 2014, between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.2 to Vector's Form 10-Q dated June 30, 2014).
* 10.43	Stock Option Agreement, dated February 26, 2014, as amended on May 16, 2014, between Vector and J. Bryant Kirkland III (incorporated by reference to Exhibit 10.3 to Vector's Form 10-Q dated June 30, 2014).

10.44	Stock Option Agreement, dated February 26, 2014, as amended on May 16, 2014, between Vector and Marc N. Bell.
*10.45	Stock Option Agreement, dated February 24, 2015 between Vector and Howard M. Lorber (incorporated by reference to Exhibit 10.2 to Vector's Form 10-Q dated March 31, 2015).

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EXHIBIT NO.	DESCRIPTION
*10.46	Stock Option Agreement, dated February 24, 2015 between Vector and Richard J. Lampen (incorporated by reference to Exhibit 10.3 to Vector's Form 10-Q dated March 31, 2015).
*10.47	Stock Option Agreement, dated February 24, 2015 between Vector and J. Bryant Kirkland (incorporated by reference to Exhibit 10.4 to Vector's Form 10-Q dated March 31, 2015).
*10.48	Stock Option Agreement, dated February 24, 2015 between Vector and Marc N. Bell (incorporated by reference to Exhibit 10.5 to Vector's Form 10-Q dated March 31, 2015).
* 10.49	Restricted Share Award Agreement, dated as of October 28, 2013, between Vector Group Ltd. and Ronald J. Bernstein (incorporated by reference to Exhibit 10.42 to Vector's Form 10-K for the year ended December 31, 2013).
* 10.50	Performance-Based Restricted Share Award Agreement, pursuant to Vector Group Ltd. Management Incentive Plan, dated as of July 23, 2014 by and between Vector Group Ltd. and Howard M. Lorber (incorporated by reference to Exhibit 10.6 of Schedule 13D as filed by Howard M. Lorber on July 25, 2014).
*10.51	Performance-Based Restricted Share Award Agreement, pursuant to Vector Group Ltd. Management Incentive Plan, dated as of November 10, 2015 by and between Vector Group Ltd. and Howard M. Lorber (incorporated by reference to Exhibit 10.1 of Vector's Form 8-K dated November 10, 2015).
* 10.52	Vector Senior Executive Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated January 14, 2011).
* 10.53	Vector Supplemental Retirement Plan (as amended and restated April 24, 2008) (incorporated by reference to Exhibit 10.1 in Vector's Form 10-Q for the quarter ended June 30, 2008).
* 10.54	Operating Agreement of Douglas Elliman Realty, LLC (formerly known as Montauk Battery Realty LLC) dated December 17, 2002 (incorporated by reference to Exhibit 10.1 in New Valley's Form 8-K dated December 13, 2002).
* 10.55	First Amendment to Operating Agreement of Douglas Elliman Realty, LLC (formerly known as Montauk Battery Realty LLC), dated as of March 14, 2003 (incorporated by reference to Exhibit 10.1 in New Valley's Form 10-Q for the quarter ended March 31, 2003).
* 10.56	Second Amendment to Operating Agreement of Douglas Elliman Realty, LLC, dated as of May 19, 2003 (incorporated by reference to Exhibit 10.1 in New Valley's Form 10-Q for the quarter ended June 30, 2003).
* 10.57	Settlement Agreement and Mutual Release by and among (i) Prudential Real Estate Financial Services of America Inc. and (ii) Douglas Elliman Realty LLC; Dorothy Herman; DTHY Realty, Inc.; New Valley Real Estate LLC; New Valley Mortgage LLC; Howard M. Lorber and Richard J. Lampen dated December 13, 2013 (incorporated by reference to Exhibit 10.48 to Vector's Form 10-K for the year ended December 31, 2013).

*10.58	Agreement Relating to Sale and Assignment of Membership Interest between New Valley Real Estate LLC and Prudential Real Estate Financial Services of America, Inc. (incorporated by reference to Exhibit 10.49 to Vector's Form 10-K for the year ended December 31, 2013).
* 10.59	Office Lease, dated as of September 10, 2012, between Vector Group Ltd. and Frost Real Estate Holdings, LLC. (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated September 10, 2012).

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EXHIBIT NO.	DESCRIPTION
* 10.60	First Amendment, dated as of November 12, 2012, to Office Lease, dated as of September 10, 2012, between Vector Group Ltd. and Frost Real Estate Holdings, LLC. (incorporated by reference to Exhibit 10.40 of Vector’s Form 10-K dated December 31, 2012).
* 10.61	Vector Group Ltd. Equity Retention and Hedging Policy (incorporated by reference to Exhibit 10.1 of Vector’s Form 8-K dated January 15, 2013).
* 10.62	Vector Group Ltd. Stock Ownership Guidelines (incorporated by reference to Exhibit 10.1 of Vector’s Form 8-K dated March 10, 2014).
* 10.63	Vector Group Ltd. Stock Executive Compensation Clawback Policy (incorporated by reference to Exhibit 10.2 of Vector’s Form 8-K dated March 10, 2014).
12.1	Computation of Ratio of Earnings to Fixed Charges for each of the five years within the period ended December 31, 2015.
*16.1	Letter of PwC to the Securities and Exchange Commission, dated June 11, 2015 (incorporated by reference to Exhibit 16.1 of Vector's Form 8-K dated June 8, 2015).
21	Subsidiaries of Vector.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of PricewaterhouseCoopers LLP.
23.3	Consent of PricewaterhouseCoopers LLP.
23.4	Consent of PricewaterhouseCoopers LLP.
23.5	Consent of Deloitte & Touche LLP.
23.6	Consent of Deloitte & Touche LLP.
23.7	Consent of Deloitte & Touche LLP.
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.

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EXHIBIT NO.	DESCRIPTION
99.2	Liggett Group LLC’s Consolidated Financial Statements for the three years ended December 31, 2015.
99.3	Vector Tobacco Inc.’s Financial Statements for the three years ended December 31, 2015.
* 99.4	Douglas Elliman Realty LLC’s Consolidated Financial Statements for the period ended December 13, 2013 (incorporated by reference to Exhibit 99.4 to Vector’s Form 10-K for the year ended December 31, 2013).

*Incorporated by reference
Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) is listed in exhibit nos. 10.20 through 10.48.

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SIGNATURES

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
Vice President, Treasurer and Chief Financial Officer

Date: March 8, 2016

POWER OF ATTORNEY

The undersigned directors and officers of Vector Group Ltd. hereby constitute and appoint Richard J. Lampen, J. Bryant Kirkland III and Marc N. Bell, and each of them, with full power to act without the other and with full power of substitution and resubstitutions, our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below, this Annual Report on Form 10-K and any and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 8, 2016.

SIGNATURE	TITLE
/s/ Howard M. Lorber Howard M. Lorber	President and Chief Executive Officer (Principal Executive Officer)
/s/ J. Bryant Kirkland III J. Bryant Kirkland III	Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Bennett S. LeBow Bennett S. LeBow	Director
/s/ Stanley S. Arkin Stanley S. Arkin	Director
/s/ Henry C. Beinstein Henry C. Beinstein	Director
/s/ Ronald J. Bernstein Ronald J. Bernstein	Director
/s/ Jeffery S. Podell Jeffery S. Podell	Director
/s/ Jean E. Sharpe Jean E. Sharpe	Director

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VECTOR GROUP LTD.
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2015
ITEMS 8, 15(a)(1) AND (2), 15(c)
INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Schedules of the Registrant and its subsidiaries required to be included in Items 8, 15(a)(1) and (2), 15(c) are listed below:

Financial Statement Schedules not listed above have been omitted because they are not applicable or the required information is contained in our consolidated financial statements or accompanying notes.

Liggett Group LLC

The consolidated financial statements of Liggett Group LLC for the three years ended December 31, 2015 are filed as Exhibit 99.2 to this report and are incorporated by reference.

Vector Tobacco Inc.

The financial statements of Vector Tobacco Inc. for the three years ended December 31, 2015 are filed as Exhibit 99.3 to this report and are incorporated by reference.

Douglas Elliman Realty, LLC

The consolidated financial statements of Douglas Elliman Realty, LLC for the period ended December 13, 2013 are filed as Exhibit 99.4 to the Company's Form 10-K for the year ended December 31, 2013 and are incorporated by reference.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Vector Group Ltd.:

We have audited the accompanying consolidated balance sheet of Vector Group Ltd. and subsidiaries (the "Company") as of December 31, 2015, and the related consolidated statement of operations, comprehensive income, stockholders' deficiency, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements presents fairly, in all material respects, the financial position of Vector Group Ltd. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2016 expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

/s/ Deloitte & Touche LLP

Certified Public Accountants
Miami, Florida
March 8, 2016

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Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Stockholders
of Vector Group Ltd

In our opinion, the consolidated balance sheet as of December 31, 2014 and the related consolidated statements of operations, comprehensive income, stockholders’ deficiency and cash flows for each of two years in the period ended December 31, 2014 (appearing in Vector Group Ltd.’s Annual Report to Shareholders which has been incorporated by reference in this Form 10-K) present fairly, in all material respects, the financial position of Vector Group Ltd. and its subsidiaries at December 31, 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for each of the two years in the period ended December 31, 2014 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Miami, Florida
March 4, 2015, except for Note 1(a), Note 6(c) and Note 7(c), as to which date is March 8, 2016

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(Dollars in thousands, except per share amounts)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$240,368	$326,365
Investment securities available for sale	181,976	269,100
Accounts receivable - trade, net	23,889	23,328
Inventories	86,516	90,323
Income taxes receivable, net	2,841	3,282
Restricted assets	9,195	2,595
Other current assets	38,954	36,404
Total current assets	583,739	751,397
Property, plant and equipment, net	75,632	84,112
Real estate held for sale, net	23,318	10,643
Long-term investments	62,726	52,723
Investments in real estate ventures	217,168	163,460
Restricted assets	12,303	12,013
Goodwill and other intangible assets, net	263,959	269,972
Prepaid pension costs	20,650	25,032
Other assets	51,261	53,902
Total assets	$1,310,756	$1,423,254
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Current portion of notes payable and long-term debt	$8,919	$52,640
Current portion of fair value of derivatives embedded within convertible debt	—	884
Current payments due under the Master Settlement Agreement	29,241	26,322
Current portion of employee benefits	915	931
Income taxes payable, net	96	1,743
Litigation accruals	22,904	3,149
Other current liabilities	154,217	126,755
Total current liabilities	216,292	212,424
Notes payable, long-term debt and other obligations, less current portion	886,249	860,711
Fair value of derivatives embedded within convertible debt	144,042	168,502
Non-current employee benefits	55,055	49,314
Deferred income taxes, net	79,429	95,904
Payments due under the Master Settlement Agreement	20,094	25,809
Litigation accruals	24,718	25,700
Other liabilities	7,038	5,570
Total liabilities	1,432,917	1,443,934
Commitments and contingencies (Notes 10 and 15)		
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 and 250,000,000 shares authorized, 123,792,329 and 118,646,261 shares issued and 123,792,329 and	12,379	11,450

114,501,014 shares outstanding		
Accumulated deficit	(210,113)	(97,009)
Accumulated other comprehensive loss	(8,313)	(1,343)
Treasury shares, at cost, 0 and 4,145,247	—	(12,857)
Total Vector Group Ltd. stockholders' deficiency	(206,047)	(99,759)
Non-controlling interest	83,886	79,079
Total stockholders' deficiency	(122,161)	(20,680)
Total liabilities and stockholders' deficiency	$1,310,756	$1,423,254

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

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands, except per share amounts)		
Revenues:			
Tobacco*	$1,017,761	$1,021,259	$1,014,341
Real estate	641,406	561,467	65,580
E-Cigarettes	(1,970)	8,589	—
Total revenues	1,657,197	1,591,315	1,079,921
Expenses:			
Cost of sales:			
Tobacco*	697,900	735,725	729,393
Real estate	410,287	354,028	37,638
E-Cigarettes	1,540	7,307	—
Total cost of sales	1,109,727	1,097,060	767,031
Operating, selling, administrative and general expenses	320,221	279,342	113,598
Litigation, settlement and judgment expense	20,072	2,475	88,106
Restructuring charges	7,257	—	—
Operating income	199,920	212,438	111,186
Other income (expenses):			
Interest expense	(120,691)	(160,991)	(132,147)
Loss on extinguishment of debt	—	—	(21,458)
Changes in fair value of derivatives embedded within convertible debt	24,455	19,409	18,935
Acceleration of interest expense related to debt conversion	—	(5,205)	(12,414)
Equity in (losses) earnings from investments	(2,681)	3,140	3,126
Gain (loss) on sale of investment securities available for sale	11,138	(11)	5,152
Equity in earnings from real estate ventures	2,001	4,103	22,925
Impairment of investment securities available for sale	(12,846)	—	—
Gain on acquisition of Douglas Elliman	—	—	60,842
Other, net	6,409	9,396	4,573
Income before provision for income taxes	107,705	82,279	60,720
Income tax expense	41,233	33,165	23,672
Net income	66,472	49,114	37,048
Net (income) loss attributed to non-controlling interest	(7,274)	(12,258)	252
Net income attributed to Vector Group Ltd.	$59,198	$36,856	$37,300
Per basic common share:			
Net income applicable to common shares attributed to Vector Group Ltd.	$0.49	$0.33	$0.36
Per diluted common share:			

Net income applicable to common shares attributed to Vector Group Ltd.	$0.49	$0.33	$0.36
Cash distributions declared per share	$1.54	$1.47	$1.40

* Revenues and cost of goods sold include federal excise taxes of $439,647, $446,086 and $456,703 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Net income	$66,472	$49,114	$37,048
Net unrealized (losses) gains on investment securities available for sale:			
Change in net unrealized (losses) gains	(12,710)	2,095	19,632
Net unrealized losses (gains) reclassified into net income	1,708	11	(5,152)
Net unrealized (losses) gains on investment securities available for sale	(11,002)	2,106	14,480
Net unrealized gains (losses) on long-term investments accounted for under the equity method:			
Change in net unrealized gains (losses)	1,190	(1,784)	98
Net unrealized losses reclassified into net income	1,624	—	—
Net unrealized gains (losses) on long-term investments accounted for under the equity method	2,814	(1,784)	98
Net change in forward contracts	61	64	62
Net change in pension-related amounts			
Net (loss) gain arising during the year	(8,620)	(4,698)	9,513
Amortization of gain	4,200	1,015	2,099
Net change in pension-related amounts	(4,420)	(3,683)	11,612
Other comprehensive (loss) income	(12,547)	(3,297)	26,252
Income tax effect on:			
Change in net unrealized (losses) gains on investment securities	5,650	(866)	(7,971)
Net unrealized losses (gains) reclassified into net income on investment securities	(702)	(5)	2,092
Change in net unrealized gains (losses) on long-term investments accounted for under the equity method	(484)	738	(40)
Net unrealized losses reclassified into net income on long-term investments accounted for under the equity method	(672)	—	—
Forward contracts	(25)	(27)	(25)
Pension-related amounts	1,810	1,523	(4,714)
Income tax benefit (provision) on other comprehensive (loss) income	5,577	1,363	(10,658)
Other comprehensive (loss) income, net of tax	(6,970)	(1,934)	15,594
Comprehensive income	59,502	47,180	52,642
Comprehensive (income) loss attributed to non-controlling interest	(7,274)	(12,258)	252
Comprehensive income attributed to Vector Group Ltd.	$52,228	$34,922	$52,894

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

VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY

	Common Stock				Accumulated			
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total
	(Dollars in thousands)							
Balance, January 1, 2013	89,898,411	$ 8,989	$ —	$ (70,199)	$ (15,003)	$ (12,857)	$ —	$ (89,070)
Net income	—	—	—	37,300	—	—	(252)	37,048
Change in net loss and prior service cost, net of income taxes	—	—	—	—	6,898	—	—	6,898
Forward contract adjustments, net of income taxes	—	—	—	—	37	—	—	37
Unrealized gain on long-term investment securities accounted for under the equity method, net of income taxes	—	—	—	—	58	—	—	58
Change in net unrealized gain on investment securities, net of income taxes	—	—	—	—	11,661	—	—	11,661
Net unrealized gains reclassified into net income, net of income taxes	—	—	—	—	(3,060)	—	—	(3,060)
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	8,601
Total other comprehensive income	—	—	—	—	—	—	—	15,594
Total comprehensive income	—	—	—	—	—			52,642
Distributions and dividends on common stock	—	—	(57,891)	(88,165)	—	—	—	(146,056)
Restricted stock grant	77,500	8	(8)	—	—	—	—	—
Effect of stock dividend	4,498,579	450	—	(450)	—	—	—	—
Note conversion, net of income taxes of $7,242	2,970,168	297	53,357	—	—	—	—	53,654
Exercise of stock options	38,340	4	540	—	—	—	—	544
Tax benefit of options exercised	—	—	38	—	—	—	—	38
Stock-based compensation	—	—	2,519	—	—	—	—	2,519

Deemed contribution (dividend) from subsidiary	—	—	1,445	—	—	—	(1,445)	—
Acquisition of Douglas Elliman Realty, LLC	—	—	—	—	—	—	85,703	85,703
Contributions from non-controlling interest	—	—	—	—	—	—	1,955	1,955
Distributions to non-controlling interest	—	—	—	—	—	—	(12,534)	(12,534)
Balance, December 31, 2013	97,482,998	9,748	—	(121,514)	591	(12,857)	73,427	(50,605)
Net income	—	—	—	36,856	—	—	12,258	49,114
Change in net loss and prior service cost, net of income taxes	—	—	—	—	(2,160)	—	—	(2,160)
Forward contract adjustments, net of income taxes	—	—	—	—	37	—	—	37
Unrealized gain on long-term investment securities accounted for under the equity method, net of income taxes	—	—	—	—	(1,046)	—	—	(1,046)
Change in net unrealized gain on investment securities, net of income taxes	—	—	—	—	1,229	—	—	1,229
Net unrealized gains reclassified into net income, net of income taxes	—	—	—	—	6	—	—	6
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	1,235
Total other comprehensive income	—	—	—	—	—	—	—	(1,934)
Total comprehensive income	—	—	—	—	—	—	—	47,180
Distributions and dividends on common stock	—	—	(155,067)	(11,831)	—	—	—	(166,898)
Restricted stock grant	1,000,000	100	—	—	—	—	—	100
Effect of stock dividend	5,195,856	520	—	(520)	—	—	—	—
Note conversion, net of income taxes of $300	10,417,384	1,041	130,980	—	—	—	—	132,021
Beneficial conversion feature of notes payable, net of income taxes of $10,327	—	—	14,648	—	—	—	—	14,648
Exercise of stock options	404,776	41	5,010	—	—	—	—	5,051

Tax benefit of options exercised	—	—	1,178	—	—	—	—	1,178
Stock-based compensation	—	—	3,251	—	—	—	—	3,251
Contributions from non-controlling interest	—	—	—	—	—	—	2,733	2,733
Distributions to non-controlling interest	—	—	—	—	—	—	(9,339)	(9,339)
Balance, December 31, 2014	114,501,014	11,450	—	(97,009)	(1,343)	(12,857)	79,079	(20,680)
Net income	—	—	—	59,198	—	—	7,274	66,472
Change in net loss and prior service cost, net of income taxes	—	—	—	—	(2,610)	—	—	(2,610)
Forward contract adjustments, net of income taxes	—	—	—	—	36	—	—	36
Unrealized gain on long-term investment securities accounted for under the equity method, net of income taxes	—	—	—	—	1,658	—	—	1,658
Change in net unrealized gain on investment securities, net of income taxes	—	—	—	—	(7,060)	—	—	(7,060)
Net unrealized loss reclassified into net income, net of income taxes	—	—	—	—	1,006	—	—	1,006
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	(6,054)
Total other comprehensive income	—	—	—	—		—	—	(6,970)
Total comprehensive income	—	—	—	—	—	—	—	59,502
Distributions and dividends on common stock	—	—	(18,120)	(171,718)	—	—	—	(189,838)
Restricted stock grant	1,200,000	120	—	—	—	—	—	120
Surrender of shares in connection with restricted stock vesting	(83,411)	(8)	(2,075)	—	—	—	—	(2,083)
Effect of stock dividend	5,837,144	584	—	(584)	—	—	—	—
Note conversion, inclusive of taxes of $367	2,227,552	223	25,299	—	—	—	—	25,522
Exercise of stock options	110,030	10	1,311	—	—	—	—	1,321
	—	—	(12,857)	—	—	12,857	—	—

Cancellation of treasury shares								
Tax benefit of options exercised	—	—	821	—	—	—	—	821
Stock-based compensation	—	—	5,621	—	—	—	—	5,621
Contributions from non-controlling interest	—	—	—	—	—	—	813	813
Distributions to non-controlling interest	—	—	—	—	—	—	(3,280)	(3,280)
Balance, December 31, 2015	123,792,329	$12,379	$—	$(210,113)	$(8,313)	$—	$83,886	$(122,161)

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

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$66,472	$49,114	$37,048
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,654	24,499	12,631
Non-cash stock-based expense	5,621	3,251	2,519
Acceleration of interest expense related to debt conversion	—	5,205	12,414
Loss (gain) on sale of assets	77	(540)	170
Deferred income taxes	(13,195)	22,026	466
Distributions from long-term investments	1,258	1,416	2,011
Equity in (losses) earnings from long-term investments	2,681	(3,140)	(3,126)
(Gain) loss on sale of investment securities available for sale	(11,138)	11	(5,152)
Equity in earnings from real estate ventures	(2,001)	(4,103)	(22,925)
Distributions from investments in real estate ventures	5,894	5,152	4,251
Non-cash interest expense	6,504	35,584	22,995
Non-cash interest income	—	—	(90)
Gain on acquisition of Douglas Elliman	—	—	(60,842)
Impairment of investment securities	12,846	—	—
Impairment of long-term investments	811	—	—
Impairment of real estate held for sale	230	—	—
Changes in assets and liabilities:			
Receivables	(1,414)	(11,197)	5,975
Inventories	3,806	3,173	6,897
Accounts payable and accrued liabilities	37,936	5,708	41,047
Payments due under the Master Settlement Agreement	(2,796)	(925)	(32,690)
Other assets and liabilities, net	5,233	(27,858)	28,427
Net cash provided by operating activities	144,479	107,376	52,026

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

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Cash flows from investing activities:			
Sale of investment securities	$270,576	$154,615	$117,021
Maturities of investment securities	5,491	930	27
Purchase of investment securities	(214,146)	(305,731)	(170,463)
Proceeds from sale or liquidation of long-term investments	1,303	2,416	10,927
Purchase of long-term investments	(10,000)	(12,000)	(5,501)
(Increase) decrease in restricted assets	(6,889)	(872)	1,081
Investments in real estate ventures	(70,272)	(40,916)	(75,731)
Distributions from investments in real estate ventures	17,563	7,309	3,142
Issuance of notes receivable	(4,410)	(8,250)	(8,600)
Cash acquired in Douglas Elliman consolidation	—	—	116,935
Proceeds from sale of fixed assets	4	4	48
Capital expenditures	(10,977)	(23,404)	(13,275)
Increase in cash surrender value of life insurance policies	(1,742)	(484)	(628)
Purchase of subsidiaries	—	(750)	(67,616)
Repayment of notes receivable	4,000	4,850	—
Purchase of preferred securities	—	(1,000)	—
Pay down of investment securities	8,739	1,849	681
Proceeds from sale of preferred securities	1,000	—	—
Investments in real estate held for sale	(12,603)	—	—
Net cash used in investing activities	(22,363)	(221,434)	(91,952)
Cash flows from financing activities:			
Proceeds from issuance of debt	2,105	413,914	457,767
Repayments of debt	(6,684)	(12,601)	(422,581)
Deferred financing charges	(624)	(12,360)	(11,750)
Borrowings under revolver	153,361	886,130	978,788
Repayments on revolver	(167,915)	(898,788)	(977,794)
Dividends and distributions on common stock	(188,151)	(167,328)	(144,711)
Distributions to non-controlling interest	(3,280)	(9,339)	(11,764)
Contributions from non-controlling interest	813	—	—
Proceeds from exercise of Vector options	1,441	5,151	544
Tax benefit of options exercised	821	1,178	38
Net cash (used in) provided by financing activities	(208,113)	205,957	(131,463)
Net (decrease) increase in cash and cash equivalents	(85,997)	91,899	(171,389)
Cash and cash equivalents, beginning of year	326,365	234,466	405,855
Cash and cash equivalents, end of year	$240,368	$326,365	$234,466

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

VECTOR GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation:
The 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.
Revisions to December 31, 2014 Consolidated Balance Sheet. The Company has revised its December 31, 2014 Consolidated Balance Sheet, which originally presented deferred income tax assets and liabilities (current and noncurrent) on a gross basis, rather than a net basis by jurisdiction. The revisions conform to ASC 740-10-45-6 which states all current deferred tax liabilities and assets within the same tax jurisdiction shall be offset and presented as a single amount and all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. The Company assessed the materiality of this error on previously issued consolidated financial statements and concluded that the error was immaterial. In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”), which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. This amendment may be applied either prospectively or retrospectively to all periods presented. The Company adopted the provisions of this ASU retrospectively in the fourth quarter of 2015, and adjusted all prior periods accordingly. The adoption of this ASU will simplify the presentation of deferred income taxes and reduce complexity without decreasing the usefulness of information provided to users of financial statements. The adoption of ASU 2015-17 did not have a significant impact on the Company's financial position, results of operations and cash flows.”

The cumulative impact of the revisions and application of the new ASU are presented in the table below:

	December 31, 2014			
	As Previously Reported	Revision	ASU Adoption	As Revised
Deferred income taxes	$29,192	$(29,192)	$—	$—
Total current assets	857,846	(29,192)	—	828,654
Deferred income taxes	51,129	(51,129)	—	—
Total assets	$1,573,392	$(80,321)	$—	$1,493,071
Deferred income taxes, net	$57,671	$(29,192)	$(28,479)	$—
Total current liabilities	270,095	(29,192)	(28,479)	212,424
Deferred income taxes, net	145,639	(51,129)	28,479	122,989
Total liabilities	1,551,340	(80,321)	—	1,471,019

Total stockholders' equity	22,052		—	22,052
Total liabilities and stockholders' equity	$1,573,392	$(80,321)	$—	$1,493,071

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

	December 31, 2014		
	As Previously Reported	(1) Revision	As Revised
Investment securities available for sale	$346,043	$(76,943)	$269,100
Other current assets	36,718	(314)	36,404
Total current assets	828,654	(77,257)	751,397
Long-term investments	40,292	12,431	52,723
Other assets	58,893	(4,991)	53,902
Total assets	$1,493,071	$(69,817)	$1,423,254
Deferred income taxes, net	$122,989	$(27,085)	$95,904
Total liabilities	1,471,019	(27,085)	1,443,934
Accumulated deficit	(90,160)	(6,849)	(97,009)
Accumulated other comprehensive income	34,540	(35,883)	(1,343)
Total Vector Group Ltd. stockholders' deficiency	(57,027)	(42,732)	(99,759)
Total stockholders' equity (deficiency)	22,052	(42,732)	(20,680)
Total liabilities and stockholders' equity (deficiency)	$1,493,071	$(69,817)	$1,423,254

(1) The amounts shown in the “As Previously Reported” column reflect the impact of the deferred tax adjustments presented in the preceding table.

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

	Year ended December 31, 2014			Year ended December 31, 2013		
	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Operating, selling, administrative and general expenses	$278,392	$950	$279,342	$112,748	$850	$113,598
Operating income	213,388	(950)	212,438	112,036	(850)	111,186
Equity in earnings from investments	1,242	1,898	3,140	2,066	1,060	3,126
Other, net	10,552	(1,156)	9,396	7,550	(2,977)	4,573
Income before provision for income taxes	82,487	(208)	82,279	63,487	(2,767)	60,720
Income tax expense	33,251	(86)	33,165	24,795	(1,123)	23,672
Net income	49,236	(122)	49,114	38,692	(1,644)	37,048
Net income attributed to Vector Group Ltd.	36,978	(122)	36,856	38,944	(1,644)	37,300
Other comprehensive income (loss), net of tax	11,680	(13,614)	(1,934)	33,128	(17,534)	15,594
Comprehensive income	60,916	(13,736)	47,180	71,820	(19,178)	52,642
Comprehensive income attributed to Vector Group Ltd.	$48,658	$(13,736)	$34,922	$72,072	$(19,178)	$52,894

(b) Estimates and Assumptions:
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Significant estimates subject to material changes in the near term include valuation of intangible assets, inventory valuation, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans, the estimated fair value of embedded derivative liabilities, settlement accruals, valuation of investments, including other-than-temporary impairments to such investments, and litigation and defense costs. Actual results could differ from those estimates.
(c) Cash and Cash Equivalents:
Cash includes cash on hand, cash on deposit in banks, money market accounts and cash equivalents, comprised of short-term investments which have an original maturity of 90 days or less. Interest on short-term investments is recognized when earned. The Company places its cash and cash equivalents with large commercial banks. The Federal Deposit Insurance Corporation (“FDIC”) and Securities Investor Protection Corporation (“SIPC”) insure these balances, up to $250 and $500, respectively. Substantially all of the Company’s cash balances at December 31, 2015 are uninsured.
(d) Financial Instruments:
The carrying value of cash and cash equivalents, restricted assets and short-term loans approximate their fair value. The fair value of the senior secured notes and the variable interest senior convertible debentures for the years ended December 31, 2015 and 2014 was estimated based on current market quotations.

As required by authoritative guidance, derivatives embedded within the Company's convertible debt are recognized on the Company's balance sheet and are stated at estimated fair value at each reporting period. Changes in the fair value of the embedded derivatives are reflected quarterly as "Changes in fair value of derivatives embedded within convertible debt."

The estimated fair values for financial instruments presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

(e) Investment Securities:
The Company classifies investments in debt and marketable equity securities as available for sale. Investments classified as available for sale are carried at fair value, with net unrealized gains and losses included as a separate component of stockholders' deficiency. The cost of securities sold is determined based on average cost. Investments in marketable equity securities represent less than a 20 percent interest in the investees and the Company does not exercise significant influence over such entities.
Gains are recognized when realized in the Company's consolidated statements of operations. Losses are recognized as realized or upon the determination of the occurrence of an other-than-temporary decline in fair value. The Company's policy is to review its securities on a periodic basis to evaluate whether any security has experienced an other-than-temporary decline in fair value. If it is determined that an other-than-temporary decline exists in one of the Company's marketable securities, it is the Company's policy to record an impairment charge with respect to such investment in the Company's consolidated statements of operations.
(f) Significant Concentrations of Credit Risk:
Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its temporary cash in money market securities (investment grade or better) with what management believes are high credit quality financial institutions.
Liggett's customers are primarily candy and tobacco distributors and large grocery, drug and convenience store chains. Two customers, accounted for 19% and 10% of Liggett's revenues in 2015 and 18% and 10% in 2013. One customer accounted for 19% of Liggett's revenues in 2014. Concentrations of credit risk with respect to trade receivables are generally limited due to the large number of customers, located primarily throughout the United States, comprising Liggett's customer base. Liggett's two largest customers represented approximately 4% and 1%, respectively, of net accounts receivable at December 31, 2015 and 5% and 1%, respectively, at December 31, 2013. Liggett's largest customer represented approximately 11% of net accounts receivable at December 31, 2014. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. Liggett maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.
(g) Accounts Receivable:
Accounts receivable-trade are recorded at their net realizable value. The allowance for doubtful accounts and cash discounts was $479 and $452 at December 31, 2015 and 2014, respectively. Uncollectible accounts are written off when the likelihood of collection is remote and when collection efforts have been abandoned.
(h) Inventories:
Tobacco inventories are stated at the lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method at Liggett and Vector Tobacco. Although portions of leaf tobacco inventories may not be used or sold within one year because of the time required for aging, they are included in current assets, which is common practice in the industry. It is not practicable to determine the amount that will not be used or sold within one year.
(i) Restricted Assets:
Current restricted assets of $9,195 and $2,595 at December 31, 2015 and 2014, respectively, consist primarily of certificates of deposits and supersedeas bonds. Long-term restricted assets of $12,303 and $12,013 at December 31, 2015 and 2014, respectively, consist primarily of certificates of deposit which collateralize letters of credit, supersedeas bonds and deposits on long-term debt. The certificates of deposit mature at various dates from February 2016 to August 2020.
(j) Property, Plant and Equipment:
Property, plant and equipment are stated at cost. Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which are 20 to 30 years for buildings and 3 to 10 years for machinery and equipment.
Repairs and maintenance costs are charged to expense as incurred. The costs of major renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment are removed from the

accounts upon retirement or other disposition and any resulting gain or loss is reflected in operations.

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The cost of leasehold improvements is amortized over the lesser of the related leases or the estimated useful lives of the improvements. Costs of major additions and betterments are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred.

(k) 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 have not provided enough equity to finance its activities 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.

(l) Goodwill and Other Intangible Assets:

Goodwill from acquisitions represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets. Factors that contribute to the recognition of goodwill in the Company’s acquisitions include (i) expected growth rates and profitability of the acquired companies, (ii) securing buyer-specific synergies that increase revenue and profits and are not otherwise available to market participants, (iii) significant cost savings opportunities, (iv) experienced workforce and (v) the Company’s strategies for growth in sales, income and cash flows. Goodwill is tested for impairment at least annually as of October 1and monitored for interim triggering events on an on-going basis. Other intangible assets with indefinite useful lives are not amortized, but rather, are tested for impairment at least annually. In evaluating goodwill for impairment, the Company has the option to first assess qualitative factors to determine whether further impairment testing is necessary. Among other relevant events and circumstances that affect the fair value of reporting units, the Company considers individual factors such as macroeconomic conditions, changes in the industry and the markets in which the Company operates as well as the historical and expected future financial performance. If we conclude that it is more likely than not that fair value is less than its carrying value, recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of the reporting unit to the Company’s carrying amount. Fair value is determined based on an income approach and a market approach that are equally weighted. If the carrying amount of the reporting unit, including the goodwill, exceeds the fair value of the reporting unit, the second step is performed. The second step involves a comparison of the implied fair value and carrying value of the goodwill of the reporting unit. To the extent that the carrying amount exceeds the implied fair value of the goodwill, an impairment loss is recognized.

To determine the implied fair value of the Company’s indefinite-lived intangible asset, trademark, it utilizes the relief from royalty method, pursuant to which the asset is valued by reference to the amount of royalty income it would generate if licensed in an arm’s length transaction. Under the relief from royalty method, similar to the discounted cash flow method, estimated net revenues expected to be generated by the asset during its life are multiplied by a benchmark royalty rate and then discounted by the estimated weighted average cost of capital associated with the asset. The resulting capitalized royalty stream is an indication of the value of owning the asset. To the extent that the carrying amount exceeds the implied fair value of the intangible asset, an impairment loss is recognized.

The fair value of the intangible asset associated with the benefit under the Master Settlement Agreement (“MSA”) is calculated using discounted cash flows. This approach involves two steps: (i) estimating future cash savings due to the payment exemption under the MSA and (ii) discounting the resulting cash flow savings to determine fair value. This fair value is then compared with the carrying value of the intangible asset associated with the benefit under the MSA. To the extent that the carrying amount exceeds the implied fair value of the intangible asset, an impairment loss is recognized. Intangible assets with finite lives are amortized over their respective estimated useful lives. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate long-lived assets described below.

(m) Impairment of Long-Lived Assets:

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company performs a test for recoverability, comparing projected undiscounted cash flows to the carrying value of the asset group to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value of the asset on the basis of discounted cash flow. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

(n) Pension, Postretirement and Postemployment Benefits Plans:

The cost of providing retiree pension benefits, health care and life insurance benefits is actuarially determined and accrued over the service period of the active employee group. The Company recognizes the funded status of each defined benefit pension plan, retiree health care and other postretirement benefit plans and postemployment benefit plans on the balance sheet.

(o) Stock Options:

The Company accounts for employee stock compensation plans by measuring compensation cost for share-based payments at fair value. The fair value is recognized as compensation expense over the vesting period on a straight-line basis. The terms of certain stock options awarded under the 2014 Management Incentive Plan in February 2014 and under the 1999 Plan in November 2013, February 2013, December 2009 and January 2001 provide for common stock dividend equivalents (paid in cash at the same rate as paid on the common stock) with respect to the shares underlying the unexercised portion of the options. The Company recognizes payments of the dividend equivalent rights on these options on the Company consolidated balance sheet as reductions in additional paid-in capital until fully utilized and then accumulated deficit ($5,566, $4,612 and $4,007 net of income taxes, for the years ended December 31, 2015, 2014 and 2013, respectively), which are included as “Distributions and dividends on common stock” in the Company’s consolidated statement of changes in stockholders’ equity.

(p) Income Taxes:

The Company accounts for income taxes under the liability method and records deferred taxes for the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes as well as tax credit carryforwards and loss carryforwards. These deferred taxes are measured by applying currently enacted tax rates. A valuation allowance reduces deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized. A current tax provision is recorded for income taxes currently payable.

The Company accounts for uncertainty in income taxes by recognizing the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. The guidance requires that a liability created for unrecognized deferred tax benefits shall be presented as a liability and not combined with deferred tax liabilities or assets.

(q) Distributions and Dividends on Common Stock:

The Company records distributions on its common stock as dividends in its 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. The Company’s stock dividends are recorded as stock splits and given retroactive effect to earnings per share for all years presented.

(r) 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.

Tobacco Shipping and Handling Fees and Costs: Shipping and handling fees related to sales transactions are neither billed to customers nor recorded as revenue. Shipping and handling costs, which were $5,488 in 2015, $5,585 in 2014 and $5,559 in 2013 are recorded as operating, selling, administrative and general expenses.

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.

(s) Advertising:

Tobacco and E-Cigarettes advertising costs, which are expensed as incurred and included within operating, selling, administration and general expenses, were $5,097, $9,493 and $4,839 for the years ended December 31, 2015, 2014 and 2013, respectively.

Real estate advertising costs, which are expensed as incurred and included within operating, selling, administration and general expenses, were $25,657, $14,952 and $1,298 for the years ended December 31, 2015 and 2014 and 2013, respectively.

(t) Comprehensive Income:

The Company presents net income and other comprehensive income in two separate, but consecutive, statements. The items are presented before related tax effects with detailed amounts shown for the income tax expense or benefit related to each component of other comprehensive income.

The components of accumulated other comprehensive (loss) income, net of income taxes, were as follows:

	December 31, 2015	December 31, 2014	December 31, 2013
Net unrealized gains on investment securities available for sale, net of income taxes of $7,758, $12,706 and $11,528, respectively	$12,048	$18,102	$16,867
Net unrealized losses on long-term investment accounted for under the equity method, net of income tax benefits of $0, $1,156, and $418, respectively	—	(1,658)	(612)
Forward contracts adjustment, net of income taxes of $11, $36, and $63, respectively	(19)	(55)	(92)
Pension-related amounts, net of income taxes of $13,977, $12,167, and $10,644, respectively	(20,342)	(17,732)	(15,572)
Accumulated other comprehensive (loss) income	$(8,313)	$(1,343)	$591

(u) Fair Value of Derivatives Embedded within Convertible Debt:
The Company has estimated the fair market value of the embedded derivatives based principally on the results of a valuation model. The estimated fair value of the derivatives embedded within the convertible debt is based principally on the present value of future dividend payments expected to be received by the convertible debt holders over the term of the debt. The discount rate applied to the future cash flows is estimated based on a spread in the yield of the Company's debt when compared to risk-free securities with the same duration; thus, a readily determinable fair market value of the embedded derivatives is not available. The valuation model assumes future dividend payments by the Company and utilizes interest rates and credit spreads for secured to unsecured debt, unsecured to subordinated debt and subordinated debt to preferred stock to determine the fair value of the derivatives embedded within the convertible debt. The valuation also considers other items, including current and future dividends and the volatility of Vector's stock price. At December 31, 2015, the range of estimated fair market values of the Company's embedded derivatives was between $143,422 and $144,660. The Company recorded the fair market value of its embedded derivatives at the midpoint of the inputs at $144,042 as of December 31, 2015. At December 31, 2014, the range of estimated fair market values of the Company's embedded derivatives was between $167,593 and $171,215. The Company recorded the fair market value of its embedded derivatives at the midpoint of the inputs at $169,386 as of December 31, 2014. The estimated fair market value of the Company's embedded derivatives could change significantly based on future market conditions. (See Note 9.)
(v) Capital and Credit Markets:
The Company has performed additional assessments to determine the impact, if any, of market developments, on the Company's consolidated financial statements. The Company's additional assessments have included a review of access to liquidity in the capital and credit markets, counterparty creditworthiness, value of the Company's investments (including long-term investments, mortgage receivable and employee benefit plans) and macroeconomic conditions. The volatility in capital and credit markets may create additional risks in the upcoming months and possibly years and the Company will continue to perform additional assessments to determine the impact, if any, on the Company's consolidated financial statements. Thus, future impairment charges may occur.
On a quarterly basis, the Company evaluates its investments to determine whether an impairment has occurred. If so, the Company also makes a determination of whether such impairment is considered temporary or other than temporary. The Company believes that the assessment of temporary or other-than-temporary impairment is facts-and-circumstances driven. 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 the Company's original expected holding period of the investment.
(w) Contingencies:
The Company records Liggett's product liability legal expenses as operating, selling, administrative and general expenses as those costs are incurred. As discussed in Note 15, legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against Liggett and the Company.
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 Note 15: (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 estimate the possible loss or range of loss that could result from an unfavorable outcome of any of the pending tobacco-related cases and, therefore, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.
Adverse verdicts have been entered against Liggett in 15 state court Engle progeny cases and several of these verdicts have been affirmed on appeal and satisfied by Liggett. In certain cases, the judgments entered have been joint and several with other defendants. In four of these cases, punitive damages were awarded against Liggett. The Company's

potential range of loss in the remaining cases on appeal is between $0 and $12,674 in the aggregate, plus accrued interest and attorneys' fees. In determining the range of loss, we consider potential settlements as well as future appellate relief. Except as discussed in Note 15, management is unable to estimate the possible loss or range of loss from remaining Engle progeny cases as there are currently multiple defendants in each case and 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. Litigation is subject to many uncertainties, and it is possible that the Company's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

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(x) Other Income:

Other income, net consists of:

	Year Ended December 31, 2015	2014	2013
Interest and dividend income	$7,038	$5,803	$4,381
Out-of-period adjustment	—	1,231	—
Acceleration of closing fee related to termination of Douglas Elliman joint venture	—	2,335	—
Impairment of real estate held for sale	(230)	—	—
Loss on sale of assets	(78)	—	—
Gain on long-term investment	390	—	189
Impairment of long-term investments	(811)	—	—
Other income	100	27	3
Other income, net	$6,409	$9,396	$4,573

The out-of-period adjustment related to a non-accrual of a receivable from Douglas Elliman in the fourth quarter of 2013 and would have increased the Company's gain on acquisition of Douglas Elliman in 2013. The Company assessed the materiality of this error on all previously issued consolidated financial statements and concluded that the error was immaterial to all previously issued consolidated financial statements. The impact of correcting this error in 2014 was not material to the Company's 2014 consolidated financial statements.

(y) Other Current Liabilities:

Other current liabilities consists of:

	December 31, 2015	December 31, 2014
Accounts payable	$19,639	$10,856
Accrued promotional expenses	24,816	20,191
Accrued excise and payroll taxes payable, net	26,556	23,172
Accrued interest	28,147	28,321
Commissions payable	11,008	9,523
Accrued salaries and benefits	20,134	16,009
Other current liabilities	23,917	18,683
Total other current liabilities	$154,217	$126,755

(z) New Accounting Pronouncements:

In February 2016, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-17, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the effect that this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments--Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is evaluating the effect that this guidance will have on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combination (Topic 805): Simplifying the Accounting for Measurement Period Adjustments (“ASU 2015-16”), which requires adjustments to provisional amounts initially recorded in a business combination that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-15 also requires the disclosure of the nature and amount of measurement-period adjustments recognized in the current period, including separately the amounts in current-period income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for the Company beginning January 1, 2016. The Company will apply the guidance prospectively for all business combinations that occur subsequent to the adoption date.

In August 2015, FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measure of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting), which codifies an Securities and Exchange Commission staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangement as assets. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 clarifies that the Securities and Exchange Commission staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective immediately and will be applied prospectively to any line-of-credit arrangements entered into subsequent to the effective date. In April 2015, FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. Upon adoption, the Company will apply the new guidance on a retrospective basis and adjust the balance sheet of each individual period presented to reflect the period-specific effects of applying the new guidance. This guidance is effective for the Company beginning January 1, 2016. The Company is evaluating the effect that this guidance will have on its consolidated financial statements.

In February 2015, FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 amends the consolidation requirements and significantly changes the consolidation analysis required. ASU 2015-02 requires management to reevaluate all legal entities under a revised consolidation model specifically (1) modify the evaluation of whether limited partnership and similar legal entities are VIEs, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships, and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Act of 1940 for registered money market funds. The guidance is effective for the Company beginning January 1, 2016. The Company is evaluating the effect that this guidance will have on its 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 are effective for annual periods beginning after December 15, 2016 and interim periods within those reporting periods. Earlier adoption is permitted.

In May 2014, FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606), ("ASU 2014-9"). ASU 2014-9 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2018, 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 and it has not determined the impact of the new standard on its consolidated financial statements.

2. EARNINGS PER SHARE

Information concerning the Company's common stock has been adjusted to give effect to the 5% stock dividends paid to Company stockholders on September 29, 2015, September 26, 2014 and September 27, 2013. The dividends were recorded at par value of $584 in 2015, $520 in 2014 and $450 in 2013, since the Company did not have retained earnings in each of the aforementioned years. In connection with the 5% stock dividends, the Company increased the number of shares subject to outstanding stock options by 5% and reduced the exercise prices accordingly.

For purposes of calculating basic earnings per share ("EPS"), net income available to common stockholders attributed to Vector Group Ltd. for the period are reduced by the contingent interest and the non-cash interest expense associated with the discounts created by the beneficial conversion features and embedded derivatives related to the Company's convertible debt issued. The convertible debt issued by the Company are participating securities due to the contingent interest feature and had no impact on EPS for the years ended December 31, 2015, 2014 and 2013 as the dividends on the common stock reduced earnings available to common stockholders so there were no unallocated earnings.

As discussed in Note 14, the Company has stock option awards which provide for common stock dividend equivalents at the same rate as paid on the common stock with respect to the shares underlying the unexercised portion of the options. These outstanding options represent participating securities under authoritative guidance. The Company recognizes payments of the dividend equivalent rights ($5,566, net of income taxes of $211, and $4,612, net of income taxes of $306, and $4,007, net of income taxes of $91, for the years ended December 31, 2015, 2014 and 2013, respectively) on these options as reductions in additional paid-in capital on the Company's consolidated balance sheet. As a result, in its calculation of basic EPS for the years ended December 31, 2015, 2014 and 2013, respectively, the Company has adjusted its net income for the effect of these participating securities as follows:

	2015	2014	2013
Net income attributed to Vector Group Ltd.	$59,198	$36,856	$37,300
Income attributable to participating securities	(1,752)	(1,024)	(1,023)
Net income available to common stockholders attributed to Vector Group Ltd.	$57,446	$35,832	$36,277

Basic EPS is computed by dividing net income available to common stockholders attributed to Vector Group Ltd. by the weighted-average number of shares outstanding, which includes vested restricted stock.

Diluted EPS includes the dilutive effect of non-vested restricted stock grants, stock options and convertible securities. Diluted EPS is computed by dividing net income available to common stockholders by the diluted weighted-average number of shares outstanding, which includes dilutive non-vested restricted stock grants, stock options and convertible securities.

Basic and diluted EPS were calculated using the following shares for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Weighted-average shares for basic EPS	117,760,538	108,075,400	100,886,113
Plus incremental shares related to stock options and non-vested restricted stock	32,030	66,732	261,837
Weighted-average shares for diluted EPS	117,792,568	108,142,132	101,147,950

The following non-vested restricted stock and shares issuable upon the conversion of convertible debt were outstanding during the years ended December 31, 2015, 2014 and 2013 but were not included in the computation of diluted EPS because the exercise prices of the options and the per share expense associated with the restricted stock were greater than the average market price of the common shares during the respective periods, and the impact of common shares issuable under the convertible debt were anti-dilutive to EPS.

	Year Ended December 31,		
	2015	2014	2013
Weighted-average shares of non-vested restricted stock	N/A	N/A	30,319
Weighted-average expense per share	N/A	N/A	$15.10
Weighted-average number of shares issuable upon conversion of debt	25,113,350	32,216,245	30,862,794
Weighted-average conversion price	$19.55	$16.83	$13.81

The Company’s convertible debt was anti-dilutive in 2015, 2014 and 2013.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

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

The components of investment securities available for sale at December 31, 2014 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	$46,695	$32,018	$(1,104)	$77,609
Mutual funds invested in fixed income securities	61,485	—	(1,659)	59,826
Marketable debt securities	130,111	2,470	(916)	131,665
Total investment securities available for sale	$238,291	$34,488	$(3,679)	$269,100

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The table below summarizes the maturity dates of marketable debt securities at December 31, 2015.

Investment Type:	Fair Value	Under 1 Year	1 Year up to 5 Years	More than 5 Years
U.S. Government securities	$28,132	$—	$28,132	$—
Corporate securities	41,561	2,154	39,347	60
U.S. mortgage-backed securities	5,790	636	5,003	151
Commercial mortgage-backed securities	8,728	5,739	715	2,274
U.S. asset-backed securities	8,276	2,342	5,934	—
Index-linked U.S. bonds	2,105	—	2,105	—
Total marketable debt securities by maturity dates	$94,592			