

VECTOR GROUP LTD  
Form 10-Q  
April 29, 2015

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

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2015

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

Delaware (State or other jurisdiction of incorporation incorporation or organization)	1-5759  Commission File Number	65-0949535  (I.R.S. Employer Identification No.)
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4400 Biscayne Boulevard  
Miami, Florida 33137  
305-579-8000  
(Address, including zip code and telephone number, including area code,  
of the principal executive offices)

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

Yes  No

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

Yes  No

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

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Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company  
(Do not check if a smaller reporting company)

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

Yes  No

At April 29, 2015, Vector Group Ltd. had 116,798,712 shares of common stock outstanding.

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VECTOR GROUP LTD.

FORM 10-Q

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VECTOR GROUP LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

	March 31, 2015	December 31, 2014
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$270,572	\$326,365
Investment securities available for sale	352,811	346,043
Accounts receivable - trade, net	18,092	23,328
Inventories	99,058	90,323
Deferred income taxes	28,057	29,192
Income taxes receivable, net	6,801	3,282
Restricted assets	2,221	2,595
Other current assets	43,389	36,718
Total current assets	821,001	857,846
Property, plant and equipment, net	82,293	84,112
Real estate held for sale, net	10,592	10,643
Long-term investments	45,159	40,292
Investments in real estate ventures	170,780	163,460
Restricted assets	19,320	12,013
Deferred income taxes	49,595	51,129
Goodwill and other intangible assets, net	268,521	269,972
Prepaid pension costs	25,833	25,032
Other assets	57,829	58,893
Total assets	\$1,550,923	\$1,573,392
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Current liabilities:		
Current portion of notes payable and long-term debt	\$20,864	\$52,640
Current portion of fair value of derivatives embedded within convertible debt	—	884
Current payments due under the Master Settlement Agreement	51,527	26,322
Current portion of employee benefits	931	931
Income taxes payable, net	1,753	1,743
Litigation accruals	3,363	3,149
Deferred income taxes	58,599	57,671
Other current liabilities	106,661	126,755
Total current liabilities	243,698	270,095
Notes payable, long-term debt and other obligations, less current portion	868,133	860,711
Fair value of derivatives embedded within convertible debt	162,039	168,502
Non-current employee benefits	49,504	49,314
Deferred income taxes	147,132	145,639
Payments due under the Master Settlement Agreement	25,809	25,809
Litigation accruals	22,838	25,700
Other liabilities	5,424	5,570
Total liabilities	1,524,577	1,551,340
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized	—	—
	11,680	11,450

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Common stock, par value \$0.10 per share, 250,000,000 and 250,000,000 shares authorized, 120,943,959 and 118,646,261 shares issued and 116,798,712 and 114,501,014 shares outstanding

Additional paid-in capital	—	—
Accumulated deficit	(88,421	) (90,160 )
Accumulated other comprehensive income	36,539	34,540
Less: 4,145,247 and 4,145,247 shares of common stock in treasury, at cost	(12,857	) (12,857 )
Total Vector Group Ltd. stockholders' deficiency	(53,059	) (57,027 )
Non-controlling interest	79,405	79,079
Total stockholders' equity	26,346	22,052
Total liabilities and stockholders' equity	\$ 1,550,923	\$ 1,573,392

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

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

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Tobacco*	\$228,085	\$233,392
Real estate	132,256	108,044
E-Cigarettes	419	5,800
Total revenues	360,760	347,236
Expenses:		
Cost of sales:		
Tobacco*	157,030	168,166
Real estate	84,358	67,324
E-Cigarettes	630	3,547
Total cost of sales	242,018	239,037
Operating, selling, administrative and general expenses	73,944	63,977
Litigation settlement and judgment expense	843	1,500
Operating income	43,955	42,722
Other income (expenses):		
Interest expense	(31,746 )	(35,453 )
Change in fair value of derivatives embedded within convertible debt	6,460	(1,650 )
Acceleration of interest expense related to debt conversion	—	(3,679 )
Equity income from real estate ventures	338	1,552
Equity (loss) income on long-term investments	(37 )	906
Gain (loss) on sale of investment securities available for sale	13,029	(53 )
Other, net	1,896	2,126
Income before provision for income taxes	33,895	6,471
Income tax expense	12,679	2,942
Net income	21,216	3,529
Net income attributed to non-controlling interest	(260 )	(949 )
Net income attributed to Vector Group Ltd.	\$20,956	\$2,580
Per basic common share:		
Net income applicable to common shares attributed to Vector Group Ltd.	\$0.18	\$0.03
Per diluted common share:		
Net income applicable to common shares attributed to Vector Group Ltd.	\$0.18	\$0.03

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Cash distributions and dividends declared per share	\$0.40	\$0.38
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\* Revenues and cost of sales include excise taxes of \$97,359 and \$102,413, respectively.

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

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

	Three Months Ended March 31,		
	2015	2014	
Net income	\$21,216	\$3,529	
Net unrealized gains on investment securities available for sale:			
Change in net unrealized (losses) gains	(9,918	) 5,994	
Net unrealized gains reclassified into net income	13,029	53	
Net unrealized gains on investment securities available for sale	3,111	6,047	
Net unrealized gains on long-term investments accounted for under the equity method:			
Net unrealized gains on long-term investments accounted for under the equity method	14	3,332	
Net change in forward contracts	16	17	
Net change in pension-related amounts			
Amortization of gain	267	148	
Net change in pension-related amounts	267	148	
Other comprehensive income	3,408	9,544	
Income tax effect on:			
Change in net unrealized (losses) gains on investment securities	4,101	(2,973	)
Net unrealized losses reclassified into net income on investment securities	(5,387	) (22	)
Change in unrealized losses on long-term investments	(6	) (1,370	)
Forward contracts	(6	) (6	)
Pension-related amounts	(111	) 135	)
Income tax provision on other comprehensive income	(1,409	) (4,236	)
Other comprehensive income, net of tax	1,999	5,308	
Comprehensive income	23,215	8,837	
Comprehensive income attributed to non-controlling interest	(260	) (949	)
Comprehensive income attributed to Vector Group Ltd.	\$22,955	\$7,888	

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



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

	Vector Group Ltd. Stockholders' Equity							
	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Comprehensive Income	Treasury Stock	Non-controlling Interest	Total
Balance, January 1, 2015	114,501,014	\$ 11,450	\$ —	\$ (90,160 )	\$ 34,540	\$(12,857)	\$ 79,079	\$ 22,052
Net income	—	—	—	20,956	—	—	260	21,216
Change in net loss and prior service cost, net of income taxes	—	—	—	—	156	—	—	156
Forward contract adjustments, net of income taxes	—	—	—	—	10	—	—	10
Unrealized gain on long-term investment securities accounted for under the equity method, net of income taxes	—	—	—	—	8	—	—	8
Change in net unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	(5,817 )	—	—	(5,817 )
Net unrealized loss on investment securities available for sale reclassified into net income, net of income taxes	—	—	—	—	7,642	—	—	7,642
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	1,825
Total other comprehensive income	—	—	—	—	—	—	—	1,999
Total comprehensive income	—	—	—	—	—	—	—	23,215
Distributions and dividends on common stock	—	—	(27,539)	(19,217 )	—	—	—	(46,756 )
Note conversions, net of taxes \$367	2,227,552	223	25,299	—	—	—	—	25,522
Exercise of stock options	70,146	7	802	—	—	—	—	809
Tax benefit of options exercised	—	—	274	—	—	—	—	274

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Stock-based compensation	—	—	1,164	—	—	—	—	1,164
Deemed dividend from subsidiary	—	—	—	—	—	—	—	—
Acquisition of Douglas Elliman Realty, LLC	—	—	—	—	—	—	—	—
Contributions made by non-controlling interest	—	—	—	—	—	—	66	66
Balance as of March 31, 2015	116,798,712	\$11,680	\$—	\$ (88,421 )	\$ 36,539	\$(12,857)	\$ 79,405	\$26,346

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

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	
Net cash provided by (used in) operating activities	\$7,828	\$(39,084	)
Cash flows from investing activities:			
Sale of investment securities	75,538	35,009	
Purchase of investment securities	(67,628	) (36,763	)
Proceeds from sale or liquidation of long-term investments	110	—	
Purchase of long-term investments	(5,000	) (1,000	)
Investments in real estate ventures	(7,816	) (4,068	)
Distributions from investments in real estate ventures	—	2,575	
Increase in cash surrender value of life insurance policies	(606	) (47	)
Increase in restricted assets	(6,933	) (390	)
Proceeds from sale of fixed assets	3	—	
Capital expenditures	(3,156	) (6,424	)
Repayments of notes receivable	1,106	933	
Pay downs of investment securities	1,594	—	
Net cash used in investing activities	(12,788	) (10,175	)
Cash flows from financing activities:			
Proceeds from issuance of debt	—	260,508	
Deferred financing costs	(585	) (8,210	)
Repayments of debt	(1,857	) (2,215	)
Borrowings under revolver	107,668	196,842	
Repayments on revolver	(110,792	) (211,520	)
Dividends and distributions on common stock	(46,350	) (40,865	)
Proceeds from exercise of Vector options	809	1,385	
Tax benefit of options exercised	274	344	
Net cash (used in) provided by financing activities	(50,833	) 196,269	
Net (decrease) increase in cash and cash equivalents	(55,793	) 147,010	
Cash and cash equivalents, beginning of period	326,365	234,466	
Cash and cash equivalents, end of period	\$270,572	\$381,476	

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

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The condensed consolidated financial statements of Vector Group Ltd. (the “Company” or “Vector”) include the accounts of VGR Holding LLC (“VGR Holding”), Liggett Group LLC (“Liggett”), Vector Tobacco Inc. (“Vector Tobacco”), Liggett Vector Brands LLC (“Liggett Vector Brands”), Zoom E-Cigs LLC (“Zoom”), New Valley LLC (“New Valley”) and other less significant subsidiaries. New Valley includes the accounts of Douglas Elliman Realty, LLC (“Douglas Elliman”) and other less significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

Liggett and Vector Tobacco are engaged in the manufacture and sale of cigarettes in the United States. Zoom is engaged in the sale of electronic cigarettes in the United States. New Valley is engaged in the real estate business.

The accompanying unaudited, interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and, in management's opinion, contain all adjustments, consisting only of normal recurring items, necessary for a fair statement of the results for the periods presented. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

As a result of the amount of operating losses of Zoom as of September 30, 2014 when compared to the remaining components of Corporate and Other segment, the Company has reevaluated its operating segments and has separated Zoom's operations from the Corporate and Other segment for previously reported as of and for the three months ended March 31, 2014. Thus, prior period information has been recast to conform to the current presentation. This change did not have an impact to the Company's historical consolidated results.

(b) Distributions and Dividends on Common Stock:

The Company records distributions on its common stock as dividends in its condensed consolidated statement of stockholders' equity to the extent of retained earnings and accumulated paid-in capital. Any amounts exceeding retained earnings are recorded as a reduction to additional paid-in capital. Any amounts then exceeding accumulated paid-in capital are recorded as an increase to accumulated deficit.

(c) Revenue Recognition:

Tobacco and E-Cigarettes sales: Revenues from sales are recognized upon the shipment of finished goods when title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sale price is determinable and collectibility is reasonably assured. The Company provides an allowance for expected sales returns, net of any related inventory cost recoveries. Certain sales incentives, including promotional price discounts, are classified as reductions of net sales. The Company's accounting policy is to include federal excise taxes on tobacco sales in revenues and cost of goods sold. Since the Company's primary line of business is tobacco, the Company's

financial position and its results of operations and cash flows have been and could continue to be materially adversely affected by significant unit sales volume declines at the Company and industry levels, regulation, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

Real estate sales: Revenue is recognized only when persuasive evidence of an arrangement exists, the price is fixed or determinable, the transaction has been completed and collectibility of the resulting receivable is reasonably assured.

Real estate and mortgage commissions earned by the Company's real estate and mortgage 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 and royalties expenses are

## VECTOR GROUP LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

recognized concurrently with related revenues. Property management fees earned are recorded as revenue when the related services are performed.

## (d) Earnings Per Share (“EPS”):

Information concerning the Company's common stock has been adjusted to give retroactive effect to the 5% stock dividend paid to Company stockholders on September 26, 2014. All per share amounts and references to share amounts have been updated to reflect the retrospective effect of the stock dividends.

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

	Three Months Ended March 31,	
	2015	2014
Net income attributed to Vector Group Ltd.	\$20,956	\$2,580
Expense attributed to participating securities	(622)	(77)
Net income attributed to Vector Group Ltd. available to common stockholders	\$20,334	\$2,503

Basic and diluted EPS were calculated using the following shares:

	Three Months Ended March 31,	
	2015	2014
Weighted-average shares for basic EPS	111,419,737	99,329,965
Plus incremental shares related to stock options and non-vested restricted stock	191,863	129,495
Weighted-average shares for basic and fully diluted EPS	111,611,600	99,459,460

The following stock options, non-vested restricted stock and shares issuable upon the conversion of convertible debt were outstanding during the three months ended March 31, 2015 and 2014 but were not included in the computation of diluted EPS because the effect was anti-dilutive.

	Three Months Ended March 31,	
	2015	2014
Number of stock options	N/A	N/A
Weighted-average exercise price	N/A	N/A
Weighted-average shares of non-vested restricted stock	N/A	N/A
Weighted-average expense per share	N/A	N/A
Weighted-average number of shares issuable upon conversion of debt	24,551,498	26,964,642
Weighted-average conversion price	\$20.29	\$14.94

## (e) 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

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## VECTOR GROUP LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

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 the Company's stock price. At March 31, 2015, the range of estimated fair market values of the Company's embedded derivatives was between \$160,400 and \$163,711. The Company recorded the fair market value of its embedded derivatives at the midpoint of the range at \$162,039 as of March 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 range 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 6.)

## (f) Other Income, Net:

Other income, net consists of:

	Three Months Ended March 31,	
	2015	2014
Loss on warrants	\$(114	) \$(168
Interest and dividend income	1,749	1,000
Accretion of interest income from debt discount on notes receivable	64	66
Out-of-period adjustment	—	1,231
Gain on long-term investment	200	—
Other expense	(3	) (3
Other income, net	\$1,896	\$2,126

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 financial statements and concluded that the error was immaterial to all previously issued financial statements. The impact of correcting this error in 2014 was not material to the Company's 2014 consolidated financial statements.

## (g) Other Current Liabilities:

Other current liabilities consists of:

	March 31, 2015	December 31, 2014
Accrued promotional expenses	\$17,196	\$20,191
Accrued excise and payroll taxes payable, net	20,569	23,172
Accrued interest	16,121	28,321
Other current liabilities	52,775	55,071



Total other current liabilities	\$ 106,661	\$ 126,755
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## VECTOR GROUP LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

## (h) Goodwill and Other Intangible Assets:

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

	March 31, 2015	December 31, 2014
Goodwill	\$70,791	\$70,791
Indefinite life intangibles:		
Intangible asset associated with benefit under the MSA	107,511	107,511
Trademark - Douglas Elliman	80,000	80,000
Intangibles with a finite life, net	10,219	11,670
Total goodwill and other intangible assets, net	\$268,521	\$269,972

## (i) New Accounting Pronouncements:

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“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, the 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 Variable Interest Entities (“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 annual periods beginning after December 15, 2015 and interim periods within those reporting periods. Early adoption is permitted. The Company is evaluating the effect that this guidance will have on its consolidated financial statements.



VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

## 2. INVENTORIES

Inventories consist of:

	March 31, 2015	December 31, 2014
Leaf tobacco	\$59,616	\$49,948
Other raw materials	3,634	3,532
Work-in-process	503	879
Finished goods	65,365	62,876
E-Cigarettes	1,555	3,079
Inventories at current cost	130,673	120,314
LIFO adjustments	(31,615	) (29,991
	\$99,058	\$90,323

The Company has a leaf inventory management program whereby, among other things, it is 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 March 31, 2015, Liggett had tobacco purchase commitments of approximately \$14,729 and E-Cigarettes purchase commitments of \$300. The Company has a single source supply agreement for fire safe cigarette paper through 2019.

The Company capitalizes the incremental prepaid cost of the MSA in ending inventory. Each year, the Company capitalizes in inventory that portion of its MSA liability that relates to cigarettes shipped to the public warehouses but not sold. The amount of capitalized MSA cost in “Finished goods” inventory was \$14,814 and \$14,369 at March 31, 2015 and December 31, 2014, respectively.

All of the Company's inventories at March 31, 2015 and December 31, 2014 have been reported under the LIFO method.

## VECTOR GROUP LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

## 3. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$66,278	\$91,505	\$(1,242)	) \$156,541
Mutual funds invested in fixed income securities	61,893	—	(1,439)	) 60,454
Marketable debt securities	130,323	5,788	(295)	) 135,816
Total investment securities available for sale	\$258,494	\$97,293	\$(2,976)	) \$352,811

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	\$63,041	\$92,244	\$(1,093)	) \$154,192
Mutual funds invested in fixed income securities	61,485	—	(1,659)	) 59,826
Marketable debt securities	130,311	2,557	(843)	) 132,025
Total investment securities available for sale	\$254,837	\$94,801	\$(3,595)	) \$346,043

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

Investment Type:	Market Value	Under 1 Year	1 Year up to 5 Years	More than 5 Years
U.S. Government securities	\$32,423	\$—	\$32,423	\$—
Corporate securities	61,670	7,497	43,181	10,992
U.S. mortgage-backed securities	6,807	963	5,665	179
Commercial mortgage-backed securities	16,763	3,895	6,785	6,083
U.S. asset-backed securities	16,038	3,521	10,684	1,833
Index-linked U.S. bonds	2,115	—	2,115	—
Total marketable debt securities by maturity dates	\$135,816	\$15,876	\$100,853	\$19,087

## VECTOR GROUP LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

## 4. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	March 31, 2015	December 31, 2014
Investment partnerships	\$36,540	\$31,541
Real estate partnership	588	698
Long-term investments at cost	37,128	32,239
Investment partnership accounted for under the equity method	8,031	8,053
	\$45,159	\$40,292

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

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment partnerships	\$36,540	\$45,679	\$31,541	\$38,039
Real estate partnership	588	831	698	1,108
	\$37,128	\$46,510	\$32,239	\$39,147

Long-term investment partnership accounted for under the equity method:

	March 31, 2015	December 31, 2014
Investment partnership	\$8,031	\$8,053

The Company recorded a loss of \$37 for the three months ended March 31, 2015 and equity income of \$906 for the three months ended March 31, 2014 related to the investment partnership.

The carrying value of the investment was approximately \$8,031 and \$8,053 as of March 31, 2015 and December 31, 2014, respectively, which approximated the investment's fair value.

## 5. NEW VALLEY LLC

Residential Brokerage Business Acquisition. New Valley is engaged in the real estate business and is seeking to acquire additional real estate properties and operating companies. The Company owns 70.59% interest in Douglas Elliman, the condensed consolidated financial statements of the Company include the account balances of Douglas Elliman.



## VECTOR GROUP LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

Investments in real estate ventures. New Valley also holds equity investments in various real estate projects domestically and internationally. The components of “Investments in real estate ventures” were as follows:

	March 31, 2015	December 31, 2014
Milanosesto Holdings (f/k/a Sesto Holdings)	\$5,037	\$5,037
Land Development	5,037	5,037
10 Madison Square Park West (f/k/a 1107 Broadway)	6,384	6,384
The Marquand	12,300	12,000
11 Beach Street	12,328	12,328
20 Times Square (f/k/a 701 Seventh Avenue)	12,660	12,481
111 Murray Street	27,319	27,319
160 Leroy Street	1,599	1,467
PUBLIC Chrystie House (f/k/a Chrystie Street)	4,159	3,300
25-19 43rd Avenue	981	733
Queens Plaza (f/k/a 23-10 Queens Plaza South)	11,082	11,082
8701 Collins Avenue	6,144	6,144
125 Greenwich Street	9,308	9,308
9040 Sunset Boulevard	5,604	5,604
Condominium and Mixed Use Development	109,868	108,150
Maryland Portfolio	3,051	3,234
ST Portfolio	15,206	15,283
Apartment Buildings	18,257	18,517
Park Lane Hotel	18,633	19,341
Hotel Taiwana	8,122	7,629
Coral Beach and Tennis Club	2,817	2,816
Hotels	29,572	29,786
Plaza at Harmon Meadow	5,931	—
Commercial	5,931	—
Other	2,115	1,970
Investments in real estate ventures	\$170,780	\$163,460

## Condominium and Mixed Use Development:

Condominium and mixed use developments investments range in ownership percentage from 5% to 49.5%. New Valley recorded equity income of \$536 during the three months ended March 31, 2015, of which \$300 related to New Valley's proportionate share of the Marquand's income from the sale of two units during the quarter and \$236 from



Chelsea Eleven for a distribution of excess amounts held back in 2012 for final expenses of the investment. New Valley recorded equity income of \$2,292 for the three months ended March 31, 2014 primarily related to the sale of a commercial unit at 10 Madison Square Park West.

VECTOR GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

During the three months ended March 31, 2015, New Valley made capital contributions totaling \$1,352 primarily related to PUBLIC Chrystie House and 25-19 43rd Avenue. During the three months ended March 31, 2014, New Valley made capital contributions totaling \$4,008 related to 11 Beach Street, 111 Murray Street, PUBLIC Chrystie House and 20 Times Square. New Valley contributed its proportionate share of additional capital along with contributions by the other investment partners. New Valley's investment percentage did not change.

During the three months ended March 31, 2015, New Valley received a distribution of \$236 from its investment in Chelsea Eleven, which sold its last unit in 2012, for excess amounts held back in 2012 for final expenses of the investment. During the three months ended March 31, 2014, New Valley received distributions of \$4,142 primarily related to 10 Madison Square Park West and 20 Times Square.

New Valley's maximum exposure to loss, net of non-controlling interest, as a result of its investments in condominium and mixed use developments was \$109,069 at March 31, 2015.

#### Apartment Buildings:

Apartment buildings investments range in ownership percentage from 7.5% to 16.4%. New Valley recorded an equity loss of \$48 and equity of income \$53 for three months ended March 31, 2015 and 2014, respectively, primarily related to an apartment portfolio. New Valley received distributions of \$212 and \$125 during the three months ended March 31, 2015 and 2014, respectively, related to an apartment portfolio. New Valley's maximum exposure to loss as a result of its investment in apartment buildings was \$18,257 at March 31, 2015.

#### Hotels:

Hotel investments range in ownership percentage from 5% to 49%. During the three months ended March 31, 2015, New Valley recorded net equity losses of \$747 and \$1,314 for the three months ended March 31, 2015 and 2014, respectively, related to hotel operations. New Valley made capital contributions totaling \$533 for the three months ended March 31, 2015, primarily related to Coral Beach and Tennis Club. New Valley's maximum exposure to loss as a result of its investments in hotels was \$29,572 at March 31, 2015.

#### Commercial:

Commercial ventures includes a contribution by New Valley of \$5,931 for a 49% interest in a joint venture which purchased a shopping center, the Plaza at Harmon Meadow, in New Jersey at the end of March 2015. The joint venture is a variable interest entity, however, New Valley is not the primary beneficiary of the joint venture. New Valley will account for its interest in the joint venture under the equity method of accounting. New Valley's maximum exposure to loss as a result of its investments in