ALEXANDRIA REAL ESTATE EQUITIES INC
Form D
August 12, 2009

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)
Cash and cash equivalents, beginning of period
111,470

12,375

116,523

—

240,368

Cash and cash equivalents, end of period
$
94,637

$
23,664

$
90,747

$
—

$
209,048

46

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

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2015				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash (used in) provided by operating activities	$(1,451)	$58,885	$(4,122)	$(45,484)	$7,828
Cash flows from investing activities:					
Sale of investment securities	60,176	14,415	—	—	74,591
Maturities of investment securities	947	—	—	—	947
Purchase of investment securities	(66,152)	(1,476)	—	—	(67,628)
Proceeds from sale or liquidation of long-term investments	1,106	—	110	—	1,216
Purchase of long-term investments	(5,000)	—	—	—	(5,000)
Investments in real estate ventures	—	—	(7,816)	—	(7,816)
Increase in cash surrender value of life insurance policies	(558)	(48)	—	—	(606)
Increase in restricted assets	(1)	(6,932)	—	—	(6,933)
Pay downs of investment securities	1,594	—	—	—	1,594
Proceeds from sale of fixed assets	—	3	—	—	3
Investments in subsidiaries	(1,969)	—	—	1,969	—
Capital expenditures	—	(956)	(2,200)	—	(3,156)
Net cash (used in) provided by investing activities	(9,857)	5,006	(9,906)	1,969	(12,788)
Cash flows from financing activities:					
Deferred financing costs	—	(585)	—	—	(585)
Repayments of debt	—	(1,797)	(60)	—	(1,857)
Borrowings under revolver	—	107,668	—	—	107,668
Repayments on revolver	—	(110,792)	—	—	(110,792)
Capital contributions received	—	1,950	19	(1,969)	—
Intercompany dividends paid	—	(43,955)	(1,529)	45,484	—
Dividends and distributions on common stock	(46,350)	—	—	—	(46,350)
Proceeds from exercise of Vector options	809	—	—	—	809
Tax benefit of options exercised	274	—	—	—	274
Net cash used in financing activities	(45,267)	(47,511)	(1,570)	43,515	(50,833)
Net (decrease) increase in cash and cash equivalents	(56,575)	16,380	(15,598)	—	(55,793)
Cash and cash equivalents, beginning of period	211,751	9,724	104,890	—	326,365
Cash and cash equivalents, end of period	$155,176	$26,104	$89,292	$ —	$270,572

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

(Dollars in Thousands, Except Per Share Amounts)

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

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

Please read this discussion along with our MD&A and audited financial statements as of and for the year ended December 31, 2015 and Notes thereto, included in our 2015 Annual Report on Form 10-K, and our Consolidated Condensed Financial Statements and related Notes as of and for the quarterly period ended March 31, 2016.

Overview

We are a holding company and are engaged principally in:

- the manufacture and sale of cigarettes in the United States through our Liggett Group LLC and Vector Tobacco Inc. subsidiaries,
- 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

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 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 the current market situation, our primary focus on e-cigarettes is to pursue opportunities if they occur.

Recent Developments

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 condensed consolidated financial statements, retrospectively, as if the equity method had been in effect since inception.

Recent Developments in Smoking-Related Litigation

There are no material changes from the Recent Developments in Smoking-Related Litigation set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report on Form 10-K, for the year ended December 31, 2015. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

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Critical Accounting Policies

There are no material changes from the critical accounting policies set forth in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” of our Annual Report on Form 10-K, for the year ended December 31, 2015. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

Results of Operations

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

For purposes of this discussion and other consolidated financial reporting, our significant business segments for the three months ended March 31, 2016 and 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 Zoom. The Real Estate segment includes our investment in New Valley LLC, which includes Douglas Elliman, Escena, Indian Creek, Sagaponack and investments in real estate ventures.

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Tobacco	$221,015	$228,085
E-Cigarettes	38	419
Real Estate	159,747	132,256
Total revenues	$380,800	$360,760
Operating income (loss):		
Tobacco	$61,483 (1)	$49,670 (2)
E-Cigarettes	(193)	(3,164)
Real Estate	7,674	2,151
Corporate and Other	(6,805)	(4,939)
Total operating income	$62,159	$43,718

(1) Operating income includes $2,350 of litigation settlement expense, and $41 of restructuring expense.
(2) Operating income includes $843 of litigation settlement expense.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Revenues. Total revenues were $380,800 for the three months ended March 31, 2016 compared to $360,760 for the three months ended March 31, 2015. The $20,040 (5.6%) increase in revenues was due to an increase in Real Estate revenues of $27,491 primarily related to Douglas Elliman's brokerage revenues, offset by a $381 decline in E-Cigarettes revenues and a $7,070 decline in Tobacco revenues.

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Cost of sales. Total cost of sales were $236,422 for the three months ended March 31, 2016 compared to $242,018 for the three months ended March 31, 2015. The $5,596 (2.3%) decline in cost of sales was due to an increase in Real Estate cost of sales of $15,320 related to an increase of real estate commission expense at Douglas Elliman. This was offset by a $20,292 decline in Tobacco cost of sales primarily related to decreased sales volume and lower MSA expense as well as a $624 decline in E-cigarette cost of sales. The Tobacco segment's MSA expense declined by $9,925 for three months ended March 31, 2016 as a result of a $4,510 adjustment related to the receipt of the final calculation of our 2015 liability from the MSA's independent auditor as well as $5,415 due primarily to a combination of a higher industry volume and lower unit sales volumes for three months ended March 31, 2016. The calculation of our benefit from the MSA is an estimate based upon taxable unit shipments of cigarettes in the U.S. For the three months ended March 31, 2016, we estimated taxable shipments in the U.S. would decline by 3% in 2016. Our annual MSA expense changes by approximately $1,800 for each percentage change in the estimated shipment volumes in the U.S. market.

Expenses. Operating, selling, general and administrative expenses were $79,828 for the three months ended March 31, 2016 compared to $74,181 for the same period last year. This was an increase of $5,647 (7.6%) of which $6,648 was due to an increase in Real Estate operating, selling, general and administrative expenses primarily at Douglas Elliman and an increase in Corporate and Other expense of $1,866. This was offset by a decline in E-Cigarette operating, selling, general and administrative expenses of $2,727 and a decline in Tobacco operating, selling, general and administrative expenses of $140.

Operating income. Operating income was $62,159 for the three months ended March 31, 2016 compared to $43,718 for the same period last year, an increase of $18,441 (42.2%). Tobacco operating income increased by $11,813, Real Estate operating income increased by $5,523 primarily related to Douglas Elliman, and E-Cigarette operating losses declined by $2,971. This was offset by an increase of $1,866 in Corporate and Other expenses.

Other income (expenses). Other expenses were $26,403 and $9,370 for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, other expenses primarily consisted of interest expense of $30,720, impairment of investment securities available for sale of $4,813 (primarily related to our investment in Morgans Hotel Group Co.) and equity loss on long-term investments of $1,671. This was offset by income of $9,694 from changes in fair value of derivatives embedded within convertible debt, gain on sale of investment securities available for sale of $567, other income of $1,047 and equity income on real estate ventures of $507. For the three months ended March 31, 2015, other expenses primarily consisted of interest expense of $31,746 . This was offset by a gain on sale of investment securities available for sale of $13,029, income of $6,460 from changes in fair value of derivatives embedded within convertible debt, equity earnings in income on real estate ventures of $338, equity in earnings from investments of $612 and interest and other income of $1,937.

Income before provision for income taxes. Income before income taxes was $35,756 and $34,348 for the three months ended March 31, 2016 and 2015, respectively.

Income tax expense. Income tax expense was $14,363 and $12,867 for the three months ended March 31, 2016 and 2015, respectively. Our provision for income taxes in interim periods is based on an estimated annual effective income tax rate derived, in part, from estimated annual income before provision for income taxes in accordance with guidance on accounting for income taxes on interim periods. For the three months ended March 31, 2016, our income tax expense was increased by $49 due primarily to a change in the marginal state tax rate as a result of recent state legislations changes, the rate differential in other comprehensive income and the results of a recent state income tax audits.

Tobacco.

Tobacco revenues. Liggett increased the list price of PYRAMID, LIGGETT SELECT, EVE and GRAND PRIX by $0.70 per carton in November 2015 and May 2015. 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 2016 and 2015. For the three months ended March 31, 2016, Tobacco revenues were $221,015 compared to $228,085 for the three months ended March 31, 2015. Revenues declined by $7,070 (3.1%) due to a 7.1% decline in sales volume of $15,877 (approximately 138.1 million units), offset by a favorable price variance of $8,807.

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Tobacco cost of sales. Our Tobacco cost of sales declined from $157,030 for the three months ended March 31, 2015 to $136,738 for the three months ended March 31, 2016. The major components of our Tobacco cost of sales are as follows:

	Three Months Ended March 31,	
	2016	2015
Manufacturing overhead, raw materials and labor	$25,811	$29,662
Federal Excise Taxes	90,846	97,359
FDA expense	5,246	5,249
MSA expense, net of market share exemption	14,835	24,760
Total cost of sales	$136,738	$157,030

Tobacco gross profit was $84,277 for the three months ended March 31, 2016 compared to $71,055 for the three months ended March 31, 2015. The $13,222 (18.6%) increase was due to price increases primarily on the PYRAMID brand and lower MSA unit costs, partially offset by increased manufacturing and FDA unit costs. As a percentage of revenues (excluding Federal Excise Taxes), Tobacco gross profit was 64.7% in the 2016 period and 54.4% in the 2015 period.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses were $20,403 for the three months ended March 31, 2016 compared to $20,543 for the three months ended March 31, 2015. The $140 decline primarily related to a decreased sales and marketing expenses due to Liggett's restructuring in the third quarter of 2015. In addition, Tobacco expenses increased for the three months ended March 31, 2016 and 2015 due to litigation, settlement and judgments expense of $2,350 and $843, respectively. Tobacco expenses also increased for the three months ended March 31, 2016 due to restructuring expenses of $41.

Tobacco product liability legal expenses, including settlements and judgments, were $4,171 and $2,555 for the three months ended March 31, 2016 and 2015, respectively.

Tobacco operating income. Tobacco operating income was $61,483 for the three months ended March 31, 2016 compared to $49,670 for the same period last year. The Tobacco operating income increase of $11,813 (23.8%) was primarily due to higher margins discussed above, partially offset by increased product liability settlement costs.

E-Cigarettes.

E-Cigarettes revenues were $38 for the three months ended March 31, 2016 compared to $419 for three months ended March 31, 2015. Revenues declined due to lower sales volumes.

Our E-Cigarettes cost of sales were $6 for the three months ended March 31, 2016 compared to $630 for the three months ended March 31, 2015. Cost of sales decreased by $624 due to lower sales volumes.

E-Cigarettes operating, selling, general and administrative expenses were $225 and $2,952 for the three months ended March 31, 2016 and 2015, respectively. The decline was due to lower sales and marketing expenses. Operating losses from E-Cigarettes were $193 and $3,164 for the three months ended March 31, 2016 and 2015, respectively.

Real Estate.

Real Estate revenues. Real Estate revenues were $159,747 and $132,256 for the three months ended ended March 31, 2016 and 2015, respectively. Real Estate revenues increased by $27,491 (20.8%), primarily related to an increase of

$27,648 in Douglas Elliman's Commission and other brokerage income which was primarily due to increased closings in its development marketing division.

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Real Estate revenues and cost of sales for the three months ended ended March 31, 2016 were as follows:

	Three Months Ended March 31,	
	2016	2015
Real Estate Revenues:		
Commission and other brokerage income	$149,354	$121,706
Property management income	7,118	7,213
Title fees	1,112	828
Sales on facilities primarily from Escena	2,160	2,345
Other	3	164
Total real estate revenues	$159,747	$132,256
Real Estate Cost of Sales:		
Commission and other brokerage income	$98,412	$83,097
Cost of sales on facilities primarily from Escena	1,117	1,121
Title fees	149	140
Total real estate cost of sales	$99,678	$84,358

Brokerage cost of sales. Douglas Elliman commission cost of sales increased by $15,315 due to increased sales volume.

Real Estate expenses. Real Estate operating, selling, general and administrative expenses were $52,395 and $45,747 for the three months ended March 31, 2016 and 2015, respectively. The increase of $6,648 was primarily due to increased expenses at Douglas Elliman from atypically high litigation expenses in the 2016 period, incremental professional fees in 2016 associated with the costs of being a subsidiary of a public company as well as expenses from Douglas Elliman's continued expansion into new markets to strengthen the long-term value of the Douglas Elliman brand name.

Real Estate operating income. The Real Estate segment had operating income of $7,674 and $2,151 for the three months ended March 31, 2016 and 2015, respectively. The decrease in operating income of $5,523 was primarily related to an increase in in Douglas Elliman operating, selling, general and administrative expenses, offset by higher profits.

Corporate and other.

Corporate and other loss. The operating loss at the corporate segment was $6,805 for the three months ended March 31, 2016 compared to $4,939 for the same period in 2015. The increase was primarily due to increased stock-based compensation expense and increased professional fees for the three months ended March 31, 2016.

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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 March 31, 2016:

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

	Location	Date of Initial Investment	Percentage Owned	Net Cash Invested	Cumulative Earnings (Losses)	Carrying Value as of March 31, 2016	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 %	$12,652	$—	$12,652	$—	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	$8,739	$10,714	$—	450 Acres		667 R Lots 450 H	N/A
Real estate held for sale, net				$14,627	$8,739	$23,366	$—				
10 Madison Square West (1107 Broadway)	Flatiron District/NoMad neighborhood, Manhattan, NY	October 2011	5.0 %	$7,346	$4,777	$12,123	$—	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	6,054	13,054	—	90,000 SF	—	29 R	June 201
11 Beach Street	TriBeCa, Manhattan, NY	June 2012	49.5%	12,327	1,200	13,527	—	97,000 SF	—	27 R	May 201
20 Times Square (701 Seventh Avenue)	Times Square, Manhattan, NY	August 2012	7.1 %	14,123	1,901	16,024	—	252,000 SF	80,000 SF	452 H	Septembe 2013
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	9.5 %	25,719	(332)	25,387	—	330,000 SF	1,700 SF	157 R	Septembe 2014
160 Leroy Street (2)	West Greenwich Village, Manhattan, NY	March 2013	3.1 %	2,664	1,866	4,530	—	130,000 SF	—	57 R	Fall 2015
215 Chrystie Street	Lower East Side, Manhattan, NY	December 2012	18.4%	5,297	369	5,666	—	246,000 SF	—	11 R 367 H	June 201

The Dutch (25-19 43rd Avenue)	Long Island City, NY	May 2014	9.9 %	980	127	1,107		65,000	SF	—		86	R	Septembe 2014
Queens Plaza (23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4 %	14,712	1,841	16,553	—	260,000	SF	25,000	SF	391	R	March 20
87 Park (8701 Collins Avenue)	Miami Beach, FL	December 2013	15.0 %	8,275	495	8,770	—	160,000	SF	TBD		70	R	October 2
125 Greenwich Street (2)	Financial District, Manhattan, NY	August 2014	13.3 %	8,073	1,797	9,870	—	306,000	SF	16,000	SF	275	R	March 20
West Hollywood Edition (9040 Sunset Boulevard)	West Hollywood, CA	October 2014	48.5 %	13,288	1,128	14,416	—	210,000	SF	—		20 190	R H	May 201
76 Eleventh Avenue	West Chelsea, Manhattan, NY	May 2015	5.1 %	17,000	1,487	18,487	—	620,000	SF	48,000	SF	250	H	Septembe 2016
Monad Terrace	Miami Beach, FL	May 2015	31.3 %	6,852	(3)	6,849	—	160,000	SF	—		TBD	R	May 201
Takanasee	Long Branch, NJ	December 2015	22.8 %	$4,428	$388	$4,816	$—	TBD		N/A		TBD	R	TBD
Condominium and Mixed Use Development				$148,084	$23,095	$171,179	$—							
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	1,828	16,270	—	640,576	SF	20,065	SF	488	R	N/A
Apartment Buildings				$16,079	$191	$16,270	$—							
Park Lane Hotel	Central Park South, Manhattan, NY	November 2013	5.2 %	$24,413	$(4,578)	$19,835	$—	445,600	SF	—		628	H	N/A
Hotel Taiwana	St. Barthelemy, French West Indies	October 2011	17.0 %	7,942	(491)	7,451	—	61,300	SF	4,300	SF	22	H	N/A
Coral Beach and Tennis Club	Coral Beach, Bermuda	December 2013	49.0 %	$5,558	$(2,856)	$2,702	—	52	Acres	—		101	H	N/A
Hotels				$37,913	$(7,925)	$29,988	$—							
The Plaza at Harmon	Secaucus, NJ	March 2015	49.0 %	$5,317	$209	$5,526	$—	—		217,613	SF	—	—	N/A

Meadow Commercial	$5,317	$209	$5,526	$—
Total Carrying Value	$222,020	$24,309	$246,329	

(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 March 31, 2016, includes
non-controlling interest of $2,172 and $1,890, 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 $2,070 as of March 31, 2016. New Valley capitalized $3,520 of interest expense into the carrying value of its ventures whose projects were currently under development during the year ended March 31, 2016. This amount captured in the "Cumulative Earnings (Loses)" column in the table above.

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Liquidity and Capital Resources

Cash and cash equivalents decreased by $31,320 and $55,793 for the three months ended March 31, 2016 and 2015, respectively.
Cash used in operations was $4,936 for the three months ended March 31, 2016 compared to cash provided from operations of $7,828 for the three months ended March 31, 2015. The change primarily related to additional litigation payments of $16,876 in the 2016 period primarily related to judgments and settlements and lower MSA accruals of $9,926 in the 2016 period offset by an increase of operating income of $18,441.
Cash provided by investing activities was $11,797 for the three months ended March 31, 2016 compared to cash used in investing activities of $12,788 for the three months ended March 31, 2015. In the first three months of 2016, cash provided by investing activities was from the sale of investment securities of $51,218, pay-downs of investment securities of $2,174, the maturity of investment securities of $343 and distributions from investments in real estate ventures of $12. This was offset by the purchase of investment securities of $29,112, investment in real estate ventures of $5,795, capital expenditures of $3,915, an increase in restricted assets of $3,017, investment in real estate held for sale of $49 and an increase in cash surrender value of corporate-owned life insurance policies of $62. In the first three months of 2015, cash used in investing activities was for the purchase of investment securities of $67,628, investment in real estate ventures of $7,816, purchase of long-term investments of $5,000, capital expenditures of $3,156, an increase in restricted assets of $6,933 and an increase in cash surrender value of corporate-owned life insurance policies of $606. This was offset by the sale of investment securities of $74,591, proceeds from the liquidation of long-term investments of $1,216, pay-downs of investment securities of $1,594, maturities of investment securities of $947 and proceeds from the sale of fixed assets of $3.
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.

Cash used in financing activities was $38,181 and $50,833 for the three months ended March 31, 2016 and 2015, respectively. In the first three months of 2016, cash was used for the dividends on common stock of $48,876, repayments of debt of $1,576, and distributions to non-controlling interest of $5,978. This was offset by proceeds from net borrowings of debt under the revolver of $17,944, contributions from non-controlling interest of $248, and proceeds of debt issuance of $57. In the first three months of 2015, cash was used for dividends on common stock of $46,350, payment of deferred financing costs of $585, repayment of debt of $1,857 and net repayments of debt under the revolver of $3,124. This was offset by proceeds from the exercise of Vector options of $809 and the tax benefit of options exercised of $274.
In recent years, we have taken advantage of historically low interest rates and lowered our weighted average cost of capital by issuing debt at lower interest rates than our historical borrowing levels. We will continue to evaluate current market conditions related to our capital structure. For example, based on quoted market prices, our 7.75% Senior Secured Notes were yielding approximately 5.8% on a “yield to worst” basis, or approximately 4.6% more than the comparable U.S. Treasury Bond at March 31, 2016. The Company is able to redeem such bonds at price of 105.813% beginning on February 15, 2016. The redemption price declines to 103.875% on February 15, 2017, 101.938% on February 15, 2018 and 100% on February 15, 2019. There can be no assurance that we would be able to issue debt at a lower interest rate than our historical borrowing levels in the future and, in the event we pursue any capital markets activities, our ability to complete any offering would be subject to market conditions.
Liggett Credit Facility and Liggett Term Loan Under Credit Facility. As of March 31, 2016, $24,377 was outstanding under the revolving and term loan portions of the credit facility. Availability as determined under the Credit Facility was approximately $35,623 based on eligible collateral at March 31, 2016. At March 31, 2016, management believed that Liggett was in compliance with all covenants under the credit facility; Liggett's EBITDA, as defined, were approximately $217,708 for the last twelve months ended March 31, 2016.

Vector. The indenture of our 7.75% senior secured notes due 2021 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 financial covenants and the results of the calculation, as defined by the indenture.

Covenant	Indenture Requirement	March 31, 2016	December 31, 2015
Consolidated EBITDA, as defined	$75,000	$282,602	$268,870
Leverage ratio, as defined	<3.0 to 1	1.98 to 1	1.95 to 1
Secured leverage ratio, as defined	<1.5 to 1	1.0 to 1	0.9 to 1

We and our subsidiaries have significant indebtedness and debt service obligations. At March 31, 2016, we and our subsidiaries had total outstanding indebtedness of $1,121,738 of which, $230,000 of our 7.5% convertible notes mature in 2019, $258,750 of our 5.5% variable interest senior convertible notes mature in 2020, and $600,000 of our 7.75% senior secured notes mature in 2021. In addition, subject to the terms of any future agreements, we and our subsidiaries will be able to incur additional indebtedness in the future. There is a risk that we will not be able to generate sufficient funds to repay our debt. If we cannot service our fixed charges, it would have a material adverse effect on our business and results of operations.

We believe that our cigarette and real estate operations are positive cash-flow-generating units and will continue to be able to sustain their operations without any significant liquidity concerns.

In order to meet the above liquidity requirements as well as other anticipated liquidity needs in the normal course of business, we had cash and cash equivalents of approximately $209,000, investment securities available for sale of approximately $152,700, long-term investments with an estimated value of approximately $61,400 and availability under Liggett's credit facility of approximately $35,600 at March 31, 2016. Management currently anticipates that these amounts, as well as expected cash flows from our operations, management fees and other payments from subsidiaries should be sufficient to meet our liquidity needs over the next 12 months. We may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit our liquidity otherwise available.

On a quarterly basis, we evaluate our investments to determine whether an impairment has occurred. If so, we also make a determination if such impairment is considered temporary or other-than-temporary. We believe that the assessment of temporary or other-than-temporary impairment is facts and circumstances driven. However, among the matters that are considered in making such a determination are the period of time the investment has remained below its cost or carrying value, the likelihood of recovery given the reason for the decrease in market value and our original expected holding period of the investment.

Market Risk

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

As of March 31, 2016, approximately $24,400 of our outstanding debt at face value had variable interest rates determined by various interest rate indices, which increases the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our variable rate borrowings, which could adversely affect our cash flows. As of March 31, 2016, 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 $244.

In addition, as of March 31, 2016, $296,387 ($488,750 principal amount) of outstanding debt had a variable interest rate determined by the amount of the dividends on our common stock. The difference between the stated value of the debt and carrying value is due principally to certain embedded derivatives, which were separately valued and recorded upon issuance, and debt issuance costs. Changes to the estimated fair value of these embedded derivatives are reflected within our statements of operations as “Changes in fair value of derivatives embedded within convertible debt.” The value of the embedded derivative is contingent on changes in interest rates of debt instruments maturing over the duration of the convertible debt as well as projections of future cash and stock dividends over the term of the debt and changes in the closing stock price at the end of each quarterly period. Based on a hypothetical 100 basis point increase or decrease in interest rates (1%), our annual "Changes in fair value of derivatives embedded within convertible debt" could increase or decrease by approximately \$2,171 with approximately \$881 resulting from the embedded derivative associated with the 7.5% variable interest senior convertible notes, and the remaining \$1,290 resulting from the embedded derivative associated with our 5.5% variable interest senior convertible debentures due 2020. An increase in our quarterly dividend rate by \$0.10 per share would increase interest expense by approximately \$10,200 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

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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 $135,403 and $133,267. We recorded the fair market value of our embedded derivatives at the approximate midpoint of the range at $134,348 as of March 31, 2016. The estimated fair market value of our embedded derivatives could change significantly based on future market conditions.

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

New Accounting Pronouncements

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

Legislation and Regulation

There are no material changes from the Legislation and Regulation section set forth in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” of our Annual Report on Form 10-K, for the year ended December 31, 2015. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- economic outlook,
- capital expenditures,
- cost reduction,
- legislation and regulations,
- cash flows,
- operating performance,
- litigation,
- impairment charges and cost saving associated with restructurings of our tobacco operations, and
- related industry developments (including trends affecting our business, financial condition and results of operations).

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

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- impact of legislation on our competitors' payment obligations, results of operations and product costs, i.e. the impact of federal legislation eliminating the federal tobacco quota system and providing for regulation of tobacco products by the FDA,
- impact of substantial increases in federal, state and local excise taxes,
- uncertainty related to product liability and other tobacco-related litigations including the Engle progeny cases pending in Florida and other individual and class action cases where certain plaintiffs have alleged compensatory and punitive damage amounts ranging into the hundreds of million and even billions of dollars; and,
- potential additional payment obligations for us under the MSA and other settlement agreements with the states.

Further information on the risks and uncertainties to our business include the risk factors discussed above in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and under Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted 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 such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, the Company carried out an evaluation under the supervision of and with the participation of the Company's management, including the CEO and CFO, as of March 31, 2016, 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 CEO and CFO concluded that, as of March 31, 2016, the Company's disclosure controls and procedures were not effective because of the material weaknesses in internal control over financial reporting described in Part II, Item 9A of the 2015 Form 10-K. Management has concluded that the material weaknesses that were present at December 31, 2015 continued to exist as of March 31, 2016, as discussed below.

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 our annual or interim financial statements will not be prevented or detected on a timely basis.

These material weaknesses did not result in any material misstatements to the financial statements in any accounting periods ending prior to January 1, 2016 or for the three months ended March 31, 2016. 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.

Status of Remediation

The Company identified five material weaknesses related to its Douglas Elliman subsidiary as of December 31, 2014 and two material weaknesses related to its Douglas Elliman subsidiary as of December 31, 2015. Beginning in 2015, at the direction of the Audit Committee of the Company's Board of Directors, as well as the Company’s CEO and CFO, the Company has made and continues to make substantial progress in remediating these material weakness including:

- In June 2015, Douglas Elliman employed a new Chief Financial Officer, who is a licensed Certified Public Accountant ("CPA") with more than 30 years of experience in the financial departments of publicly-traded companies. In addition, in 2015, Douglas Elliman also added a Director of Sarbanes-Oxley Section 404 Compliance, a corporate controller, who is licensed as a CPA and previously served as a senior manager at a Big Four accounting firm, a regional controller who

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is licensed as a CPA and is a former Assistant Corporate Controller of a publicly-traded company as well as a former manager at a National accounting firm, two regional controllers, who are both currently licensed as CPAs and previously served as managers at Big Four accounting firms, and two accounting managers who are both licensed as CPAs.

- In August 2015, Douglas Elliman employed a new Chief Technology Officer ("CTO") who was previously a technology executive with a large U.S. financial institution. Douglas Elliman's new CTO oversees, among other things, security of the accuracy and completeness of the Company's financial reporting.
- During 2015, Douglas Elliman improved its documentation of internal controls into a more robust format that has been designed to detect errors that could lead to material misstatements in the Company's consolidated financial statements.
- During 2015, the Company redesigned and implemented a series of newly-created internal controls related to previously improper internal controls related to segregation of duties by accounting and finance personnel at Douglas Elliman.

The result of these efforts lead to the remediation of the following material weaknesses as of December 31, 2015:

(i) Douglas Elliman's previous failure to monitor controls in certain areas relating to the period-end financial reporting process,

(ii) Douglas Elliman's previous failure to maintain effective controls over 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; and,

(iii) Douglas Elliman's previous ineffective controls over the processing and recording of recurring and non-recurring journal entries.

Further, with the enhancements and focus described above, the Company is vigorously continuing its remediation efforts in 2016 related to the following material weaknesses:

(i) Certain controls at Douglas Elliman related to segregation of duties with accounting and finance personnel were designed, but not operating, properly at December 31, 2015; and,

(ii) Douglas Elliman did not maintain effective controls over access to its information technology system for finance and accounting ("IT System"). Specifically, root level access to Douglas Elliman's IT System was shared with the third party software provider that allowed unrestricted and unmonitored access to the application and it database. Further, the Company 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.

The Company's management, Audit Committee and Board of Directors are committed to maintaining a strong and sustainable internal control environment and believe that these remediation efforts represent significant improvements in the Company's control environment as well as its internal controls over the financial reporting of Douglas Elliman. Nonetheless, the Company continues to address the two remaining material weaknesses and evaluate the effectiveness of its new internal controls to confirm that a sustainable, controlled process is fully in place. In 2016, the Company will continue to introduce processes to help ensure that Douglas Elliman's financial reporting is complete and accurate. Further, the identified material weaknesses in internal controls will not be considered fully addressed until the internal controls over these areas have been in operation for a sufficient period of time for management to conclude that the material weaknesses have been fully remediated. Management continues to work on implementing and testing the new controls in order to make this final determination.

Changes in Internal Control Over Financial Reporting

The Company's Board of Directors and its management, including the CEO and CFO, evaluated the changes in the Company's internal control over financial reporting during the quarter ended March 31, 2016 and concluded there were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 7, incorporated herein by reference, to our condensed consolidated financial statements included elsewhere in this report which contains a general description of certain legal proceedings to which our company, or its subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending smoking-related legal proceedings to which Liggett or us is a party. A copy of Exhibit 99.1 will be furnished without charge upon written request to us at our principal executive offices, 4400 Biscayne Boulevard, 10th Floor, Miami, Florida 33137, Attn. Investor Relations.

Item 1A. Risk Factors

There are no material changes from the risk factors set forth in Item 1A, “Risk Factors,” of our Annual Report on 10-K for the year ended December 31, 2015.

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

No securities of ours which were not registered under a private offering of the Securities Act of 1933 have been issued or sold by us during the three months ended March 31, 2016.

Item 6. Exhibits:

10.1	Stock Option Agreement, dated February 29, 2016 between Vector and Howard M. Lorber.
10.2	Stock Option Agreement, dated February 29, 2016 between Vector and Richard J. Lampen.
10.3	Stock Option Agreement, dated February 29, 2016 between Vector and J. Bryant Kirkland III.
10.4	Stock Option Agreement, dated February 29, 2016 between Vector and Marc N. Bell.
12.1	Computation of Ratio of Earnings to Fixed Charges for each of the five years within the period ended December 31, 2014 and for each of the nine months within the periods ended September 30, 2015 and 2014.
31.1	Certification of Chief Executive Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Material Legal Proceedings
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURE

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

VECTOR GROUP LTD.
(Registrant)

By: /s/ J. Bryant Kirkland III
J. Bryant Kirkland III
Senior Vice President, Treasurer and
Chief Financial Officer

Date: April 28, 2016