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, 2014

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 ☑ 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the common stock held by non-affiliates of Vector Group Ltd. as of June 30, 2014 was approximately $1.451 billion.

At March 4, 2015, Vector Group Ltd. had 116,728,566 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 2015 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.

VECTOR GROUP LTD.
FORM 10-K

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	27
Item 2.	Properties	27
Item 3.	Legal Proceedings	28
Item 4.	Mine Safety Disclosures	28
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities; Executive Officers of the Registrant	29
Item 6.	Selected Financial Data	32
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	57
Item 8.	Financial Statements and Supplementary Data	58
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	58
Item 9A.	Controls and Procedures	58
Item 9B.	Other Information	60
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	61
Item 11.	Executive Compensation	61
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	61
Item 13.	Certain Relationships and Related Transactions, and Director Independence	61
Item 14.	Principal Accounting Fees and Services	61
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	62
SIGNATURES		70

EX-4.4
EX-4.17
EX-12.1
EX-21
EX-23.1
EX-23.2
EX-23.3
EX-23.4
EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-99.1
EX-99.2
EX-99.3
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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 additional operating companies and real estate properties. 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 18 to our consolidated financial statements. Our significant business segments for the year ended December 31, 2014 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 investments in consolidated and non-consolidated real estate businesses.

Strategy

Our strategy is to maximize stockholder value by increasing the profitability of our subsidiaries in the following ways:

Liggett and Vector Tobacco

- Capitalize upon 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. In April 2002, we acquired The Medallion Company, Inc. (“Medallion”), which is now known as Vector Tobacco and is a discount cigarette manufacturer selling product in the deep discount category, primarily under the USA and EAGLE brand names. 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, 2014, 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 Tobacco's cigarettes pursuant to a contract manufacturing agreement. At the present time, Liggett and Vector Tobacco have no foreign operations.

Liggett and Vector Tobacco manufacture and sell cigarettes in the United States. According to data from Management Science Associates, Inc., Liggett's domestic shipments of approximately 8.9 billion cigarettes during 2014 accounted for 3.4% of the total cigarettes shipped in the United States during such year. Liggett's market share increased 0.1% in 2014 from 3.3% in 2013. Market share in 2012 was 3.5%. 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 2014, 2013 and 2012 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 leading brand in the deep discount category,
- EVE — a leading brand of 120 millimeter cigarettes in the branded discount category, and
- USA and various Partner Brands and private label brands.

In 1999, Liggett introduced LIGGETT SELECT, one of the leading brands in the deep discount category. LIGGETT SELECT represented 4.5% in 2014, 5.5% in 2013 and 7.0% in 2012 of Liggett's unit volume. In September 2005, Liggett repositioned GRAND PRIX to distributors and retailers nationwide. GRAND PRIX represented 5.6% in 2014, 7.2% in 2013 and 9.6% in 2012 of Liggett's unit volume. 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 61.1% of Liggett's unit volume in 2014, 65.5% in 2013 and 62.7% in 2012. 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 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 2014 compared to 11.6% for 2013 and 12.1% for 2012.

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 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, the military and large grocery, drug and convenience store chains. One customer, McLane Company, Inc. ("McLane") accounted for 19% of Liggett's revenues in 2014. Two customers, McLane and Core Mark International ("Core Mark"), accounted for 18% and 10%, respectively, of Liggett's revenues in 2013. One customer, McLane, accounted for 17% of Liggett's revenue in 2012. Concentrations of credit risk with respect to trade receivables are generally limited due to the large number of customers comprising Liggett's customer base. Liggett's largest customer represented approximately 11% of net accounts receivable at December 31, 2014. Liggett's two largest customers, McLane and Core Mark, represented approximately 5% and 1%, respectively of net accounts receivable at December 31, 2013. 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 generally 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. Foreign flue-cured and burley tobaccos, some of which are used in the manufacture of Liggett's cigarettes, have historically been 30% to 35% less expensive than comparable domestic tobaccos. However, in recent years, domestic and foreign tobacco prices have begun to equalize. 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, 2014, 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, typically retail or wholesale distributors who supply supermarkets and convenience stores. Liggett's facility produced approximately 8.9 billion cigarettes in 2014, but maintains the capacity to produce approximately 17.0 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 is made up 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 Lorillard Tobacco Company. These three manufacturers, while primarily premium cigarette-based companies, also produce and sell discount cigarettes.

In July 2014, RJ Reynolds and Lorillard announced plans to merge and approval of the transaction is currently pending with the United States Federal Trade Commission. Consolidation in the industry could have a material adverse effect on our ability to compete in the U.S. cigarette market.

The second segment of competition is comprised of a group of smaller manufacturers and importers, most of which sell deep discount cigarettes. Our largest competitor in this segment is Commonwealth Brands, Inc., which was acquired by Imperial Tobacco in 2007.

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 three 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 brand loyalty. These three 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, RJ Reynolds, and Lorillard accounted in the aggregate for approximately 84.9% and 85.3% of the domestic cigarette market in 2014 and 2013, respectively. Liggett's domestic shipments of approximately 8.9 billion cigarettes during 2014 accounted for 3.4% of the approximately 265 billion cigarettes shipped in the United States, compared to 9.1 billion cigarettes in 2013 (3.3%) and 10.1 billion cigarettes in 2012 (3.5%).

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 3.0% (approximately 8.0 billion units) and 4.7% (approximately 13.4 billion units) in 2014 and 2013, 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 70.4% at December 31, 2014. Further, the proposed merger of RJ Reynolds and Lorillard Tobacco Company would consolidate more than 80% of the United States cigarette market within the control of two cigarette manufacturers. 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 and, for the time being, seeking to maintain our existing distribution. Zoom incurred approximately $1.0 million in operating losses during 2013 relating to startup costs and operating losses of $13.1 million in 2014.

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 14 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.

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 health care 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 3.4% of the total cigarettes sold in the United States in 2014. 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 14 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 additional real estate properties and operating companies. 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. New Valley also holds investment interests in various real estate projects domestically and internationally.

Business Strategy

The business strategy of New Valley 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 Douglass Elliman Property Management and is the New York metropolitan area's largest manager of rental, co-op and condominium housing, Title Services business and a 49.9% interest in a joint venture, which conducts business as a residential mortgage lender.

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 under the equity method. We recorded income of $23.0 million for the period from January 1, 2013 to December 13, 2013 and $16.7 million in 2012 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 5,500 real estate agents in the metropolitan New York area as well as South Florida, Beverly Hills, California and Aspen. The companies achieved combined sales of approximately $18.2 billion of real estate in 2014, approximately $14.9 billion of real estate in 2013 and approximately $12.4 billion of real estate in 2012. Douglas Elliman Real Estate was ranked as the fourth-largest residential brokerage company in the United States in 2012 based on closed sales volume by the *Real Trends* broker survey. Douglas Elliman had revenues of $543.2 million in 2014, $435.6 million in 2013, and $378.2 million in 2012.

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 2,749 real estate agents, and had sales volume of approximately $11.5 billion of real estate in 2014, approximately $9.6 billion of real estate in 2013, and approximately $8.4 billion of real estate in 2012.

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 1,927 real estate agents. During 2014, the Long Island brokerage operation closed approximately 7,950 transactions, representing sales volume of approximately $4.9 billion of real estate. This compared to approximately 7,650 transactions, representing sales volume of approximately $4.2 billion of real estate in 2013, and approximately 6,350 transactions closed in 2012, representing approximately $3.6 billion of real estate. Douglas Elliman of LI serves approximately 250 communities in Long Island and Queens, New York.

The Westchester brokerage operation operates in Northern Westchester County, a suburban area north of New York City, with six offices located in the towns of Chappaqua, Armonk, Bedford, Sommers, Pleasantville and Katonah. The offices had approximately 189 real estate agents and closed approximately 590 transactions, representing sales volume of $453.5 million of real estate in 2014.

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 nine offices located in downtown Miami, Miami Beach, North Miami, Ft. Lauderdale, Boca Raton and Palm Beach. The offices have approximately 600 real estate agents and closed approximately 1,100 transactions, representing sales volume of $1.2 billion of real estate in 2014.

Douglas Elliman also had operations in California, Colorado and Connecticut and these operations generated sales volume of approximately $190 million in 2014.

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 2015 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.

In its mortgage loan origination business, DE Capital competes with other mortgage originators. These include mortgage brokers, mortgage bankers, state and national banks, and thrift institutions.

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 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. Prior to March 2013, Douglas Elliman Real Estate operated under various franchise agreements with Prudential. The franchise agreements expired on March 13, 2013. In connection with the termination of the franchise agreements, on December 13, 2013, we acquired an additional 20.59% interest in Douglas Elliman for a purchase price of $60 million. The acquisition increased our ownership position in Douglas Elliman to 70.59%.

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 330 properties, representing approximately 45,600 units in New York City, Nassau County, Northern New Jersey and Westchester County. Among the notable properties currently managed are the Dakota, Museum Tower, London Terrace, Olympic Tower Condominium, Manhattan House, CitySpire Condominium and The Sovereign buildings in New York City. Residential Management Group employs approximately 265 people, of whom

approximately 186 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, California. The development presently has 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.
- *Indian Creek*. We owned an 80% interest in a residential real estate project located in Indian Creek Village, Florida. In May 2014, we sold the Indian Creek property for $14.4 million.
- *Milanosesto Holdings*. We own an approximate 7.2% interest in an entity that is developing a 322-acre site in Milan, Italy into multi-parcel, multi-building mixed use urban regeneration project.

Condominium and Mixed-Use Development

- *10 Madison Square Park West.* We own an approximate 5% 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 February 2016.
- *The Whitman.* We own an approximate 12% interest in a joint venture which owns The Whitman, a luxury residential condominium, which is located in the Flatiron District / NoMad neighborhood of Manhattan in New York City. Construction has been completed and three of the four units have been sold in 2013 and the remaining unit was sold in 2014.
- *The Marquand*. We own an approximate 18% 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. Eight of the 29 units were sold in 2014 and construction is expected to be completed by August 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 July 2016.
- *20 Times Square*. We own an approximate 11.5% 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 August 2017.
- *111 Murray Street.* We own a 25% interest (and a related note receivable) in a joint venture that is developing a mixed-use property that includes both commercial space and a 139-unit luxury residential condominium in the TriBeCa neighborhood of Manhattan. Development began in 2014 and is expected to be completed by March 2018.
- *160 Leroy Street*. We own an approximate 5% 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 is expected to begin in July 2015 and be completed by March 2018.
- *PUBLIC Chrystie House.* 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 February 2017.
- *25-19 43rd Avenue - The Dutch LIC.* New Valley owns 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 December 2016.
- *Queens Plaza South.* We own an approximate 45.4% interest in a joint venture that has purchased a pre-war Art Deco-style 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 February 2016.

- *8701 Collins Avenue.* We own a 15% interest in the Howard Johnson's Dezerland Beach hotel in Miami Beach, Florida, which will be redeveloped into modern hotel and residential condominium units. Development is expected to begin in 2015 and be completed by July 2017.
- *125 Greenwich Street.* We own a 10.4% interest in land near the World Trade Center Assemblage building which will be developed into a high-rise condominium site along with a retail base. Development is expected to begin in 2015.
- *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 is expected to begin in 2015 and be completed by April 2018.

Apartment Buildings

- *Maryland Portfolio.* We own an approximate 7.5% indirect interest in a joint venture that owns approximately 5,500 apartment units primarily located in Baltimore County, Maryland.
- *ST Portfolio*. We own a 16.4% interest in four Class A multi-family rental assets in partnership with Winthrop Realty Trust. The four buildings are located in: Houston, Texas; Phoenix, Arizona; San Pedro, California; and Stamford, Connecticut. The buildings include 761 apartment units and 25,000 square feet of retail space. The San Pedro, California building was sold in 2014 and the proceeds were used to pay down debt.

Hotels

- *Park Lane Hotel.* We own an approximate 5% interest in a joint venture that has agreed to acquire the Park Lane Hotel, which is presently a 47-story, 605-room independent hotel owned and operated by the Helmsley Family Trust and Estate. The joint venture is developing plans for a hotel and luxury residential condominiums. The development is estimated to take approximately 30 months to complete from commencement of construction.
- *Hotel Taiwana.* We own an approximate 17% 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% interest in a joint venture that owns a 52-acre site in Bermuda. The property consists of the Horizons Hotel, which includes 56 hotel units, and Coral Beach and Tennis Club, which includes 31 hotel units, in Bermuda. The Coral Beach and Tennis Club is open while the Horizons hotel is closed. Renovation began on the Coral Beach and Tennis Club in 2014.

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 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, Italy, 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, 2014 included interests in the 18 properties discussed above. As of December 31, 2014, our real estate investment business held interests in joint ventures recorded on our financial statements at approximately $163.5 million and approximately $10.6 million in consolidated real estate investments.

For additional information concerning these investments, see Note 7 to our consolidated financial statements.

Ladenburg Thalmann

We own 14,191,205 common shares of Ladenburg Thalmann Financial Services Inc. (NYSE MKT: LTS), which represents beneficial ownership of approximately 8.2% of the LTS shares. LTS is 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 New Valley's former subsidiary Ladenburg Thalmann & Co. Inc. and LTS's other principal subsidiaries, Securities America, Inc., Triad Advisors, Inc., Investacorp, Inc., KMS Financial Services Inc., Securities Service Network, Inc., Highland Capital Brokerage, Inc., Ladenburg Thalmann Asset Management Inc. and Premier Trust, Inc. LTS is registered under the Securities Act of 1934 and files periodic reports and other information with the SEC.

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 16 to our consolidated financial statements.

In November 2011, we were part of a consortium, which included Dr. Phillip Frost, who is the beneficial owner of approximately 15.3% of our common stock, and Mr. Lampen, that agreed to provide a five-year loan to LTS of approximately $160.7 million. The loan is due November 4, 2016 and bears an interest rate of 11% per annum. The lenders received a 0.50% funding fee and warrants to purchase a total of 10,713,333 LTS shares at $1.68 per share. We lent LTS $15 million and received 1,000,000 warrants. As of December 31, 2014, $2.8 million of principal of the LTS loan remained outstanding.

On May 22, 2013, we purchased in a public offering 240,000 shares of LTS's 8% Series A Cumulative Redeemable Preferred Stock (Liquidation Preference $25.00 Per Share) ("LTS Preferred") for $6.0 million. LTS pays a monthly cumulative dividend of 8% per annum on the LTS Preferred. LTS, at its option, may redeem any or all of the LTS Preferred at $25.00 per share plus any accumulated and unpaid dividends on or after May 24, 2018.

Other Investments

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 8.0% 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 16 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.

Long-Term Investments. As of December 31, 2014, long-term investments consisted primarily of investments in investment partnerships of approximately $40.3 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, 2014, we had 1,090 employees, of which approximately 483 were employed by Douglas Elliman primarily in the New York area, 296 were employed at Liggett's Mebane facility and approximately 289 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 20% of our employees are hourly employees, who are 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://vectorgroupltd.com/investorrelations) 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 shareholder 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 2015, we have certain liquidity commitments that could require the use of our existing cash resources. As of December 31, 2014, 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 $95.8 million,
- $25.0 million of our 6.75% convertible notes mature in 2015, which were converted into 2,227,553 shares of our common stock in February 2015,
- $3.5 million *Engle* progeny installment payment to be paid in 2015,
- dividends on our outstanding common shares of approximately $193.9 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 and our subsidiaries have a substantial amount of indebtedness.

We and our subsidiaries have significant indebtedness and debt service obligations. At December 31, 2014, we and our subsidiaries had total outstanding indebtedness of $1.1 billion. In addition, 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 additional indebtedness.

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.

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.

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 the 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, 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, 2014 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 the three largest cigarette manufacturers controlled approximately 84.9% of the United States cigarette market during 2014. 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 60.8% of

the premium segment and 47.3% of the total domestic market during 2014. During 2014, all of Liggett's sales were in the discount segment, and its share of the total domestic cigarette market was 3.4%. 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' proposed merger with Lorillard Tobacco Company, which would consolidate more than 80% of the United States cigarette market within the control of two cigarette manufacturers, 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 proposed merger, RJ Reynolds and Lorillard Tobacco Company will divest four of their brands to Imperial Tobacco PLC, our largest competitor for the sale of deep discount cigarettes.

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 the three major manufacturers all 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 2014, 11.6% in 2013 and 12.1% in 2012, Management Science Associates' data indicate that the discount market share of these other smaller manufacturers and importers was approximately 34.1% in 2014, 33.7% in 2013, and 34.4% in 2012. 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.

For a number of years prior to 2000, Liggett suffered a substantial decline in market share. Liggett's market share increased in 2014, after having declined in 2013 and 2012. Liggett's market share increased during each of the years between 2000 and 2011 (except for 2008, which was unchanged). This 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 which have continued up to the current time. According to Management Science Associates' data, Liggett's overall domestic market share during 2014 was 3.4% compared to 3.3% during 2013, and 3.5% during 2012. Liggett's share of the discount segment was 11.8% during 2014, 11.6% during 2013 and 12.1% during 2012. Liggett's overall market share increased by 0.1% in 2014 after declining by 0.2% in 2013. If it were to decline substantially in the future, 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.

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 3.0% in 2014 as compared to 2013, and by approximately 4.7% in 2013 as compared to 2012. We believe 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 high cigarette price levels in recent years plus the growing popularity of e-cigarettes. 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 sold. 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 regulate tobacco products. These regulations relate to, 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 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):

- 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.

It is likely that the new tobacco law could 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 substantially on the future requirements imposed by FDA under the new tobacco 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 new tobacco 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 new tobacco 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, 2014, in addition to the *Engle* progeny cases, there were 47 individual product liability lawsuits, four 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 five 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 of the remaining 5,300 *Engle* progeny plaintiffs. Notwithstanding this comprehensive settlement, the claims of approximately 320 state court *Engle* progeny plaintiffs remain outstanding. As of December 31, 2014, there were 13 *Engle* progeny cases currently scheduled for trial in 2015. Through December 31, 2014, 14 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 not been successful. Liggett faces outstanding judgments of $28.2 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. State excise taxes vary considerably and, when combined with sales taxes, local taxes and the federal excise tax, may exceed $4.00 per pack. 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 have filed motions in state court seeking to vacate the arbitration award. No assurance can be given as to the ultimate outcome of these challenges.

For 2003 - 2013, 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. The states objected to Liggett's motion.

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. Liggett plans to work with the independent auditor to determine the amount owed for years 2001 - 2013, consistent with the Corrected Final Award. Liggett accrued $8.5 million 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 for the period 1998 through 2003 and that additional payments may be due for 2004 and subsequent years. Liggett believes these allegations are without merit, based, among other things, on the language of the most favored nation provisions of the settlement agreements and 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 February 2012, Mississippi provided Liggett with a 60-day notice that the state intended to pursue its remedies if Liggett did not cure its alleged defaults. Liggett responded to Mississippi's letter but has heard nothing further on the matter. There can be no assurance that Liggett will prevail in the remaining matters and that Liggett will not be required to make additional material payments, which payments 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. Our exposure to Zoom, as of December 31, 2014, was approximately $8.1 million which was comprised primarily of Zoom's inventory.

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 general and local economic and political conditions as well as real estate markets, which could reduce profits that may not be recaptured, could 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 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.

For example, the United States residential real estate market has only recently shown signs of recovery after having been in a significant and prolonged downturn. Due to the cyclicality of the real estate market, we cannot predict whether the recovery will continue or if and when the market and related economic forces will return the United States residential real estate industry to a period of sustained growth. If the real estate market or the economy as a whole does not improve, Douglas Elliman may experience adverse effects on its business, financial condition and liquidity, including its ability to access capital and grow its business.

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, including:
    - the impact of the recent contraction in the subprime and mortgage markets generally; and

- the effect of more stringent lending standards for home mortgages;
- 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. Further, as of December 31, 2014, we had investments in or were developing eleven 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 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.

Demand for private residential properties in the New York metropolitan area, including in Manhattan, continues to experience rapid growth. 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 its status as an international center for business and commerce. Through its investments in Douglas Elliman Real Estate and eleven developments in the New York Metropolitan area, New Valley is dependent on the attractiveness of New York City as a place to live. 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 as a place to live, work, study or to own residential property for investment purposes may also be negatively affected 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 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 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 hurt our ability to grow our 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 our business. If Douglas Elliman Real Estate does not successfully build and maintain a strong brand, our real estate brokerage business could be harmed. 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. These investments may be substantial and may not ultimately be successful.

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 we manage our relationship with our agents, our growth strategies or the ordinary course of our business or our brokerage business. Other incidents may arise from events that are or may be beyond our ability to control and may damage our 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 our operations and activities; failure to comply with local laws and regulations; and illegal activity targeted at us 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, lower continuing franchise fees and annual dues, which in turn would adversely affect its business and operating results.

The real estate brokerage business in the New York metropolitan area, South Florida and Palm Springs, 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 we operate. 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 and their 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 their agents.

Infringement, misappropriation or dilution of our intellectual property could harm our 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. We believe 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 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 our 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.

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 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 and delays in construction.

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. Competition from other well-capitalized real estate investors, including both publicly traded real estate investment trusts and institutional investment funds, may significantly increase the purchase price of, or prevent us from acquiring, or investing in, a desired property. 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. The properties we acquire or invest in may be located in new markets where we may have limited knowledge and understanding of the local economy, an absence of business relationships in the area or unfamiliarity with local government and applicable laws and regulations. We may be unable to finance acquisitions or investments on favorable terms or newly acquired, or investments in, 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 investment in properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. 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

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 properties we invest in, are not able to develop and market our real estate developments successfully or within expected timeframes, 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 properties 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 will have an 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.

Risks of real estate 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.

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 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 will 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 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, other environmental 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 and other environmental conditions, 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 health and safety 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 in line 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.

New Valley may pursue a variety of real estate development projects. 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.

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 year ended December 31, 2014 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 2015.

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 $18.45 and $23.30 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;
- 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.

At December 31, 2014, we had outstanding options granted to employees, including restricted shares, to purchase approximately 4,405,427 shares of our common stock, with a weighted-average exercise price of $10.02 per share, of which options 1,522,748 shares were exercisable at December 31, 2014. We also have outstanding convertible notes and debentures maturing in February 2015, January 2019 and April 2020, which are currently convertible into 25,936,621 shares of our common stock, of which 2,227,552 shares of our common stock were issued in February 2015 upon the conversion of a $25 million convertible note. 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.

Douglas Elliman leases 37 offices with approximately 102,992 square feet on Long Island, 21 offices with approximately 132,517 square feet in New York City, six offices with approximately 12,034 square feet in Westchester County and nine offices in South Florida with approximately 19,560 square feet. Leases expire at various times between 2015 and 2024.

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, 2014, 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 14 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.

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
2014:			
Fourth Quarter	$ 22.34	$ 20.04	$ 0.40
Third Quarter	22.86	19.06	0.38
Second Quarter	20.81	18.46	0.38
First Quarter	20.71	15.36	0.38
2013:			
Fourth Quarter	$ 15.93	$ 14.76	$ 0.38
Third Quarter	15.67	14.53	0.36
Second Quarter	14.97	13.91	0.36
First Quarter	14.81	13.61	0.36

At February 12, 2015, there were approximately 1,703 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.

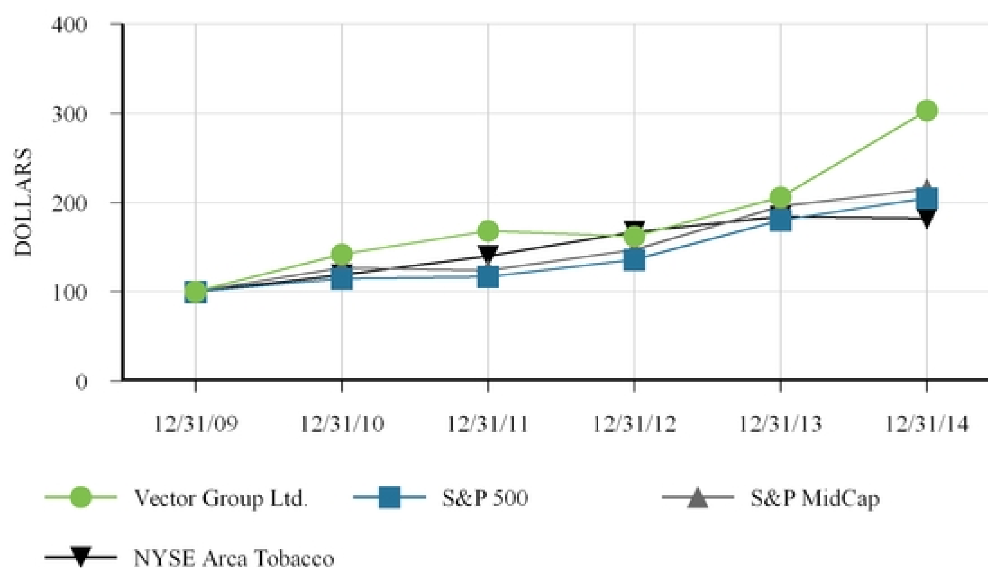
Liggett's revolving credit agreement currently permits Liggett to pay dividends to VGR Holding only if Liggett's borrowing availability exceeds $5 million for the 30 days prior to payment of the dividend, and so long as no event of default has occurred under the agreement, including Liggett's compliance 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, 2014 exceeded $75 million.

We paid 5% stock dividends on September 26, 2014, September 27, 2013, and September 28, 2012 to the holders of our common stock. All information presented in this report is adjusted for the stock dividends.

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, 2014. The graph assumes that $100 was invested on December 31, 2009 in the Common Stock and each of the indices, and that all cash dividends and distributions were reinvested.



	12/09	12/10	12/11	12/12	12/13	12/14
Vector Group Ltd.	100	142	168	162	206	303
S&P 500	100	115	117	136	180	205
S&P MidCap	100	127	124	147	196	215
NYSE Arca Tobacco	100	119	140	167	184	182

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, 2014.

Issuer Purchases of Equity Securities

There were no purchases of our common stock during the three months ended December 31, 2014.

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 4, 2015. 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	66	President and Chief Executive Officer	2001
Richard J. Lampen	61	Executive Vice President	1996
J. Bryant Kirkland III	49	Vice President, Chief Financial Officer and Treasurer	2006
Marc N. Bell	54	Vice President, General Counsel and Secretary	1998
Ronald J. Bernstein	61	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. 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 SG Blocks Inc. from January 1998 to November 2011 and as a director of SG Blocks Inc. since November 1998. 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 serves as a director of SG Blocks, Inc.

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.

ITEM 6. *SELECTED FINANCIAL DATA*

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands, except per share amounts)				
Statement of Operations Data:					
Revenues (1)	$ 1,591,315	$ 1,079,921	$ 1,095,533	$ 1,137,646	$ 1,066,546
Operating income	$ 213,388 (3)	$ 112,036 (3)	$ 154,933	$ 143,321	$ 111,313
Net income attributed to Vector Group Ltd.	$ 36,978	$ 38,944 (4)	$ 30,622	$ 75,020	$ 54,084
Per basic common share (2):					
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.35	$ 0.39	$ 0.32	$ 0.81	$ 0.59
Per diluted common share (2):					
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.35	$ 0.39	$ 0.32	$ 0.80	$ 0.58
Cash distributions declared per common share (2)	$ 1.54	$ 1.47	$ 1.40	$ 1.33	$ 1.27
Balance Sheet Data:					
Current assets	$ 857,846	$ 588,311	$ 639,056	$ 509,741	$ 526,763
Total assets	$ 1,573,392	$ 1,264,261	$ 1,086,731	$ 927,768	$ 949,595
Current liabilities	$ 270,095	$ 405,110	$ 195,159	$ 315,198	$ 226,872
Notes payable, embedded derivatives, long-term debt and other obligations, less current portion	$ 1,029,213	$ 633,700	$ 759,074	$ 542,371	$ 647,064
Non-current employee benefits, deferred income taxes and other long-term liabilities	$ 252,032	$ 247,060	$ 211,750	$ 159,229	$ 121,893
Stockholders' equity (deficiency)	$ 22,052	$ (21,609)	$ (79,252)	$ (89,030)	$ (46,234)

(1) Revenues include federal excise taxes of $446,086, $456,703, $508,027, $552,965 and $538,328, respectively.

(2) Per share computations include the impact of 5% stock dividends on September 26, 2014, September 27, 2013, September 28, 2012, September 29, 2011, and September 29, 2010.

(3) Operating income includes $1,419 and $11,823 of income from MSA Settlements, $0 and $86,213 of *Engle* progeny settlement charge, and $2,475 and $1,893 of litigation judgment and settlement expense for the years ended December 31, 2014 and 2013, 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.

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 additional operating companies and real estate properties. 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 2014, 2013 and 2012 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 leading brand in the deep discount category,
- EVE — a leading brand of 120 millimeter cigarettes in the branded discount category, and
- USA and various Partner Brands and private label brands.

In 1999, Liggett introduced LIGGETT SELECT, one of the leading brands in the deep discount category. LIGGETT SELECT represented 4.5% in 2014, 5.5% in 2013 and 7.0% in 2012 of Liggett's unit volume. In September 2005, Liggett repositioned GRAND PRIX to distributors and retailers nationwide. GRAND PRIX represented 5.6% in 2014, 7.2% in 2013 and 9.6% in 2012 of Liggett's unit volume. 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 61.1% of Liggett's unit volume in 2014, 65.5% in 2013 and 62.7% in 2012. 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 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 2014 compared to 11.6% for 2013 and 12.1% for 2012.

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 is made up of the three largest manufacturers of cigarettes in the United States, Philip Morris USA Inc., R.J. Reynolds Tobacco Company, and Lorillard Tobacco Company. The three largest 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. Our largest competitor in this segment is Commonwealth Brands, Inc. (a wholly-owned subsidiary of Imperial Tobacco PLC).

Recent Developments

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 2,227,553 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 2,227,553 of our common shares.

Vector 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 8,445,183 of our common shares.

Vector 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.

Vector 7.75% Senior Secured Notes due 2021. On April 15, 2014, the Company completed the sale of $150,000 principal amount of its 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. The Company received net proceeds of approximately $158,700 after deducting underwriting discounts, commissions, fees and offering expenses. In August 2014, the Company 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.

New Valley Real Estate Ventures:

Indian Creek. In May 2014, the Indian Creek property was sold for approximately $14,400 and New Valley received a distribution of approximately $7,100.

25-19 43rd Avenue. In May 2014, New Valley invested $733 for an approximate 9.9% interest in 43rd Avenue Investors LLC. The joint venture plans to develop 87,000 square feet of residential condominium units in Long Island City, New York. 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 43rd Avenue Investors LLC was $733 at December 31, 2014.

125 Greenwich Street. In August 2014, New Valley invested $7,308 for an approximate 78.5% interest in NV Greenwich LLC. The investment in NV Greenwich is a variable interest entity and New Valley is the primary beneficiary. As a result of the consolidation of NV Greenwich LLC, New Valley carries its investment at $9,308 and has Non-controlling interest of $2,000 related to the investment. NV Greenwich LLC ultimately owns 13.3% 125 Greenwich JV LLC. The joint venture plans to develop a residential condominium tower in lower Manhattan. The investment in 125 Greenwich JV LLC is a variable interest entity; however, NV Greenwich LLC is not the primary beneficiary. NV Greenwich LLC accounts for this investment under the equity method of accounting. NV Greenwich LLC's maximum exposure to loss as a result of its investment in 125 Greenwich Street was $7,308 at December 31, 2014.

9040 Sunset Boulevard. In October 2014, New Valley invested $5,604 for an approximate 48.5% interest in 9040 Sunset Boulevard. The joint venture plans to develop a hotel and condominium complex. 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 9040 Sunset Boulevard was $5,604 at December 31, 2014.

Stock Compensation. On July 23, 2014, we granted our President and Chief Executive Officer an award of 1,050,000 shares of our Common Stock subject to performance-based vesting. The Award shares will be 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 $20,780 over an estimated seven-year period.

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. 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. 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.

Engle Progeny Settlement. On October 23, 2013, a settlement was reached between us and approximately 4,900 *Engle* progeny plaintiffs and their counsel. Pursuant to the terms of the settlement, Liggett will pay a total of approximately $110,000, with approximately $61,600 paid in a lump sum, which was paid in 2014 and the balance to be paid in installments over the next 14 years, with a cost of living adjustment beginning in year eight. We recorded a charge of $86,213 for the year ended December 31, 2013 in connection with the proposed settlement. Of this amount, $25,213 is related to certain payments discounted to their present value because the timing and amounts of such payments are fixed and determinable. The present value of the installment payments was computed using an 11% annual discount rate. The installment payments total approximately $48,000 on an undiscounted basis. Our future payments are estimated to be approximately $3,500 per annum though 2028, with a cost of living adjustment in 2021.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlement, approximately 320 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.

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 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), our accounting policy is to include federal excise taxes on cigarettes in revenues and cost of goods sold. Such revenues and cost of sales totaled $446,086, $456,703, and $508,027 for the years ended December 31, 2014, 2013 and 2012, 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, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

Revenue from real estate sales 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 recognized concurrently with related revenues. Property management fees 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 14 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 14 to our consolidated financial statements and discussed below related to the fourteen 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 14 state court *Engle* progeny cases (see Note 14 to our consolidated financial statements), and several of these verdicts have been affirmed on appeal and satisfied by Liggett. Through December 31, 2014, other than the *Lukacs* case, the verdicts against Liggett have ranged from $1 to $3,600. In four of the cases, punitive damages were awarded against Liggett.

Except as discussed in Note 14 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 14 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.

You 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.

Settlement Agreements. As discussed in Note 14 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 $116,650 for 2014, $103,530 for 2013 and $137,609 for 2012. 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.

At December 31, 2014 and 2013, the fair value of derivative liabilities was estimated at $169,386 and $112,062, respectively. The increase is due to the gains on the changes in fair value of convertible debt and the addition of the Vector 5.5% Variable Interest Senior Convertible Notes due 2020.

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 a gain of $19,409 in 2014 and $18,935 in 2013 and a loss of $7,476 in 2012 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 $32,071, $21,482 and $10,684 in 2014, 2013 and 2012, respectively, due to the amortization of the debt discount attributable to the embedded derivatives and $19,401, $14,896, and $7,332 in 2014, 2013 and 2012, 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 $1,573, $2,212 and $1,755 in 2014, 2013 and 2012, respectively, related to the amortization of stock option awards and $1,678, $307 and $3,808, respectively, related to the amortization of restricted stock grants. As of December 31, 2014 and 2013, there was $2,829 and $2,577, respectively, of total unrecognized cost related to employee stock options and $20,181 and $1,100, respectively, of total unrecognized cost related to restricted stock grants. See Note 13 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, 2014, our benefit obligations were computed assuming a discount rate between 2.75% - 4.00%. As of December 31, 2014, our service cost was computed assuming a discount rate of 3.00% - 4.75%. 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 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 6.6%, 7.2% and 7.5% for the years ended December 31, 2014, 2013 and 2012, respectively, and our actual five-year annual rate of return on our pension plan assets was 9.8%, 13.6% and 2.9% for the years ended December 31, 2014, 2013 and 2012, respectively. In computing expense for the year ended December 31, 2015, 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 benefit for defined benefit pension plans and other postretirement expense was $345 for 2014, while net pension expense for defined benefit pension plans and other postretirement expense was $1,304 and $3,603 for 2013 and 2012, respectively, and we currently anticipate benefit income will be approximately $447 for 2015. 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, 2015 and ending on December 31, 2015.

Long-Term Investments and Impairments. At December 31, 2014, we had long-term investments of $40,292, 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 majority of the Company's goodwill and trademarks are related to Douglas Elliman.

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 qualitative assessment for the year ended December 31, 2014 and determined that performing the first step of the two-step impairment test was unnecessary.

The fair value of trademarks and intangible asset associated with the benefit under MSA are calculated using a "relief from royalty payments" method. This approach involves two steps: (i) estimating reasonable royalty rates for its trademarks and intangible asset associated with the benefit under MSA 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 each trademark and the intangible asset associated with the benefit under the MSA. The Company performed its impairment test for the year ended December 31, 2014 and no impairment was noted.

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, 2014 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 12 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 and Real Estate for the three years ended December 31, 2014, 2013 and 2012 and E-Cigarette for the years ended December 31, 2014 and 2013. The Tobacco segment consists of the manufacture and sale of cigarettes. The Real Estate segment includes the Company's investments in consolidated and non-consolidated real estate businesses. The E-Cigarette segment consists of the manufacture and sale of our Zoom e-cigarettes. As a result of the amount of operating losses of our E-Cigarette business as of September 30, 2014, when compared to the remaining components of the Company's Corporate and Other segment, the Company has reevaluated its operating segments and has separated the E-Cigarette's segment's operations from the Corporate and Other segment for previously reported 2014 periods and from the Tobacco segment for the previously reported 2013 periods. 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.

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,		
	2014	2013	2012
	(Dollars in thousands)		
Revenues:			
Tobacco	$ 1,021,259	$ 1,014,341	$ 1,084,546
E-Cigarettes	8,589	—	—
Real Estate	561,467	65,580	10,987
Corporate and Other	—	—	—
Total revenues	$ 1,591,315	$ 1,079,921	$ 1,095,533
Operating income (loss):			
Tobacco	$ 199,119 (1)	$ 113,039 (2)	$ 176,017
E-Cigarettes	(13,124)	(1,018)	—
Real Estate	42,354	15,805	(2,013)
Corporate and Other	(14,961)	(15,790)	(19,071)
Total operating income	$ 213,388	$ 112,036	$ 154,933

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

(2) 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.

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 the Douglas Elliman revenues for the entire year in 2014, 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 were $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 related to the Douglas Elliman real estate commissions expense, $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.

Expenses. Operating, selling, general and administrative expenses, net of the 2013 *Engle* progeny settlement charge and litigation settlement and judgment expense, were $278,392 for the year ended December 31, 2014 compared to $112,748 for the same period last year. This was an increase of $165,644 (146.9%) of which $152,949 was related to the operating, selling and administrative expenses of Real Estate, $13,388 related to E-Cigarettes and $136 (net of $2,475 settlement) to Tobacco. This was offset by a decline of Corporate and Other expenses of $829.

Operating income. Operating income was $213,388 for the year ended December 31, 2014 compared to $112,036 for the same period last year, an increase of $101,352 (90.5%). Tobacco operating income increased by $86,080 and real estate operating income increased by $26,549 and Corporate and Other expenses declined by $829. This was offset by an increase in operating losses related to E-Cigarettes of $12,106.

Other expenses. Other expenses were $130,901 and $48,549 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. 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 income on real estate ventures of $4,103, equity income on long-term investments of $1,242 and interest and other income of $10,552. 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 income on non-consolidated real estate businesses 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 $2,066 and interest and other income of $7,550.

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. We recognized income of $19,409 and $18,935 for the year ended December 31, 2014 and 2013, respectively.

Income before provision for income taxes. Income before income taxes was $82,487 and $63,487 for the years ended December 31, 2014, and 2013, respectively. The increase is attributable to the items discussed above.

Income tax expense. Income tax expense was $33,251 for the year ended December 31, 2014, compared to $24,795 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:

	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 and 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 decrease in income from the MSA settlements of $10,404 in 2013.

E-Cigarettes.

Zoom entered the United States e-cigarette market in limited retail distribution outlets in 2013 and expanded distribution in 2014. E-Cigarettes revenues were $8,589 and our 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 year 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 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.

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 an 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.

Corporate and other.

Corporate and other loss. The operating loss at the corporate segment was $14,961 for the year ended December 31, 2014 compared to $15,790 for the same period in 2013.

2013 Compared to 2012

Revenues. Total Revenues were $1,079,921 for the year ended December 31, 2013 compared to $1,095,533 for the year ended December 31, 2012. The $15,612 (1.4%) decline in revenues was due to a decline in Tobacco revenues of $70,205 offset by an increase in Real Estate revenues of $54,593 primarily related to the addition of Douglas Elliman revenues in December 2013.

Cost of Sales. Total cost of sales were $767,031 for the year ended December 31, 2013 compared to $832,328 for the year ended December 31, 2012. The $65,297 (7.8%) decline in cost of sales was due to a decline in Tobacco cost of sales of $94,059 offset by an increase in Real Estate cost of sales of $28,762 primarily related to the addition of Douglas Elliman real estate commissions expense in December 2013.

Expenses. Operating, selling, general and administrative expenses, net of the *Engle* progeny settlement charge and litigation settlement and judgment expense, were $112,748 for the year ended December 31, 2013 compared to $108,272 for the same period in 2012. This was an increase of $4,476 (4.1%) of which $8,012 was related to an increase in the operating, selling and administrative expenses of Real Estate and $1,018 was related to E-Cigarettes. This was offset by declines of operating, selling, general and administrative expenses of Tobacco of $1,273 and declines in of Corporate and Other expenses of $3,281.

Operating income (loss). Operating income was $112,036 for the year ended December 31, 2013 compared to $154,933 for the same period in 2012, a decline of $42,897 (27.7%). Tobacco operating income declined by $62,978 and operating losses related to E-Cigarettes increased by $1,018. This was offset by an increase in Real Estate operating income of $17,818 and a decline in Corporate and Other expenses of $3,281.

Other expenses. Other expenses were $48,549 and $101,216 for the year ended December 31, 2013 and 2012, respectively. 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 income on non-consolidated real estate businesses 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 $2,066 and interest and other income of $7,550. For the year ended December 31, 2012, other expenses primarily consisted of interest expense of $110,102, a loss of $7,476 from changes in fair value of derivatives embedded within convertible debt, accelerated interest expense related to the conversion of debt of $14,960 and an equity loss on long-term investments of $1,261. This was offset by equity income on non-consolidated real estate businesses of $29,764, gain on sale of investment securities available for sale of $1,640, and interest and other income of $1,179.

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. We recognized income of $18,935 for the year ended December 31, 2013 and charges of $7,476 for the year ended December 31, 2012.

Income before income taxes. Income before income taxes for the year ended December 31, 2013 was $63,487 compared to $53,717 for the year ended December 31, 2012. The increase is attributable to the items discussed above.

Income tax expense. The income tax expense was $24,795 for the year ended December 31, 2013, compared to $23,095 for the year ended December 31, 2012. Our income tax rates for the years ended December 31, 2013 and 2012 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 $1.00 per carton in June 2012, $0.60 per carton in December 2012, $0.60 per carton in June 2013 and $0.70 per carton in December 2013.

All of our Tobacco sales were in the discount category in 2013 and 2012. For the year ended December 31, 2013, tobacco revenues were $1,014,341 compared to $1,084,546 for the year ended December 31, 2012. Revenues declined by 6.5% ($70,205) due to due to a decline in sales volume of $116,608 (approximately 1,019.9 million units) offset by a favorable price variance of $46,403 primarily related to increases in the price of PYRAMID.

Tobacco Cost of Sales. Our Tobacco cost of sales declined from $823,452 for the year ended December 31, 2012 to $729,393 for the year ended December 31, 2013. The major components of our Tobacco cost of sales are as follows:

	Year Ended December 31,	
	2013	2012
Manufacturing overhead, raw materials and labor	$ 123,258	$ 129,634
Federal Excise Taxes, net	456,703	508,027
Tobacco quota buyout expense	28,691	30,874
FDA expense	17,211	17,308
MSA expense, net of market share exemption	103,530	137,609
Total cost of sales	$ 729,393	$ 823,452

Adjusting for the NPM Settlement, Tobacco gross profit was $273,125 for the year ended December 31, 2013 compared to $261,094 for the year ended December 31, 2012. The $12,031 (4.6%) 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 NPM Settlements), Tobacco gross profit was 49.0% in the 2013 period and 45.3% in the 2012 period .

Tobacco expenses. Tobacco operating, selling, general and administrative expenses excluding litigation settlement judgment expenses were $83,804 for the year ended December 31, 2013 compared to $85,077 for the year ended December 31, 2012.

Tobacco operating income. Tobacco operating income was $113,039 for the year ended December 31, 2013 compared to $176,017 for the same period in 2012. The Tobacco operating income decline of $62,978 was primarily associated with the *Engle* progeny settlement charge of $86,213 and judgment expense of $1,893, offset by the income from the MSA settlements of $11,823 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 operating losses were $1,018 for the year ended December 31, 2013.

Real Estate.

Real Estate Revenues. Real Estate revenues were $65,580 and $10,987 for the year ended ended December 31, 2013 and 2012, respectively. Real Estate revenues increased by $54,593 primarily related to the Douglas Elliman operations. Douglas Elliman became a consolidated subsidiary of ours in December 2013.

Real Estate revenues and cost of sales were as follows:

	Year Ended December 31,	
	2013	2012
Real Estate Revenues:		
Commission and other brokerage income	$ 36,238	$ 6,092
Property management income	1,134	—
Title fees	155	—
Real estate held for sale	22,734	4,895
Sales on facilities primarily from Escena	5,104	—
Other	215	—
Total real estate revenues	$ 65,580	$ 10,987
Real Estate Cost of Sales:		
Commission and other brokerage expense	$ 30,787	$ 5,030
Real estate held for sale	2,548	—
Cost of sales on facilities primarily from Escena	4,263	3,846
Title fees	40	—
Total real estate cost of sales	$ 37,638	$ 8,876

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 $12,136 and $4,124 for the year ended December 31, 2013 and 2012, respectively. Real estate operating, selling, general and administrative expenses increased by $8,012 primarily related to the addition of the Douglas Elliman operations in December 2013.

Real Estate operating income (loss). The real estate segment had operating income of $15,805 for the year ended December 31, 2013 compared to an operating loss of $2,013 for the year ended December 31, 2012. The increase in operating income of $17,818 was primarily related to the income from the sale of 200 of the 867 residential lots of our residential real estate project, Escena, located in Palm Springs, California in 2013.

Corporate and other.

Corporate and other loss. The operating loss at the corporate segment was $14,961 for the year ended December 31, 2013 compared to $15,790 for the same period in 2012.

Table of Contents

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, 2014:

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

	Location	Date of Initial Investment	Percentage Owned	Net Amount Invested	Earnings (Losses)	Carrying Value as of December 31, 2014	Future Capital Commit-ments from New Valley	Projected Residential and/or Hotel Area	Projected Retail Area	Projected Number of Residential Lots, Units and/or Hotel Rooms	Projected Construction Start Date	Projected Construction End Date
Escena, net	Master planned community, golf course, restaurant and shop in Palm Springs, CA	March 2008	100%	N/A	N/A	$ 10,643	$ —	450 Acres		667 R Lots 450 H	N/A	N/A
Real estate held for sale, net						$ 10,643	$ —					
10 Madison Square Park West (f/k/a 1107 Broadway)	Flatiron District/NoMad neighborhood, Manhattan, NY	October 2011	5.0%	$ 4,130	$ 2,254	$ 6,384	—	260,000 SF	17,000 SF	124 R	August 2012	February 2016
The Whitman	Flatiron District/NoMad neighborhood, Manhattan, NY	February 2011	12.0%	(1,078)	1,078	—	—	24,279 SF	4,698 SF	4 R	October 2011	February 2014
The Marquand	Upper East Side, Manhattan, NY	December 2011	18.0%	7,000	5,000	12,000	—	87,887 SF	—	29 R	June 2012	August 2015
11 Beach Street	TriBeCa, Manhattan, NY	June 2012	49.5%	12,328	—	12,328	—	97,090 SF	—	27 R	May 2014	July 2016
20 Times Square (f/k/a 701 Seventh Avenue)	Times Square, Manhattan, NY	August 2012	11.5%	12,481	—	12,481	—	280,000 SF	80,000 SF	452 H	September 2013	August 2017
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	25.0%	27,319	—	27,319	—	320,000 SF	TBD	139 R	September 2014	March 2018
160 Leroy Street (1)	West Greenwich Village, Manhattan, NY	March 2013	5.0%	1,467	—	1,467	—	130,137 SF	—	30 to 50 R	July 2015	March 2018
PUBLIC Chrystie House (f/k/a Chrystie Street)	Lower East Side, Manhattan, NY	December 2012	18.4%	3,300	—	3,300	—	217,000 SF	43,000 SF	11 R 367 H	June 2014	February 2017
25-19 43rd Avenue	Long Island City, NY	May 2014	9.9%	733	—	733		87,000 SF	—	86 R	September 2014	December 2016
Queens Plaza (f/k/a 23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4%	11,082	—	11,082	—	472,574 SF	—	391 R	March 2014	February 2016
8701 Collins Avenue	Miami Beach, FL	December 2013	15.0%	5,855	145	6,144	—	262,000 SF	TBD	TBD	October 2015	July 2017
125 Greenwich Street (1)	Financial District, Manhattan, NY	August 2014	10.4%	9,308	—	9,308	—	359,000 SF	TBD	TBD R	March 2015	TBD
9040 Sunset Boulevard	West Hollywood, CA	October 2014	48.5%	5,604	—	5,604	—	295,000 SF	TBD	20 R 190 H	May 2015	April 2018
Condominium and Mixed Use Development				$ 99,529	$ 8,477	$ 108,150	$ —					
Maryland Portfolio	Primarily Baltimore County, MD	July 2012	7.5%	$ 3,696	$ (462)	$ 3,234	—	N/A	N/A	5,517 R	N/A	N/A
ST Portfolio	Houston, TX; Phoenix, AZ; and Stamford, CT	November 2013	16.4%	15,672	(389)	15,283	—	1,018,404 SF	24,987 SF	761 R	N/A	N/A
Apartment Buildings				$ 19,368	$ (851)	$ 18,517	$ —					
Park Lane Hotel	Central Park South, Manhattan, NY	November 2013	5.0%	$ 21,800	$ (2,459)	$ 19,341	—	445,600 SF	—	628 H	N/A	N/A
Hotel Taiwana	St. Barthelemy, French West Indies	October 2011	17.0%	7,942	(313)	7,629	—	61,300 SF	4,300 SF	22 H	N/A	N/A
Coral Beach	Coral Beach, Bermuda	December 2013	49.0%	4,181	(1,365)	2,816	—	52 Acres	—	87 H	N/A	N/A
Hotels				$ 33,923	$ (4,137)	$ 29,786	$ —					
Milanosesto Holdings	Milan, Italy	October 2010	7.2%	$ 5,037	$ —	$ 5,037	—	322 Acres	TBD	TBD	2014	2024
Land Development				$ 5,037	$ —	$ 5,037	$ —					

(1) Carrying value as of December 31, 2014, includes non-controlling interest of $733 and $2,000, 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 a mortgage company and an insurance company by Douglas Elliman with a carrying value of $1,970 as of December 31, 2014.

Liquidity and Capital Resources

Net cash and cash equivalents increased by $91,899 and $164,932 in 2014 and 2012, respectively, and decreased by $171,389 in 2013.

Net cash provided from operations was $107,376, $52,026 and $84,086 in 2014, 2013 and 2012, respectively. 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. The change in the 2013 period, when compared to the 2012 period, primarily related to cash payments in the 2013 period associated with the extinguishment of our 11% Senior Secured Notes due 2015, lower distributions from non-consolidated real estate businesses, lower settlement accruals under the MSA in the 2013 period due to the NPM Settlement and lower unit sales and higher collections of accounts receivable in the 2012 period compared to the 2013 period due to the timing of sales in the fourth quarter of each respective previous year and increased interest payments in the 2013 period.

Cash used in investing activities was $221,434, $91,952 and $4,139 in 2014, 2013 and 2012, 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. In accordance with this philosophy, our investing activities increased in 2014 compared to 2013. In 2014, cash used in investing activities was for the purchase of investment securities of $305,731, purchase of real estate businesses 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 proceeds from the sale of investment securities of $156,604, the repayment of notes receivable of $6,717, distributions from non-consolidated real estate businesses of $7,309, proceeds from the sale or liquidation of long-term investments of $549, the pay down of investment securities of $790 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 $170,964, the purchase of real estate businesses 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 $5,000 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 $117,729, the repayment of notes receivable of $10,347, the proceeds from distributions from non-consolidated real estate businesses 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 $580 and the proceeds from the sale of fixed assets of $48. In 2012, cash used in investing activities was for purchase of real estate businesses of $33,375, capital expenditures of $11,265, purchase of long-term investments of $5,000, the purchase of investment securities of $5,647, an increase in cash surrender value of corporate-owned life insurance policies of $907, the issuance of notes receivable of $383, and an increase in non-current restricted assets of $1,130. This was offset by the proceeds from distributions from non-consolidated real estate businesses of $49,221, the sale of investment securities of $3,831, the proceeds from the sale of fixed assets of $444, and the proceeds from the sale or liquidation of long-term investments of $72.

Cash provided by financing activities was $205,957 and $84,985 in 2014 and 2012, respectively. 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. Cash used in financing activities was $131,463 in 2013. In 2014, cash provided by financing activities was primarily from proceeds from debt issuance 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 distributions on common stock of $167,328, repayment of debt of $12,601, net repayments of debt under the revolver of $12,658, deferred financing costs of $12,360 and distributions to non-controlling interest of $9,339. In 2013, cash used in financing activities was primarily for repayment of debt of $422,581, 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 debt issuance 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. In 2012, cash provided by financing activities was primarily from proceeds from debt issuance of $244,075, net borrowings of debt under the revolver of $7,958, proceeds from the issuance of Vector stock of $611, proceeds from the exercise of Vector options of $140, and tax benefit of options exercised of $52. This was offset by distributions on common stock of $137,114, repayment of debt of $19,258, and deferred financing costs of $11,479.

Tobacco Litigation. To date, 14 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 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 exchange, the claims of over 4,900 plaintiffs were dismissed with prejudice against us and Liggett. In 2013, we recorded a charge of $86,213 in connection with the settlement. Of this amount, $25,213 is related to certain payments discounted to their present value because the timing and amounts of such payments are fixed and determinable. The present value of the installment payments was computed using an 11% annual discount rate. The installment payments total approximately $48,000 on an undiscounted basis. The Company's future payments will be approximately $3,500 per annum through 2028, with a cost of living increase beginning in 2021.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlement, approximately 320 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 2,227,553 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 2,227,553 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 8,445,183 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 3,118,676 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.

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, 2014	December 31, 2013
Consolidated EBITDA, as defined	$ 75,000	$ 244,100	$ 264,958
Leverage ratio, as defined	<3.0 to 1	1.23 to 1	1.22 to 1
Secured leverage ratio, as defined	<1.5 to 1	0.1 to 1	0.5 to 1

In November 2012, we sold $230,000 of our 7.5% variable interest senior convertible notes due 2019 (the "2019 Convertible Notes") in a public offering registered under the Securities Act. The 2019 Convertible Notes are our senior unsecured obligations and are effectively subordinated to any of our secured indebtedness to the extent of the assets securing such indebtedness. The 2019 Convertible Notes are also structurally subordinated to all liabilities and commitments of our subsidiaries. The aggregate net proceeds from the sale of the 2019 Convertible Notes were approximately $218,900 after deducting underwriting discounts, commissions, fees and offering expenses.

Liggett Financing. 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 4.66% per annum and the interest rate on the two notes are 3.28% and 4.99%. Total monthly installments are approximately $181.

Liggett Credit Facility. On January 14, 2015, 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.

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 $3,540 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 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 permits the guaranty of our 7.75% senior secured notes due 2021 by each of Liggett and 100 Maple LLC, a subsidiary of Liggett ("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.

As of December 31, 2014, a total of $21,356 was outstanding under the revolving and term loan portions of the credit facility. Availability as determined under the facility was approximately $28,644 based on eligible collateral at December 31, 2014. At December 31, 2014, management believed that Liggett was in compliance with all covenants under the credit facility as amended. Liggett's EBITDA, as defined, were approximately $133,868 for the twelve months ended December 31, 2014. For purposes of the EBITDA calculation, as defined under the Credit Facility, Liggett has reduced income by approximately $59,300 related to the *Engle* Progeny settlement further described in Note 14.

We and our subsidiaries have significant indebtedness and debt service obligations. At December 31, 2014, we and our subsidiaries had total outstanding indebtedness of $1,149,541. Approximately $25,000 of our 6.75% convertible notes mature in 2015 (as amended), $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 $326,400, investment securities available for sale of approximately $346,000, long-term investments with an estimated value of approximately $47,200 and availability under Liggett's credit facility of approximately $28,600 at December 31, 2014. 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 $3,122 at January 1, 2014 and decreased $1,378 during the year ended December 31, 2014, primarily from the expiration of various state statute of limitations. The total amount of unrecognized tax benefits was $6,269 at January 1, 2013 and decreased $3,147 during the year ended December 31, 2013, primarily from the expiration of various state statute of limitations.

Long-Term Financial Obligations and Other Commercial Commitments

Our significant long-term contractual obligations as of December 31, 2014 were as follows:

Contractual Obligations	2015	2016	2017	2018	2019	Thereafter	Total
Long-term debt (1)	$ 52,640	$ 4,925	$ 1,527	$ 1,267	$ 230,432	$ 858,750	$ 1,149,541
Operating leases (2)	22,187	17,952	15,772	13,674	9,981	25,078	104,644
Inventory purchase commitments (3)	24,288	—	—	—	—	—	24,288
Capital expenditure purchase commitments (4)	3,266	—	—	—	—	—	3,266
Interest payments (5)	96,411	96,889	98,720	100,748	78,590	82,228	553,586
Engle progeny settlement	2,954	3,454	3,454	3,454	3,454	31,085	47,855
Total (6), (7)	$ 201,746	$ 123,220	$ 119,473	$ 119,143	$ 322,457	$ 997,141	$ 1,883,180

____

(1) Long-term debt 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. The amounts presented do not include amounts scheduled to be received under non-cancelable operating subleases of $111 in 2015, and zero thereafter. See Note 10 to our consolidated financial statements.

(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, 2014 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) Not included in the above table is approximately $122,989 of net deferred tax liabilities and $1,744 of unrecognized income tax benefits.

(7) Because their future cash outflows are uncertain, the above table excludes our pension and post benefit plans unfunded obligations of $50,245 at December 31, 2014.

Payments under the MSA, discussed in Note 14 to our consolidated financial statements, and the federal tobacco quota legislation, 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, 2014, 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.

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 at December 31, 2014.

At December 31, 2014, we had outstanding approximately $1,667 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.

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, 2014, approximately $21,400 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 December 31, 2014, 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 $214.

In addition, as of December 31, 2014, $268,285 ($513,750 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 $3,554 with approximately $1 resulting from the embedded derivative associated with our 6.75% note due 2015 (as amended), $1,929 resulting from the embedded derivative associated with our 5.5% exchange notes due 2020, and the remaining $1,624 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 $9,810 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 $171,215 and $167,593. We recorded the fair market value of our embedded derivatives at the midpoint of the inputs at $169,386 as of December 31, 2014. 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 $346,043 at December 31, 2014, which includes 14,191,205 common shares and 240,000 preferred shares of Ladenburg Thalmann Financial Services Inc. carried at $56,055 and $5,873, respectively, and 1,000,000 warrants carried at $2,342.

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.

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 Food and Drug Administration ("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:

- 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 the FDA challenging the composition of the TPSAC. The district court granted, in part, the plaintiffs' motion for summary judgment, ordering the 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, the FDA appealed the decision to the U.S. Court of Appeals for the District of Columbia Circuit. Briefing on the appeal is expected to be completed in May 2015. Although FDA is not obligated to follow the recommendations of its advisory committees, and the agency can independently assess public health issues related to menthol, the district court's decision and FDA's subsequent appeal may nonetheless impact FDA's plans for the regulation of the use of 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 2014 were $17,710 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.

On April 25, 2014, the 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 the 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.

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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- general economic and market conditions and any changes therein, due to acts of war and terrorism or otherwise,
- governmental regulations and policies,
- effects of industry competition,
- impact of business combinations, including acquisitions and divestitures, both internally for us and externally in the tobacco industry,
- impact of legislation on our competitors' payment obligations, results of operations and product costs, i.e. the impact of federal legislation eliminating the federal tobacco quota system and providing for regulation of tobacco products by the FDA,
- impact of substantial increases in federal, state and local excise taxes,
- uncertainty related to product liability 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.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

Our Consolidated Financial Statements and Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 4, 2015, 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, 2014, 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, 2014, 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, 2014, 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.

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.

As a result of the material weaknesses in internal control over financial reporting described above, management has concluded that, as of December 31, 2014, 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.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears herein.

Management’s Remediation Initiatives

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. 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 2014 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION***

None.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

The information contained under the following headings in our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders (the "2015 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 2015 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 2015 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 2015 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 2015 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) INDEX TO 2014 CONSOLIDATED FINANCIAL STATEMENTS:

Our consolidated financial statements and the notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 4, 2015, appear beginning on page F-1 of this report.

(a)(2) FINANCIAL STATEMENT SCHEDULES:

Schedule II — Valuation and Qualifying Accounts Page F-81

(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, 2014 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, 2014 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 and for the year ended December 31, 2012 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	Second Amended and Restated Loan and Security Agreement dated as of February 21, 2012, between Wells Fargo Bank, N.A. and Liggett Group LLC (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K/A dated February 21, 2012).

EXHIBIT NO.	DESCRIPTION
* 4.2	Intercreditor Agreement, dated as of February 12, 2013, among Liggett Group LLC, 100 Maple LLC, U.S. Bank National Association and Wells Fargo Bank, National Association, relating to the 7.75% Senior Secured Notes due 2021 (incorporated by reference to Exhibit 4.6 of Vector's Form 8-K dated February 12, 2013).
* 4.3	Amended and Restated Term Promissory Note dated as of February 21, 2012, between Wells Fargo Bank, N.A. and 100 Maple LLC (incorporated by reference to Exhibit 10.2 in Vector's Form 8-K/A dated February 21, 2012).
4.4	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
* 4.5	Note, dated May 11, 2009, by Vector Group Ltd. to Frost Nevada Investments Trust (incorporated by reference to Exhibit 4.1 of Vector's Form 8-K dated May 11, 2009).
* 4.6	First Addendum to Note, dated May 11, 2009, by Vector Group Ltd. to Frost Nevada Investments Trust (incorporated by reference to Exhibit 4.2 of Vector's Form 8-K dated November 14, 2014).
* 4.7	Purchase Agreement, dated as of May 11, 2009, between Vector Group Ltd. and Frost Nevada Investments Trust (incorporated by reference to Exhibit 4.2 of Vector's Form 8-K dated May 11, 2009).
* 4.8	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).
* 4.9	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).
* 4.10	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).
* 4.11	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).
* 4.12	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).
* 4.13	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).
* 4.14	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).
* 4.15	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).
* 4.16	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).

EXHIBIT NO.	DESCRIPTION
4.17	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.
* 4.18	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).
* 4.19	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).
* 4.20	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).
* 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).

EXHIBIT NO.	DESCRIPTION
* 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).
* 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).

EXHIBIT NO.	DESCRIPTION
* 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).
* 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).

EXHIBIT NO.	DESCRIPTION
* 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 (incorporated by reference to Exhibit 10.4 to Vector's Form 10-Q dated June 30, 2014).
* 10.45	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).
* 10.46	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).
* 10.47	Vector Senior Executive Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 in Vector's Form 8-K dated January 14, 2011).
* 10.48	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).
* 10.49	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).
* 10.50	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).
* 10.51	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).
* 10.52	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).
*10.53	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).

EXHIBIT NO.	DESCRIPTION
* 10.54	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).
* 10.55	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).
* 10.56	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).
* 10.57	Vector Group Ltd. Stock Ownership Guidelines (incorporated by reference to Exhibit 10.1 of Vector's Form 8-K dated March 10, 2014).
* 10.58	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, 2014.
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.
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.
99.2	Liggett Group LLC's Consolidated Financial Statements for the three years ended December 31, 2014.
99.3	Vector Tobacco Inc.'s Financial Statements for the three years ended December 31, 2014.

EXHIBIT NO.	DESCRIPTION
* 99.4	Douglas Elliman Realty LLC’s Consolidated Financial Statements for the period ended December 13, 2013 and for the year ended December 31, 2012 (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.

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 4, 2015

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 4, 2015.

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/ Henry C. Beinstein Henry C. Beinstein	Director
/s/ Ronald J. Bernstein Ronald J. Bernstein	Director
/s/ Stanley S. Arkin Stanley S. Arkin	Director
/s/ Bennett S. LeBow Bennett S. LeBow	Director
/s/ Jeffrey S. Podell Jeffery S. Podell	Director
/s/ Jean E. Sharpe Jean E. Sharpe	Director

VECTOR GROUP LTD.
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014
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:

	Page
FINANCIAL STATEMENTS:	
Vector Group Ltd. Consolidated Financial Statements	
Report of Independent Registered Certified Public Accounting Firm	F-2
Vector Group Ltd. Consolidated Balance Sheets as of December 31, 2014 and 2013	F-4
Vector Group Ltd. Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012	F-4
Vector Group Ltd. Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	F-5
Vector Group Ltd. Consolidated Statement of Stockholders' Equity (Deficiency) for the years ended December 31, 2014, 2013 and 2012	F-6
Vector Group Ltd. Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	F-7
Notes to Consolidated Financial Statements	F-9
FINANCIAL STATEMENT SCHEDULE:	
Schedule II — Valuation and Qualifying Accounts	F-81

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, 2014 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, 2014 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 and for the two years ended December 31, 2013 are filed as Exhibit 99.4 to this report and are incorporated by reference.

Report of Independent Registered Certified Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Vector Group Ltd. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three 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 listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting existed as of that date related to: (a) the Company's monitoring activities related to a recently acquired business (Douglas Elliman Realty, LLC) were not effective, which led to (b) deficiencies in the period-end financial reporting processes at the recently acquired business, including controls over the preparation, analysis and review of certain significant account reconciliations, (c) segregation of duties of finance and accounting personnel at the recently acquired business were improperly designed and not effective as certain personnel were authorized to perform interrelated functions that could have resulted in either erroneous or inappropriate actions, (d) processing and recording of recurring and non-recurring journal entries at the recently acquired business were improperly designed and not effective to ensure that journal entries were either prepared with sufficient documentation or reviewed and approved, and (e) controls over access to information technology systems at the recently acquired business were improperly designed and not effective as certain personnel have inappropriate access. 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 annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's 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. A company's internal control over financial reporting 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 its 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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Miami, Florida
March 4, 2015

VECTOR GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(Dollars in thousands, except per share amounts)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 326,365	$ 234,466
Investment securities available for sale	346,043	172,534
Accounts receivable — trade, net	23,328	12,159
Inventories	90,323	93,496
Deferred income taxes	29,192	50,479
Income tax receivable, net	3,282	—
Restricted assets	2,595	1,785
Other current assets	36,718	23,392
Total current assets	857,846	588,311
Property, plant and equipment, net	84,112	79,258
Real estate held for sale, net	10,643	20,911
Long-term investments	40,292	29,383
Investments in real estate ventures	163,460	128,202
Restricted assets	12,013	11,981
Deferred income taxes	51,129	51,474
Goodwill and other intangible assets, net	269,972	275,108
Prepaid pension costs	25,032	26,080
Other assets	58,893	53,553
Total assets	$ 1,573,392	$ 1,264,261
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY):		
Current liabilities:		
Current portion of notes payable and long-term debt	$ 52,640	$ 151,577
Current portion of fair value of derivatives embedded within convertible debt	884	19,128
Current payments due under the Master Settlement Agreement	26,322	25,348
Current portion of employee benefits	931	939
Income taxes payable	1,743	6,423
Litigation accruals	3,149	59,310
Deferred income taxes	57,671	45,734
Other current liabilities	126,755	96,651
Total current liabilities	270,095	405,110
Notes payable, long-term debt and other obligations, less current portion	860,711	540,766
Fair value of derivatives embedded within convertible debt	168,502	92,934
Non-current employee benefits	49,314	47,917
Deferred income taxes	145,639	137,650
Payments due under the Master Settlement Agreement	25,809	27,571
Litigation accruals	25,700	27,058
Other liabilities	5,570	6,864
Total liabilities	1,551,340	1,285,870
Commitments and contingencies		
Stockholders' equity (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 150,000,000 shares authorized, 118,646,261 and 101,430,853 shares issued and 114,501,014 and 97,482,998 shares outstanding	11,450	9,748
Additional paid-in capital	—	—
Accumulated deficit	(90,160)	(114,787)
Accumulated other comprehensive income	34,540	22,860
Less: 4,145,247 and 3,947,855 shares of common stock in treasury, at cost	(12,857)	(12,857)
Total Vector Group Ltd. stockholders' (deficiency)	(57,027)	(95,036)
Non-controlling interest	79,079	73,427
Total stockholders' equity (deficiency)	22,052	(21,609)
Total liabilities and stockholders' equity (deficiency)	$ 1,573,392	$ 1,264,261

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

VECTOR GROUP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands, except per share amounts)		
Revenues:			
Tobacco*	$ 1,021,259	$ 1,014,341	$ 1,084,546
Real estate	561,467	65,580	10,987
E-Cigarettes	8,589	—	—
Total revenues	1,591,315	1,079,921	1,095,533
Expenses:			
Cost of sales:			
Tobacco*	735,725	729,393	823,452
Real estate	354,028	37,638	8,876
E-Cigarettes	7,307	—	—
Total cost of sales	1,097,060	767,031	832,328
Operating, selling, administrative and general expenses	278,392	112,748	108,272
Litigation , settlement and judgment expense	2,475	88,106	—
Operating income	213,388	112,036	154,933
Other income (expenses):			
Interest expense	(160,991)	(132,147)	(110,102)
Loss on extinguishment of debt	—	(21,458)	—
Changes in fair value of derivatives embedded within convertible debt	19,409	18,935	(7,476)
Acceleration of interest expense related to debt conversion	(5,205)	(12,414)	(14,960)
Equity (loss) income on long-term investments	1,242	2,066	(1,261)
(Loss) gain on sale of investment securities available for sale	(11)	5,152	1,640
Equity income from real estate ventures	4,103	22,925	29,764
Gain on acquisition of Douglas Elliman	—	60,842	—
Other, net	10,552	7,550	1,179
Income before provision for income taxes	82,487	63,487	53,717
Income tax expense	33,251	24,795	23,095
Net income	49,236	38,692	30,622
Net (income) loss attributed to non-controlling interest	(12,258)	252	—
Net income attributed to Vector Group Ltd.	$ 36,978	$ 38,944	$ 30,622
Per basic common share:			
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.35	$ 0.39	$ 0.32
Per diluted common share:			
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.35	$ 0.39	$ 0.32
Cash distributions declared per share	$ 1.54	$ 1.47	$ 1.40

* Revenues and cost of goods sold include federal excise taxes of $446,086, $456,703 and $508,027 for the years ended December 31, 2014, 2013 and 2012, respectively.

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

VECTOR GROUP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Net income	$ 49,236	$ 38,692	$ 30,622
Net unrealized gains (losses) on investment securities available for sale:			
Change in net unrealized gains (losses)	25,308	49,150	(13,267)
Net unrealized gains (losses) reclassified into net income	11	(5,152)	(1,640)
Net unrealized gains (losses) on investment securities available for sale	25,319	43,998	(14,907)
Net unrealized (losses) gains on long-term investments accounted for under the equity method	(1,784)	98	1,353
Net change in forward contracts	64	62	64
Net change in pension-related amounts			
Amortization of prior service costs	—	—	2,018
Net (loss) gain arising during the year	(4,698)	9,513	1,463
Amortization of gain (loss)	1,015	2,099	(1,087)
Net change in pension-related amounts	(3,683)	11,612	2,394
Other comprehensive income (loss)	19,916	55,770	(11,096)
Income tax effect on:			
Change in net unrealized (losses) gains on investment securities	(10,465)	(19,955)	5,387
Net unrealized (losses) gains reclassified into net income on investment securities	(5)	2,092	665
Change in unrealized gains (losses) on long-term investments	738	(40)	(549)
Forward contracts	(27)	(25)	(26)
Pension-related amounts	1,523	(4,714)	(972)
Income tax (provision) benefit on other comprehensive income (loss)	(8,236)	(22,642)	4,505
Other comprehensive income (loss), net of tax	11,680	33,128	(6,591)
Comprehensive income	60,916	71,820	24,031
Comprehensive (income) loss attributed to non-controlling interest	(12,258)	252	—
Comprehensive income attributed to Vector Group Ltd.	$ 48,658	$ 72,072	$ 24,031

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

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total
	Shares	Amount						
				(Dollars in thousands)				
Balance, January 1, 2012	79,441,991	$ 7,944	$ —	$ (80,440)	$ (3,677)	$ (12,857)	$ —	$ (89,030)
Net income	—	—	—	30,622	—	—	—	30,622
Change in net loss and prior service cost, net of income taxes	—	—	—	—	1,422	—	—	1,422
Forward contract adjustments, net of income taxes	—	—	—	—	38	—	—	38
Unrealized gain on long-term investment securities accounted for under the equity method, net of income taxes	—	—	—	—	804	—	—	804
Change in net unrealized gain on investment securities, net of income taxes	—	—	—	—	(7,880)	—	—	(7,880)
Net unrealized gains reclassified into net income, net of income taxes	—	—	—	—	(975)	—	—	(975)
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	(8,855)
Total other comprehensive income	—	—	—	—	—	—	—	(6,591)
Total comprehensive income	—	—	—	—	—			24,031
Distributions and dividends on common stock	—	—	(120,188)	(14,884)	—	—	—	(135,072)
Surrender of shares in connection with restricted stock vesting	(234,926)	(23)	(3,750)	—	—	—	—	(3,773)
Effect of stock dividend	4,142,378	414	—	(414)	—	—	—	—
Note conversion, net of income taxes of $14,142	3,476,654	347	76,540	—	—	—	—	76,887
Beneficial conversion feature of notes payable, net of income taxes of $26,066	—	—	38,135	—	—	—	—	38,135
Issuance of common stock under share lending facility	6,114,000	611	3,204	—	—	—	—	3,815
Return of common stock under share lending facility	(3,057,000)	(306)	306	—	—	—	—	—
Exercise of stock options	15,314	2	138	—	—	—	—	140
Tax benefit of options exercised	—	—	52	—	—	—	—	52
Stock based compensation	—	—	5,563	—	—	—	—	5,563
Balance, December 31, 2012	89,898,411	8,989	—	(65,116)	(10,268)	(12,857)	—	(79,252)
Net income	—	—	—	38,944	—	—	(252)	38,692
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	—	—	—	—	29,195	—	—	29,195
Net unrealized gains reclassified into net income, net of income taxes	—	—	—	—	(3,060)	—	—	(3,060)
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	26,135
Total other comprehensive income	—	—	—	—	—	—	—	33,128
Total comprehensive income	—	—	—	—	—	—	—	71,820
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 to 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	—	(114,787)	22,860	(12,857)	73,427	(21,609)
Net income	—	—	—	36,978	—	—	12,258	49,236
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	—	—	—	—	14,843	—	—	14,843
Net unrealized loss reclassified into net income, net of income taxes	—	—	—	—	6	—	—	6
Unrealized gain on investment securities, net of income taxes	—	—	—	—	—	—	—	14,849
Total other comprehensive income	—	—	—	—	—	—	—	11,680
Total comprehensive income	—	—	—	—	—	—	—	60,916
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, inclusive of 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 to 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	$ —	$ (90,160)	$ 34,540	$ (12,857)	$ 79,079	$ 22,052

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

VECTOR GROUP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ 49,236	$ 38,692	$ 30,622
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,499	12,631	10,608
Non-cash stock-based expense	3,251	2,519	5,563
Acceleration of interest expense related to debt conversion	5,205	12,414	14,960
(Gain) loss on sale of assets	(540)	170	—
Deferred income taxes	22,026	466	(7,336)
(Income) loss on long-term investments accounted under the equity method	(1,242)	(2,066)	1,261
Loss (gain) on sale of marketable securities	11	(5,152)	(1,640)
Equity income on investments in real estate ventures	(4,103)	(22,925)	(29,764)
Distributions from investments in real estate ventures	5,152	4,251	19,169
Non-cash interest expense	35,584	22,995	28,150
(Gain) loss on warrants	(572)	(1,165)	1,193
Non-cash interest income	(144)	(861)	—
Gain on acquisition of Douglas Elliman	—	(60,842)	—
Changes in assets and liabilities:			
Receivables	(11,197)	5,975	13,622
Inventories	3,173	6,897	8,837
Accounts payable and accrued liabilities	5,708	41,047	4,497
Payments due under the Master Settlement Agreement	(925)	(32,690)	(14,903)
Other assets and liabilities, net	(27,746)	29,670	(753)
Net cash provided by operating activities	107,376	52,026	84,086

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

VECTOR GROUP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Cash flows from investing activities:			
Proceeds from sale or maturity of investment securities	156,604	117,729	3,831
Purchase of investment securities	(305,731)	(170,964)	(5,647)
Proceeds from sale or liquidation of long-term investments	549	580	72
Purchase of long-term investments	(12,000)	(5,000)	(5,000)
(Increase) decrease in restricted assets	(872)	1,081	(1,130)
Investments in real estate ventures	(40,916)	(75,731)	(33,375)
Distributions from investments in real estate ventures	7,309	3,142	49,221
Issuance of notes receivable	(8,250)	(8,600)	(383)
Cash acquired in Douglas Elliman consolidation	—	116,935	—
Proceeds from sale of businesses and assets	4	48	444
Capital expenditures	(23,404)	(13,275)	(11,265)
Increase in cash surrender value of life insurance policies	(484)	(628)	(907)
Purchase of subsidiaries	(750)	(67,616)	—
Repayment of notes receivable	6,717	10,347	—
Purchase of preferred securities	(1,000)	—	—
Pay down of investment securities	790	—	—
Net cash used in investing activities	(221,434)	(91,952)	(4,139)
Cash flows from financing activities:			
Proceeds from issuance of debt	413,914	457,767	244,075
Repayments of debt	(12,601)	(422,581)	(19,258)
Deferred financing charges	(12,360)	(11,750)	(11,479)
Borrowings under revolver	886,130	978,788	1,074,050
Repayments on revolver	(898,788)	(977,794)	(1,066,092)
Distributions on common stock	(167,328)	(144,711)	(137,114)
Distributions to non-controlling interest	(9,339)	(11,764)	—
Proceeds from the issuance of Vector stock	—	—	611
Proceeds from exercise of Vector options	5,151	544	140
Tax benefit of options exercised	1,178	38	52
Net cash provided by (used in) financing activities	205,957	(131,463)	84,985
Net increase (decrease) in cash and cash equivalents	91,899	(171,389)	164,932
Cash and cash equivalents, beginning of year	234,466	405,855	240,923
Cash and cash equivalents, end of year	$ 326,365	$ 234,466	$ 405,855

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.

Certain reclassifications have been made to the 2013 and 2012 financial information to conform to the 2014 presentation.

In connection with the December 13, 2013 acquisition of Douglas Elliman, the Company was required to disclose Douglas Elliman’s revenues and costs separately in its consolidated statements of operations rather than include the net results in operating, selling, administrative, and general expenses. Consequently, the Company also revised its prior periods in order to correctly present the gross revenues and costs of the other consolidated real estate investments, which was also included in the net results of operating, selling, administrative and general expenses in previous years, as follows:

	Year Ended December 31,					
	2013			2012		
	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Revenues	$ 1,056,200	$ (1,056,200)	$ —	$ 1,084,546	$ (1,084,546)	$ —
Tobacco revenues	—	1,014,341	1,014,341	—	1,084,546	1,084,546
Real estate revenues	—	65,580	65,580	—	10,987	10,987
Total revenue	1,056,200	23,721	1,079,921	1,084,546	10,987	1,095,533
Cost of Sales	747,186	(747,186)	—	823,452	(823,452)	—
Tobacco cost of sales	—	729,393	729,393	—	823,452	823,452
Real estate cost of sales	—	37,638	37,638	—	8,876	8,876
Total cost of sales	747,186	19,845	767,031	823,452	8,876	832,328
Operating, selling, administrative and general expenses	$ 108,872	$ 3,876	$ 112,748	$ 106,161	$ 2,111	$ 108,272

In addition, the preliminary fair values of the assets acquired, liabilities assumed and the non-controlling interest recorded for Douglas Elliman as of December 13, 2013 were adjusted during the year as described in the notes.

During the second quarter of 2014, Douglas Elliman accounts payable as of December 31, 2013, was reduced by $16,434, while current liabilities were increased by $16,434. 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.

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 2014 periods and from the Tobacco segment for the previously reported 2013 periods. 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) 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 restructuring and 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, valuation of investments, including other than temporary impairments to such investments, accounting for investments in equity securities, and litigation and defense costs. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents:

For purposes of the statements of cash flows, cash includes cash on hand, cash on deposit in banks 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, 2014 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 debt for the years ended December 31, 2014 and 2013 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' equity. 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, the military and large grocery, drug and convenience store chains. One customer accounted for 19% and 17% of Liggett's revenues in 2014 and 2012, respectively. Two customers, McLane and Core Mark, accounted for 18% and 10%, respectively, of Liggett's revenues in 2013. 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 largest customer represented approximately 11% and 10% of net accounts receivable at December 31, 2014 and 2012, respectively. Liggett's two largest customers, McLane and Core Mark, represented approximately 5% and 1%, respectively of net accounts receivable at December 31, 2013. 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 generally 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 $452 and $433 at December 31, 2014 and 2013, 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 $2,595 and $1,785 at December 31, 2014 and 2013, respectively, consist primarily of certificates of deposits and supersedeas bonds. Long-term restricted assets of $12,013 and $11,981 at December 31, 2014 and 2013, 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 2015 to February 2016.

(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.

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 investments constituted greater than 5% of the invested funds of the joint ventures at December 31, 2014 and 2013. In accordance with authoritative guidance for accounting for limited partnership, partnership, and limited liability company investments, the Company has accounted for the joint ventures under the equity method of accounting.

(l) Goodwill and Other Intangible Assets:

Goodwill on 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. 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 to the Company's carrying amount. Fair value is determined based on discounted future cash flows. If the carrying amount exceeds the fair value, the second step is performed. The second step involves a comparison of the implied fair value and carrying value of the goodwill. 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 assets, it utilizes the relief from royalty method, pursuant to which those assets are valued by reference to the amount of royalty income they 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. Based upon management's review of the value of the indefinite-lived intangible assets, the Company determined that the implied fair value exceeded its carrying value.

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 undiscounted operating cash flow analyses 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 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 ($4,612, $4,007 and $2,709 net of income taxes, for the years ended December 31, 2014, 2013 and 2012, respectively), which is included as "Distributions 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 follows authoritative guidance for accounting for uncertainty in income taxes which requires an entity to recognize 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' equity 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 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.

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 $5,585 in 2014, $5,559 in 2013 and $5,474 in 2012 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 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 recognized concurrently with related revenues. Property management fees 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 $9,493, $4,839 and $4,266 for the years ended December 31, 2014, 2013 and 2012, respectively.

Real estate advertising costs, which are expensed as incurred and included within operating, selling, administration and general expenses, were $14,952, $1,298 and $523 for the years ended December 31, 2014 and 2013 and 2012, 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 income (loss), net of income taxes, were as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Net unrealized gains on investment securities available for sale, net of income taxes of $37,219, $26,749, and $8,886, respectively	$ 53,985	$ 39,136	$ 13,001
Net unrealized losses on long-term investment accounted for under the equity method, net of income tax benefits of $1,156, $418, and $458, respectively	(1,658)	(612)	(670)
Forward contracts adjustment, net of income taxes of $36, $63, and $88, respectively	(55)	(92)	(129)
Pension-related amounts, net of income taxes of $12,167, $10,644, and $15,358, respectively	(17,732)	(15,572)	(22,470)
Accumulated other comprehensive income (loss)	$ 34,540	$ 22,860	$ (10,268)

(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, 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. At December 31, 2013, the range of estimated fair market values of the Company's embedded derivatives was between $110,758 and $113,392. The Company recorded the fair market value of its embedded derivatives at the midpoint of the inputs at $112,062 as of December 31, 2013. 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 and other litigation costs as operating, selling, administrative and general expenses as those costs are incurred. As discussed in Note 14, 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 14: (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 14 state court *Engle* progeny cases and several of these verdicts have been affirmed on appeal. At December 31, 2014, Liggett and the Company are defendants in approximately 320 state court *Engle* progeny cases. Through December 31, 2014, other than the *Lukacs* case, the verdicts against Liggett have ranged from $1 to $3,600. In certain cases, the judgments entered have been joint and several with the other defendants. In four of these cases, punitive damages were awarded against Liggett. The Company's potential range of loss in the six *Engle* progeny cases currently on appeal is between $0 and $28,195 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 14, 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.

(x) Other Income:

Other income, net consists of:

	Twelve Months Ended December 31,		
	2014	2013	2012
Gain (loss) on warrants	$ 572	$ 1,165	$ (1,193)
Interest income	6,243	5,421	2,256
Accretion of interest income from debt discount on notes receivable	144	772	129
Out-of-period adjustment	1,231	—	—
Acceleration of closing fee related to termination of Douglas Elliman joint venture	2,335	—	—
Gain on long-term investment	—	189	135
Other income (expense)	27	3	(148)
Other income, net	$ 10,552	$ 7,550	$ 1,179

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 the current year is not material to the Company's 2014 consolidated financial statements.

(y) Other Current Liabilities:

Other current liabilities consists of:

	December 31, 2014	December 31, 2013
Accrued promotional expenses	$ 20,191	$ 18,655
Accrued excise and payroll taxes payable, net	23,172	11,621
Accrued interest	28,321	21,968
Other current liabilities	55,071	44,407
Total other current liabilities	$ 126,755	$ 96,651

(z) New Accounting Pronouncements:

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 United States Generally Accepted Accounting Principles ("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. This ASU is not anticipated to have a material impact on the Company's consolidated financial statements and notes to the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is the result of a convergence project between the FASB and the International Accounting Standards Board. The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in

the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting the new standard but does not anticipate it will have a material impact on the Company's consolidated financial statements or notes to the consolidated financial statements.

In April 2014, the Financial Accounting Standards Board issued final guidance to change the criteria for reporting discontinued operations while enhancing disclosures in this area (ASU No. 2014-08). Under the new guidance, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as discontinued operations. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The guidance is effective for annual financial statements with fiscal years beginning on or after December 15, 2014 with early adoption permitted for disposals or classifications as held for sale which have not been reported in financial statements previously issued or available for issuance. The Company will adopt the guidance effective January 1, 2015 and the guidance is not anticipated to have a material impact on the Company's consolidated financial statements and notes to the consolidated financial statements.

In March 2014, the Emerging Issues Task Force (the “Task Force”) reached a final consensus to amend the accounting guidance for stock compensation tied to performance targets (Issue No. 13-D). The objective of this guidance is to clarify the accounting treatment of certain types of performance conditions in stock-based compensation awards, more specifically, when performance targets can be achieved after the requisite service period. The Task Force concluded that performance criteria subsequent to a service period vesting requirement should be treated as vesting conditions, and as a result, this type of performance condition may delay expense recognition until achievement of the performance target is probable. Issue No. 13-D will be effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard but does not anticipate it will have a material impact on the Company's consolidated financial statements or notes to the 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 26, 2014, September 27, 2013 and September 28, 2012. The dividends were recorded at par value of $520 in 2014, $450 in 2013 and $414 in 2012 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”), earnings available to common stockholders 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, 2014, 2013 and 2012 as the dividends on the common stock reduced earnings available to common stockholders so there were no unallocated earnings.

As discussed in Note 13, 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 ($4,612, net of income taxes of $306, and $4,007, net of income taxes of $91 and $2,709, net of income taxes of $26, for the years ended December 31, 2014, 2013 and 2012, 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, 2014, 2013 and 2012, respectively, the Company has adjusted its net income for the effect of these participating securities as follows:

	2014	2013	2012
Net income attributed to Vector Group Ltd.	$ 36,978	$ 38,944	$ 30,622
Income attributable to participating securities	(1,027)	(1,068)	(608)
Net income available to common stockholders attributed to Vector Group Ltd.	$ 35,951	$ 37,876	$ 30,014

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

Diluted EPS includes the dilutive effect of stock options, unvested restricted stock grants 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, 2014, 2013 and 2012:

	2014	2013	2012
Weighted-average shares for basic EPS	102,928,952	96,082,012	93,285,406
Plus incremental shares related to stock options and warrants	63,554	249,369	88,622
Weighted-average shares for diluted EPS	102,992,506	96,331,381	93,374,028

The following stock options, non-vested restricted stock and shares issuable upon the conversion of convertible debt were outstanding during the years ended December 31, 2014, 2013 and 2012 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,		
	2014	2013	2012
Number of stock options	—	—	—
Weighted-average exercise price	N/A	N/A	N/A
Weighted-average shares of non-vested restricted stock	—	28,875	3,859
Weighted-average expense per share	N/A	$ 15.86	$ 15.52
Weighted-average number of shares issuable upon conversion of debt	30,682,138	29,393,137	19,854,510
Weighted-average conversion price	$ 17.67	$ 14.50	$ 13.02

The Company's convertible debt was anti-dilutive in 2014, 2013 and 2012.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The components of investment securities available for sale at December 31, 2014 and 2013 were as follows:

	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
2014				
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
	$ 254,837	$ 94,801	$ (3,595)	$ 346,043
2013				
Marketable equity securities	$ 53,586	$ 65,851	$ (963)	$ 118,474
Marketable debt securities	53,063	1,497	(500)	54,060
	$ 106,649	$ 67,348	$ (1,463)	$ 172,534

The table below summarizes the maturity dates of fixed income securities at December 31, 2014.

Investment Type:	Market Value	Under 1 Year	1 Year up to 5 Years	More than 5 years
U.S. Government securities	$ 35,446	$ —	$ 35,446	$ —
Corporate securities	56,248	7,320	40,679	8,249
U.S. Government and agency	4,770	—	4,770	—
Commercial mortgage-backed securities	16,508	3,761	12,747	—
U.S. asset-backed securities	16,955	3,998	12,957	—
Index-linked U.S. bonds	2,098	—	2,098	—
Total fixed income securities by maturity dates	$ 132,025	$ 15,079	$ 108,697	$ 8,249

4. INVENTORIES

Inventories consist of:

	December 31, 2014	December 31, 2013
Leaf tobacco	$ 49,948	$ 49,140
Other raw materials	3,532	3,161
Work-in-process	879	353
Finished goods	62,876	67,201
E-Cigarettes	3,079	839
Inventories at current cost	120,314	120,694
LIFO adjustments	(29,991)	(27,198)
	$ 90,323	$ 93,496

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 December 31, 2014, Liggett had tobacco purchase commitments of approximately $23,988 and E-Cigarettes purchase commitments of $300. The Company has a single source supply agreement for fire safe cigarette paper through 2015.

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 $14,369 and $15,464 at December 31, 2014 and 2013, respectively.

All of the Company’s inventories at December 31, 2014 and 2013 have been reported under the LIFO method.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	December 31, 2014	December 31, 2013
Land and improvements	$ 1,442	$ 1,418
Buildings	15,418	14,950
Machinery and equipment	167,090	161,214
Leasehold improvements	17,212	16,614
	201,162	194,196
Less accumulated depreciation and amortization	(117,050)	(114,938)
	$ 84,112	$ 79,258

Depreciation and amortization expense for the years ended December 31, 2014, 2013 and 2012 was $17,843, $11,063 and $10,608, respectively.

Future machinery and equipment purchase commitments at Liggett were $3,266 and $3,796 at December 31, 2014 and 2013, respectively.

6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	December 31, 2014	December 31, 2013
Investment partnerships	$ 31,541	$ 20,041
Real estate partnership	698	747
Long-term investments at Cost	32,239	20,788
Investment partnership accounted for under the equity method	8,053	8,595
	$ 40,292	$ 29,383

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

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment partnerships	$ 31,541	$ 38,039	$ 20,041	$ 24,095
Real estate partnership	698	1,108	747	1,067
	$ 32,239	$ 39,147	$ 20,788	$ 25,162

The principal business of these investment partnerships is investing in investment securities and real estate. The estimated fair value of the investment partnerships was provided by the partnerships based on the indicated market values of the underlying assets or investment portfolio. The investments in these investment partnerships are illiquid and the ultimate realization of these

investments is subject to the performance of the underlying partnership and its management by the general partners. In the future, the Company may invest in other investments, including limited partnerships, real estate investments, equity securities, debt securities, derivatives and certificates of deposit, depending on risk factors and potential rates of return.

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

The Company's investments constituted greater than 5% of the invested funds of the partnerships for one partnership at December 31, 2014 and 2013. This partnership was accounted for on the equity method. In accordance with authoritative guidance for accounting for limited partnership investments, the Company has accounted for the remaining investments using the cost method of accounting because the investments did not meet the requirements for equity method accounting.

The Company invested $2,000 and $5,000 in two additional investment partnerships, respectively, in 2014. The principal business of these investment partnerships is investing in investment securities. The Company made a $5,000 additional investment in an existing investment partnership in 2014. The Company received cash distributions of $549, $769 and $207 from limited partnerships in 2014, 2013 and 2012, respectively.

The long-term investments are carried on the consolidated balance sheet at cost. The fair value determination disclosed above would be classified as Level 3 under fair value hierarchy disclosed in Note 17 if such assets were recorded on the consolidated balance sheet at fair value. The fair values were determined based on unobservable inputs and were based on company assumptions, and information obtained from the partnerships based on the indicated market values of the underlying assets of the investment portfolio.

The changes in the fair value of these investments were as follows:

	2014	2013
Balance as of January 1	$ 25,162	$ 18,353
Contributions	12,000	5,000
Distributions	(549)	(769)
Realized gain on liquidation of long-term investments	—	189
Unrealized gains reclassified into net income	—	(189)
Unrealized gain on long-term investments	2,534	2,578
Net change in long-term investments	2,534	2,389
Balance as of December 31	$ 39,147	$ 25,162

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

	December 31, 2014	December 31, 2013
Investment partnership	$ 8,053	$ 8,595

The changes in the fair value of these investments were as follows:

	2014	2013
Balance as of January 1	$ 8,595	$ 6,432
Equity income on long-term investments accounted for under the equity method	1,242	2,066
Unrealized (loss) gain on long-term investments	(1,784)	97
Net change in long-term investments	(1,784)	97
Balance as of December 31	$ 8,053	$ 8,595

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

7. 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. On December 13, 2013, an affiliate of New Valley acquired an additional 20.59% interest in Douglas Elliman from Prudential Real Estate Financial Services of America, Inc. for a purchase price of $60,000 in cash. The acquisition increased the Company's ownership position in Douglas Elliman from 50% to 70.59%.

As of December 31, 2012, the Company owned a 50% interest in Douglas Elliman, and the Company accounted for its 50% using the equity method of accounting. The Company consolidated Douglas Elliman on December 13, 2013 and recognized a gain of $60,842 to account for the difference between the carrying value and the fair value of the previously held 50% interest. The fair value of the equity interest immediately prior to the acquisition was $84,859. The Company used a combination of a discounted cash flow analysis and market-based valuation methodologies, which represent Level 3 fair value measurements, to measure the fair value of Douglas Elliman and to perform its preliminary purchase price allocation.

In 2014, the Company reassessed its initial purchase accounting allocations. The following table reconciles initial allocation to final allocation of acquired assets and liabilities

	Preliminary December 13, 2013	Measurement Period Adjustments	Final December 13, 2013
Cash and cash equivalents	$ 116,935	$ —	$ 116,935
Other current assets	12,647	—	12,647
Property, plant and equipment, net	20,275	—	20,275
Goodwill	72,135	(1,729)	70,406
Trademarks	80,000	—	80,000
Other intangible assets, net	12,928	5,856	18,784
Other non-current assets	3,384	—	3,384
Total assets acquired	$ 318,304	$ 4,127	$ 322,431
Notes payable - current	$ 201	$ —	$ 201
Other current liabilities	26,247	105	26,352
Notes payable - long term	420	—	420
Other long-term liabilities	—	4,022	4,022
Total liabilities assumed	$ 26,868	$ 4,127	$ 30,995
Net assets acquired	$ 291,436	$ —	$ 291,436
Non-controlling interest	$ 85,703	$ —	$ 85,703

Revenues of the acquired operations from December 13, 2013 through December 31, 2013 were $20,482 and net income was $732.

Equity Method of Accounting. Prior to December 13, 2013, New Valley accounted for its 50% interest in Douglas Elliman under the equity method of accounting. New Valley's equity income from Douglas Elliman was $22,974 for the period of January 1 through December 13, 2013. New Valley recorded income of $16,741 for the year ended December 31, 2012 associated with Douglas Elliman.

Summarized financial information as of December 13, 2013, for the period January 1 through December 13, 2013 and for the year ended December 31, 2012, respectively, for Douglas Elliman is presented below. Included in the results was a management fee of $2,204 for the period of January 1 through December 13, 2013 and $2,300 for the year ended December 31, 2012. New Valley received cash distributions from Douglas Elliman of $3,286 for the period of January 1 through December 13, 2013 and $5,540 for the year ended December 31, 2012.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 13, 2013
Cash	$ 117,660
Other current assets	11,922
Property, plant and equipment, net	16,293
Trademarks	21,663
Goodwill	38,776
Other intangible assets, net	431
Other non-current assets	3,384
Notes payable - current	201
Other current liabilities	26,921
Notes payable - long term	420
Other long-term liabilities	8,862
Members' equity	173,725

	January 1 through December 13, 2013	Year Ended December 31, 2012
Revenues	$ 416,453	$ 378,175
Costs and expenses	369,852	346,617
Depreciation expense	3,790	3,422
Amortization expense	213	242
Other income (expense)	(22)	1,829
Interest expense, net	23	62
Income tax expense	996	780
Net income	$ 41,557	$ 28,881

Douglas Elliman's current operations are primarily located in the New York, Miami and Los Angeles metropolitan areas. Local and regional economic and general business conditions in these markets could differ materially from prevailing conditions in other parts of the country.

Investments in non-consolidated real estate businesses. New Valley also holds equity investments in various real estate projects domestically and internationally.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	December 31, 2014	December 31, 2013
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	6,579
The Whitman	—	1,165
The Marquand	12,000	7,000
11 Beach Street	12,328	11,160
20 Times Square (f/k/a 701 Seventh Avenue)	12,481	11,148
111 Murray Street	27,319	19,256
160 Leroy Street	1,467	1,150
PUBLIC Chrystie House (f/k/a Chrystie Street)	3,300	2,048
25-19 43rd Avenue	733	—
Queens Plaza (f/k/a 23-10 Queens Plaza South)	11,082	8,058
8701 Collins Avenue	6,144	3,794
125 Greenwich Street	9,308	—
9040 Sunset Boulevard West Hollywood, CA	5,604	—
Condominium and Mixed Use Development	108,150	71,358
Maryland Portfolio	3,234	3,498
ST Portfolio	15,283	15,984
Apartment Buildings	18,517	19,482
Park Lane Hotel	19,341	19,514
Hotel Taiwana	7,629	7,428
Coral Beach and Tennis Club	2,816	2,964
Hotels	29,786	29,906
Other	1,970	2,419
Investments in real estate ventures	$ 163,460	$ 128,202

Land Development:

Milanosesto Holdings. In October 2010, New Valley acquired a 7.2% interest in Sesto Holdings S.r.l. (“Sesto”) for $5,000. Sesto holds a 42% interest in an entity that has purchased a land plot of approximately 322 acres in Milan, Italy. Sesto intends to develop the land plot as a multi-parcel, multi-building mixed use urban regeneration project. Sesto is a variable interest entity; however, New Valley is not the primary beneficiary. New Valley accounts for Sesto under the equity method of accounting. New Valley’s maximum exposure to loss as a result of its investment in Sesto was $5,037 at December 31, 2014.

Condominium and Mixed Use Development:

Chelsea Eleven. In September 2008, New Valley purchased for $12,000 a 40% interest in New Valley Oaktree Chelsea Eleven, LLC, which lent $29,000 and contributed $1,000 for 29% of the capital in Chelsea Eleven, LLC (“Chelsea”). Chelsea is developing a condominium project in Manhattan, New York, which consists of 54 luxury residential units and one commercial unit. New Valley Chelsea is operating as an investment vehicle for the Chelsea real estate development project. New Valley Chelsea was a variable interest entity; however, the Company was not the primary beneficiary.

In February and April 2012, Chelsea closed on the remaining utility and two residential units of the 54 unit building and the project was concluded. The Company received net distributions of $9,483 from New Valley Oaktree Chelsea Eleven LLC for the year ended December 31, 2012. New Valley accounted for its 40% interest in New Valley Oaktree Chelsea Eleven, LLC under the equity method of accounting. New Valley recorded equity income of $3,137 for the year ended December 31, 2012 related to New Valley Chelsea. New Valley had no exposure to loss as a result of its investment in Chelsea as of December 31, 2014. The project has concluded.

Fifty Third-Five Building. In September 2010, New Valley contributed $2,500 to a joint venture, Fifty Third-Five Building LLC (“JV”), of which it owns 50%. The JV was formed for the purposes of acquiring a defaulted real estate loan, collateralized by real estate located in New York City. In October 2010, New Valley LLC contributed an additional $15,500 to the JV and the JV acquired the defaulted loan for approximately $35,500. In December 2012, all outstanding principal and interest on the loan was repaid and the defaulted note was retired.

New Valley received a liquidating distribution of $20,900 from the JV in December 2012 and$125 in May 2013. This investment was accounted for under the equity method of accounting. New Valley recorded equity income of $125 and $2,900 for the years ended December 31, 2013 and 2012, respectively. New Valley had no exposure to loss as a result of its investment in the JV as of December 31, 2014. The project has concluded.

10 Madison Square Park West. During 2011, New Valley invested $5,489 for an approximate indirect 5% interest in MS/WG 1107 Broadway Holdings LLC. In September 2011, MS/WG 1107 Broadway Holdings LLC acquired the 1107 Broadway property in Manhattan, NY. 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. MS/WG 1107 Broadway Holdings LLC is a variable interest entity; however, New Valley is not the primary beneficiary. During 2013, all partners in the joint venture contributed pro-rata amounts to the joint venture, and New Valley’s portion was $1,013. New Valley accounts for MS/WG 1107 Broadway Holdings LLC under the equity method of accounting. New Valley received distributions of $2,449 and recognized income of $2,254 for the year ended December 31, 2014. New Valley’s maximum exposure to loss as a result of its investment in MS/WG 1107 Broadway Holdings LLC was $6,384 at December 31, 2014.

The Whitman. In February 2011, New Valley invested $900 for an approximate 12% interest in Lofts 21 LLC which was marketed as The Whitman. Lofts 21 LLC acquired an existing property in Manhattan, NY to develop into a luxury residential condominium. The property is located in the Flatiron District / NoMad neighborhood of Manhattan in New York City. Construction has been completed and three of the four units were sold in 2013 and the remaining unit was sold in 2014.

The investment is a variable interest entity; however, New Valley is not the primary beneficiary. New Valley accounts for Lofts 21 LLC under the equity method of accounting. New Valley received distributions of $1,717 and $260 in 2014 and 2013, respectively, and recorded equity income of $552 and $525 for the years ended December 31, 2014 and 2013, respectively. New Valley’s has no maximum exposure to loss as a result of this investment in Lofts 21 LLC at December 31, 2014. The investment has concluded.

The Marquand. In December 2011, New Valley invested $7,000 for an approximate 18% interest in a condominium conversion project. The building is a 12-story, 105,000 square foot residential rental building located on 68th Street between Fifth Avenue and Madison Avenue in Manhattan, NY. Of the 29 units available for sale, eight units were sold in 2014.

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 income of $5,000 for the year ended December 31, 2014. New Valley's maximum exposure to loss as a result of its investment in The Marquand was $12,000 at December 31, 2014.

11 Beach Street. New Valley invested $9,642 in June 2012 and a total of $1,519 in 2013 for an approximate 49.5% interest in 11 Beach Street Investor LLC (the "Beach JV"). Beach JV plans to renovate and convert an existing office building in Manhattan into a luxury residential condominium. During 2014, all partners in the joint venture contributed pro-rata amounts to the joint venture, and New Valley's portion was $2,178. During 2014, all partners in the joint venture received pro-rata amounts from the joint venture for contributions in excess of need, and New Valley's portion was $1,010. Beach JV is a variable interest entity; however, New Valley is not the primary beneficiary. New Valley accounts for its interest in Beach JV under the equity method of accounting. New Valley's maximum exposure to loss on its investment in Beach JV was $12,328 at December 31, 2014.

20 Times Square. In August and September 2012, New Valley invested a total of $7,800 for an approximate 11.5% interest in a joint venture that acquired property located at 701 Seventh Avenue in Times Square in Manhattan. The joint venture plans to redevelop the property for retail space and signage, as well as a site for a potential hotel. The investment closed in October 2012 and New Valley invested an additional $1,507 at closing. All partners in the joint venture contributed pro-rata amounts to the joint venture, and New Valley's portion was $2,421 and $4,304 in 2014 and 2013, respectively. All partners in the joint venture received pro-rata amounts from the joint venture for contributions in excess of need, and New Valley's portion was $1,088 and $2,463 in 2014 and 2013, respectively.

New Valley may have additional future capital contributions of approximately $14,000. The property, located on the northeast corner of Seventh Avenue and 47th Street, totals approximately 120,000 gross square feet and is a rectangular corner parcel currently occupied by two buildings. 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 NV 701 Seventh Avenue was $12,481 at December 31, 2014.

111 Murray Street. In May 2013, New Valley acquired a 25% interest in a joint venture, which had the rights to acquire a 15-story building on a 31,000 square-foot lot in the TriBeCa neighborhood of Manhattan, NY. In July 2013, the joint venture closed on the acquisition of the property. The joint venture plans to build a mixed-use property that includes both commercial space and a 139-unit, luxury condominium building on the building's site. Development began in 2014 and is expected to be completed by March 2018. New Valley had invested $19,256 in the joint venture as of December 31, 2013 in the form of capital contributions and a loan bearing interest at 12% per annum, compounded quarterly, to the joint venture partner. During 2014, all partners in the joint venture contributed pro-rata amounts to the joint venture, and New Valley's portion was $8,063. 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 was $27,319 as of December 31, 2014.

160 Leroy Street. In March 2013, a subsidiary of New Valley, NV Leroy LLC, invested $1,150 for an approximate 5% 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. Subsequent to its initial investment, New Valley acquired a 50% partner in its investment in NV Leroy LLC. The investment in NV Leroy LLC is a variable interest entity and New Valley is the primary beneficiary. As a result of the consolidation of NV Leroy LLC, New Valley carries its investment at $1,467 and non-controlling interest of $733 related to the investment. NV Leroy LLC interest in the development project is a variable interest entity; however, NV Leroy LLC is not the primary beneficiary. NV Leroy LLC accounts for this investment under the equity method of accounting. New Valley's maximum exposure to loss as a result of its investment in Leroy Street was $734 at December 31, 2014.

PUBLIC Chrystie House. In December 2012, New Valley invested $1,973 for an approximate 49% interest in WG Chrystie LLC ("Chrystie Street") which owns a 37.5% ownership interest in 215 Chrystie Venture LLC which, through its affiliate, owns a condominium conversion project located in 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. All partners in the joint venture contributed pro-rata amounts to the joint venture, and New Valley's portion was $1,252 and $75 in 2014 and 2013, respectively. 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 Chrystie Street was $3,300 at December 31, 2014.

25-19 43rd Avenue - The Dutch LIC. In May 2014, New Valley invested $733 for an approximate 9.9% interest in 43rd Avenue Investors LLC. The joint venture plans to develop 87,000 square feet of residential condominium units in Long Island City, New York. Construction of the 86-unit building commenced in September 2014. 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 43rd Avenue Investors LLC was $733 at December 31, 2014.

Queens Plaza South. In December 2012 and August 2013, New Valley invested $7,350 for an approximate 45.37% interest in QPS 23-10 Venture LLC which through its affiliate owns a condominium conversion project, 23-10 Queens Plaza South, located in Queens, New York. All partners in the venture contributed pro-rata amounts to the venture, and New Valley's portion was $4,532 and $708 in 2014 and 2013, respectively. During 2014, all partners in the venture received pro-rata amounts from the venture for contributions in excess of need, and New Valley's portion was $1,508. New Valley's investment percentage did not change. The joint venture plans to develop a new apartment tower with 472,574 square feet of residential space. 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 Queens Plaza was $11,082 at December 31, 2014.

8701 Collins Avenue. In December 2013, New Valley invested $3,750 in a joint venture to acquire a 15% interest in the Howard Johnson's Dezerland Beach hotel in Miami Beach, Florida, which will be redeveloped into modern hotel and residential condominium units. In 2014, all partners in the venture contributed pro-rata amounts to the venture, and New Valley's portion was $2,250. 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 income of $100 for the year ended December 31, 2014, related to the hotel operations. New Valley's maximum exposure to loss as a result of its investment in 8701 Collins Avenue was $6,144 at December 31, 2014.

125 Greenwich Street. In August 2014, New Valley invested $7,308 for an approximate 78.5% interest in NV Greenwich LLC. The investment in NV Greenwich is a variable interest entity and New Valley is the primary beneficiary. As a result of the consolidation of NV Greenwich LLC, New Valley carries its investment at $9,308 and has non-controlling interest of $2,000 related to the investment. NV Greenwich LLC ultimately owns 13.3% 125 Greenwich JV LLC. The joint venture plans to develop a residential condominium tower in lower Manhattan. The investment in 125 Greenwich JV LLC is a variable interest entity; however, NV Greenwich LLC is not the primary beneficiary. NV Greenwich LLC accounts for this investment under the equity method of accounting. New Valley's maximum exposure to loss as a result of its investment in 125 Greenwich Street was $7,308 at December 31, 2014.

9040 Sunset Boulevard. In October 2014, New Valley invested $5,604 for an approximate 48.5% interest in 9040 Sunset Boulevard. The joint venture plans to develop a hotel and condominium complex. 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 9040 Sunset Boulevard was $5,604 at December 31, 2014.

Apartment & Office Buildings:

Maryland Portfolio. In July 2012, New Valley invested $5,000 for an approximate 30% interest in a joint venture that owns a 25% interest in a portfolio of approximately 5,500 apartment units primarily located in Baltimore County, Maryland. 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 received distributions of $613, $575 and $116 for the years ended December 31, 2014, 2013 and 2012, respectively. New Valley recorded equity income of $349 and equity loss of $542 and $269 for the years ended December 31, 2014, 2013, and 2012, respectively. New Valley's maximum exposure to loss as a result of its investment in NV Maryland was $3,234 at December 31, 2014.

ST Portfolio. In November 2013, New Valley invested $16,365 for an approximate 16.4% interest in a joint venture that owns four Class A multi-family rental assets in partnership with Winthrop Realty Trust. The four buildings are located in: Houston, Texas; Phoenix, Arizona; San Pedro, California; and Stamford, Connecticut. The buildings include 761 apartment units and approximately 25,000 square feet of retail space. In 2014, the San Pedro, California building was sold and the proceeds were used to pay down debt. The investment is not a variable interest entity. New Valley accounts for this investment under the equity method of accounting. New Valley received a distribution of $693 for the year ended December 31, 2014 and recorded an equity loss of $8 and $381 for the year ended December 31, 2014 and 2013, respectively. New Valley's maximum exposure to loss as a result of its investment in ST Residential was $15,283 at December 31, 2014.

SOCAL Portfolio. On October 28, 2011, a newly-formed joint venture, between affiliates of New Valley and Winthrop Realty Trust, entered into an agreement with Wells Fargo Bank to acquire a $117,900 C-Note (the "C-Note") for a purchase price of $96,700. The C-Note was the most junior tranche of a $796,000 first mortgage loan originated in July 2007 which was collateralized by a 31 property portfolio of office properties situated throughout southern California, consisting of approximately 4.5 million square feet. The C-Note bore interest at a rate per annum of LIBOR plus 310 basis points, required payments of interest only prior to maturity and matured on August 9, 2012. On November 3, 2011, New Valley invested $25,000 for an approximate 26% interest in the joint venture. The investment was a variable interest entity; however, New Valley was not the primary beneficiary.

The summarized financial information of the joint venture was as follows:

	Year Ended December 31, 2012
Interest and dividend income	$ 25,122
Costs and expenses	424
Interest expense, net	7,794
Income tax expense	12
Net income	$ 16,892

On September 28, 2012, all outstanding principal and interest was repaid and the C-Note was retired. New Valley accounted for this investment under the equity method of accounting. New Valley received a liquidating distribution of $32,275 from the joint venture on September 28, 2012. New Valley received a liquidating distribution of $5 related to the winding down of the joint venture. New Valley recorded equity income of $5 and $7,180 for the years ended December 31, 2013, and 2012, respectively. New Valley had no exposure to loss as a result of its investment in NV SOCAL LLC at December 31, 2014. The investment has concluded.

Hotels:

Park Lane Hotel. In November 2013, New Valley acquired an approximate 5% interest in a joint venture that acquired the Park Lane Hotel, which is presently a 47-story, 605-room independent hotel owned and operated by the Helmsley Family Trust and Estate. The joint venture is developing plans for a hotel and luxury residential condominiums. The development is estimated to take approximately 30 months from commencement of construction. New Valley had invested $19,331 in the joint venture as of December 31, 2013. New Valley contributed an additional of $2,470 in 2014, along with the contributions of additional capital of the investment partners. New Valley's ownership percentage did not change.

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 an equity loss of $2,643 for the year ended December 31, 2014 and income of $183 for the years ended December 31, 2013, related to the hotel operations. New Valley's maximum exposure to loss as a result of its investment in Park Lane Hotel was $19,341 at December 31, 2014.

Hotel Taiwana. In October 2011, New Valley invested $2,658 for an approximate 17% interest in Hill Street Partners LLP ("Hill"). Hill purchased a 37% interest in Hill Street SEP ("Hotel Taiwana") which owned a portion of a hotel located in St. Barthelemy, French West Indies. The hotel consists of 30 suites, 6 pools, a restaurant, lounge and gym. New Valley contributed additional capital of $514 and $4,770 in 2014 and 2013, respectively, along with contributions of additional capital by the other investment partners of Hill Street Partners LLP ("Hill"). New Valley's investment percentage did not change. Hill used the contributions to purchase the remaining interest in Hotel Taiwana and make improvements to the property. The purpose of the investment is to renovate and the sell the hotel in its entirety or as hotel-condos.

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 an equity loss of $313 for the year ended December 31, 2014, related to the hotel operations. New Valley recorded no equity income for the years ended December 31, 2013 and 2012, respectively. New Valley's maximum exposure to loss as a result of its investment in Hotel Taiwana was $7,629 at December 31, 2014.

Coral Beach. In December 2013, New Valley invested $3,030 to acquire a 49% interest in a joint venture that acquired a 52-acre site in Bermuda. The property consists of the Horizons Hotel, which includes 56 hotel units, and Coral Beach and Tennis

Club, which includes 31 hotel units, in Bermuda. The Coral Beach and Tennis Club is open while the Horizons hotel is closed. Renovation began on the Coral Beach and Tennis Club in 2014.

The investment is not a variable interest entity. New Valley accounts for this investment under the equity method of accounting. New Valley recorded an equity loss of $1,299 and $66 for the years ended December 31, 2014 and 2013, respectively, related to the hotel operations. New Valley's maximum exposure to loss as a result of its investment in Coral Beach was $2,816 at December 31, 2014.

Real Estate Held for Sale, net:

The components of "Real Estate Held for Sale, net" were as follows:

	December 31, 2014	December 31, 2013
Escena, net	$ 10,643	$ 10,625
Indian Creek	—	10,286
Investment in consolidated real estate businesses, net	$ 10,643	$ 20,911

Escena. In March 2008, a subsidiary of New Valley purchased a loan collateralized by a substantial portion of a 450-acre approved master planned community in Palm Springs, California known as "Escena." The loan, which was in foreclosure, was purchased for its $20,000 face value plus accrued interest and other costs of $1,445. The collateral consists of 867 residential lots with site and public infrastructure, an 18-hole golf course, a substantially completed clubhouse, and a seven-acre site approved for a 450-room hotel.

In April 2009 New Valley completed the foreclosure process and took title to the collateral. New Valley's subsidiary also entered into a settlement agreement with Lennar Corporation, a guarantor of the loan, which required the guarantor to satisfy its obligations under a completion guaranty by completing improvements to the project in settlement, among other things, of its payment guarantees. The construction of these improvements to the project is substantially complete. In June 2009, the Company received $500 from the guarantor pursuant to the settlement agreement.

As a result of this settlement and changes in the values of real estate, the Company recorded impairment charges of $5,000 and $4,000 for the years ended December 31, 2009 and 2008, respectively.

The assets have been classified as an "Real estate held for sale, net" on the Company's consolidated balance sheet and the components are as follows:

	December 31, 2014	December 31, 2013
Land and land improvements	$ 8,953	$ 8,930
Building and building improvements	1,865	1,530
Other	1,568	1,577
	12,386	12,037
Less accumulated depreciation	(1,743)	(1,412)
	$ 10,643	$ 10,625

The Company recorded an operating loss of $760, $1,184 and $628 for the years ended December 31, 2014, 2013 and 2012, respectively, from Escena.

In October 2013, the Company sold 200 of the 867 residential lots for approximately $22,700, net of selling costs. The remaining project consists of 667 residential lots, consisting of both single family and multi-family lots, an 18-hole golf course, clubhouse restaurant and golf shop, and a seven-acre site approved for a 450-room hotel.

Investment in Indian Creek. In March 2013, New Valley invested $7,616 for an 80% interest in Timbo LLC ("Indian Creek") which owns a residential real estate project located on Indian Creek, Florida. As a result of the 80% ownership interest, the consolidated financial statements of the Company include the balances of Indian Creek which included land and building of approximately $9,945, a line of credit of $3,570, equity interest of $4,742 and a minority interest of $1,185 as of December 31, 2013.

In May 2013, Indian Creek entered into a $8,400 line of credit for a construction loan, that bears interest at the Overnight LIBOR rate plus 250 basis points, floating, per annum.

In May 2014, the Indian Creek property was sold for $14,400 and New Valley received a distribution of approximately $7,100. New Valley recognized income of approximately $2,400 from the sale for the year ended December 31, 2014. The project has concluded.

Real Estate Market Conditions. Because of the risks and uncertainties of the real estate markets, the Company will continue to perform additional assessments to determine the impact of the markets, if any, on the Company's consolidated financial statements. Thus, future impairment charges may occur.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	December 31, 2014	December 31, 2013
Goodwill	$ 70,791	$ 70,406
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	11,670	17,191
Total goodwill and other intangibles, net	$ 269,972	$ 275,108

The carrying amounts of goodwill related to the the December 13, 2013 acquisition of an additional 20.59% interest in Douglas Elliman with changes therein were as follows:

	Goodwill
Balance at of January 1, 2013	$ —
Acquisitions	72,135
Purchase accounting adjustments	(1,729)
Balance at December 31, 2013	$ 70,406
Acquisitions [(1)]	385
Balance as of December 31, 2014	$ 70,791

(1) In December 2014, Douglas Elliman completed the acquisition of Joshua & Co. of Aspen, Inc., a real estate broker that serves the Aspen, Colorado market for approximately $500 cash. Of the total purchase price of $500, $105 was attributed to intangible assets, $385 was attributed to goodwill, and $10 was attributed to net assets acquired. The goodwill of $385 is attributable to the acquired workforce in place and synergies expected to arise after the acquisition. The amount of goodwill expected to be deductible for tax purposes is $385.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the fiscal year ended December 31, 2014, the Company retrospectively adjusted a portion of its goodwill with respect to the Douglas Elliman Acquisition. Such adjustments resulted in a net decrease of $1,729 to the goodwill that was recorded at December 31, 2013. As required by US GAAP, adjustments to provisional goodwill recognized in a business combination must be presented as if the accounting had been complete at the acquisition date. As such, the Company has revised comparative information for prior periods presented in the financial statements and has included the impact of these adjustments in the balance as of December 31, 2013 in the table above and on the accompanying consolidated balance sheet as of December 31, 2013.

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

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 qualitative assessment for the year ended December 31, 2014 and determined that performing the first step of the two-step impairment test was unnecessary.

Other intangible assets and contract liabilities assumed were as follows:

	Useful Lives in Years	December 31, 2014	December 31, 2013
Intangible asset associated with benefit under the MSA	Indefinite	$ 107,511	$ 107,511
Trademark - Douglas Elliman	Indefinite	80,000	80,000
Favorable leases	1 - 10	13,444	13,444
Other intangibles	1 - 5	5,690	5,340
		19,134	18,784
Less: Accumulated amortization on amortizable intangibles		(7,464)	(1,593)
Other intangibles, net		$ 11,670	$ 17,191
Contract liabilities assumed:			
Unfavorable leases	1 - 10	$ 4,022	$ 4,022
Less: Accumulated amortization on amortizable intangibles		(808)	(25)
Unfavorable leases, net		$ 3,214	$ 3,997

The intangible asset associated with the benefit under the MSA relates to the market share payment exemption of The Medallion Company Inc. (now known as Vector Tobacco Inc., acquired in April 2002, under the MSA, which states payments under the MSA continue in perpetuity. As a result, the Company believes it will realize the benefit of the exemption for the foreseeable future. The trademark intangible is attributed to the acquisition of the Douglas Elliman Realty brand name which the Company plans to continue using for the foreseeable future.

The fair value of the intangible assets associated with benefit under the MSA are calculated using a “relief from royalty payments” method. This approach involves two steps: (i) estimating reasonable royalty rates for its trademarks and intangible asset associated with the benefit under MSA 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 each trademark and the intangible asset associated with the benefit under the MSA. The Company performed its impairment test for the year ended December 31, 2014 and no impairment was noted.

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, 2014 and no impairment was noted.

The fair value of the other intangibles with finite lives includes favorable leases arising from leases with terms that are less than market value assumed in the business combination. Other intangibles with finite lives also includes backlog and listing inventory for Development sales.

The unfavorable leases were from lease terms that exceeded market and gave rise to a liability that were assumed in the business combination. The unfavorable leases are grouped with long-term Other liabilities.

Amortization of other intangibles was $5,088 and $1,568 for the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, respectively, $1,768 and $1,356 were taken as an offset to revenue, which relate to amortization of backlog and listing inventory intangible assets, $4,034 and $222 were taken as rent expense for amortization of favorable leases, $783 and $25 were taken as offsets to rent expense for amortization of unfavorable leases, and $69 and $15 were taken as other amortization expense. Amortization expense is estimated to be $4,890, $1,644, $996, and $948, and amortization income from unfavorable lease contracts of $124 during the five years ended December 31, 2015 through 2019, respectively, and amortization expense of $91 thereafter.

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

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

	December 31, 2014	December 31, 2013
Vector:		
7.75% Senior Secured Notes due 2021, including premium of $9,275 and $0	$ 609,275	$ 450,000
6.75% Variable Interest Senior Convertible Note due 2015 (as amended), net of unamortized discount of $0 and $19,311*	25,000	30,689
6.75% Variable Interest Senior Convertible Exchange Notes due 2014, net of unamortized discount of $0 and $25,944*	—	81,586
5.5% Variable Interest Senior Convertible Debentures due 2020, net of unamortized discount of $98,831 and $0*	159,919	—
7.5% Variable Interest Senior Convertible Notes due 2019, net of unamortized discount of $146,634 and $155,817*	83,366	74,183
Liggett:		
Revolving credit facility	17,767	30,424
Term loan under credit facility	3,589	3,884
Equipment loans	13,966	17,252
Other	469	4,325
Total notes payable, long-term debt and other obligations	913,351	692,343
Less:		
Current maturities	(52,640)	(151,577)
Amount due after one year	$ 860,711	$ 540,766

* The fair value of the derivatives embedded within the 6.75% Variable Interest Senior Convertible Note ($884 at December 31, 2014 and $6,607 at December 31, 2013, respectively), the 6.75% Variable Interest Senior Convertible Exchange Notes ($0 at December 31, 2014 and $12,521 at December 31, 2013, respectively), the 5.50% Variable Interest Senior Convertible Debentures ($80,864 at December 31, 2014 and $0 at December 31, 2013, respectively), and the 7.5% Variable Interest Senior Convertible Debentures ($87,638 at December 31, 2014 and $92,934 at December 31, 2013, respectively) is separately classified as a derivative liability in the condensed consolidated balance sheets.

Senior Secure Notes - Vector:

11% Senior Secured Notes due 2015:

On January 29, 2013, the Company announced a cash tender offer with respect to any and all of its outstanding $415,000 principal amount of its 11% Senior Secured Notes due 2015. The Company retired $336,315 of the 11% Senior Secured Notes at a premium of 104.292%, plus accrued and unpaid interest on February 12, 2013. The remaining $78,685 of the 11% Senior Secured Notes were called and retired on March 14, 2013 at a redemption price of 103.667% plus accrued and unpaid interest. The Company recorded a loss on the extinguishment of the debt of $21,458 for the year ended December 31, 2013. The loss included premium and tender costs of $17,820 and non-cash interest expense of $3,638 related to the write-off of net unamortized debt discount and deferred finance costs.

7.75% Senior Secured Notes due 2021:

In February 2013, the Company issued $450,000 of its 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. The Company used the net proceeds of the issuance for a cash tender offer announced on January 29, 2013, with respect to any and all of its outstanding 11% Senior Secured Notes due 2015.

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. The Company 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 the Company 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. At any time prior to February 15, 2016, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of the 7.75% Senior Secured Notes with the net proceeds of certain equity offerings at 107.75% of the aggregate principal amount thereof, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date. In the event of a change of control, as defined in the indenture governing the 7.75% Senior Secured Notes, each holder of the 7.75% Senior Secured Notes may require the Company to repurchase some or all of its 7.75% Senior Secured Notes at a repurchase price equal to 101% of their aggregate principal amount plus accrued and unpaid interest and liquidated damages, if any to the date of purchase.

The 7.75% Senior Secured Notes are guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of the Company that are engaged in the conduct of the Company’s cigarette businesses. (See Note 20.) 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.

In connection with the issuance of the 7.75% Senior Secured Notes, the Company entered into a Registration Rights Agreement. The Company agreed to consummate a registered exchange offer for the 7.75% Senior Secured Notes within 360 days after the date of the initial issuance of the 7.75% Senior Secured Notes. In June 2013, the Company completed an offer to exchange the 7.75% Senior Secured Notes issued in February 2013 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 indenture contains covenants that restrict the payment of dividends by the Company if the Company’s consolidated earnings before interest, taxes, depreciation and amortization, as defined in the indenture, for the most recently ended four full quarters is less than $75,000. The indenture also restricts the incurrence of debt if the Company’s Leverage Ratio and its Secured Leverage Ratio, as defined in the indenture, exceed 3.0 and 1.5, respectively. The Company’s Leverage Ratio is defined in the indenture as the ratio of the Company’s and the guaranteeing subsidiaries’ total debt less the fair market value of the Company’s cash, investments in marketable securities and long-term investments to Consolidated EBITDA, as defined in the indenture. The Company’s Secured Leverage Ratio is defined in the indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness.

On April 15, 2014, the Company completed the sale of $150,000 principal amount of its 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. The Company received net proceeds of approximately $158,670 after deducting underwriting discounts, commissions, fees and offering expenses. The Company will amortize the deferred costs and debt premium related to the additional Senior Secured Notes over the estimated life of the debt.

In August 2014, the Company 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.

Variable Interest Senior Convertible Debt — Vector:

Vector has outstanding three series of variable interest senior convertible debt. All three series of debt pay interest on a quarterly basis at a stated rate plus an additional amount of interest on each payment date. The additional amount is based on the amount of cash dividends paid during the prior three-month period ending on the record date for such interest payment multiplied by the total number of shares of its common stock into which the debt would be convertible on such record date (the "Additional Interest").

6.75% Variable Interest Senior Convertible Note due 2015, as amended:

On May 11, 2009, the Company issued in a private placement the 6.75% Note in the principal amount of $50,000. The purchase price was paid in cash ($38,225) and by tendering $11,005 principal amount of the 5% Notes, valued at 107% of principal amount. The note pays interest ("Total Interest") on a quarterly basis at a rate of 3.75% per annum plus additional interest, which is based on the amount of cash dividends paid during the prior three-month period ending on the record date for such interest payment multiplied by the total number of shares of its common stock into which the debt will be convertible on such record date. Notwithstanding the foregoing, however, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 6.75% per annum. The note is convertible into the Company's common stock at the holder's option. The conversion price as of December 31, 2014 of $11.223 per share (approximately 89.1021 shares of common stock per $1,000 principal amount of the note) is subject to adjustment for various events, including the issuance of stock dividends.

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 2,227,553 of the Company's common shares. The Company recorded non-cash accelerated interest expense related to the converted debt of $3,679 for the year ended December 31, 2014. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $25,000.

On November 14, 2014, the Note was amended whereby the stated maturity date of the Note was extended from November 15, 2014 to February 15, 2015. The outstanding principal balance as of December 31, 2014 was $25,000. On February 3, 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 2,227,553 of our common stock.

The purchaser of the 6.75% Note is an entity affiliated with Dr. Phillip Frost, who reported, after the consummation of the sale, beneficial ownership of approximately 11.7% of the Company's common stock. Dr. Frost has reported that entities affiliated with him had beneficial ownership of approximately 15.3% of the Company's common stock following the purchase of additional shares in a privately-negotiated transaction with an existing stockholder.

6.75% Variable Interest Senior Convertible Exchange Notes due 2014:

In June 2009, the Company entered into agreements with certain holders of the 5% Notes to exchange their 5% Notes for the Company's 6.75% Exchange Notes. In June 2009, certain holders of $99,944 principal amount of the 5% Notes exchanged their 5% Notes for $106,940 of the 6.75% Exchange Notes. In November 2009, certain holders of $555 of the 5% Notes exchanged their 5% Notes for $593 of the Company's 6.75% Exchange Notes.

The Company issued its 6.75% Exchange Notes to the holders in reliance on the exemption from the registration requirements of the Securities Act afforded by Section 3(a)(9) thereof. The notes pay interest ("Total Interest") on a quarterly basis beginning August 15, 2009 at a rate of 3.75% per annum plus additional interest, which is based on the amount of cash dividends paid during the prior three-month period ending on the record date for such interest payment multiplied by the total number of shares of its common stock into which the debt will be convertible on such record date. Notwithstanding the foregoing, however, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 6.75% per annum.

On May 20, 2014, a holder of the 6.75% Variable Interest Senior Convertible Exchange Notes due 2014 converted $7,500 principal balance of the $107,530 Notes into 589,036 of the Company's common shares. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $7,500.

In August, 2014, holders of the 6.75% Variable Interest Senior Convertible Exchange Notes due 2014 converted $32,415 principal balance of the $107,530 Notes into 2,545,813 of the Company's common shares. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $32,415.

In November, 2014, holders of the 6.75% Variable Interest Senior Convertible Exchange Notes due 2014 converted the remaining $67,615 principal balance of the $107,530 Notes into 5,310,334 of the Company's common shares. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $67,615.

The Company recorded non-cash accelerated interest expense related to the converted debt of $1,526 for the year ended December 31, 2014.

3.875% Variable Interest Senior Convertible Debentures due 2026:

In July 2006, the Company sold $110,000 of its 3.875% variable interest senior convertible debentures due 2026 in a private offering to qualified institutional buyers in accordance with Rule 144A under the Securities Act.

The debentures paid interest on a quarterly basis at a rate of 3.875% per annum plus Additional Interest (the "Debenture Total Interest"). Notwithstanding the foregoing, however, the interest payable on each interest payment date was the higher of (i) the Debenture Total Interest and (ii) 5.75% per annum. The debentures were convertible into the Company's common stock at the holder's option.

The Company was required to mandatorily redeem on June 15, 2011, 10% of the total aggregate principal amount outstanding, or $11,000, of the Company's 3.875% Variable Interest Senior Convertible Debentures due 2026. Other than the holders of $7 principal amount of the debentures, who had 10% of their aggregate principal amount of debentures mandatorily redeemed, each holder of the debentures chose to convert its pro-rata portion of the $11,000 of principal amount of debentures into 792,979 shares of the Company's common stock. The Company recorded a non-cash accelerated interest expense related to the converted debt of $1,217 for the year ended December 31, 2012, on the conversion of the debentures. The debt conversion resulted in a non-cash financing transaction of $10,993.

Holders of the Debentures converted $2 principal amount of the Debentures into 138 shares of the Company's common stock in February 2012, $31,370 principal amount into 2,155,718 shares of common stock in June 2012, and $24,406 principal amount into 1,677,155 shares of common stock in September 2012. The Company recorded non-cash accelerated interest expense related to the converted debt of $14,960 for the year ended December 31, 2012. The debt conversion resulted in a reduction of debt and an increase to equity in the amount of $55,778. As of December 31, 2012, the principal amount of the Debentures outstanding was $43,222.

On October 29, 2013, the Company issued a Notice of Optional Redemption to each holder of the Debentures. Pursuant to the Notice of Optional Redemption, the Company intended to redeem all of the remaining Debentures outstanding under the Indenture on November 29, 2013. In November 3013, holders of the debentures converted an aggregate of $43,222 principal amount of the debentures into 3,118,676 shares of the Company's common stock in November 2013. The Company recorded non-cash accelerated interest expense related to the converted debt 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.

7.5% Variable Interest Senior Convertible Notes due 2019:

In November 2012, the Company sold $230,000 of its 7.5% variable interest senior convertible notes due 2019 interest senior convertible notes due 2019 (the "2019 Convertible Notes") in a public offering registered under the Securities Act. The 2019 Convertible Notes are our senior unsecured obligations and are effectively subordinated to any of its secured indebtedness to the extent of the assets securing such indebtedness. The 2019 Convertible Notes are also structurally subordinated to all liabilities and commitments of our subsidiaries. The aggregate net proceeds from the sale of the 2019 Convertible Notes were approximately $218,900 after deducting underwriting discounts, commissions, fees and offering expenses.

The 2019 Convertible Notes pay interest ("Total Interest") on a quarterly basis beginning January 15, 2013 at a rate of 2.5% per annum plus additional interest, which is based on the amount of cash dividends paid during the prior three-month period ending on the record date for such interest payment multiplied by the total number of shares of its common stock into which the debt will be convertible on such record date. Notwithstanding the foregoing, however, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 7.5% per annum. The notes are convertible into the Company's common stock at the holder's option. The conversion price at December 31, 2014 was $16.78 per share (approximately 59.5946 shares of common stock per $1,000 principal amount of the note), is subject to adjustment for various events, including the issuance of stock dividends. The notes will mature on January 15, 2019. If a fundamental change (as defined in the indenture) occurs, the Company will be required to offer to repurchase the notes at 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Share Lending Agreement:

In connection with the offering of its 2019 Convertible Notes in November 2012, the Company lent Jefferies & Company ("Jefferies"), the underwriter for the offering, a total of 6,740,685 shares of the Company's common stock under the Share Lending Agreement. Jefferies is entitled to offer and sell such shares and use the sale to facilitate the establishment of a hedge position by investors in the notes and will receive all proceeds from the common stock offerings and lending transactions under the Share Lending Agreement. The Company received a nominal lending fee of $0.10 per share for each share of common stock that the Company lent pursuant to the Share Lending Agreement.

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

The Company received a nominal fee for the loaned shares and determined the fair value of the Share Lending Agreement was $3,204 at the date of issuance based on the present value of the future cash flows attributed to an estimated reduction in stated interest due to the presence of the Share Lending Agreement. The $3,204 fair value was recognized as a debt financing charge and is being amortized to interest expense over the term of the notes. In November 2012, 3,370,343 shares were returned but no cash was exchanged. As of December 31, 2014, 3,370,343 shares were outstanding on the Share Lending Agreement and $181 had been amortized to interest expense.

***5.5% Variable Interest Senior Convertible Notes due 2020 - Vector*:**

On March 24, 2014, the Company completed the sale of $258,750 of its 5.5% Variable Interest Convertible Senior Notes due 2020 (the "2020 Convertible Notes"). The 2020 Convertible Notes are the Company's senior unsecured obligations and are effectively subordinated to any of its secured indebtedness to the extent of the assets securing such indebtedness. The 2020 Convertible Notes are also structurally subordinated to all liabilities and commitments of the Company's subsidiaries.

The aggregate net proceeds from the sale of the 2020 Convertible Notes were approximately $250,300 after deducting underwriting discounts, commissions, fees and offering expenses. The net proceeds will be used for general corporate purposes, including for additional investments in real estate and in the Company's tobacco business. The Company may also consider using a portion of the net proceeds from the sale of the notes to address upcoming debt maturities.

The 2020 Convertible Notes pay interest ("Total Interest") on a quarterly basis beginning April 15, 2014 at a rate of 1.75% per annum plus additional interest, which is based on the amount of cash dividends paid during the prior three-month period ending on the record date for such interest payment multiplied by the total number of shares of its common stock into which the debt will be convertible on such record date. Notwithstanding the foregoing, however, the interest payable on each interest payment date after April 15, 2014 shall be the higher of (i) the Total Interest and (ii) 5.5% per annum with the interest payment on April 15, 2014 being based on 5.5% per annum. The notes are convertible into the Company's common stock at the holder's option. The conversion price at December 31, 2014 was $25.87 per share (approximately 38.6563 shares of common stock per $1,000 principal amount of the note), and is subject to adjustment for various events, including the issuance of stock dividends. The notes will mature on April 15, 2020. If a fundamental change (as defined in the indenture) occurs, the Company will be required to offer to repurchase the notes at 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Embedded Derivatives on the Variable Interest Senior Convertible Debt:

The portion of the interest on the Company's convertible debt which is computed by reference to the cash dividends paid on the Company's common stock is considered an embedded derivative within the convertible debt, which the Company is required to separately value. In accordance with authoritative guidance on accounting for derivatives and hedging, the Company has bifurcated these embedded derivatives and estimated the fair value of the embedded derivative liability including using a third party valuation. 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. Changes to the fair value of these embedded derivatives are reflected quarterly in the Company's consolidated statements of operations as "Change 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.

A summary of non-cash interest expense associated with the amortization of the debt discount created by the embedded derivative liability associated with the Company’s variable interest senior convertible debt is as follows:

	Year Ended December 31,		
	2014	2013	2012
6.75% note	$ 6,097	$ 5,914	$ 2,842
6.75% exchange notes	13,570	11,799	7,416
3.875% convertible debentures	—	155	57
7.5% convertible notes	5,553	3,614	369
5.5% convertible notes	6,851	—	—
Interest expense associated with embedded derivatives	$ 32,071	$ 21,482	$ 10,684

A summary of non-cash changes in fair value of derivatives embedded within convertible debt is as follows:

	Year Ended December 31,		
	2014	2013	2012
6.75% note	$ 3,212	$ 5,075	$ 5,247
6.75% exchange notes	8,990	9,625	9,940
3.875% convertible debentures	—	(1,417)	(22,281)
7.5% convertible notes	5,296	5,652	(382)
5.5% convertible notes	1,911	—	—
Gain (loss) on changes in fair value of derivatives embedded within convertible debt	$ 19,409	$ 18,935	$ (7,476)

The following table reconciles the fair value of derivatives embedded within convertible debt:

	6.75% Note	6.75% Exchange Notes	3.875% Convertible Debentures	7.5% Convertible Notes	5.5% Convertible Notes	Total
Balance at January 1, 2012	$ 16,929	$ 32,086	$ 84,485	$ —	$ —	$ 133,500
Conversion of $55,778 of 3.875% Variable Interest Senior Convertible Debentures due June 15, 2016	—	—	(67,052)	—	—	(67,052)
Issuance of 7.5% Note	—	—	—	98,204	—	98,204
(Gain) loss from changes in fair value of embedded derivatives	(5,247)	(9,940)	22,281	382	—	7,476
Balance at December 31, 2012	11,682	22,146	39,714	98,586	—	172,128
Conversion of $43,222 of 3.875% Variable Interest Senior Convertible Debentures due June 15, 2016	—	—	(41,131)	—	—	(41,131)
(Gain) loss from changes in fair value of embedded derivatives	(5,075)	(9,625)	1,417	(5,652)	—	(18,935)
Balance at December 31, 2013	6,607	12,521	—	92,934	—	112,062
Conversion of $25,000 of 6.75% Variable Interest Senior Convertible Note due February 15, 2015	(2,511)	—	—	—	—	(2,511)
Conversion of $107,530 of 6.75% Variable Interest Senior Convertible Exchange Notes due November 15, 2014	—	(3,531)	—	—	—	(3,531)
Issuance of 5.5% Note	—	—	—	—	82,775	82,775
Gain from changes in fair value of embedded derivatives	(3,212)	(8,990)	—	(5,296)	(1,911)	(19,409)
Balance at December 31, 2014	$ 884	$ —	$ —	$ 87,638	$ 80,864	$ 169,386

Beneficial Conversion Feature on Variable Interest Senior Convertible Debt:

After giving effect to the recording of the embedded derivative liability as a discount to the convertible debt, the Company's common stock had a fair value at the issuance date of the debt in excess of the conversion price resulting in a beneficial conversion feature. The accounting guidance on debt with conversion and other options requires that the intrinsic value of the beneficial conversion feature be recorded to additional paid-in capital and as a discount on the debt. The discount is then amortized to interest expense over the term of the debt using the effective interest method. The beneficial conversion feature has been recorded, net of income taxes, as an increase to stockholders' equity.

A summary of non-cash interest expense associated with the amortization of the debt discount created by the beneficial conversion feature on the Company's variable interest senior convertible debt is as follows:

	Year Ended December 31,		
	2014	2013	2012
Amortization of beneficial conversion feature:			
6.75% note	$ 5,317	$ 5,157	$ 2,479
6.75% exchange notes	8,386	7,294	4,582
3.875% convertible debentures	—	82	30
7.5% convertible notes	3,631	2,363	241
5.5% convertible notes	2,067	—	—
Interest expense associated with beneficial conversion feature	$ 19,401	$ 14,896	$ 7,332

Unamortized Debt Discount on Variable Interest Senior Convertible Debt:

The following table reconciles unamortized debt discount within convertible debt:

	6.75% Note	6.75% Exchange Notes	3.875% Convertible Debentures	7.5% Convertible Notes	5.5% Convertible Notes	Total
Balance at January 1, 2012	$ 35,704	$ 57,036	$ 82,948	$ —	$ —	$ 175,688
Conversion of $55,778 of 3.875% Variable Interest Senior Convertible Debentures due June 15, 2016	—	—	(46,754)	—	—	(46,754)
Issuance of convertible notes - embedded derivative	—	—	—	98,204	—	98,204
Issuance of convertible notes - beneficial conversion feature	—	—	—	64,201	—	64,201
Amortization of embedded derivatives	(2,842)	(7,416)	(57)	(369)	—	(10,684)
Amortization of beneficial conversion feature	(2,479)	(4,582)	(30)	(241)	—	(7,332)
Balance at December 31, 2012	30,383	45,038	36,107	161,795	—	273,323
Conversion of $43,222 of 3.875% Variable Interest Senior Convertible Debentures due June 15, 2016	—	—	(35,870)	—	—	(35,870)
Amortization of embedded derivatives	(5,914)	(11,799)	(155)	(3,614)	—	(21,482)
Amortization of beneficial conversion feature	(5,157)	(7,294)	(82)	(2,363)	—	(14,896)
Balance at December 31, 2013	19,312	25,945	—	155,818	—	201,075
Conversion of $25,000 of 6.75% Variable Interest Senior Convertible Note due February 15, 2015	(7,898)	—	—	—	—	(7,898)
Conversion of $107,530 of 6.75% Variable Interest Senior Convertible Exchange Notes due November 15, 2014	—	(3,989)	—	—	—	(3,989)
Issuance of convertible notes - embedded derivative	—	—	—	—	82,775	82,775
Issuance of convertible notes - beneficial conversion feature	—	—	—	—	24,974	24,974
Amortization of embedded derivatives	(6,097)	(13,570)	—	(5,553)	(6,851)	(32,071)
Amortization of beneficial conversion feature	(5,317)	(8,386)	—	(3,631)	(2,067)	(19,401)
Balance at December 31, 2014	$ —	$ —	$ —	$ 146,634	$ 98,831	$ 245,465

Revolving Credit Facility — Liggett:

On January 14, 2015, Liggett and 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 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.

Prior to January 14, 2015, Liggett had a $50,000 credit facility (the “Previous Credit Facility”) with Wells Fargo Bank, N.A. (“Wells Fargo”). The Previous Credit Facility was collateralized by all inventories and receivables of Liggett and a mortgage on Liggett’s manufacturing facility. The Previous Credit Facility required 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.

Prime rate loans under the Previous Credit Facility bore interest at a rate equal to the prime rate of Wells Fargo with Eurodollar rate loans bearing interest at a rate of 2.0% above Wells Fargo’s adjusted Eurodollar rate. The Previous Credit Facility contained covenants that provided that Liggett’s earnings before interest, taxes, depreciation and amortization (“EBITDA”), as defined under the credit facility, on a trailing twelve month basis, would not be less than $100,000 if Liggett’s excess availability, as defined, under the credit facility, was less than $20,000. The covenants also required that annual Capital Expenditures, as defined under the credit facility (before a maximum carryover amount of $2,500), would not exceed $15,000 during any fiscal year except for 2010, when Liggett was permitted to incur Capital Expenditures of up to $33,000.

Term Loan under Credit Facility— Liggett:

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 $3,540 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 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.

Within the commitment under the Credit Facility, Wells Fargo holds a mortgage on Liggett’s manufacturing facility through a Term Loan with 100 Maple LLC ("Maple"), a subsidiary of Liggett. The outstanding balance under the Term Loan is $3,589, and the Term Loan expires on March 1, 2015. The Term Loan bears an interest rate equal to 1.75% more than Wells Fargo’s adjusted Eurodollar rate. Monthly payments of $25 are due under the Term Loan from March 1, 2012 to February 1, 2015 ($885 in total) with the balance of $3,540 due at maturity on March 1, 2015.

The Term Loan is collateralized by the existing collateral securing the Credit Facility, including, without limitation, certain real property owned by Maple. The Term Loan did not increase the $50,000 borrowing amount of the Credit Facility, but did increase the outstanding amounts under the Credit Facility by the amount of the term loan and proportionately reduces the maximum borrowing availability under the Credit Facility.

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.

For purposes of the EBITDA calculation, as defined under the Credit Facility, Liggett has reduced net income by $59,226 for 2014 payments related to the *Engle* Progeny settlement further described in Note 14.

As of December 31, 2014, a total of $21,356 was outstanding under the revolving and term loan portions of the credit facility. Availability as determined under the facility was approximately $28,644 based on eligible collateral at December 31, 2014.

Equipment Loans — Liggett:

In 2012, Liggett refinanced $4,452 of debt related to equipment purchased in 2010. The refinanced debt had a weighted average interest rate of 5.89% and an average remaining term of 43 months. The new debt carries an interest rate of 5.96% and a term of 36 months. Total monthly installments are $135. Liggett purchased equipment for $5,040 and entered into four financing agreements for a total of $5,040 related to the equipment purchase. The weighted average interest rate of the outstanding debt is 5.2% per annum and the interest rate on the various notes ranges between 4.72% and 5.56% and is payable in installments of 36 to 48 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 4.66% per annum and the interest rates on the two notes are 3.28% and 4.99%. Total monthly installments are approximately $181.

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.

Each of these equipment loans is collateralized by the purchased equipment.

Fair Value of Notes Payable and Long-Term Debt:

The estimated fair value of the Company's notes payable and long-term debt has been determined by the Company using available market information and appropriate valuation methodologies including the evaluation of the Company's credit risk as described in Note 1. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimate presented herein are not necessarily indicative of the amount that could be realized in a current market exchange.

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable and long-term debt	$ 913,351	$ 1,313,711	$ 692,343	$ 1,006,562

Notes payable and long-term debt are carried on the condensed balance sheet at amortized cost. The fair value determination disclosed above would be classified as Level 2 under the fair value hierarchy disclosed in Note 17 if such liabilities were recorded on the condensed balance sheet at fair value. The estimated fair value of the Company's notes payable and long-term debt has been determined by the Company using available market information and appropriate valuation methodologies including the evaluation of the Company's credit risk as described in Note 1. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimate presented herein are not necessarily indicative of the amount that could be realized in a current market exchange.

Scheduled Maturities:

Scheduled maturities of long-term debt are as follows:

	Principal	Unamortized Discount	Net
Year Ending December 31:			
2015	$ 52,640	$ —	$ 52,640
2016	4,925	—	4,925
2017	1,527	—	1,527
2018	1,267	—	1,267
2019	230,432	146,634	83,798
Thereafter	858,750	89,556	769,194
Total	$ 1,149,541	$ 236,190	$ 913,351

Weighted-Average Interest Rate on Current Maturities of Long-Term Debt:

The weighted-average interest rate on the Company's total indebtedness at December 31, 2014 was approximately 8.58%.

10. COMMITMENTS

Certain of the Company's subsidiaries lease facilities and equipment used in operations under both month-to-month and fixed-term agreements. The aggregate minimum rentals under operating leases with non-cancelable terms of one year or more as of December 31, 2014 are as follows:

	Lease Commitments	Sublease Rentals	Net
Year Ending December 31:			
2015	$ 22,187	$ 111	$ 22,076
2016	17,952	—	17,952
2017	15,772	—	15,772
2018	13,674	—	13,674
2019	9,981	—	9,981
Thereafter	25,078	—	25,078
Total	$ 104,644	$ 111	$ 104,533

The Company's rental expense for the years ended December 31, 2014, 2013 and 2012 was $22,516, $6,523 and $4,100, respectively.

11. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans and Postretirement Plans:

Defined Benefit Plans. The Company sponsors three defined benefit pension plans (two qualified and one non-qualified) covering virtually all individuals who were employed by Liggett on a full-time basis prior to 1994. Future accruals of benefits under these three defined benefit plans were frozen between 1993 and 1995. These benefit plans provide pension benefits for eligible employees based primarily on their compensation and length of service. Contributions are made to the two qualified pension plans in amounts necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The plans' assets and benefit obligations were measured at December 31, 2014 and 2013, respectively.

The Company also sponsors a Supplemental Retirement Plan ("SERP") where the Company will pay supplemental retirement benefits to certain key employees, including certain executive officers of the Company. In January 2006, the Company amended and restated its SERP (the "Amended SERP"), effective January 1, 2005. The amendments to the plan were intended, among other

things, to cause the plan to meet the applicable requirements of Section 409A of the Internal Revenue Code. The Amended SERP is intended to be unfunded for tax purposes, and payments under the Amended SERP will be made out of the general assets of the Company. Under the Amended SERP, the benefit payable to a participant at his normal retirement date is a lump sum amount which is the actuarial equivalent of a predetermined annual retirement benefit set by the Company's board of directors. Normal retirement date is defined as the January 1 following the attainment by the participant of the latter of age 60 or the completion of eight years of employment following January 1, 2002 with the Company or a subsidiary.

In April 2008, the SERP was amended to provide the Company's President and Chief Executive Officer with an additional benefit under the SERP equal to a $736 lifetime annuity beginning January 1, 2013. In addition, in the event of a termination of his employment under the circumstances where he is entitled to severance payments under his employment agreement, he will be credited with an additional 36 months of service towards vesting under the SERP.

At December 31, 2014, the aggregate lump sum equivalents of the annual retirement benefits payable under the Amended SERP at normal retirement dates occurring during the following years is as follows: 2015 – $0; 2016 – $0; 2017 – $0; 2018 – $29,641; 2019 – $10,383 and 2020 to 2024 – $2,100. In the case of a participant who becomes disabled prior to his normal retirement date or whose service is terminated without cause, the participant's benefit consists of a pro-rata portion of the full projected retirement benefit to which he would have been entitled had he remained employed through his normal retirement date, as actuarially discounted back to the date of payment. A participant who dies while working for the Company or a subsidiary (and before becoming disabled or attaining his normal retirement date) will be paid an actuarially discounted equivalent of his projected retirement benefit; conversely, a participant who retires beyond his normal retirement date will receive an actuarially increased equivalent of his projected retirement benefit.

Postretirement Medical and Life Plans. The Company provides certain postretirement medical and life insurance benefits to certain employees and retirees. Substantially all of the Company's manufacturing employees as of December 31, 2014 are eligible for postretirement medical benefits if they reach retirement age while working for Liggett or certain affiliates. Retirees are required to fund 100% of participant medical premiums and, pursuant to union contracts, Liggett reimburses approximately 244 hourly retirees, who retired prior to 1991, for Medicare Part B premiums. In addition, the Company provides life insurance benefits to approximately 172 active employees and 411 retirees who reach retirement age and are eligible to receive benefits under one of the Company's defined benefit pension plans. The Company's postretirement liabilities are comprised of Medicare Part B and life insurance premiums.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides a reconciliation of benefit obligations, plan assets and the funded status of the pension plans and other postretirement benefits:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at January 1	$ (150,911)	$ (153,716)	$ (8,899)	$ (10,158)
Service cost	(523)	(1,170)	(9)	(16)
Interest cost	(6,196)	(5,518)	(430)	(418)
Plan settlement	—	1,819	—	—
Benefits paid	10,207	10,510	552	560
Expenses paid	322	350	—	—
Actuarial (gain) loss	(3,098)	(3,186)	(245)	1,133
Benefit obligation at December 31	$ (150,199)	$ (150,911)	$ (9,031)	$ (8,899)
Change in plan assets:				
Fair value of plan assets at January 1	$ 137,036	$ 128,060	$ —	$ —
Actual return on plan assets	7,162	19,482	—	—
Plan settlement	—	(1,819)	—	—
Expenses paid	(322)	(350)	—	—
Contributions	348	2,173	552	560
Benefits paid	(10,207)	(10,510)	(552)	(560)
Fair value of plan assets at December 31	$ 134,017	$ 137,036	$ —	$ —
Funded status at December 31	$ (16,182)	$ (13,875)	$ (9,031)	$ (8,899)
Amounts recognized in the consolidated balance sheets:				
Prepaid pension costs	$ 25,032	$ 26,080	$ —	$ —
Other accrued liabilities	(324)	(342)	(607)	(597)
Non-current employee benefit liabilities	(40,890)	(39,613)	(8,424)	(8,304)
Net amounts recognized	$ (16,182)	$ (13,875)	$ (9,031)	$ (8,901)

	Pension Benefits			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Service cost — benefits earned during the period	$ 523	$ 1,170	$ 1,275	$ 9	$ 16	$ 14
Interest cost on projected benefit obligation	6,196	5,518	6,513	430	418	465
Expected return on assets	(8,518)	(7,915)	(8,145)	—	—	—
Settlement loss	—	244	—	—	—	—
Amortization of net loss (gain)	1,075	1,918	3,602	(60)	(64)	(121)
Net (income) expense	$ (724)	$ 935	$ 3,245	$ 379	$ 370	$ 358

The following table summarizes amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost for the year ending 2015.

	Defined Benefit Pension Plans	Post-Retirement Plans	Total
Actuarial loss (gain)	$ 1,165	$ (97)	$ 1,068

As of December 31, 2014, current year accumulated other comprehensive (loss) income, before income taxes, consists of the following:

	Defined Benefit Pension Plans	Post-Retirement Plans	Total
Prior year accumulated other comprehensive (loss) income	$ (27,102)	$ 886	$ (26,216)
Amortization of prior service costs	—	—	—
Amortization of gain (loss)	1,075	(60)	1,015
Net loss arising during the year	(4,454)	(244)	(4,698)
Current year accumulated other comprehensive (loss) income	$ (30,481)	$ 582	$ (29,899)

As of December 31, 2013, current year accumulated other comprehensive (loss) income, before income taxes, consisted of the following:

	Defined Benefit Pension Plans	Post-Retirement Plans	Total
Prior year accumulated other comprehensive loss	$ (37,646)	$ (182)	$ (37,828)
Amortization of prior service costs	—	—	—
Amortization of gain (loss)	2,163	(64)	2,099
Net gain arising during the year	8,381	1,132	9,513
Current year accumulated other comprehensive (loss) income	$ (27,102)	$ 886	$ (26,216)

As of December 31, 2014, two of the Company's four defined benefit plans experienced accumulated benefit obligations in excess of plan assets, for which in the aggregate the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $41,214, $41,214 and $0, respectively. As of December 31, 2013, two of the Company's four defined benefit plans experienced accumulated benefit obligations in excess of plan assets, for which in the aggregate the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $39,955, $39,955 and $0, respectively.

	Pension Benefits			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Weighted average assumptions:						
Discount rates — benefit obligation	2.75% - 4.00%	3.00% - 4.75%	2.25% - 4.00%	4.25%	5.00%	4.25%
Discount rates — service cost	3.00% - 4.75%	2.25% - 4.00%	3.75% - 4.75%	5.00%	4.25%	5.00%
Assumed rates of return on invested assets	6.50%	6.50%	7.00%	—%	—%	—%
Salary increase assumptions	N/A	N/A	N/A	3.00%	3.00%	3.00%

Discount rates were determined by a quantitative analysis examining the prevailing prices of high quality bonds to determine an appropriate discount rate for measuring obligations. The aforementioned analysis analyzes the cash flow from each of the Company's four benefit plans as well as a separate analysis of the cash flows from the postretirement medical and life insurance plans sponsored by Liggett. The aforementioned analyses then construct a hypothetical bond portfolio whose cash flow from coupons and maturities match the year-by-year, projected benefit cash flow from the respective pension or retiree health plans.

The Company uses the lower discount rate derived from the two independent analyses in the computation of the benefit obligation and service cost for each respective retirement liability. The Company uses the discount rate derived from the analysis in the computation of the benefit obligation and service cost for all the plans respective retirement liability.

The Company considers input from its external advisors and historical returns in developing its expected rate of return on plan assets. The expected long-term rate of return is the weighted average of the target asset allocation of each individual asset class. The Company's actual 10-year annual rate of return on its pension plan assets was 6.6%, 7.2% and 7.5% for the years ended December 31, 2014, 2013 and 2012, respectively, and the Company's actual five-year annual rate of return on its pension plan assets was 9.8%, 13.6% and 2.9% for the years ended December 31, 2014, 2013 and 2012, respectively.

Gains and losses resulting from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and changes in actual returns on plan assets as compared to assumed returns. These gains and losses are only amortized to the extent that they exceed 10% of the greater of Projected Benefit Obligation and the fair value of assets. For the year ended December 31, 2014, Liggett used a 16.02-year period for its Hourly Plan and a 16.72-year period for its Salaried Plan to amortize pension fund gains and losses on a straight line basis. Such amounts are reflected in the pension expense calculation beginning the year after the gains or losses occur. The amortization of deferred losses negatively impacts pension expense in the future.

Plan assets are invested employing multiple investment management firms. Managers within each asset class cover a range of investment styles and focus primarily on issue selection as a means to add value. Risk is controlled through a diversification among asset classes, managers, styles and securities. Risk is further controlled both at the manager and asset class level by assigning excess return and tracking error targets. Investment managers are monitored to evaluate performance against these benchmark indices and targets.

Allowable investment types include equity, investment grade fixed income, high yield fixed income, hedge funds and short term investments. The equity fund is comprised of common stocks and mutual funds of large, medium and small companies, which are predominantly U.S. based. The investment grade fixed income fund includes managed funds investing in fixed income securities issued or guaranteed by the U.S. government, or by its respective agencies, mortgage backed securities, including collateralized mortgage obligations, and corporate debt obligations. The high yield fixed income fund includes a fund which invests in non-investment grade corporate debt securities. The hedge funds invest in both equity, including common and preferred stock, and debt obligations, including convertible debentures, of private and public companies. The Company generally utilizes its short term investments, including interest-bearing cash, to pay benefits and to deploy in special situations.

The Liggett Employee Benefits Committee has established the following target assets allocation to equal 50.0% equity investments, 30.0% investment grade fixed income, 10.0% high yield fixed income, 5% alternative investments (including hedge funds and private equity funds) and 5.0% short-term investments, with a rebalancing range of approximately plus or minus 5% around the target asset allocations.

Vector's defined benefit retirement plan allocations at December 31, 2014 and 2013, by asset category, were as follows:

	Plan Assets at December 31,	
	2014	2013
Asset category:		
Equity securities	50%	50%
Investment grade fixed income securities	29%	28%
High yield fixed income securities	10%	10%
Alternative investments	5%	6%
Short-term investments	6%	6%
Total	100%	100%

The defined benefit plans' recurring financial assets and liabilities subject to fair value measurements and the necessary disclosures are as follows:

	Fair Value Measurements as of December 31, 2014			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Insurance contracts	$ 1,762	$ —	$ 1,762	$ —
Amounts in individually managed investment accounts:				
Cash	8,319	8,319	—	—
U.S. equity securities	42,046	42,046	—	—
Common collective trusts	61,877	—	61,877	—
Investment partnership	20,013	—	13,189	6,824
Total	$ 134,017	$ 50,365	$ 76,828	$ 6,824

	Fair Value Measurements as of December 31, 2013			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Insurance contracts	$ 2,396	$ —	$ 2,396	$ —
Amounts in individually managed investment accounts:				
Cash, mutual funds and common stock	7,424	7,424	—	—
U.S. equity securities	46,520	46,520	—	—
Common collective trusts	57,912	—	57,912	—
Investment partnership	22,748	—	13,717	9,031
Total	$ 137,000	$ 53,944	$ 74,025	$ 9,031

The fair value determination disclosed above of assets as Level 3 under the fair value hierarchy was determined based on unobservable inputs and were based on company assumptions, and information obtained from the investments based on the indicated market values of the underlying assets of the investment portfolio. The fair value of investment included in Level 1 are

based on quoted market prices from various stock exchanges. The Level 2 investments are based on quoted market prices of of similar investments.

The changes in the fair value of these Level 3 investments as of December 31, 2014 and 2013 were as follows:

	2014	2013
Balance as of January 1	$ 9,031	$ 23,712
Transfers	(641)	(13,153)
Distributions	(1,018)	(2,669)
Contributions	—	—
Unrealized gain (loss) on long-term investments	3,403	(1,779)
Realized (loss) gain on long-term investments	(3,951)	2,920
Balance as of December 31	$ 6,824	$ 9,031

For 2014 measurement purposes, annual increases in Medicare Part B trends were assumed to equal rates between 1.53% and 6.29% between 2015 and 2022 and 4.5% thereafter. For 2013 measurement purposes, annual increases in Medicare Part B trends were assumed to equal rates between 4.25% and 7% between 2014 and 2022 and 4.5% after 2022.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 4	$ (4)
Effect on benefit obligation	91	(85)

To comply with ERISA's minimum funding requirements, the Company does not currently anticipate that it will be required to make any contributions to the pension plan year beginning on January 1, 2015 and ending on December 31, 2015. Any additional funding obligation that the Company may have for subsequent years is contingent on several factors and is not reasonably estimable at this time.

Estimated future pension and postretirement medical benefits payments are as follows:

	Pension	Postretirement Medical
2015	$ 10,232	$ 607
2016	9,843	597
2017	9,505	598
2018	38,773	596
2019	19,093	596
2020 - 2024	40,058	2,944

Profit Sharing and Other Plans:

The Company maintains 401(k) plans for substantially all U.S. employees which allow eligible employees to invest a percentage of their pre-tax compensation. The Company contributed to the 401(k) plans and expensed $1,219, $1,190 and $1,161 for the years ended December 31, 2014, 2013 and 2012, respectively.

12. INCOME TAXES

The Company files a consolidated U.S. income tax return that includes its more than 80%-owned U.S. subsidiaries. The amounts provided for income taxes are as follows:

	Year Ended December 31,		
	2014	2013	2012
Current:			
U.S. Federal	$ 8,809	$ 20,808	$ 24,246
State	2,416	3,521	6,185
	$ 11,225	$ 24,329	$ 30,431
Deferred:			
U.S. Federal	$ 16,557	$ 596	$ (5,779)
State	5,469	(130)	(1,557)
	22,026	466	(7,336)
Total	$ 33,251	$ 24,795	$ 23,095

The tax effect of temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows:

	December 31, 2014		December 31, 2013	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Excess of tax basis over book-basis non-consolidated entities	$ 6,721	$ 12,911	$ 4,434	$ 3,582
Employee benefit accruals	20,768	9,090	19,539	9,378
Book/tax differences on fixed and Intangible assets	—	52,972	—	48,086
Book/tax differences on inventory	—	20,062	—	19,213
Book/tax differences on long-term investments	—	32,756	—	30,898
Impact of accounting on convertible debt	5,360	36,393	9,202	44,823
Impact of timing of settlement payments	33,485	—	56,551	—
Various U.S. state tax loss carryforwards	8,339	—	10,010	—
Other	10,581	39,126	8,231	27,404
Valuation allowance	(4,933)	—	(6,014)	—
	$ 80,321	$ 203,310	$ 101,953	$ 183,384

Vector Tobacco had tax effected state and local net operating loss carryforwards of $8,339 and $10,010, respectively at December 31, 2014 and 2013, expiring through tax year 2027. The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The valuation allowance of $4,933 and $6,014 at December 31, 2014 and 2013, respectively, consisted primarily of a reserve against Vector Tobacco's state and local net operating loss carryforwards. The valuation allowance was increased in 2014 and reduced in 2013, respectively, as a result of changes in estimates in Vector Tobacco's ability to utilize state tax net operating losses in future years because of changes in state tax apportionment and projected taxable income.

The consolidated balance sheets of the Company include deferred income tax assets and liabilities, which represent temporary differences in the application of accounting rules established by generally accepted accounting principles and income tax laws.

Deferred federal income tax expense differs in 2014, 2013 and 2012 due to the nature of the items in current and deferred tax liabilities. The deferred tax expense in 2014 results primarily from the recognition of temporary differences (related to litigation accruals) at the Tobacco segment. The deferred tax expense in 2013 results primarily from the utilitization of state tax net operating losses. The deferred tax benefit in 2012 results primarily from the non-cash interest charges associated with the Company's convertible debt partially offset by the recognition of temporary differences (related to depreciation and amortization) at the Tobacco segment.

Differences between the amounts provided for income taxes and amounts computed at the federal statutory tax rate are summarized as follows:

	Year Ended December 31,		
	2014	2013	2012
Income before income taxes	$ 82,487	$ 63,487	$ 53,717
Federal income tax expense at statutory rate	28,871	22,221	18,801
Increases (decreases) resulting from:			
State income taxes, net of federal income tax benefits	4,817	2,204	3,009
Impact of non-controlling interest	(4,290)	88	—
Non-deductible expenses	2,581	2,698	3,311
Impact of domestic production deduction	(248)	(1,889)	(2,026)
Tax credits	(275)	(433)	—
Inclusion of tax liabilities from unincorporated entities	1,374	—	—
Changes in valuation allowance, net of equity and tax audit adjustments	421	(94)	—
Income tax expense	$ 33,251	$ 24,795	$ 23,095

The following table summarizes the activity related to the unrecognized tax benefits:

Balance at January 1, 2012	$ 6,597
Additions based on tax positions related to prior years	588
Expirations of the statute of limitations	(916)
Balance at December 31, 2012	6,269
Additions based on tax positions related to prior years	179
Settlements	(250)
Expirations of the statute of limitations	(3,076)
Balance at December 31, 2013	3,122
Additions based on tax positions related to prior years	318
Settlements	(442)
Expirations of the statute of limitations	(1,254)
Balance at December 31, 2014	$ 1,744

In the event the unrecognized tax benefits of $1,744 and $3,122 at December 31, 2014 and 2013, respectively, were recognized, such recognition would impact the annual effective tax rates. During 2014, the accrual for potential penalties and interest related to these unrecognized tax benefits was decreased by $529, and in total, as of December 31, 2014, a liability for potential penalties and interest of $247 has been recorded. During 2013, the accrual for potential penalties and interest related to these unrecognized tax benefits was decreased by $877, and in total, as of December 31, 2013, a liability for potential penalties and interest of $776 has been recorded.

It is reasonably possible the Company may recognize up to approximately $553 of currently unrecognized tax benefits over the next 12 months, pertaining primarily to expiration of statutes of limitations of positions reported on state and local income tax returns. The Company files U.S. and state and local income tax returns in jurisdictions with varying statutes of limitations.

In 2013, the Internal Revenue Service concluded an audit of the Company’s income tax return for the year ended December 31, 2009. There was no material impact on the Company’s consolidated financial statements as a result of the audit.

13. STOCK COMPENSATION

The Company granted equity compensation under its Amended and Restated 1999 Long-Term Incentive Plan (the “1999 Plan”) until the 1999 Plan expired on December 31, 2013. On May 16, 2014, the Company's stockholders approved the 2014 Management Incentive Plan (the “2014 Plan”). The 2014 Plan replaces the 1999 Plan. Like the 1999 Plan, the 2014 Plan provides

for the Company to grant stock options, stock appreciation rights and restricted stock. Unlike the 1999 Plan, the 2014 Plan provides for cash incentives to be awarded based on a multi-year performance period and for annual short-term cash incentives based on a twelve-month performance period. The available share reserve under the 2014 Plan is 10,500,000 shares. The Company may satisfy its obligations under any award granted under the 2014 plan by issuing new shares or Treasury shares. Awards previously granted under the 1999 Plan remain outstanding in accordance with their terms.

Stock Options. The Company accounts for stock compensation by valuing unvested stock options granted prior to January 1, 2006 under the fair value method of accounting and expensing this amount in the statement of operations over the stock options' remaining vesting period.

The Company recognized compensation expense of $1,573, $2,212 and $1,755 related to stock options in the years ended December 31, 2014, 2013 and 2012, respectively.

All awards have a contractual term of ten years and awards vest over a period of three to five years depending upon each grant. The fair value of option grants is estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price characteristics which are significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock-based compensation awards.

The assumptions used under the Black-Scholes option pricing model in computing fair value of options are based on the expected option life considering both the contractual term of the option and expected employee exercise behavior, the interest rate associated with U.S. Treasury issues with a remaining term equal to the expected option life and the expected volatility of the Company's common stock over the expected term of the option. There were no new grants in the year ended December 31, 2012. The assumptions used for grants in the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Risk-free interest rate	1.1% -2.6%	0.6% – 1.8%
Expected volatility	18.51% - 22.37%	20.05% – 24.08%
Dividend yield	0.0%	0.0%
Expected holding period	4.00 – 10.00 years	4.00 – 10.00 years
Weighted-average grant date fair value	$3.28 - $7.32	$2.72 – $5.80

A summary of employee stock option transactions follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value(1)
Outstanding on January 1, 2012	2,544,574	$ 11.89	7.6	$ 11,187
Granted	—	$ —		
Exercised	(17,727)	$ 7.86		
Canceled	(6,929)	$ 13.67		
Outstanding on December 31, 2012	2,519,918	$ 11.90	6.6	$ 4,371
Granted	826,875	$ 14.63		
Exercised	(42,184)	$ 12.90		
Canceled	(14)	$ —		
Outstanding on December 31, 2013	3,304,595	$ 12.58	6.5	$ 9,959
Granted	406,875	$ 18.71		
Exercised	(421,657)	$ 11.98		
Canceled	(11)	$ —		
Outstanding on December 31, 2014	3,289,802	$ 13.41	6.4	$ 25,977
Options exercisable at:				
December 31, 2012	439,277			
December 31, 2013	1,866,016			
December 31, 2014	1,522,748			

(1) The aggregate intrinsic value represents the amount by which the fair value of the underlying common stock ($21.31, $15.59 and $13.49 at December 31, 2014, 2013 and 2012, respectively) exceeds the option exercise price.

Additional information relating to options outstanding at December 31, 2014 follows:

	Options Outstanding			Options Exercisable			
Range of Exercise Prices	Outstanding as of 12/31/2014	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Exercisable as of 12/31/2014	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value
$0.00 - $11.55	1,496,029	4.8	$ 11.07	1,496,029	4.8	$ 11.07	$ —
$11.55 - $13.86	73,822	5.4	$ 12.98	26,719	5.1	$ 13.04	—
$13.86 - $16.17	1,313,076	7.4	$ 14.47	—		$ —	—
$16.17 - $18.48	—	—	$ —	—		$ —	—
$18.48 - $20.79	406,875	9.2	$ 18.71	—		$ —	—
$20.79 - $23.10	—	—	$ —	—		$ —	—
	3,289,802	6.4	$ 13.41	1,522,748	4.8	$ 11.10	$ 15,544

As of December 31, 2014, there was $2,829 of total unrecognized compensation cost related to unvested stock options. The cost is expected to be recognized over a weighted-average period of approximately 1.76 years at December 31, 2014.

The Company reflects the tax savings resulting from tax deductions in excess of expense reflected in its financial statements as a component of "Cash Flows from Financing Activities."

Non-qualified options for 406,875 shares of common stock were issued during 2014. The exercise price of the options granted was $18.71 in 2014. The exercise price of the options granted in 2014 were at the fair value on the date of the grants.

Non-qualified options for 826,875 shares of common stock were issued during 2013. The exercise price of the options granted was $14.63 in 2013. The exercise price of the options granted in 2013 were at the fair value on the date of the grants.

No non-qualified options for shares of common stock were issued during 2012.

The Company has elected to use the long-form method under which each award grant is tracked on an employee-by-employee basis and grant-by-grant basis to determine if there is a tax benefit or tax deficiency for such award. The Company then compares the fair value expense to the tax deduction received for each grant and aggregates the benefits and deficiencies to establish its hypothetical APIC Pool.

The Company recognizes windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. A windfall tax benefit occurs when the actual tax benefit realized by the Company upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that the Company had recorded.

The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was $3,539, $93 and $129, respectively. Tax benefits related to option exercises of $1,178, $38 and $52 were recorded as increases to stockholders' deficiency for the years ended December 31, 2014, 2013 and 2012, respectively.

Restricted Stock Awards. On July 23, 2014, the Company granted its President and Chief Executive Officer an award of 1,050,000 shares of its Common Stock subject to service and performance-based vesting. The Award Shares will be 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 the Company. The fair market value of the restricted shares on the date of grant was $20,780 and is being amortized over the performance period as a charge to compensation expense. The Company recognized expense of $1,320 for the year ended December 31, 2014.

In May 2013, the Company granted 11,025 restricted shares of the Company's common stock (the "May 2013 Grant") pursuant to the 1999 Plan to each of its five outside directors. The shares vest over three years and the Company will recognize $815 of expense over the vesting period of the May 2013 Grant. The Company recognized expense of $271 and $161 for the year ended December 31, 2014 and 2013, respectively.

In June 2010, the Company granted 12,763 restricted shares of the Company's common stock (the "June 2010 Grant") pursuant to the 1999 Plan to each of its five outside directors. In November 2011, one of the outside directors resigned from the board and 8,104 of the restricted shares granted in June 2010 were forfeited and canceled. The remaining shares vested over three years and the Company recognized $749 of expense over the vesting period of the June 2010 Grant. In November 2011, the Company also granted 7,718 restricted shares of the Company's stock (the "November 2011 grant") pursuant to the 1999 Plan to the replacement director. The shares granted to the replacement director vested over approximately 19 months. The Company recognized $120 of expense over the vesting period for the November 2011 Grant. The Company recognized expense of $133 and $280 of expense for the years ended December 31, 2013 and 2012, respectively.

In October 2013, the President and Chief Executive Officer of Liggett Group LLC and Liggett Vector Brands LLC was awarded a restricted stock grant of 28,875 shares of Vector's common stock pursuant to the 1999 Plan. The shares will vest on the earlier of March 15, 2019, contingent upon performance-based targets being achieved by the Company's tobacco segment, or October 31, 2020, if the performance-based targets are not achieved. He will receive dividends on the restricted shares as paid. In the event that his employment with the Company is terminated for any reason other than his death, his disability or a change of control (as defined in this Restricted Share Agreement) of the Company, any remaining balance of the shares not previously vested will be forfeited by him. The fair market value of the restricted shares on the date of grant was $458 and is being amortized over the vesting period as a charge to compensation expense. The Company recognized expense of $86 and $14 for the years ended December 31, 2014 and 2013, respectively.

In April 2009, the President of the Company was awarded a restricted stock grant ("April 2009 Award Agreement") of 670,049 shares of Vector's common stock pursuant to the 1999 Plan ("April 2009 Award Shares"). Under the terms of the April 2009 Award Agreement, one-fifth of the shares vest on September 15, 2010, with an additional one-fifth vesting on each of the four succeeding one-year anniversaries of the first vesting date through September 15, 2014. In the event that his employment with the Company is terminated for any reason other than his death, his disability or a change of control (as defined in this Restricted Share Agreement) of the Company, any remaining balance of the shares not previously vested will be forfeited by him. The fair market value of the restricted shares on the date of grant was $6,467 and was being amortized over the vesting period as a charge to compensation expense.

On December 11, 2012, the Compensation Committee of the Board of Directors of the Company approved an acceleration of the vesting to December 11, 2012 of an aggregate 268,019 shares of restricted stock that were previously scheduled to vest in equal parts on September 15, 2013 and September 15, 2014.

The Company recognized expense of $2,381 for the year ended December 31, 2012 that included additional compensation expense of $288 related to the modified requisite service period of the accelerated vesting and the recognition of the unamortized compensation costs related to the accelerated vesting of $2,093.

As of December 31, 2014, there was $20,181 of total unrecognized compensation costs related to unvested restricted stock awards. The cost is expected to be recognized over a weighted-average period of approximately 3.45 years at December 31, 2014.

As of December 31, 2013, there was $1,100 of total unrecognized compensation costs related to unvested restricted stock awards. The cost is expected to be recognized over a weighted-average period of approximately 3.15 years at December 31, 2013.

The Company's accounting policy is to treat dividends paid on unvested restricted stock as a reduction to additional paid-in capital on the Company's consolidated balance sheet.

14. CONTINGENCIES

Tobacco-Related Litigation:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. The cases have generally fallen into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) lawsuits by individuals requesting the benefit of the *Engle* ruling ("*Engle* progeny cases"); (iii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring, as well as cases alleging that use of the terms "lights" and/or "ultra lights" constitutes a deceptive and unfair trade practice, common law fraud or violation of federal law, purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); and (iv) health care cost recovery actions brought by various foreign and domestic governmental plaintiffs and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits ("Health Care Cost Recovery Actions"). With the commencement of new cases, the defense costs and the risks relating to the unpredictability of litigation increase. The future financial impact of the risks and expenses of litigation are not quantifiable. For the twelve months ended December 31, 2014 and 2013, Liggett incurred tobacco product liability legal expenses and other litigation costs totaling $9,944 and $9,321, respectively. The 2013 costs exclude a charge of $86,213 associated with the *Engle* progeny settlement discussed below.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending cases. Management reviews on a quarterly basis with counsel all pending litigation and evaluates whether an estimate can be made of the possible loss or range of loss that could result from an unfavorable outcome. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. Damages awarded in some tobacco-related litigation can be significant.

Bonds. Although Liggett has been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts are on appeal, there remains a risk that such relief may not be obtainable in all cases. This risk has been reduced given that a majority of states now limit the dollar amount of bonds or require no bond at all. To obtain stays on judgments pending current appeals, Liggett has secured approximately $12,268 in bonds as of March 4, 2015.

In June 2009, Florida amended its existing bond cap statute by adding a $200,000 bond cap that applies to all *Engle* progeny cases in the aggregate and establishes individual bond caps for individual *Engle* progeny cases in amounts that vary depending on the number of judgments in effect at a given time. In several cases, plaintiffs have challenged the constitutionality of the bond cap statute, but to date the courts that have addressed the issue have upheld the constitutionality of the statute. It is possible that the Company's consolidated financial position, results of operations, and cash flows could be materially adversely affected by an unfavorable outcome of such challenges.

Accounting Policy. The Company and its subsidiaries record provisions in their consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as disclosed in this Note 14: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases;

or (ii) management is unable to reasonably estimate the possible loss or range of loss that could result from an unfavorable outcome of any of the pending tobacco-related cases and, therefore, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

Cautionary Statement About Engle Progeny Cases. Judgments have been entered against Liggett and other industry defendants in *Engle* progeny cases. A number of the judgments have been affirmed on appeal and satisfied by the defendants. As of December 31, 2014, 21 *Engle* progeny cases where Liggett was a defendant at trial resulted in verdicts. Fourteen verdicts were returned in favor of the plaintiffs and seven in favor of Liggett. Excluding the *Lukacs* case, which was tried in 2002, seven years before the trials of *Engle* progeny cases commenced, the compensatory verdicts against Liggett have ranged from $1 to $3,600. In certain cases, the judgments entered have been joint and several with other defendants. In four of the cases, punitive damages were awarded against Liggett. Except as discussed in this Note 14 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.

Although Liggett has generally been successful in managing litigation, litigation is subject to uncertainty and significant challenges remain, including with respect to the remaining *Engle* progeny cases. There can be no assurances that Liggett's past litigation experience will be representative of future results. Judgments have been entered against Liggett in the past, in Individual Actions and *Engle* progeny cases, and several of those judgments were affirmed on appeal and satisfied by Liggett. It is possible that the consolidated financial position, results of operations and cash flows of the Company could be materially adversely affected by an unfavorable outcome or settlement of any of the remaining smoking-related litigation. Liggett believes, and has been so advised by counsel, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. All such cases are, and will continue to be, vigorously defended. Liggett may, however, enter into settlement discussions in particular cases if it believes it is in its best interest to do so, including the remaining *Engle* progeny cases. As of December 31, 2014, Liggett (and in certain cases the Company) had, on an individual basis, settled 155 *Engle* progeny cases for approximately $1,983 in the aggregate. There were 11 settlements in the fourth quarter of 2014. In October 2013, Liggett announced a settlement of the claims of over 4,900 *Engle* progeny plaintiffs (see *Engle* Progeny Settlement below).

Individual Actions

As of December 31, 2014, there were 47 Individual Actions pending against Liggett and, in certain cases, the Company, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. These cases do not include *Engle* progeny cases or the approximately 100 individual cases pending in West Virginia state court as part of a consolidated action. The following table lists the number of Individual Actions, by state, that are pending against Liggett or the Company as of December 31, 2014:

State	Number of Cases
Florida	27
New York	8
Maryland	6
Louisiana	2
West Virginia	2
Missouri	1
Ohio	1

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

and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even billions of dollars.

Defenses raised in Individual Actions include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

Engle Progeny Cases

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

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

In July 2006, the Florida Supreme Court affirmed the decision vacating the punitive damages award and held that the class should be decertified prospectively, but determined that the following Phase I findings are entitled to res judicata effect in *Engle* progeny cases: (i) that smoking causes lung cancer, among other diseases; (ii) that nicotine in cigarettes is addictive; (iii) that defendants placed cigarettes on the market that were defective and unreasonably dangerous; (iv) that defendants concealed material information knowing that the information was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vi) that defendants sold or supplied cigarettes that were defective; and (vii) that defendants were negligent. The Florida Supreme Court decision also allowed former class members to proceed to trial on individual liability issues (using the above findings) and compensatory and punitive damage issues, provided they filed their individual lawsuits by January 2008. In December 2006, the Florida Supreme Court added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations made by defendants. In October 2007, the United States Supreme Court denied defendants' petition for writ of *certiorari*.

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

Engle Progeny Settlement. On October 23, 2013, the Company 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 exchange, the claims of over 4,900 plaintiffs were dismissed with prejudice against the Company and Liggett. In 2013 the Company recorded a charge of $86,213 in connection with the settlement. Of this amount, $25,213 is related to certain payments discounted to their present value because the timing and amounts of such payments are fixed and determinable. The present value of the installment payments was computed using an 11% annual discount rate. The installment payments total approximately $48,000 on an undiscounted basis. The Company's future payments will be approximately $3,500 per annum through 2028, with a cost of living increase beginning in 2021.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlement, approximately 320 plaintiffs' claims remain outstanding. Therefore, the Company and Liggett may still be subject to periodic adverse judgments which could have a material adverse affect on the Company's consolidated financial position, results of operations and cash flows.

As of December 31, 2014, the following *Engle* progeny cases have resulted in judgments against Liggett:

Date	Case Name	County	Liggett Compensatory Damages (as adjusted) (1)	Liggett Punitive Damages	Status (2)
June 2002	*Lukacs v. R.J. Reynolds*	Miami-Dade	$12,418	$0	Liggett satisfied the judgment and the case is concluded.
August 2009	*Campbell v. R.J. Reynolds*	Escambia	$156	$0	Liggett satisfied the judgment and the case is concluded.
March 2010	*Douglas v. R.J. Reynolds*	Hillsborough	$1,350	$0	Liggett satisfied the judgment and the case is concluded.
April 2010	*Clay v. R.J. Reynolds*	Escambia	$349	$1,000	Liggett satisfied the judgment and the case is concluded.
April 2010	*Putney v. R.J. Reynolds*	Broward	$3,008	$0	On June 12, 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings. Plaintiff filed a motion for rehearing which was denied. Both sides sought discretionary review from the Florida Supreme Court. The appeal is stayed pending the outcome of the Hess appeal.
April 2011	*Tullo v. R.J. Reynolds*	Palm Beach	$225	$0	Affirmed by the Fourth District Court of Appeal. Discretionary review from the Florida Supreme Court was denied. Liggett satisfied the judgment and the case is concluded, other than an issue with respect to the calculation of interest on the judgment and the amount of costs owed by Liggett.
January 2012	*Ward v. R.J. Reynolds*	Escambia	$1	$0	Liggett satisfied the merits judgment and other than an issue regarding attorneys' fees, the case is concluded.
May 2012	*Calloway v. R.J. Reynolds*	Broward	$1,947	$7,600	A joint and several judgment for $16,100 was entered against R.J. Reynolds, Philip Morris, Lorillard and Liggett. On appeal to the Fourth District Court of Appeal.
December 2012	*Buchanan v. R.J. Reynolds*	Leon	$2,035	$0	A joint and several judgment for $5,500 was entered against Liggett and Philip Morris. Judgment was affirmed by the First District Court of Appeal, but the court certified an issue of conflict with another case. The defendants sought discretionary review by the Florida Supreme Court. The appeal is stayed pending the outcome of the Hess appeal.
May 2013	*Cohen v. R.J. Reynolds*	Palm Beach	$205	$0	Defendants' motion seeking a new trial was granted by the trial court. Plaintiff appealed to the Fourth District Court of Appeal.
August 2013	*Rizzuto v. R.J. Reynolds*	Hernando	$3,479	$0	Liggett settled its portion of the judgment for $1,500 and the case is concluded as to Liggett.
August 2014	*Irimi v. R.J. Reynolds*	Broward	$0	$0	Judgment was entered against Liggett for $31. In January 2015, the trial court granted defendants' motion for a new trial. Plaintiff moved for reconsideration.
October 2014	*Lambert v. R.J. Reynolds*	Pinellas	$3,600	$9,500	A final judgment was entered against Liggett for $13,100. Liggett will appeal.
November 2014	*Boatright v. R.J. Reynolds*	Polk	$0	$300	In November 2014, the jury awarded compensatory damages in the amount of $15,000 with 15% fault apportioned to plaintiff and 85% to Philip Morris. The jury further assessed punitive damages against Philip Morris for $19,700 and Liggett for $300. Post-trial motions were denied. A joint and several judgment was entered in the amount of $12,750 on the compensatory damages. An additional $300 in punitive damages was awarded against Liggett. On appeal to the Second District Court of Appeal.
		Total Damages Awarded:	$28,773	$18,400	
		Amounts paid or compromised:	$(17,978)	$(1,000)	
		Damages remaining on Appeal:	$10,795	$17,400	

(1) Compensatory damages are adjusted to reflect the jury's allocation of comparative fault. The amounts listed above do not include attorneys' fees or statutory interest.

(2) See Exhibit 99.1 for a more complete description of the pending cases.

Through December 31, 2014, Liggett paid $20,312, including interest and legal fees, to satisfy the judgments in seven *Engle* progeny cases (*Lukacs*, *Campbell*, *Douglas*, *Clay, Tullo, Ward and Rizzuto*).

The Company's potential range of loss in the *Putney*, *Calloway*, *Buchanan, Cohen, Lambert* and *Boatright* cases is between $0 and $28,195 in the aggregate, plus accrued interest and legal fees. In determining the range of loss, the Company considers potential settlements as well as future appellate relief. Except as disclosed elsewhere in this Note 14, the Company is unable to

determine a range of loss related to the remaining *Engle* progeny cases. No amounts have been expensed or accrued in the accompanying consolidated financial statements for the cases described above. However, as cases proceed through the appellate process, the Company will consider accruals on a case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

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

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

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

In March 2012, in *Douglas*, the Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the *Engle* jury findings but certified to the Florida Supreme Court the question of whether granting res judicata effect to the *Engle* jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the use of *Engle* jury findings and determined that there is no violation of the defendants' due process rights. This was the first time the Florida Supreme Court addressed the merits of an *Engle* progeny case. In October 2013, the United States Supreme Court declined to review the decision and Liggett satisfied the judgment. To date, the United States Supreme Court has declined to review any decisions in *Engle* progeny cases.

In *Hess*, a case pending in Broward County, the jury returned a verdict finding that decedent relied to his detriment on an omission by the defendant before May 5, 1982 (twelve years prior to the filing of the *Engle* Complaint). Defendant moved for judgment as a matter of law on plaintiff's fraudulent concealment claim on the basis that the claim was barred by Florida's statute of repose. The trial court denied the motion and was reversed by the Fourth District Court of Appeal, which held that any *Engle* progeny claim for a fraud committed before May 5, 1982 is barred. This decision conflicts with decisions from other district courts of appeal and is before the Florida Supreme Court pursuant to its conflict jurisdiction. Oral argument occurred on April 30, 2014. A decision is pending.

Liggett Only Cases. There are currently five cases pending where Liggett is the only remaining defendant. These cases consist of three Individual Actions and two *Engle* progeny cases. In one of the Individual Actions, *Hausrath* (NY state court), plaintiff moved to restore the case to the active docket calendar after it was removed by the court. The motion was granted. There has been no recent activity in the other two Individual Actions. Trial in *Lambert*, an *Engle* progeny case, concluded on October 3, 2014 and resulted in a jury verdict against Liggett. Post trial motions were denied and final judgment was entered against Liggett for $13,100. Liggett will appeal. The other *Engle* progeny case is not currently set for trial. Cases where Liggett is the only defendant could increase as a result of the remaining *Engle* progeny cases.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Class Actions

As of December 31, 2014, there were four actions pending for which either a class had been certified or plaintiffs were seeking class certification where Liggett is a named defendant, including one alleged price fixing case. Other cigarette manufacturers are also named in these actions.

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

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

In November 1997, in *Young v. American Tobacco Co.,* a purported personal injury class action was commenced on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, allege they were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. In 2013, plaintiffs' filed a motion to stay the case. The defendants did not oppose and the stay was entered by the court.

In February 1998, in *Parsons v. AC & S Inc.*, a class was commenced on behalf of all West Virginia residents who allegedly have personal injury claims arising from exposure to cigarette smoke and asbestos fibers. The complaint seeks to recover $1,000 in compensatory and punitive damages individually and unspecified compensatory and punitive damages for the class. The case is stayed due to the December 2000 bankruptcy of three of the defendants.

In February 2000, in *Smith v. Philip Morris,* a case pending in Kansas, a class was commenced against cigarette manufacturers alleging they conspired to fix cigarette prices in violation of antitrust laws. Plaintiffs seek to recover an unspecified amount in actual and punitive damages. Class certification was granted in November 2001. In January 2012, the trial court heard oral argument on defendants' motions for summary judgment and in March 2012, the court granted the motions and dismissed plaintiffs' claims with prejudice. In July 2014, the court of appeals affirmed the lower court's decision. On August 18, 2014, plaintiffs filed a petition for review with the Kansas Supreme Court.

Although not technically a class action, in *In Re: Tobacco Litigation (Personal Injury Cases)*, a West Virginia state court consolidated approximately 750 individual smoker actions that were pending prior to 2001 for trial of certain common issues. In January 2002, the court severed Liggett from the trial of the consolidated action. After two mistrials, on May 15, 2013, the jury rejected all but one of the plaintiffs' claims, finding for the plaintiffs on the claim that ventilated filter cigarettes sold between 1964 and 1969 should have included instructions on how to use them. The issue of damages was reserved for further proceedings that have not yet been scheduled. The court entered judgment in October 2013, dismissing all claims lost by the plaintiffs. The judgment was affirmed on appeal. The defendants did not appeal the verdict in favor of the plaintiffs on the "failure to instruct" claim which impacted less than 30 plaintiffs. A hearing is scheduled for February 26, 2015 to address the remaining ventilated filter claim. If the case were to proceed against Liggett, it is estimated that Liggett could be a defendant in approximately 100 of the individual cases.

Class action suits have been filed in a number of states against cigarette manufacturers, alleging, among other things, that use of the terms "lights" and "ultra lights" constitutes unfair and deceptive trade practices. In December 2008, the United States Supreme Court, in *Altria Group v. Good*, ruled that the Federal Cigarette Labeling and Advertising Act did not preempt the state law claims asserted by the plaintiffs and that they could proceed with their claims under the Maine Unfair Trade Practices Act. The *Good* decision resulted in the filing of additional "lights" class action cases in other states against other cigarette manufacturers. Although Liggett was not a defendant in the *Good* case, and is not currently a defendant in any other "lights" class actions, an adverse ruling or commencement of additional "lights" related class actions could have a material adverse effect on the Company.

In addition to the cases described above, numerous class actions remain certified against other cigarette manufacturers. Adverse decisions in these cases could have a material adverse affect on Liggett's sales volume, operating income and cash flows.

Health Care Cost Recovery Actions

As of December 31, 2014, there was one remaining Health Care Cost Recovery Action pending against Liggett, *Crow Creek Sioux Tribe v. American Tobacco Company*, a South Dakota case filed in 1997, where the plaintiff seeks to recover damages based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is inactive. Other cigarette manufacturers are also named as defendants.

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

Department of Justice Lawsuit.

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

In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. In May 2009, the United States Court of Appeals for the District of Columbia affirmed most of the district court’s decision. The United States Supreme Court denied review. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court’s Final Judgment which ordered the following relief: (i) an injunction against “committing any act of racketeering” relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against “making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States’ public and that misrepresents or suppresses information concerning cigarettes”; (iv) an injunction against conveying any express or implied health message through use of descriptors on cigarette packaging or in cigarette advertising or promotional material, including “lights,” “ultra lights,” and “low tar,” which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of “corrective statements” in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking “low tar” or “lights” cigarettes, defendants’ manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to environmental tobacco smoke; (vi) the disclosure of defendants’ public document websites and the production of all documents produced to the government or produced in any future court or administrative action concerning smoking and health; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedules as defendants now follow in disclosing such data to the Federal Trade Commission for a period of ten years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette business within the United States; and (ix) payment of the government’s costs in bringing the action. In June 2014, the court approved a consent agreement between the defendants and the Department of Justice regarding the “corrective statements” to be issued by the defendants. The implementation of the “corrective statements” is uncertain as the defendants are appealing the specific language of the statements.

It is unclear what impact, if any, the Final Judgment will have on the cigarette industry as a whole. To the extent that the Final Judgment leads to a decline in industry-wide shipments of cigarettes in the United States or otherwise results in restrictions that adversely affect the industry, Liggett’s sales volume, operating income and cash flows could be materially adversely affected.

Upcoming Trials

As of December 31, 2014, there were 13 *Engle* progeny cases scheduled for trial through December 31, 2015, where Liggett (and in many cases, the Company) is a named defendant. Trial dates are, however, subject to change.

MSA and Other State Settlement Agreements

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

In November 1998, Philip Morris, 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 Master Settlement Agreement (the “MSA”) with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands (collectively, the “Settling States”) to settle the asserted and unasserted health care cost recovery and certain other claims of the Settling States. The MSA received final judicial approval in each Settling State.

As a result of the MSA, the Settling States released Liggett 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 use of tobacco products and imposes restrictions on lobbying activities conducted on behalf of Participating Manufacturers. In addition, the MSA provides for the appointment of an independent auditor to calculate and determine the amounts of payments owed pursuant to the MSA.

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

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 1.65% of total cigarettes sold in the United States. Vector Tobacco has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 0.28% of total cigarettes sold in the United States. Liggett and Vector Tobacco’s domestic shipments accounted for 3.4% of the total cigarettes sold in the United States in 2014. If Liggett’s or Vector Tobacco’s market share exceeds their respective market share exemption in a given year, then on April 15 of the following year, Liggett and/or Vector Tobacco, as the case may be, must pay on each excess unit an amount equal (on a per-unit basis) to that due from the OPMs for that year. On December 31, 2014, Liggett and Vector Tobacco pre-paid $100,000 of their estimated 2014 MSA obligation.

Certain MSA Disputes

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, to non-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 each of their 2003 - 2006 MSA payments. The Participating Manufacturers are also entitled to potential NPM Adjustments to their 2007 - 2013 payments pursuant to agreements entered into 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 for each of those years. A Settling State that has diligently enforced its qualifying escrow statute in the year in question may be able to avoid allocation of the NPM Adjustment to the payments made by the manufacturers for the benefit of that Settling State.

For 2003 - 2013, 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.

Notwithstanding provisions in the MSA requiring arbitration, litigation was filed in 49 Settling States involving the application of the NPM Adjustment for 2003 and whether it was to be determined through litigation or arbitration. These actions related to the potential NPM Adjustment for 2003, which the independent auditor under the MSA previously determined to be as much as $1,200,000 for all Participating Manufacturers. All but one of the 48 courts that decided the issue ruled that the 2003 NPM Adjustment dispute was arbitrable.

In response to a proposal from the OPMs and many of the SPMs, 45 of the Settling States, representing approximately 90% of the allocable share of the Settling States, entered into an agreement providing for a nationwide arbitration of the dispute with respect to the NPM Adjustment for 2003. In exchange, the OPMs and SPMs agreed to a 20% reduction in amounts recovered for the NPM Adjustment for 2003. In June 2010, the three person arbitration panel was selected. In November 2011, the Participating Manufacturers advised the arbitration panel that they were not contesting diligent enforcement of 16 Settling States for 2003. Substantive hearings commenced in April 2012 and were completed in June 2013.

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 2013 MSA payments. In May 2013, two additional states joined the settlement and in June 2014, another two states joined the settlement. Several non-settling states are attempting to vacate the settlement award by filing state court actions. In Idaho, a trial court denied that state's motion to vacate, and the state appealed that denial. In Colorado, a trial court also denied that state's motion to vacate; Colorado did not appeal. Although certain terms of the settlement were implemented by the independent auditor on April 15, 2013, no assurance can be given as to the ultimate outcome of the non-settling states' challenges.

As a result of the settlement, in the first nine months of 2013, Liggett recognized income of $6,947. Liggett received credits of $1,733 in April 2014 from these settling states related to the 2013 NPM Adjustment. The remaining NPM Adjustment accrual of $25,809 at December 31, 2014 relates to the disputed amounts Liggett withheld from the non-settling states for 2004 - 2010, which may be subject to payment, with interest, if Liggett loses the disputes for those years. Approximately $24,400 currently remains in the disputed payments accounts relating to the 2011, 2012 and 2013 NPM Adjustment dispute with the non-settling states.

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 of this ruling Liggett recognized income of $5,987 including interest, 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 or reduce the amount of the arbitration award. In Pennsylvania, the trial court rejected the state's motion to vacate the award, but granted its motion to reduce the award. As a result, in April 2014, Liggett received a credit in the amount of $6,441 for the 2003 NPM Adjustment (as calculated by the independent auditor). Liggett subsequently reimbursed the six states 20% of that credit pursuant to the agreement discussed above, bringing its net recovery to $5,152, which is approximately $1,315 lower than the amount to which Liggett believes it is entitled. Subsequent to the April 15, 2014 MSA payment date, a state court in Missouri issued a ruling similar to the ruling in Pennsylvania. As such, Liggett's 2003 NPM Adjustment credit could be reduced by an additional $521. In June 2014, Kentucky and Indiana agreed to settle the dispute. As a result, Liggett recognized income of approximately $1,400 in the second quarter of 2014. The Participating Manufacturers,

including Liggett, appealed the Pennsylvania and Missouri decisions. If Liggett is unsuccessful in its appeals or if other states are successful with respect to any such motions, the amount of the 2003 NPM Adjustment and any interest or earnings to which Liggett is entitled could be lower than the amounts described above and Liggett would be obligated to pay the difference.

Disputes over the NPM Adjustments for 2004-2013 remain to be arbitrated with the states that have not joined the settlement.

"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. The states objected to Liggett's motion.

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. Liggett plans to work with the independent auditor to determine the amount owed for years 2001 - 2013, consistent with the Corrected Final Award. Liggett accrued $8,500 for this matter.

Other State Settlements. The MSA replaced Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. Each of these four states, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies, separate from those settlements reached previously with Liggett. Except as described below, Liggett's agreements with these states remain in full force and effect. These states' settlement agreements with Liggett contained most favored nation provisions which could reduce Liggett's payment obligations based on subsequent settlements or resolutions by those states with certain other tobacco companies. Beginning in 1999, Liggett determined that, based on each of these four states' settlements with United States Tobacco Company, Liggett's payment obligations to those states were eliminated. With respect to all non-economic obligations under the previous settlements, Liggett believes it is entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In 2003, as a result of a dispute with Minnesota regarding its settlement agreement, Liggett agreed to pay $100 a year in any year cigarettes manufactured by Liggett are sold in that state. In or around 2003, the Attorneys General for Florida, Mississippi and Texas advised Liggett that they believed that Liggett had failed to make certain required payments under the respective settlement agreements with these states. In 2010, Liggett settled with Florida and agreed to pay $1,200 and to make further annual payments of $250 for a period of 21 years, starting in March 2011, with the payments from year 12 forward being subject to an inflation adjustment. These payments are in lieu of any other payments allegedly due to Florida. In 2012, Mississippi provided Liggett with a 60-day notice that the state intended to pursue its remedies if Liggett did not cure the alleged defaults. Liggett responded to Mississippi's letter denying the existence of any defaults. There can be no assurance that Liggett will be able to resolve the matters with Texas and Mississippi or that Liggett will not be required to make additional payments which could adversely affect the Company's consolidated financial position, results of operations and cash flows.

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

Management cannot predict the cash requirements related to any future defense costs, settlements or judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in this Note 14, management is unable to estimate the loss or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases and as a result has not provided any amounts in its consolidated financial statements for unfavorable outcomes.

The tobacco industry is subject to a wide range of laws and regulations regarding the marketing, sale, taxation and use of tobacco products imposed by local, state and federal governments. There have been a number of restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco

industry. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional litigation or legislation.

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

The activity in the Company's accruals for the MSA and tobacco litigation for the twelve months ended December 31, 2014 were as follows:

	Current Liabilities			*Non-Current Liabilities*		
	Payments due under Master Settlement Agreement	**Litigation Accruals**	**Total**	**Payments due under Master Settlement Agreement**	**Litigation Accruals**	**Total**
Balance at January 1, 2014	$ 25,348	$ 59,310	$ 84,658	$ 27,571	$ 27,058	$ 54,629
Expenses	118,069	2,849	120,918	—	—	—
NPM Settlement adjustment	—	—	—	(1,419)	—	(1,419)
Change in MSA obligations capitalized as inventory	(1,095)	—	(1,095)	—	—	—
Payments	(116,343)	(62,878)	(179,221)	—	—	—
Reclassification from non-current liabilities	343	3,575	3,918	(343)	(3,575)	(3,918)
Interest on withholding	—	293	293	—	2,217	2,217
Balance as of December 31, 2014	$ 26,322	$ 3,149	$ 29,471	$ 25,809	$ 25,700	$ 51,509

The activity in the Company's accruals for the MSA and tobacco litigation for the twelve months ended December 31, 2013 were as follows:

	Current Liabilities			*Non-Current Liabilities*		
	Payments due under Master Settlement Agreement	**Litigation Accruals**	**Total**	**Payments due under Master Settlement Agreement**	**Litigation Accruals**	**Total**
Balance at January 1, 2013	$ 32,970	$ 1,470	$ 34,440	$ 52,639	$ 1,862	$ 54,501
Expenses	117,085	63,292	180,377	—	25,218	25,218
NPM Settlement adjustment	(3,928)	—	(3,928)	(18,138)	—	(18,138)
Change in MSA obligations capitalized as inventory	1,611	—	1,611	—	—	—
Payments	(129,320)	(6,070)	(135,390)	—	—	—
Reclassification from non-current liabilities	6,930	223	7,153	(6,930)	(223)	(7,153)
Interest on withholding	—	395	395	—	201	201
Balance as of December 31, 2013	$ 25,348	$ 59,310	$ 84,658	$ 27,571	$ 27,058	$ 54,629

Other Matters:

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

Liggett Vector Brands entered into an 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. The agreement expires in 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. In 2013, Liggett paid $83 for obligations under this program. The Company believes the fair value of Liggett Vector Brands' remaining obligation under the agreement was immaterial at December 31, 2014.

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

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	2014	2013	2012
I. Cash paid during the period for:			
Interest	$ 98,754	$ 114,301	$ 81,821
Income taxes	16,610	17,585	27,693
II. Non-cash investing and financing activities:			
Issuance of stock dividend	520	450	414
Acquisitions	—	84,859	—
Non-controlling interest	2,733	87,657	—
Debt retired in debt conversion	132,530	43,222	55,778
Embedded derivative, net retired in debt conversion	6,680	17,377	8,001

16. RELATED PARTY TRANSACTIONS

In September 2006, the Company entered into an agreement with Ladenburg Thalmann Financial Services Inc. ("LTS") pursuant to which the Company agreed to make available to LTS the services of the Company's Executive Vice President (the "EVP") to serve as the President and Chief Executive Officer of LTS and to provide certain other financial, accounting and tax services, including assistance with complying with Section 404 of the Sarbanes-Oxley Act of 2002 and assistance in the preparation of income tax returns. LTS paid the Company $850 for 2014, $750 for 2013 and 2012 under the agreement and pays the Company at a rate of $850 per year in 2015. These amounts are recorded as a reduction to the Company's operating, selling, administrative and general expenses. LTS paid compensation of $1,375, $1,250 and $600 for 2014, 2013 and 2012, respectively, to each of the President of the Company, who serves as Vice Chairman of LTS, and to the EVP, who serves as President and CEO of LTS.

On November 4, 2011, Vector was part of a consortium, which included Dr. Phillip Frost, who is a beneficial owner of approximately 15.3% of the Company's common stock and the EVP that agreed to provide a five-year loan to LTS. Vector's portion of the loan was $15,000. Interest on the loan, which is due on November 4, 2016, is payable quarterly at 11% per annum and commenced on December 31, 2011. The Company recorded interest income of $574, $1,810 and $1,650 in 2014, 2013 and 2012, respectively. At December 31, 2014, $2,786 principal amount of the loan remained outstanding.

In addition, LTS paid a one-time funding fee to the consortium of lenders and issued warrants ("LTS Warrants") to purchase shares of LTS common stock. Vector received $75 as its portion of the funding fee and 1,000,000 of the LTS Warrants. The LTS Warrants are exercisable at any time prior to their expiration on November 4, 2016 at $1.68 per share, which was the closing price

of the LTS common stock on November 4, 2011. The LTS Warrants may be exercised in cash, by net exercise or pursuant to the Company's surrender of all or a portion of the principal amount of its note. The LTS Warrants have been included in "Other assets" on the balance sheet in the amount of $2,342 and $1,758 as of December 31, 2014 and 2013, respectively.

On May 22, 2013, the Company purchased in a public offering 240,000 shares of LTS's 8% Series A Cumulative Redeemable Preferred Stock (Liquidation Preference $25.00 Per Share) ("LTS Preferred") for $6,000. LTS will pay a monthly cumulative dividend of 8% per annum on the LTS Preferred. LTS, at its option, may redeem any or all of the LTS Preferred at $25.00 per share plus any accumulated and unpaid dividends on or after May 24, 2018. The Company recorded dividend income from the investment of $480 in 2014 and $287 in 2013.

The Company's Chief Executive Officer, a firm he serves as a consultant to, and affiliates of that firm received ordinary and customary insurance commissions aggregating approximately $261, $245 and $200 in 2014, 2013 and 2012, respectively, on various insurance policies issued for the Company and its subsidiaries.

As of December 31, 2014, the Company owned 12,671,159 common shares of Castle Brands Inc. (NYSE MKT: ROX), a publicly traded developer and importer of premium branded spirits. In October 2008, the Company entered into an agreement with Castle where the Company agreed to make available to Castle the services of the EVP to serve as the President and Chief Executive Officer of Castle and to provide other financial, accounting and tax services. The Company recognized management fees at a rate of $100 in each of 2014, 2013 and 2012, under the agreement and Castle has agreed to pay it at a rate of $100 per year in 2015. These amounts are recorded as a reduction to the Company's operating, selling, administrative and general expenses. In December 2010, the Company participated in a consortium that lent Castle $1,000. The consortium included Dr. Frost and the EVP. The Company lent $200 of this amount and received a note bearing interest at 11% per annum. On October 14, 2011, $217 of principal and outstanding interest associated with this note was exchanged for shares of Castle's convertible preferred stock. As part of the debt exchange, Castle also issued 357,796 warrants (the "Castle Warrants"). The Castle Warrants entitle Vector to purchase 357,796 shares of Castle common stock. The Castle Warrants are exercisable at any time prior to their expiration on October 14, 2016 at $0.38 per share and were exercised in February 2014. In February 2014, Castle forced a conversion of its convertible preferred stock and the Company received 884,787 additional common shares of Castle stock and the Company's shares of Castle's convertible preferred stock were canceled.

In 2013, the Company purchased in a private placement $200 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.

In addition to its investment in Castle, the Company has made investments in entities where Dr. Frost has a relationship. These include the following: (i) three investments in 2006, 2008, 2009 and 2011 totaling approximately $12,788 in common stock of OPKO Inc. (NYSE MKT: OPK) and its predecessor eXegenics Inc. and in January 2013, the Company purchased $5,000 of Opko's 3.00% convertible senior notes due 2033; (ii) a $500 investment in 2008 in Cardo Medical Inc.; and (iii) a $250 investment in 2008 in Cocrystal Discovery Inc. Dr. Frost is a director, executive officer and/or more than 10% shareholder in these entities as well as LTS. Additional investments in entities where Dr. Frost has a relationship may be made in the future.

In May 2009, the Company issued in a private placement the 6.75% Note in the principal amount of $50,000. The purchase price was paid in cash ($38,225) and by tendering $11,005 principal amount of the 5% Notes, valued at 107% of principal amount. The purchaser of the 6.75% Note was an entity affiliated with Dr. Frost. In March 2014, the holder of the 6.75% Note elected to convert $25,000 of the principal balance of the Note into 2,227,553 shares of the Company's common stock. On November 14, 2014, the Note was amended to extend the stated maturity date of the Note from November 15, 2014 to February 15, 2015. On February 3, 2015, the remaining $25,000 of principal of the Note was converted into 2,227,553 shares of the Company's common stock. Vector made cash interest payments of $5,415 and $8,340 associated with the Note in 2014 and 2013, respectively.

The Company was an investor in investment partnerships affiliated with a former stockholder of the Company. (See Note 6.)

In September 2012, the Company entered into an office lease (the "Lease") with Frost Real Estate Holdings, LLC ("FREH"), an entity affiliated with Dr. Frost. The Lease is for 12,390 square feet of space in an office building in Miami, Florida. The initial term of the Lease is five years, subject to two optional five-year term extensions. Payments under the lease commenced in May 2013. The Lease provides for payments of $31 per month in the first year increasing to $35 per month in the fifth year, plus applicable sales tax. The rent is inclusive of operating expenses, property taxes and parking. A $220 tenant improvement allowance will be credited to the rent pro-rata over the initial five-year term. In connection with the execution of the Lease, the Company received the advice and opinion of a commercial real estate firm that the Lease terms were fair and that the Company received terms favorable in the market. The Company recorded rental expense of $336 and $335 as of December 31, 2014 and 2013, respectively, associated with the lease.

17. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	Fair Value Measurements as of December 31, 2014			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 205,180	$ 205,180	$ —	$ —
Certificates of deposit	3,462	—	3,462	—
Bonds	4,868	4,868	—	—
Investment securities available for sale				
Equity securities	154,192	153,666	526	—
Mutual funds invested in fixed income securities	59,826	59,826	—	—
Fixed income securities				
U.S. Government securities	35,446	—	35,446	—
Corporate securities	56,248	7,397	48,851	—
U.S. government and federal agency	4,770	—	4,770	—
Commercial mortgage-backed securities	16,508	—	16,508	—
U.S. asset backed securities	16,955	—	16,955	—
Index-linked U.S. bonds	2,098	—	2,098	—
Total fixed income securities	132,025	7,397	124,628	—
Warrants (1)	2,342	—	—	2,342
Total	$ 561,895	$ 430,937	$ 128,616	$ 2,342
Liabilities:				
Fair value of derivatives embedded within convertible debt	$ 169,386	$ —	$ —	$ 169,386

(1) Warrants include 1,000,000 of LTS Warrants received on November 4, 2011 which were carried at $2,342 as of December 31, 2014 and are included in "Other assets." The Company recognized income of $584 for the year ended December 31, 2014 related to the change in fair value of the Warrants.

	Fair Value Measurements as of December 31, 2013			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 130,733	$ 130,733	$ —	$ —
Certificates of deposit	2,961	—	2,961	—
Bonds	5,337	5,337	—	—
Investment securities available for sale				
Equity Securities	118,474	117,737	737	—
Fixed income securities				
U.S. Government securities	13,990	—	13,990	—
Corporate securities	29,923	6,497	23,426	—
U.S. government and agency	495	—	495	—
Commercial mortgage-backed securities	6,822	—	6,822	—
U.S. asset backed securities	2,081	—	2,081	—
Index-linked U.S. bonds	749	—	749	—
Total fixed income securities	54,060	6,497	47,563	—
Warrants (1)	1,935	—	—	1,935
Total	$ 313,500	$ 260,304	$ 51,261	$ 1,935
Liabilities:				
Fair value of derivatives embedded within convertible debt	$ 112,062	$ —	$ —	$ 112,062

(1) Warrants include 1,000,000 of LTS Warrants received on November 4, 2011 which were carried at $1,758 as of December 31, 2013 and are included in "Other assets." The Company recognized income of $1,041 for the year ended December 31, 2013 related to the change in fair value from receipt. (See Note 16.)

The fair value of the Level 2 certificates of deposit are based on prices posted by the financial institutions. The fair value of investment securities available for sale included in Level 1 are based on quoted market prices from various stock exchanges. The Level 2 investment securities available for sale are based on quoted market prices of securities that are thinly traded.

The fair value of derivatives embedded within convertible debt was $169,386 and $112,062 as of December 31, 2014 and 2013, respectively. The fair value of derivatives embedded within convertible debt was derived using a valuation model and have been classified as Level 3. The valuation model assumes future dividend payments by the Company and utilizes interest rates and credit spreads based upon the implied debt rate of the 7.5% Convertible Notes due 2019 to determine the fair value of the derivatives embedded within the convertible debt. The changes in fair value of derivatives embedded within convertible debt are presented on the Condensed Consolidated Statements of Operations.

The value of the embedded derivatives is contingent on changes in implied interest rates of the convertible debt, the Company's stock price, stock volatility as well as projections of future cash and stock dividends over the term of the debt. The interest rate component of the value of the embedded derivative is computed by calculating an equivalent non-convertible, unsecured and subordinated borrowing cost. This rate is determined by calculating the implied rate on the Company's 2019 Convertible Notes when removing the embedded option value within the convertible security. This rate is based upon market observable inputs and influenced by the Company's stock price, convertible bond trading price, risk free interest rates and stock volatility.

The fair value of the warrants was derived using the Black-Scholes model and has been classified as Level 3. The assumptions used under the Black-Scholes model in computing the fair value of the warrants are based on contractual term of the warrants, volatility of the underlying stock based on the historical quoted prices of the underlying stock, assumed future dividend payments and a risk-free rate of return.

The unobservable inputs related to the valuations of the Level 3 assets and liabilities are as follows at December 31, 2014:

	Quantitative Information about Level 3 Fair Value Measurements					
	Fair Value at December 31, 2014		Valuation Technique	Unobservable Input	Range (Actual)	
Warrants	$	2,342	Option model	Stock price	$	3.95
				Exercise price	$	1.68
				Term (in years)		1.84
				Volatility		44.42%
				Dividend rate		—
				Risk-free return		0.70%
Fair value of derivatives embedded within convertible debt	$	169,386	Discounted cash flow	Assumed annual stock dividend		5%
				Assumed annual cash dividend	$	1.60
				Stock price	$	21.31
				Convertible trading price		106.8%
				Volatility		16.00%
				Implied credit spread		6.25% - 7.25% (6.75%)

The unobservable inputs related to the valuations of the Level 3 assets and liabilities are as follows at December 31, 2013:

	Quantitative Information about Level 3 Fair Value Measurements					
	Fair Value at December 31, 2013		Valuation Technique	Unobservable Input	Range (Actual)	
Warrants	$	1,935	Option model	Stock price	$	3.13
				Exercise price	$	1.68
				Term (in years)		2.8
				Volatility		53.82%
				Dividend rate		—
				Risk-free return		0.72%
Fair value of derivatives embedded within convertible debt	$	112,062	Discounted cash flow	Assumed annual stock dividend		5%
				Assumed annual cash dividend	$	1.60
				Stock price	$	16.37
				Convertible trading price		118.7%
				Volatility		18.00%
				Implied credit spread		7.5% - 8.5% (8.0%)

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets and liabilities are recorded at fair value on a nonrecurring basis as a result of impairment charges. The Company had no nonrecurring nonfinancial assets subject to fair value measurements as of December 31, 2014 and 2013, respectively.

18. SEGMENT INFORMATION

The Company’s significant business segments for the three years ended December 31, 2014 were Tobacco, E-Cigarettes and Real Estate. The Tobacco segment consists of the manufacture and sale of conventional cigarettes. The E-Cigarettes segment includes the operations of the Company's e-cigarette business. The Real Estate segment includes the Company’s investment in New Valley LLC, which includes Douglas Elliman, Escena, Indian Creek 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. As a result of the amount of operating losses of Zoom as of September 30, 2014, when compared to the remaining components of the Company's 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 2014 periods and from the Tobacco segment for the previously reported 2013 periods. 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.

Financial information for the Company's operations before taxes and minority interests for the years ended December 31, 2014, 2013 and 2012 follows:

	Tobacco	E-Cigarettes	Real Estate	Corporate and Other	Total
2014					
Revenues	$ 1,021,259	$ 8,589	$ 561,467	$ —	$ 1,591,315
Operating income (loss)	199,119 [1]	(13,124)	42,354	(14,961)	213,388
Equity income from real estate ventures	—	—	4,103	—	4,103
Identifiable assets	425,900	8,139	500,546 [3]	638,807	1,573,392
Depreciation and amortization	10,885	—	12,204	1,410	24,499
Capital expenditures	9,256	—	6,923	7,225	23,404
2013					
Revenues	$ 1,014,341	$ —	$ 65,580	$ —	$ 1,079,921
Operating income (loss)	113,039 [2]	(1,018)	15,805	(15,790)	112,036
Equity income from real estate ventures	—	—	22,925	—	22,925
Identifiable assets	433,751	8,950	429,074 [3]	390,476	1,262,251
Depreciation and amortization	9,509	—	2,421	701	12,631
Capital expenditures	9,784	—	1,194	2,297	13,275
2012					
Revenues	$ 1,084,546	$ —	$ 10,987	$ —	$ 1,095,533
Operating income (loss)	176,017	—	(2,013)	(19,071)	154,933
Equity income from real estate ventures	—	—	29,764	—	29,764
Identifiable assets	426,027	—	139,940 [3]	520,764	1,086,731
Depreciation and amortization	9,759	—	414	435	10,608
Capital expenditures	9,339	—	406	1,520	11,265

---

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

(2) 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.

(3) Includes investments accounted for under the equity method of accounting of $163,460, $128,202 and $125,651 as of December 31, 2014, 2013 and 2012, respectively.

19. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Unaudited quarterly data for the years ended December 31, 2014 and 2013 are as follows:

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Revenues	$ 417,590	$ 419,876	$ 406,613	$ 347,236
Gross Profit	126,085	132,640	127,331	108,199
Operating income	47,374	62,984	60,308	42,722
Net income applicable to common shares attributed to Vector Group Ltd.	$ 11,594	$ 14,879	$ 7,925	$ 2,580
Per basic common share (1):				
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.11	$ 0.14	$ 0.08	$ 0.03
Per diluted common share (1):				
Net income applicable to common shares attributed to Vector Group Ltd.	$ 0.11	$ 0.14	$ 0.08	$ 0.03

(1) Per share computations include the impact of a 5% stock dividend paid on September 26, 2014. Quarterly basic and diluted net income per common share were computed independently for each quarter and do not necessarily total to the year to date basic and diluted net income per common share.

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Revenues	$ 299,585	$ 277,941	$ 256,226	$ 246,169
Gross Profit	97,011	77,106	69,781	68,992
Operating income (loss)	61,985	(37,285)	44,240	43,096
Net income (loss) applicable to common shares attributed to Vector Group Ltd.	$ 64,005	$ (36,891)	$ 13,511	$ (1,681)
Per basic common share (1):				
Net income (loss) applicable to common shares attributed to Vector Group Ltd.	$ 0.64	$ (0.39)	$ 0.14	$ (0.02)
Per diluted common share (1):				
Net income (loss) applicable to common shares attributed to Vector Group Ltd.	$ 0.59	$ (0.39)	$ 0.14	$ (0.02)

(1) Per share computations include the impact of a 5% stock dividend paid on September 27, 2013. Quarterly basic and diluted net income per common share were computed independently for each quarter and do not necessarily total to the year to date basic and diluted net income per common share.

20. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The accompanying condensed consolidating financial information has been prepared and presented pursuant to Securities and Exchange Commission ("SEC") Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered." Each of the subsidiary guarantors is 100% owned, directly or indirectly, by the Company. The guarantees are subject to certain automatic release provisions. Relief from the financial statement requirements under Rule 3-10 is being provided because the Company's guarantee release provisions are considered customary pursuant to Section 2510.5 of the SEC Division of Corporation Finance Financial Reporting Manual. Such release provisions are as follows:

- the sale or other disposition of all or substantially all of the assets or all of the capital stock of any subsidiary guarantor; and
- the satisfaction of the requirements for legal defeasance or the satisfaction and discharge of the indenture.

The Company's investments in its consolidated subsidiaries are presented under the equity method of accounting.

The Company has outstanding $450,000 principal amount of its 7.75% Senior Secured Notes due 2021 that are guaranteed subject to certain customary automatic release provisions described above on a joint and several basis by all of the 100% owned domestic subsidiaries of the Company that are engaged in the conduct of its cigarette businesses. (See Note 9.) The notes are not guaranteed by any of the Company's subsidiaries engaged in the real estate businesses conducted through its subsidiary New Valley LLC.

Presented herein are Condensed Consolidating Balance Sheets as of December 31, 2014 and 2013 and the related Condensed Consolidating Statements of Operations and Cash Flows for the years ended December 31, 2014, 2013 and 2012 of Vector Group Ltd. (Parent/Issuer), the guarantor subsidiaries (Subsidiary Guarantors) and the subsidiaries that are not guarantors (Subsidiary Non-Guarantors). The Company does not believe that the separate financial statements and related footnote disclosures concerning the Guarantors would provide any additional information that would be material to investors making an investment decision.

The indenture contains covenants that restrict the payment of dividends by the Company if the Company's consolidated earnings before interest, taxes, depreciation and amortization ("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 the Company's Leverage Ratio and its Secured Leverage Ratio, as defined in the indenture, exceed 3.0 and 1.5, respectively. The Company's Leverage Ratio is defined in the indenture as the ratio of the Company's and the guaranteeing subsidiaries' total debt less the fair market value of the Company's cash, investments in marketable securities and long-term investments to Consolidated EBITDA, as defined in the indenture. The Company's Secured Leverage Ratio is defined in the indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness.

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2014				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	$ 211,751	$ 9,724	$ 104,890	$ —	$ 326,365
Investment securities available for sale	278,010	68,033	—	—	346,043
Accounts receivable - trade, net	—	18,024	5,304	—	23,328
Intercompany receivables	795	267	—	(1,062)	—
Inventories	—	90,323	—	—	90,323
Deferred income taxes	24,541	4,651	—	—	29,192
Income taxes receivable, net	1,055	463	21	1,743	3,282
Restricted assets	—	1,181	1,414	—	2,595
Other current assets	899	9,133	26,686	—	36,718
Total current assets	517,051	201,799	138,315	681	857,846
Property, plant and equipment, net	2,648	61,149	20,315	—	84,112
Real estate held for sale, net	—	—	10,643	—	10,643
Long-term investments	39,594	—	698	—	40,292
Investments in real estate ventures	—	—	163,460	—	163,460
Investments in consolidated subsidiaries	518,963	—	—	(518,963)	—
Restricted assets	1,707	10,306	—	—	12,013
Deferred income taxes	37,117	8,393	5,619	—	51,129
Goodwill and other intangible assets, net	—	107,511	162,461	—	269,972
Prepaid pension costs	—	25,032	—	—	25,032
Other assets	45,904	10,743	2,246	—	58,893
Total assets	$ 1,162,984	$ 424,933	$ 503,757	$ (518,282)	$ 1,573,392
LIABILITIES AND STOCKHOLDERS' EQUITY:					
Current liabilities:					
Current portion of notes payable and long-term debt	$ 25,000	$ 27,248	$ 392	$ —	$ 52,640
Current portion of fair value of derivatives embedded within convertible debt	884	—	—	—	884
Current portion of employee benefits	—	931	—	—	931
Intercompany payables	—	—	1,062	(1,062)	—
Income taxes payable, net	—	—	—	1,743	1,743
Litigation accruals and current payments due under the Master Settlement Agreement	—	29,471	—	—	29,471
Deferred income taxes	41,993	15,678	—	—	57,671
Other current liabilities	36,653	58,677	31,425	—	126,755
Total current liabilities	104,530	132,005	32,879	681	270,095
Notes payable, long-term debt and other obligations, less current portion	852,560	8,120	31	—	860,711
Fair value of derivatives embedded within convertible debt	168,502	—	—	—	168,502
Non-current employee benefits	32,842	16,472	—	—	49,314
Deferred income taxes	60,656	40,694	44,289	—	145,639
Other liabilities, primarily litigation accruals and payments due under the Master Settlement Agreement	921	51,775	4,383	—	57,079
Total liabilities	1,220,011	249,066	81,582	681	1,551,340
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(57,027)	175,867	343,096	(518,963)	(57,027)
Non-controlling interest	—	—	79,079	—	79,079
Total Stockholders' (deficiency) equity	(57,027)	175,867	422,175	(518,963)	22,052
Total liabilities and stockholders' equity	$ 1,162,984	$ 424,933	$ 503,757	$ (518,282)	$ 1,573,392

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2013				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	$ 151,342	$ 11,812	$ 71,312	$ —	$ 234,466
Investment securities available for sale	114,886	57,648	—	—	172,534
Accounts receivable - trade, net	—	10,154	2,005	—	12,159
Intercompany receivables	509	—	—	(509)	—
Inventories	—	93,496	—	—	93,496
Deferred income taxes	45,578	4,901	—	—	50,479
Income taxes receivable, net	—	10,447	—	(10,447)	—
Restricted assets	—	1,060	725	—	1,785
Other current assets	513	12,579	10,300	—	23,392
Total current assets	312,828	202,097	84,342	(10,956)	588,311
Property, plant and equipment, net	3,641	55,093	20,524	—	79,258
Real estate held for sale, net	—	—	20,911	—	20,911
Long-term investments	28,636	—	747	—	29,383
Investments in real estate ventures	—	—	128,202	—	128,202
Investments in consolidated subsidiaries	410,442	—	—	(410,442)	—
Restricted assets	1,895	10,086	—	—	11,981
Deferred income taxes	35,000	12,766	3,708	—	51,474
Goodwill and other intangible assets,net	—	107,511	167,597	—	275,108
Prepaid pension costs	—	26,080	—	—	26,080
Other assets	38,374	10,126	5,053	—	53,553
Total assets	$ 830,816	$ 423,759	$ 431,084	$ (421,398)	$ 1,264,261
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	$ 112,275	$ 39,013	$ 289	$ —	$ 151,577
Current portion of fair value of derivatives embedded within convertible debt	19,128	—	—	—	19,128
Current portion of employee benefits	—	939	—	—	939
Intercompany payables	—	39	470	(509)	—
Income taxes payable, net	16,870	—	—	(10,447)	6,423
Litigation accruals and current payments due under the Master Settlement Agreement	—	84,658	—	—	84,658
Deferred income taxes	32,309	13,425	—	—	45,734
Other current liabilities	29,580	44,907	22,164	—	96,651
Total current liabilities	210,162	182,981	22,923	(10,956)	405,110
Notes payable, long-term debt and other obligations, less current portion	524,182	12,573	4,011	—	540,766
Fair value of derivatives embedded within convertible debt	92,934	—	—	—	92,934
Non-current employee benefits	31,462	16,455	—	—	47,917
Deferred income taxes	65,759	37,602	34,289	—	137,650
Other liabilities, primarily litigation accruals and payments due under the Master Settlement Agreement	1,353	54,924	5,216	—	61,493
Total liabilities	925,852	304,535	66,439	(10,956)	1,285,870
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(95,036)	119,224	291,218	(410,442)	(95,036)
Non-controlling interest	—	—	73,427	—	73,427
Total Stockholders' (deficiency) equity	(95,036)	119,224	364,645	(410,442)	(21,609)
Total liabilities and stockholders' deficiency	$ 830,816	$ 423,759	$ 431,084	$ (421,398)	$ 1,264,261

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Year Ended December 31, 2014				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 1,030,157	$ 561,467	$ (309)	$ 1,591,315
Expenses:					
Cost of sales	—	743,032	354,028	—	1,097,060
Operating, selling, administrative and general expenses	23,312	90,208	165,181	(309)	278,392
Litigation judgment expense	—	2,475	—	—	2,475
Management fee expense	—	9,870	—	(9,870)	—
Operating (loss) income	(23,312)	184,572	42,258	9,870	213,388
Other income (expenses):					
Interest expense	(157,321)	(4,241)	(41)	612	(160,991)
Change in fair value of derivatives embedded within convertible debt	19,409	—	—	—	19,409
Acceleration of interest expense related to debt conversion	(5,205)	—	—	—	(5,205)
Equity income from real estate ventures	—	—	4,103	—	4,103
Equity income on long-term investments	1,242	—	—	—	1,242
Loss on sale of investment securities available for sale	(11)	—	—	—	(11)
Equity income in consolidated subsidiaries	124,001	—	—	(124,001)	—
Management fee income	9,870	—	—	(9,870)	—
Other, net	5,334	1,044	4,786	(612)	10,552
(Loss) income before provision for income taxes	(25,993)	181,375	51,106	(124,001)	82,487
Income tax benefit (expense)	62,971	(78,794)	(17,428)	—	(33,251)
Net income	36,978	102,581	33,678	(124,001)	49,236
Net income attributed to non-controlling interest	—	—	(12,258)	—	(12,258)
Net income attributed to Vector Group Ltd.	36,978	102,581	21,420	(124,001)	36,978
Comprehensive income attributed to non-controlling interest	—	—	(12,258)	—	(12,258)
Comprehensive income attributed to Vector Group Ltd.	$ 48,658	$ 102,669	$ 21,420	$ (124,089)	$ 48,658

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Year Ended December 31, 2013				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 1,014,341	$ 65,580	$ —	$ 1,079,921
Expenses:					
Cost of sales	—	729,393	37,638	—	767,031
Operating, selling, administrative and general expenses	22,835	77,780	12,133	—	112,748
Litigation judgment expense	—	88,106	—	—	88,106
Management fee expense	—	9,508	—	(9,508)	—
Operating (loss) income	(22,835)	109,554	15,809	9,508	112,036
Other income (expenses):					
Interest expense	(130,417)	(1,716)	(14)	—	(132,147)
Change in fair value of derivatives embedded within convertible debt	18,935	—	—	—	18,935
Acceleration of interest expense related to debt conversion	(12,414)	—	—	—	(12,414)
Loss on extinguishment of debt	(21,458)	—	—	—	(21,458)
Equity income from real estate ventures	—	—	22,925	—	22,925
Equity income on long-term investments	2,066	—	—	—	2,066
(Loss) gain on investment securities available for sale	(272)	5,424	—	—	5,152
Gain on acquisition of Douglas Elliman	—	—	60,842	—	60,842
Equity income in consolidated subsidiaries	144,689	—	—	(144,689)	—
Management fee income	9,508	—	—	(9,508)	—
Other, net	4,439	2,763	348	—	7,550
(Loss) income before provision for income taxes	(7,759)	116,025	99,910	(144,689)	63,487
Income tax benefit (expense)	46,703	(30,758)	(40,740)	—	(24,795)
Net income	38,944	85,267	59,170	(144,689)	38,692
Net loss attributed to non-controlling interest	—	—	252	—	252
Net income attributed to Vector Group Ltd.	38,944	85,267	59,422	(144,689)	38,944
Comprehensive loss attributed to non-controlling interest	—	—	252	—	252
Comprehensive income	$ 72,072	$ 102,344	$ 59,422	$ (161,766)	$ 72,072

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Year Ended December 31, 2012				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	$ —	$ 1,084,546	$ 10,987	$ —	$ 1,095,533
Expenses:					
Cost of sales	—	823,452	8,876	—	832,328
Operating, selling, administrative and general expenses	26,039	78,054	4,179	—	108,272
Management fee expense	—	9,163	—	(9,163)	—
Operating (loss) income	(26,039)	173,877	(2,068)	9,163	154,933
Other income (expenses):					
Interest expense	(105,465)	(4,614)	(23)	—	(110,102)
Changes in fair value of derivatives embedded within convertible debt	(7,476)	—	—	—	(7,476)
Acceleration of interest expense related to debt conversion	(14,960)	—	—	—	(14,960)
Equity income from real estate ventures	—	—	29,764	—	29,764
Gain on investment securities available for sale	—	1,640	—	—	1,640
Equity loss on long-term investments	(1,261)	—	—	—	(1,261)
Equity income in consolidated subsidiaries	120,036	—	—	(120,036)	—
Management fee income	9,163	—	—	(9,163)	—
Other, net	1,022	21	136	—	1,179
(Loss) Income before provision for income taxes	(24,980)	170,924	27,809	(120,036)	53,717
Income tax benefit (expense)	55,602	(67,294)	(11,403)	—	(23,095)
Net income	30,622	103,630	16,406	(120,036)	30,622
Comprehensive income	$ 24,031	$ 104,520	$ 16,406	$ (120,926)	$ 24,031

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash provided by operating activities	$ 61,779	$ 83,671	$ 62,656	$ (100,730)	$ 107,376
Cash flows from investing activities:					
Proceeds from the sale or maturity of investment securities	156,604	—	—	—	156,604
Purchase of investment securities	(299,417)	(6,314)	—	—	(305,731)
Proceeds from sale or liquidation of long-term investments	500	—	49	—	549
Purchase of long-term investments	(12,000)	—	—	—	(12,000)
Investments in real estate ventures	—	—	(40,916)	—	(40,916)
Distributions from investment in real estate ventures	—	—	7,309	—	7,309
Increase in cash surrender value of life insurance policies	—	(484)	—	—	(484)
Decrease (increase) in restricted assets	188	(371)	(689)	—	(872)
Issuance of notes receivable	(35,000)	—	(8,250)	35,000	(8,250)
Investments in subsidiaries	(85,278)	—	—	85,278	—
Proceeds from sale of businesses and assets	—	4	—	—	4
Purchase of subsidiaries	—	—	(750)	—	(750)
Repayment of notes receivable	36,867	—	4,850	(35,000)	6,717
Capital expenditures	(15)	(16,466)	(6,923)	—	(23,404)
Purchase of preferred securities	—	—	(1,000)	—	(1,000)
Pay down of investment securities	790	—	—	—	790
Net cash used in investing activities	(236,761)	(23,631)	(46,320)	85,278	(221,434)
Cash flows from financing activities:					
Proceeds from issuance of debt	408,750	40,164	—	(35,000)	413,914
Deferred financing costs	(12,360)	—	—	—	(12,360)
Repayments of debt	—	(43,724)	(3,877)	35,000	(12,601)
Borrowings under revolver	—	886,130	—	—	886,130
Repayments on revolver	—	(898,788)	—	—	(898,788)
Capital contributions received	—	15,270	70,008	(85,278)	—
Intercompany dividends paid	—	(61,180)	(39,550)	100,730	—
Distributions on common stock	(167,328)	—	—	—	(167,328)
Distributions to non-controlling interest	—	—	(9,339)	—	(9,339)
Proceeds from exercise of Vector options	5,151	—	—	—	5,151
Tax benefit of options exercised	1,178	—	—	—	1,178
Net cash provided by (used in) financing activities	235,391	(62,128)	17,242	15,452	205,957
Net increase (decrease) in cash and cash equivalents	60,409	(2,088)	33,578	—	91,899
Cash and cash equivalents, beginning of period	151,342	11,812	71,312	—	234,466
Cash and cash equivalents, end of period	$ 211,751	$ 9,724	$ 104,890	$ —	$ 326,365

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2013				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash provided by (used in) operating activities	$ 71,730	$ 115,829	$ (16,239)	$ (119,294)	$ 52,026
Cash flows from investing activities:					
Proceeds from the sale or maturity of investment securities	111,127	6,602	—	—	117,729
Purchase of investment securities	(159,463)	(11,501)	—	—	(170,964)
Proceeds from sale of or liquidation of long-term investments	500	—	80	—	580
Purchase of long-term investments	(5,000)	—	—	—	(5,000)
Investments in real estate ventures	—	—	(75,731)	—	(75,731)
Distributions from investments in real estate ventures	—	—	3,142	—	3,142
Increase in cash surrender value of life insurance policies	(144)	(484)	—	—	(628)
Decrease in restricted assets	3	1,078	—	—	1,081
Issuance of notes receivable	—	—	(8,600)	—	(8,600)
Investments in subsidiaries	(155,961)	—	—	155,961	—
Proceeds from sale of businesses and assets	35	13	—	—	48
Cash acquired in Douglas Elliman consolidation	—	—	116,935	—	116,935
Purchase of subsidiaries	—	—	(67,616)	—	(67,616)
Repayments of notes receivable	10,347	—	—	—	10,347
Capital expenditures	(2,297)	(9,784)	(1,194)	—	(13,275)
Net cash used in investing activities	(200,853)	(14,076)	(32,984)	155,961	(91,952)
Cash flows from financing activities:					
Proceeds from issuance of debt	450,000	4,687	3,080	—	457,767
Deferred financing costs	(11,750)	—	—	—	(11,750)
Repayments of debt	(415,000)	(7,466)	(115)	—	(422,581)
Borrowings under revolver	—	978,788	—	—	978,788
Repayments on revolver	—	(977,794)	—	—	(977,794)
Capital contributions received	—	13,950	142,011	(155,961)	—
Intercompany dividends paid	—	(105,882)	(13,412)	119,294	—
Distributions on common stock	(144,711)	—	—	—	(144,711)
Distributions to non-controlling interest	—	—	(11,764)	—	(11,764)
Proceeds from exercise of Vector options	544	—	—	—	544
Tax benefit of options exercised	38	—	—	—	38
Net cash (used in) provided by financing activities	(120,879)	(93,717)	119,800	(36,667)	(131,463)
Net (decrease) increase in cash and cash equivalents	(250,002)	8,036	70,577	—	(171,389)
Cash and cash equivalents, beginning of period	401,344	3,776	735	—	405,855
Cash and cash equivalents, end of period	$ 151,342	$ 11,812	$ 71,312	$ —	$ 234,466

VECTOR GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2012				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Net cash provided by (used in) operating activities	$ 118,399	$ 133,308	$ (2,772)	$ (164,849)	$ 84,086
Cash flows from investing activities:					
Proceeds from sale or maturity of investment securities	—	3,831	—	—	3,831
Purchase of investment securities	—	(5,647)	—	—	(5,647)
Proceeds from sale or liquidation of long-term investments	—	—	72	—	72
Purchase of long-term investments	(5,000)	—	—	—	(5,000)
Investments in real estate ventures	—	—	(33,375)	—	(33,375)
Distributions from investments in real estate ventures	—	—	49,221	—	49,221
Increase in cash surrender value of life insurance policies	(425)	(482)	—	—	(907)
Decrease (increase) in restricted assets	263	(1,393)	—	—	(1,130)
Issuance of notes receivable	(383)	—	—	—	(383)
Proceeds from sale of business and assets	432	12	—	—	444
Investments in subsidiaries	(31,209)	—	—	31,209	—
Capital expenditures	(1,520)	(9,339)	(406)	—	(11,265)
Net cash (used in) provided by investing activities	(37,842)	(13,018)	15,512	31,209	(4,139)
Cash flows from financing activities:					
Proceeds from issuance of debt	230,000	14,033	42	—	244,075
Repayments of debt	—	(19,125)	(133)	—	(19,258)
Deferred financing charges	(11,164)	(315)	—	—	(11,479)
Borrowings under revolver	—	1,074,050	—	—	1,074,050
Repayments on revolver	—	(1,066,092)	—	—	(1,066,092)
Capital contributions received	—	6,991	24,218	(31,209)	—
Intercompany dividends paid	—	(128,544)	(36,305)	164,849	—
Distributions on common stock	(137,114)	—	—	—	(137,114)
Proceeds from issuance of Vector stock	611	—	—	—	611
Proceeds from exercise of Vector options	140	—	—	—	140
Tax benefit of options exercised	52	—	—	—	52
Net cash provided by (used in) by financing activities	82,525	(119,002)	(12,178)	133,640	84,985
Net increase in cash and cash equivalents	163,082	1,288	562	—	164,932
Cash and cash equivalents, beginning of period	238,262	2,488	173	—	240,923
Cash and cash equivalents, end of period	$ 401,344	$ 3,776	$ 735	$ —	$ 405,855

VECTOR GROUP LTD.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year Ended December 31, 2014				
Allowances for:				
Doubtful accounts	$ 192	$ 31	$ 186	$ 37
Cash discounts	241	25,801	25,627	415
Deferred tax valuation allowance	6,014	—	1,081	4,933
Sales returns	4,420	6,886	3,586	7,720
Total	$ 10,867	$ 32,718	$ 30,480	$ 13,105
Year Ended December 31, 2013				
Allowances for:				
Doubtful accounts	$ 318	$ 198	$ 324	$ 192
Cash discounts	259	25,207	25,225	241
Deferred tax valuation allowance	6,310	—	296	6,014
Sales returns	4,067	4,019	3,666	4,420
Total	$ 10,954	$ 29,424	$ 29,511	$ 10,867
Year Ended December 31, 2012				
Allowances for:				
Doubtful accounts	$ 308	$ 10	$ —	$ 318
Cash discounts	573	26,620	26,934	259
Deferred tax valuation allowance	9,752	—	3,442	6,310
Sales returns	4,055	3,228	3,216	4,067
Total	$ 14,688	$ 29,858	$ 33,592	$ 10,954

EXHIBIT 4.4
EXECUTION

THIRD AMENDED AND RESTATED CREDIT AGREEMENT

by and among

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent,

WELLS FARGO BANK, NATIONAL ASSOCIATION and

THE LENDERS THAT ARE PARTIES HERETO

as the Lenders,

and

LIGGETT GROUP LLC
and
100 MAPLE LLC
as Borrowers

Dated as of January 14, 2015

TABLE OF CONTENTS

Page

1. DEFINITIONS AND CONSTRUCTION. 1

1.1 Definitions 1
1.2 Accounting Terms 1
1.3 Code 2
1.4 Construction 2
1.5 Time References 3
1.6 Schedules and Exhibits 3

2. LOANS AND TERMS OF PAYMENT. 3

2.1 Revolving Loans. 3
2.2 Term Loan. 4
2.3 Borrowing Procedures and Settlements. 4
2.4 Payments; Reductions of Revolver Commitments; Prepayments. 11
2.5 Promise to Pay; Promissory Notes. 15
2.6 Interest Rates and Letter of Credit Fee: Rates, Payments, and Calculations. 15
2.7 Crediting Payments 17
2.8 Designated Account 17
2.9 Maintenance of Loan Account; Statements of Obligations 17
2.10 Fees. 18
2.11 Letters of Credit. 19
2.12 LIBOR Option. 24
2.13 Capital Requirements. 25
2.14 Joint and Several Liability of Borrowers. 27

3. CONDITIONS; TERM OF AGREEMENT. 29

3.1 Conditions Precedent to the Initial Extension of Credit 29
3.2 Conditions Precedent to all Extensions of Credit 29
3.3 Maturity 29
3.4 Effect of Maturity 29
3.5 Early Termination by Borrowers 29
3.6 Conditions Subsequent 30

4. REPRESENTATIONS AND WARRANTIES. 30

4.1 Due Organization and Qualification; Subsidiaries. 30
4.2 Due Authorization; No Conflict. 31
4.3 Governmental Consents 31
4.4 Binding Obligations; Perfected Liens. 31
4.5 Title to Assets; No Encumbrances 32
4.6 Litigation. 32
4.7 Compliance with Laws 32
4.8 No Material Adverse Effect 32
4.9 Solvency. 32
4.10 Employee Benefits 33
4.11 Environmental Condition 33

4.12 Complete Disclosure 33
4.13 Patriot Act 34
4.14 Indebtedness 34
4.15 Payment of Taxes 34
4.16 Margin Stock 35
4.17 Governmental Regulation 35
4.18 OFAC 35
4.19 Employee and Labor Matters 35
4.20 Reserved 35
4.21 Leases 35
4.22 Eligible Accounts 35
4.23 Eligible Inventory 36
4.24 Location of Inventory; Chief Executive Office 36
4.25 Inventory Records 36
4.26 Reserved 36
4.27 Reserved. 36
4.28 Hedge Agreements 36

5. AFFIRMATIVE COVENANTS. 36

5.1 Financial Statements, Reports, Certificates 36
5.2 Reporting 36
5.3 Existence 37
5.4 Maintenance of Properties 37
5.5 Taxes 37
5.6 Insurance 37
5.7 Inspection. 38
5.8 Compliance with Laws 38
5.9 Environmental 38
5.10 Disclosure Updates 38
5.11 Formation of Subsidiaries 39
5.12 Further Assurances 39
5.13 Reserved 40
5.14 Compliance with ERISA and the IRC 40
5.15 Location of Inventory; Chief Executive Office 40
5.16 Bank Products 40

6. NEGATIVE COVENANTS. 40

6.1 Indebtedness 41
6.2 Liens 41
6.3 Restrictions on Fundamental Changes 41
6.4 Disposal of Assets 41
6.5 Nature of Business 41
6.6 Prepayments and Amendments 41
6.7 Restricted Payments 42
6.8 Accounting Methods 43
6.9 Investments 43
6.10 Transactions with Affiliates 43
6.11 Use of Proceeds 45
6.12 Reserved 45

6.13 Inventory with Bailees 45
6.14 Reserved 45
6.15 Employee Benefits 45
6.16 Immaterial Subsidiaries 46

7. FINANCIAL COVENANTS. 46

8. EVENTS OF DEFAULT. 46

8.1 Payments 46
8.2 Covenants 46
8.3 Judgments 47
8.4 Voluntary Bankruptcy, etc 47
8.5 Involuntary Bankruptcy, etc 47
8.6 Default Under Other Agreements 47
8.7 Representations, etc 48
8.8 Guaranty 48
8.9 Security Documents 48
8.10 Loan Documents 48
8.11 Change of Control 48
8.12 ERISA 48
8.13 Chief Executive Officer. 48

9. RIGHTS AND REMEDIES. 48

9.1 Rights and Remedies 49
9.2 Remedies Cumulative 49

10. WAIVERS; INDEMNIFICATION. 49

10.1 Demand; Protest; etc 49
10.2 The Lender Group's Liability for Collateral 50
10.3 Indemnification 50

11. NOTICES. 50

12. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER; JUDICIAL REFERENCE PROVISION. 51

13. ASSIGNMENTS AND PARTICIPATIONS. 53

13.1 Assignments and Participations. 53

14. SUCCESSORS. 56

14.1 Successors 56

15. AMENDMENTS; WAIVERS. 57

15.1 Amendments and Waivers. 57
15.2 Replacement of Certain Lenders. 58
15.3 No Waivers; Cumulative Remedies 59

16. AGENT; THE LENDER GROUP. 59

16.1 Appointment and Authorization of Agent 59
16.2 Delegation of Duties 60
16.3 Liability of Agent 60

16.4 Reliance by Agent 60
16.5 Notice of Default or Event of Default 61
16.6 Credit Decision 61
16.7 Costs and Expenses; Indemnification 62
16.8 Agent in Individual Capacity 62
16.9 Successor Agent 63
16.10 Lender in Individual Capacity 63
16.11 Collateral Matters. 63
16.12 Restrictions on Actions by Lenders; Sharing of Payments. 65
16.13 Agency for Perfection 65
16.14 Payments by Agent to the Lenders 66
16.15 Concerning the Collateral and Related Loan Documents 66
16.16 Field Examination Reports; Confidentiality; Disclaimers by Lenders; Other Reports and Information 66
16.17 Several Obligations; No Liability 67
16.18 Intercreditor Agreement. 67

17. WITHHOLDING TAXES. 68

17.1 Payments 68
17.2 Status of Lenders. 68
17.3 Treatment of Certain Refunds 70
17.4 Survival 70
17.5 Agent as Lender 70

18. AMENDMENT AND RESTATEMENT. 70

18.1 Existing Obligations. 70
18.2 Acknowledgment of Security Interests. 71
18.3 Existing Loan Documents. 71
18.4 Restatement 71
18.5 Release. 71

19. GENERAL PROVISIONS. 72

19.1 Effectiveness 72
19.2 Section Headings 72
19.3 Interpretation 72
19.4 Severability of Provisions 72
19.5 Bank Product Providers 72
19.6 Debtor-Creditor Relationship 73
19.7 Counterparts; Electronic Execution 73
19.8 Revival and Reinstatement of Obligations; Certain Waivers. 73
19.9 Confidentiality. 73
19.10 Survival 75
19.11 Patriot Act 75
19.12 Integration 75
19.13 Revolving Loan Borrower as Agent for Borrowers 75

EXHIBITS AND SCHEDULES

Exhibit A-1 Form of Assignment and Acceptance
Exhibit B-1 Form of Borrowing Base Certificate
Exhibit C-1 Form of Compliance Certificate
Exhibit D-1 Form of U.S. Tax Compliance Certificate (For Foreign Lenders That Are Not Partnerships For U.S. Federal Income Tax Purposes)
Exhibit D-2 Form of U.S. Tax Compliance Certificate (For Foreign Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)
Exhibit D-3 Form of U.S. Tax Compliance Certificate (For Foreign Participants That Are Partnerships For U.S. Federal Income Tax Purposes)
Exhibit D-4 Form of U.S. Tax Compliance Certificate (For Foreign Lenders That Are Partnerships For U.S. Federal Income Tax Purposes)
Exhibit L-1 Form of LIBOR Notice
Exhibit P-1 Form of Perfection Certificate

Schedule A-1 Agent's Account
Schedule A-2 Authorized Persons
Schedule C-1 Revolver Commitments
Schedule D-1 Designated Account
Schedule E-1 Eligible Inventory
Schedule P-1 Permitted Investments
Schedule P-2 Permitted Liens
Schedule R-1 Real Property Collateral
Schedule 1.1 Definitions
Schedule 3.1 Conditions Precedent
Schedule 3.6 Conditions Subsequent
Schedule 4.1(b) Capitalization of Borrowers
Schedule 4.1(c) Capitalization of Borrowers' Subsidiaries
Schedule 4.1(d) Subscriptions, Options, Warrants, Calls
Schedule 4.6 Litigation
Schedule 4.10 Benefit Plans
Schedule 4.11 Environmental Matters
Schedule 4.14 Permitted Indebtedness
Schedule 4.24 Location of Inventory
Schedule 5.1 Financial Statements, Reports, Certificates
Schedule 5.2 Collateral Reporting
Schedule 5.15 Chief Executive Office
Schedule 6.5 Nature of Business

THIRD AMENDED AND RESTATED CREDIT AGREEMENT

THIS THIRD AMENDED AND RESTATED CREDIT AGREEMENT (this "Agreement"), is entered into as of January 14, 2015 by and among, the lenders identified on the signature pages hereof (each of such lenders, together with its successors and permitted assigns, is referred to hereinafter as a "Lender", as that term is hereinafter further defined), **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association, as administrative and collateral agent (together with its successors and assigns, "Agent"), Liggett Group LLC, a Delaware limited liability company, as successor to Liggett Group Inc. ("Revolving Loan Borrower"), and 100 Maple LLC, a Delaware limited liability company ("Term Loan Borrower"; together with Revolving Loan Borrower, are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers").

WHEREAS, Agent and the Revolving Loan Borrower have entered into financing arrangements pursuant to which Agent, in its capacity as a Lender has made loans and advances and provided other financial accommodations to the Revolving Loan Borrower as set forth in the Existing Credit Agreement (as hereinafter defined);

WHEREAS, Agent, in its capacity as a Lender and the Term Loan Borrower have previously entered into financing arrangements pursuant to which Agent, in its capacity as Lender, has made a term loan to the Term Loan Borrower as set forth in the Existing Mebane Loan Documents (as hereinafter defined) and the Existing Credit Agreement;

WHEREAS, the Revolving Loan Borrower and the Term Loan Borrower have requested that Agent amend and restate the Existing Credit Agreement and continue the existing financing arrangements pursuant to which Agent and the Issuing Bank (as hereinafter defined) may make revolving loans and provide other financial accommodations to the Revolving Loan Borrower and Agent shall maintain the term loan to the Term Loan Borrower;

WHEREAS, Agent and the Lender Group have agreed to amend and restate the Existing Credit Agreement and Agent has agreed to (a) continue to make such revolving loans and provide such other financial accommodations to the Revolving Loan Borrower and the Issuing Bank has agreed to issue the Letters of Credit for the account of the Revolving Loan Borrower, and (b) maintain the Term Loan to the Term Loan Borrower, all on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions.

(a) Capitalized terms used in this Agreement shall have the meanings specified therefor on Schedule 1.1.

(b) All of the definitions set forth in Section 1 of the Guaranty and Security Agreement are hereby incorporated into this Agreement by this reference as if fully set forth in Schedule 1.1 hereto.

1.2 **Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with GAAP; provided, that if Borrowers notify Agent that Borrowers request an amendment to any provision hereof to eliminate the effect of any Accounting Change occurring after the Restatement Effective Date or in the application thereof on the operation of such provision (or if Agent notifies Borrowers that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such Accounting Change or in the application thereof, then Agent and Borrowers agree that they will negotiate in good faith amendments to the provisions of this Agreement that are directly affected by such Accounting Change with the intent of having the respective positions of the Lenders and Borrowers after such Accounting Change conform as nearly as possible to their respective positions as of the date of this Agreement and, until any such amendments have been agreed upon and agreed to by the Required Lenders, the provisions in this Agreement shall be calculated as if no such Accounting Change had occurred. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrowers" is used in respect of a financial covenant or a related definition, it shall be understood to mean Revolving Loan Borrower, and its Subsidiaries on a consolidated basis, unless the context clearly requires otherwise. Notwithstanding anything to the contrary contained herein, (a) all financial statements delivered hereunder shall be prepared, and all financial covenants contained herein shall be calculated, without giving effect to any election under the Statement of Financial Accounting Standards No. 159 (or any similar accounting principle) permitting a Person to value its financial liabilities or Indebtedness at the fair value thereof, and (b) the term "unqualified opinion" as used herein to refer to opinions or reports provided by accountants shall mean an opinion or report that is (i) unqualified, and (ii) does not include any explanation, supplemental comment, or other comment concerning the ability of the applicable Person to continue as a going concern or concerning the scope of the audit.

1.3 **Code.** Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein; provided, that to the extent that the Code is used to define any term herein and such term is defined differently in different Articles of the Code, the definition of such term contained in Article 9 of the Code shall govern.

1.4 **Construction.** Unless the context of this Agreement or any other Loan Document clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the terms "includes" and "including" are not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Loan Document, as the case may be. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement or in any other Loan Document to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein). The words "asset" and "property" shall be construed to have

the same meaning and effect and to refer to any and all tangible and intangible assets and properties. Any reference herein or in any other Loan Document to the satisfaction, repayment, or payment in full of the Obligations shall mean (a) the payment or repayment in full in immediately available funds of (i) the principal amount of, and interest accrued and unpaid with respect to, all outstanding Loans, together with the payment of any premium applicable to the repayment of the Loans, (ii) all Lender Group Expenses that have accrued and are unpaid regardless of whether demand has been made therefor, (iii) all fees or charges that have accrued hereunder or under any other Loan Document (including the Letter of Credit Fee and the Unused Line Fee) and are unpaid, (b) in the case of contingent reimbursement obligations with respect to Letters of Credit, providing Letter of Credit Collateralization, (c) in the case of obligations with respect to Bank Products (other than Hedge Obligations), providing Bank Product Collateralization, (d) the receipt by Agent of cash collateral in order to secure any other contingent Obligations for which a claim or demand for payment has been made on or prior to such time or in respect of matters or circumstances known to Agent or a Lender at such time that are reasonably expected to result in any loss, cost, damage, or expense (including attorneys' fees and legal expenses), such cash collateral to be in such amount as Agent reasonably determines is appropriate to secure such contingent Obligations, (e) the payment or repayment in full in immediately available funds of all other outstanding Obligations (including the payment of any termination amount then applicable (or which would or could become applicable as a result of the repayment of the other Obligations) under Hedge Agreements provided by Hedge Providers) other than (i) unasserted contingent indemnification Obligations, (ii) any Bank Product Obligations (other than Hedge Obligations) that, at such time, are allowed by the applicable Bank Product Provider to remain outstanding without being required to be repaid or cash collateralized, and (iii) any Hedge Obligations that, at such time, are allowed by the applicable Hedge Provider to remain outstanding without being required to be repaid, and (f) the termination of all of the Revolver Commitments of the Lenders. Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein or in any other Loan Document shall be satisfied by the transmission of a Record.

1.5 **Time References.** Unless the context of this Agreement or any other Loan Document clearly requires otherwise, all references to time of day refer to Pacific standard time or Pacific daylight saving time, as in effect in Los Angeles, California on such day. For purposes of the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to and including"; provided that, with respect to a computation of fees or interest payable to Agent or any Lender, such period shall in any event consist of at least one full day.

1.6 **Schedules and Exhibits.** All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. **LOANS AND TERMS OF PAYMENT.**

2.1 **Revolving Loans.**

(a) Subject to the terms and conditions of this Agreement, and during the term of this Agreement, each Lender agrees (severally, not jointly or jointly and severally) to make revolving loans ("Revolving Loans") to Revolving Loan Borrower in an amount at any one time outstanding not to exceed *the lesser of*:

(i) such Lender's Revolver Commitment less its Pro Rata Share of the outstanding principal amount of the Term Loan at such time, or

(ii) such Lender's Pro Rata Share of an amount equal to *the lesser of*:

(A) the amount equal to (1) the Maximum Revolver Amount less (2) the sum of the (aa) Letter of Credit Usage at such time, (bb) the outstanding principal amount of Swing Loans outstanding at such time, and (cc) the principal amount of the Term Loan outstanding at such time; and

(B) the amount equal to (1) the Borrowing Base as of such date (based upon the most recent Borrowing Base Certificate delivered by Revolving Loan Borrower to Agent) *less* the sum of (1) the Letter of Credit Usage at such time, *plus* (2) the principal amount of Swing Loans outstanding at such time, *plus* (3) the principal amount of the Term Loan outstanding at such time.

(b) Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement. The outstanding principal amount of the Revolving Loans, together with interest accrued and unpaid thereon, shall constitute Obligations and shall be due and payable on the Maturity Date or, if earlier, on the date on which they are declared due and payable pursuant to the terms of this Agreement.

(c) Anything to the contrary in this Section 2.1 notwithstanding, Agent shall have the right (but not the obligation) upon not less than ten (10) days' prior notice to Revolving Loan Borrower but no notice shall be required as long as any Default or Event of Default has occurred and is continuing, in the exercise of its Permitted Discretion, to establish and increase or decrease Receivable Reserves, Inventory Reserves, Bank Product Reserves, and other Reserves against the Borrowing Base or the Maximum Revolver Amount. The amount of any Receivable Reserve, Inventory Reserve, Bank Product Reserve, or other Reserve established by Agent shall have a reasonable relationship to the event, condition, other circumstance, or fact that is the basis for such reserve and shall not be duplicative of any other reserve established and currently maintained. Upon establishment or increase in reserves, Agent agrees to make itself available to discuss the reserve or increase, and Borrowers may take such action as may be required so that the event, condition, circumstance, or fact that is the basis for such reserve or increase no longer exists, in a manner and to the extent reasonably satisfactory to Agent in the exercise of its Permitted Discretion. In no event shall such notice and opportunity limit the right of Agent to establish or change such Receivable Reserve, Inventory Reserve, Bank Product Reserve, or other Reserves in its Permitted Discretion, unless Agent shall have determined, in its Permitted Discretion, that the event, condition, other circumstance, or fact that was the basis for such Receivable Reserve, Inventory Reserve, Bank Product Reserve, or other Reserves or such change no longer exists or has otherwise been adequately addressed by Borrowers.

2.2 **Term Loan.** Term Loan Borrower and Revolving Loan Borrower, hereby jointly and severally confirm and agree that on the Restatement Effective Date, the outstanding principal amount of the Term Loan is $3,564,584.09. The outstanding principal of the Term Loan is evidenced by the Term Loan Note and the Existing Mebane Loan Documents, bears interest at the LIBOR Rate plus the LIBOR Rate Margin and shall be repaid in monthly installments in the amount of $24,583.33 (together with interest thereon) which shall be due and payable on the first day of each month, with the final installment in the

then remaining outstanding principal amount of the Term Loan, if any, due and payable on the Maturity Date. The outstanding unpaid principal balance and all accrued and unpaid interest on the Term Loan shall be due and payable on the earlier of (i) the Maturity Date and (ii) the date of the acceleration of the Term Loan in accordance with the terms hereof. Any principal amount of the Term Loan that is repaid or prepaid may not be reborrowed. All principal of, interest on, and other amounts payable in respect of the Term Loan shall constitute Obligations hereunder and is secured by all of the Collateral.

2.3 **Borrowing Procedures and Settlements.**

(a) **Procedure for Borrowing Revolving Loans.** Each Borrowing shall be made by a written request by an Authorized Person delivered to Agent and received by Agent no later than 11:00 a.m. (i) on the Business Day that is the requested Funding Date in the case of a request for a Swing Loan, a Base Rate Loan or a Daily LIBOR Rate Loan and (ii) on the Business Day that is 1 Business Day prior to the requested Funding Date in the case of all other requests, specifying (A) the amount of such Borrowing, and (B) the requested Funding Date (which shall be a Business Day); provided, that Agent may, in its sole discretion, elect to accept as timely requests that are received later than 11:00 a.m. on the applicable Business Day. At Agent's election, in lieu of delivering the above-described written request, any Authorized Person may give Agent telephonic notice of such request by the required time. In such circumstances, Borrowers agree that any such telephonic notice will be confirmed in writing within 24 hours of the giving of such telephonic notice, but the failure to provide such written confirmation shall not affect the validity of the request.

(b) **Making of Swing Loans.** In the case of a request for a Swing Loan and so long as either (i) the aggregate amount of Swing Loans made since the last Settlement Date, *minus* all payments or other amounts applied to Swing Loans since the last Settlement Date, plus the amount of the requested Swing Loan does not exceed $10,000,000, or (ii) Swing Lender, in its sole discretion, agrees to make a Swing Loan notwithstanding the foregoing limitation, Swing Lender shall make a Revolving Loan (any such Revolving Loan made by Swing Lender pursuant to this Section 2.3(b) being referred to as a "Swing Loan" and all such Revolving Loans being referred to as "Swing Loans") available to Borrowers on the Funding Date applicable thereto by transferring immediately available funds in the amount of such requested Borrowing to the Designated Account. Each Swing Loan shall be deemed to be a Revolving Loan hereunder and shall be subject to all the terms and conditions (including Section 3) applicable to other Revolving Loans, except that all payments (including interest) on any Swing Loan shall be payable to Swing Lender solely for its own account. Subject to the provisions of Section 2.3(d)(ii), Swing Lender shall not make and shall not be obligated to make any Swing Loan if Swing Lender has actual knowledge that (iii) one or more of the applicable conditions precedent set forth in Section 3 will not be satisfied on the requested Funding Date for the applicable Borrowing, or (iv) the requested Borrowing would exceed the Availability on such Funding Date. Swing Lender shall not otherwise be required to determine whether the applicable conditions precedent set forth in Section 3 have been satisfied on the Funding Date applicable thereto prior to making any Swing Loan. The Swing Loans shall be secured by Agent's Liens, constitute Revolving Loans and Obligations, and bear interest at the rate applicable from time to time to Revolving Loans that are Base Rate Loans.

(c) **Making of Revolving Loans.**

(i) In the event that a Swing Loan is not requested or Swing Lender is not obligated to make a Swing Loan, then after receipt of a request for a Borrowing pursuant to Section 2.3(a), Agent shall notify the Lenders by telecopy, telephone, email, or other electronic form of transmission, of the requested Borrowing; such notification to be sent on the Business Day that is 1 Business Day prior to the

requested Funding Date. If Agent has notified the Lenders of a requested Borrowing on the Business Day that is 1 Business Day prior to the Funding Date, then each Lender shall make the amount of such Lender's Pro Rata Share of the requested Borrowing available to Agent in immediately available funds, to Agent's Account, not later than 10:00 a.m. on the Business Day that is the requested Funding Date. After Agent's receipt of the proceeds of such Revolving Loans from the Lenders, Agent shall make the proceeds thereof available to Borrowers on the applicable Funding Date by transferring immediately available funds equal to such proceeds received by Agent to the Designated Account; provided, that, subject to the provisions of Section 2.3(d)(ii), no Lender shall have an obligation to make any Revolving Loan, if (1) one or more of the applicable conditions precedent set forth in Section 3 will not be satisfied on the requested Funding Date for the applicable Borrowing unless such condition has been waived, or (2) the requested Borrowing would exceed the Availability on such Funding Date.

(ii) Unless Agent receives notice from a Lender prior to 9:30 a.m. on the Business Day that is the requested Funding Date relative to a requested Borrowing as to which Agent has notified the Lenders of a requested Borrowing that such Lender will not make available as and when required hereunder to Agent for the account of Borrowers the amount of that Lender's Pro Rata Share of the Borrowing, Agent may assume that each Lender has made or will make such amount available to Agent in immediately available funds on the Funding Date and Agent may (but shall not be so required), in reliance upon such assumption, make available to Borrowers a corresponding amount. If, on the requested Funding Date, any Lender shall not have remitted the full amount that it is required to make available to Agent in immediately available funds and if Agent has made available to Borrowers such amount on the requested Funding Date, then such Lender shall make the amount of such Lender's Pro Rata Share of the requested Borrowing available to Agent in immediately available funds, to Agent's Account, no later than 10:00 a.m. on the Business Day that is the first Business Day after the requested Funding Date (in which case, the interest accrued on such Lender's portion of such Borrowing for the Funding Date shall be for Agent's separate account). If any Lender shall not remit the full amount that it is required to make available to Agent in immediately available funds as and when required hereby and if Agent has made available to Borrowers such amount, then that Lender shall be obligated to immediately remit such amount to Agent, together with interest at the Defaulting Lender Rate for each day until the date on which such amount is so remitted. A notice submitted by Agent to any Lender with respect to amounts owing under this Section 2.3(c)(ii) shall be conclusive, absent manifest error. If the amount that a Lender is required to remit is made available to Agent, then such payment to Agent shall constitute such Lender's Revolving Loan for all purposes of this Agreement. If such amount is not made available to Agent on the Business Day following the Funding Date, Agent will notify Borrowers of such failure to fund and, upon demand by Agent, Borrowers shall pay such amount to Agent for Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Revolving Loans composing such Borrowing.

(d) **Protective Advances and Optional Overadvances.**

(i) Any contrary provision of this Agreement or any other Loan Document notwithstanding, but subject to Section 2.3(d)(iv), at any time (A) after the occurrence and during the continuance of a Default or an Event of Default, or (B) that any of the other applicable conditions precedent set forth in Section 3 are not satisfied, Agent hereby is authorized by Borrowers and the Lenders, from time to time, in Agent's sole discretion, to make Revolving Loans to, or for the benefit of, Borrowers, on behalf of the Lenders, that Agent, in its Permitted Discretion, deems necessary or desirable (1) to preserve or protect the Collateral, or any portion thereof, or (2) to enhance the likelihood of repayment of the Obligations (other than the Bank Product Obligations) (the Revolving Loans described in this Section 2.3(d)(i) shall be referred to as "Protective Advances").

(ii) Any contrary provision of this Agreement or any other Loan Document notwithstanding, but subject to Section 2.3(d)(iv), the Lenders hereby authorize Agent or Swing Lender, as applicable, and either Agent or Swing Lender, as applicable, may, but is not obligated to, knowingly and intentionally, continue to make Revolving Loans (including Swing Loans) to Borrowers notwithstanding that an Overadvance exists or would be created thereby, so long as (A) after giving effect to such Revolving Loans, the outstanding Revolver Usage, and (B) after giving effect to such Revolving Loans, the outstanding Revolver Usage (except for and excluding amounts charged to the Loan Account for interest, fees, or Lender Group Expenses) does not exceed the Maximum Revolver Amount. In the event Agent obtains actual knowledge that the Revolver Usage exceeds the amounts permitted by the immediately foregoing provisions, regardless of the amount of, or reason for, such excess, Agent shall notify the Lenders as soon as practicable (and prior to making any (or any additional) intentional Overadvances (except for and excluding amounts charged to the Loan Account for interest, fees, or Lender Group Expenses) unless Agent determines that prior notice would result in imminent harm to the Collateral or its value, in which case Agent may make such Overadvances and provide notice as promptly as practicable thereafter), and the Lenders with Revolver Commitments thereupon shall, together with Agent, jointly determine the terms of arrangements that shall be implemented with Borrowers intended to reduce, within a reasonable time, the outstanding principal amount of the Revolving Loans to Borrowers to an amount permitted by the preceding sentence. In such circumstances, if any Lender with a Revolver Commitment objects to the proposed terms of reduction or repayment of any Overadvance, the terms of reduction or repayment thereof shall be implemented according to the determination of the Required Lenders. The foregoing provisions are meant for the benefit of the Lenders and Agent and are not meant for the benefit of Borrowers, which shall continue to be bound by the provisions of Section 2.4(e)(i). Each Lender with a Revolver Commitment shall be obligated to settle with Agent as provided in Section 2.3(e) (or Section 2.3(g), as applicable) for the amount of such Lender's Pro Rata Share of any unintentional Overadvances by Agent reported to such Lender, any intentional Overadvances made as permitted under this Section 2.3(d)(ii), and any Overadvances resulting from the charging to the Loan Account of interest, fees, or Lender Group Expenses.

(iii) Each Protective Advance and each Overadvance (each, an "Extraordinary Advance") shall be deemed to be a Revolving Loan hereunder, except that no Extraordinary Advance shall be eligible to be a LIBOR Rate Loan or a Daily LIBOR Rate Loan and, prior to Settlement therefor, all payments on the Extraordinary Advances shall be payable to Agent solely for its own account. The Extraordinary Advances shall be repayable on demand, secured by Agent's Liens, constitute Obligations hereunder, and bear interest at the rate applicable from time to time to Revolving Loans that are Base Rate Loans. The provisions of this Section 2.3(d) are for the exclusive benefits of Agent, Swing Lender, and the Lenders and are not intended to benefit Borrowers (or any other Loan Party) in any way.

(iv) Notwithstanding anything contained in this Agreement or any other Loan Document to the contrary: (A) no Extraordinary Advance may be made by Agent if such Extraordinary Advance would cause the aggregate principal amount of Extraordinary Advances outstanding to exceed an amount equal to 10% of the Maximum Revolver Amount; and (B) to the extent that the making of any Extraordinary Advance causes the aggregate Revolver Usage to exceed the Maximum Revolver Amount, such portion of such Extraordinary Advance shall be for Agent's sole and separate account and not for the account of any Lender and shall be entitled to priority in repayment in accordance with Section 2.4(b).

(e) **Settlement.** It is agreed that each Lender's funded portion of the Revolving Loans is intended by the Lenders to equal, at all times, such Lender's Pro Rata Share of the outstanding Revolving Loans. Such agreement notwithstanding, Agent, Swing Lender, and the other Lenders agree (which agreement shall not be for the benefit of Borrowers) that in order to facilitate the administration of this

Agreement and the other Loan Documents, settlement among the Lenders as to the Revolving Loans, the Swing Loans, and the Extraordinary Advances shall take place on a periodic basis in accordance with the following provisions:

(i) Agent shall request settlement ("Settlement") with the Lenders on a weekly basis, or on a more frequent basis if so determined by Agent in its sole discretion (1) on behalf of Swing Lender, with respect to the outstanding Swing Loans, (2)for itself, with respect to the outstanding Extraordinary Advances, and (3) with respect to Borrowers' or any of their Subsidiaries' payments or other amounts received, as to each by notifying the Lenders by telecopy, telephone, or other similar form of transmission, of such requested Settlement, no later than 2:00 p.m. on the Business Day immediately prior to the date of such requested Settlement (the date of such requested Settlement being the "Settlement Date"). Such notice of a Settlement Date shall include a summary statement of the amount of outstanding Revolving Loans, Swing Loans, and Extraordinary Advances for the period since the prior Settlement Date. Subject to the terms and conditions contained herein (including Section 2.3(g)): (y) if the amount of the Revolving Loans (including Swing Loans and Extraordinary Advances) made by a Lender that is not a Defaulting Lender exceeds such Lender's Pro Rata Share of the Revolving Loans (including Swing Loans and Extraordinary Advances) as of a Settlement Date, then Agent shall, by no later than 12:00 p.m. on the Settlement Date, transfer in immediately available funds to a Deposit Account of such Lender (as such Lender may designate), an amount such that each such Lender shall, upon receipt of such amount, have as of the Settlement Date, its Pro Rata Share of the Revolving Loans (including Swing Loans and Extraordinary Advances), and (z) if the amount of the Revolving Loans (including Swing Loans and Extraordinary Advances) made by a Lender is less than such Lender's Pro Rata Share of the Revolving Loans (including Swing Loans and Extraordinary Advances) as of a Settlement Date, such Lender shall no later than 12:00 p.m. on the Settlement Date transfer in immediately available funds to Agent's Account, an amount such that each such Lender shall, upon transfer of such amount, have as of the Settlement Date, its Pro Rata Share of the Revolving Loans (including Swing Loans and Extraordinary Advances). Such amounts made available to Agent under clause (z) of the immediately preceding sentence shall be applied against the amounts of the applicable Swing Loans or Extraordinary Advances and, together with the portion of such Swing Loans or Extraordinary Advances representing Swing Lender's Pro Rata Share thereof, shall constitute Revolving Loans of such Lenders. If any such amount is not made available to Agent by any Lender on the Settlement Date applicable thereto to the extent required by the terms hereof, Agent shall be entitled to recover for its account such amount on demand from such Lender together with interest thereon at the Defaulting Lender Rate.

(ii) In determining whether a Lender's balance of the Revolving Loans, Swing Loans, and Extraordinary Advances is less than, equal to, or greater than such Lender's Pro Rata Share of the Revolving Loans, Swing Loans, and Extraordinary Advances as of a Settlement Date, Agent shall, as part of the relevant Settlement, apply to such balance the portion of payments actually received in good funds by Agent with respect to principal, interest, fees payable by Borrowers and allocable to the Lenders hereunder, and proceeds of Collateral.

(iii) Between Settlement Dates, Agent, to the extent Extraordinary Advances or Swing Loans are outstanding, may pay over to Agent or Swing Lender, as applicable, any payments or other amounts received by Agent, that in accordance with the terms of this Agreement would be applied to the reduction of the Revolving Loans, for application to the Extraordinary Advances or Swing Loans. Between Settlement Dates, Agent, to the extent no Extraordinary Advances or Swing Loans are outstanding, may pay over to Swing Lender any payments or other amounts received by Agent, that in accordance with the terms of this Agreement would be applied to the reduction of the Revolving Loans, for application to Swing Lender's Pro Rata Share of the Revolving Loans. If, as of any Settlement Date,

payments or other amounts of Borrowers received since the then immediately preceding Settlement Date have been applied to Swing Lender's Pro Rata Share of the Revolving Loans other than to Swing Loans, as provided for in the previous sentence, Swing Lender shall pay to Agent for the accounts of the Lenders, and Agent shall pay to the Lenders (other than a Defaulting Lender if Agent has implemented the provisions of Section 2.3(g)), to be applied to the outstanding Revolving Loans of such Lenders, an amount such that each such Lender shall, upon receipt of such amount, have, as of such Settlement Date, its Pro Rata Share of the Revolving Loans. During the period between Settlement Dates, Swing Lender with respect to Swing Loans, Agent with respect to Extraordinary Advances, and each Lender with respect to the Revolving Loans other than Swing Loans and Extraordinary Advances, shall be entitled to interest at the applicable rate or rates payable under this Agreement on the daily amount of funds employed by Swing Lender, Agent, or the Lenders, as applicable.

(iv) Anything in this Section 2.3(e) to the contrary notwithstanding, in the event that a Lender is a Defaulting Lender, Agent shall be entitled to refrain from remitting settlement amounts to the Defaulting Lender and, instead, shall be entitled to elect to implement the provisions set forth in Section 2.3(g).

(f) **Notation.** Agent, as a non-fiduciary agent for Borrowers, shall maintain a register showing the principal amount of the Revolving Loans (and portion of the Term Loan, as applicable), owing to each Lender, including the Swing Loans owing to Swing Lender, and Extraordinary Advances owing to Agent, and the interests therein of each Lender, from time to time and such register shall, absent manifest error, conclusively be presumed to be correct and accurate.

(g) **Defaulting Lenders.**

(i) Notwithstanding the provisions of Section 2.4(b)(ii) or (iii), Agent shall not be obligated to transfer to a Defaulting Lender any payments made by Borrowers to Agent for the Defaulting Lender's benefit or any proceeds of Collateral that would otherwise be remitted hereunder to the Defaulting Lender, and, in the absence of such transfer to the Defaulting Lender, Agent shall transfer any such payments (A) first, to Swing Lender to the extent of any Swing Loans that were made by Swing Lender and that were required to be, but were not, paid by the Defaulting Lender, (B) second, to Issuing Bank, to the extent of the portion of a Letter of Credit Disbursement that was required to be, but was not, paid by the Defaulting Lender, (C) third, to each Non-Defaulting Lender ratably in accordance with their Revolver Commitments (but, in each case, only to the extent that such Defaulting Lender's portion of a Revolving Loan (or other funding obligation) was funded by such other Non-Defaulting Lender), (D) to a suspense account maintained by Agent, the proceeds of which shall be retained by Agent and may be made available to be re-advanced to or for the benefit of Borrowers (upon the request of Borrowers and subject to the conditions set forth in Section 3.2) as if such Defaulting Lender had made its portion of Revolving Loans (or other funding obligations) hereunder, and (E) from and after the date on which all other Obligations have been paid in full, to such Defaulting Lender in accordance with tier (L) of Section 2.4(b)(iii). Subject to the foregoing, Agent may hold and, in its discretion, re-lend to Borrowers for the account of such Defaulting Lender the amount of all such payments received and retained by Agent for the account of such Defaulting Lender. Solely for the purposes of voting or consenting to matters with respect to the Loan Documents (including the calculation of Pro Rata Share in connection therewith) and for the purpose of calculating the fee payable under Section 2.10(b), such Defaulting Lender shall be deemed not to be a "Lender" and such Lender's Revolver Commitment shall be deemed to be zero; provided, that the foregoing shall not apply to any of the matters governed by Section 15.1(a)(i) through (iii). The provisions of this Section 2.3(g) shall remain effective with respect to such Defaulting Lender until the earlier of (y) the date on which all of the Non-Defaulting Lenders, Agent, Issuing Bank, and

Borrowers shall have waived, in writing, the application of this Section 2.3(g) to such Defaulting Lender, or (z) the date on which such Defaulting Lender makes payment of all amounts that it was obligated to fund hereunder, pays to Agent all amounts owing by Defaulting Lender in respect of the amounts that it was obligated to fund hereunder, and, if requested by Agent, provides adequate assurance of its ability to perform its future obligations hereunder (on which earlier date, so long as no Event of Default has occurred and is continuing, any remaining cash collateral held by Agent pursuant to Section 2.3(g)(ii) shall be released to Borrowers). The operation of this Section 2.3(g) shall not be construed to increase or otherwise affect the Revolver Commitment of any Lender, to relieve or excuse the performance by such Defaulting Lender or any other Lender of its duties and obligations hereunder, or to relieve or excuse the performance by any Borrower of its duties and obligations hereunder to Agent, Issuing Bank, or to the Lenders other than such Defaulting Lender. Any failure by a Defaulting Lender to fund amounts that it was obligated to fund hereunder shall constitute a material breach by such Defaulting Lender of this Agreement and shall entitle Borrowers, at their option, upon written notice to Agent, to arrange for a substitute Lender to assume the Revolver Commitment of such Defaulting Lender, such substitute Lender to be reasonably acceptable to Agent. In connection with the arrangement of such a substitute Lender, the Defaulting Lender shall have no right to refuse to be replaced hereunder, and agrees to execute and deliver a completed form of Assignment and Acceptance in favor of the substitute Lender (and agrees that it shall be deemed to have executed and delivered such document if it fails to do so) subject only to being paid its share of the outstanding Obligations (other than Bank Product Obligations, but including (1) all interest, fees, and other amounts that may be due and payable in respect thereof, and (2) an assumption of its Pro Rata Share of its participation in the Letters of Credit); provided, that any such assumption of the Revolver Commitment of such Defaulting Lender shall not be deemed to constitute a waiver of any of the Lender Groups' or Borrowers' rights or remedies against any such Defaulting Lender arising out of or in relation to such failure to fund. In the event of a direct conflict between the priority provisions of this Section 2.3(g) and any other provision contained in this Agreement or any other Loan Document, it is the intention of the parties hereto that such provisions be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.3(g) shall control and govern.

(ii) If any Swing Loan or Letter of Credit is outstanding at the time that a Lender becomes a Defaulting Lender then:

(A) such Defaulting Lender's Swing Loan Exposure and Letter of Credit Exposure shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Pro Rata Shares but only to the extent (x) the sum of all Non-Defaulting Lenders' Revolving Loan Exposures plus such Defaulting Lender's Swing Loan Exposure and Letter of Credit Exposure does not exceed the total of all Non-Defaulting Lenders' Revolver Commitments and (y) the conditions set forth in Section 3.2 are satisfied at such time;

(B) if the reallocation described in clause (A) above cannot, or can only partially, be effected, Borrowers shall within one Business Day following notice by the Agent (x) first, prepay such Defaulting Lender's Swing Loan Exposure (after giving effect to any partial reallocation pursuant to clause (A) above) and (y) second, cash collateralize such Defaulting Lender's Letter of Credit Exposure (after giving effect to any partial reallocation pursuant to clause (A) above), pursuant to a cash collateral agreement to be entered into in form and substance reasonably satisfactory to the Agent, for so long as such Letter of Credit Exposure is outstanding; provided, that Borrowers shall not be obligated to cash collateralize any Defaulting Lender's Letter of Credit Exposure if such Defaulting Lender is also the Issuing Bank;

(C) if Borrowers cash collateralize any portion of such Defaulting Lender's Letter of Credit Exposure pursuant to this Section 2.3(g)(ii), Borrowers shall not be required to pay any Letter of Credit Fees to Agent for the account of such Defaulting Lender pursuant to Section 2.6(b) with respect to such cash collateralized portion of such Defaulting Lender's Letter of Credit Exposure during the period such Letter of Credit Exposure is cash collateralized;

(D) to the extent the Letter of Credit Exposure of the Non-Defaulting Lenders is reallocated pursuant to this Section 2.3(g)(ii), then the Letter of Credit Fees payable to the Non-Defaulting Lenders pursuant to Section 2.6(b) shall be adjusted in accordance with such Non-Defaulting Lenders' Letter of Credit Exposure;

(E) to the extent any Defaulting Lender's Letter of Credit Exposure is neither cash collateralized nor reallocated pursuant to this Section 2.3(g)(ii), then, without prejudice to any rights or remedies of the Issuing Bank or any Lender hereunder, all Letter of Credit Fees that would have otherwise been payable to such Defaulting Lender under Section 2.6(b) with respect to such portion of such Letter of Credit Exposure shall instead be payable to the Issuing Bank until such portion of such Defaulting Lender's Letter of Credit Exposure is cash collateralized or reallocated;

(F) so long as any Lender is a Defaulting Lender, the Swing Lender shall not be required to make any Swing Loan and the Issuing Bank shall not be required to issue, amend, or increase any Letter of Credit, in each case, to the extent (x) the Defaulting Lender's Pro Rata Share of such Swing Loans or Letter of Credit can not be reallocated pursuant to this Section 2.3(g)(ii) or (y) the Swing Lender or Issuing Bank, as applicable, has not otherwise entered into arrangements reasonably satisfactory to the Swing Lender or Issuing Bank, as applicable, and Borrowers to eliminate the Swing Lender's or Issuing Bank's risk with respect to the Defaulting Lender's participation in Swing Loans or Letters of Credit; and

(G) Agent may release any cash collateral provided by Borrowers pursuant to this Section 2.3(g)(ii) to the Issuing Bank and the Issuing Bank may apply any such cash collateral to the payment of such Defaulting Lender's Pro Rata Share of any Letter of Credit Disbursement that is not reimbursed by Borrowers pursuant to Section 2.11(d).

(h) **Independent Obligations.** All Revolving Loans (other than Swing Loans and Extraordinary Advances) shall be made by the Lenders contemporaneously and in accordance with their Pro Rata Shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Revolving Loan (or other extension of credit) hereunder, nor shall any Revolver Commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligations hereunder, and (ii) no failure by any Lender to perform its obligations hereunder shall excuse any other Lender from its obligations hereunder.

2.4 **Payments; Reductions of Revolver Commitments; Prepayments.**

(a) **Payments by Borrowers.**

(i) Except as otherwise expressly provided herein, all payments by Borrowers shall be made to Agent's Account for the account of the Lender Group and shall be made in immediately available funds, no later than 1:30 p.m. on the date specified herein. Any payment received by Agent later than 1:30 p.m. shall be deemed to have been received (unless Agent, in its sole discretion, elects to credit it on the date received) on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(ii) Unless Agent receives notice from Borrowers prior to the date on which any payment is due to the Lenders that Borrowers will not make such payment in full as and when required, Agent may assume that Borrowers have made (or will make) such payment in full to Agent on such date in immediately available funds and Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrowers do not make such payment in full to Agent on the date when due, each Lender severally shall repay to Agent on demand such amount distributed to such Lender, together with interest thereon at the Defaulting Lender Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(b) **Apportionment and Application.**

(iii) So long as no Application Event has occurred and is continuing and except as otherwise provided herein with respect to Defaulting Lenders, all principal and interest payments received by Agent shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Obligations to which such payments relate held by each Lender) and all payments of fees and expenses received by Agent (other than fees or expenses that are for Agent's separate account or for the separate account of Issuing Bank) shall be apportioned ratably among the Lenders having a Pro Rata Share of the Obligation to which a particular fee or expense relates.

(iv) Subject to Section 2.4(b)(iii), Section 2.4(d)(ii), and Section 2.4(e), all payments to be made hereunder by Borrowers shall be remitted to Agent and all such payments, and all proceeds of Collateral received by Agent after the occurrence and during the continuation of a Cash Dominion Event, shall be applied, so long as no Application Event has occurred and is continuing and except as otherwise provided herein with respect to Defaulting Lenders, to the extent a payment (whether interest or principal) is due and payable in respect of the Term Loan, to the Term Loan, and to reduce the balance of the Revolving Loans outstanding (and any payments of interest due and payable thereon), and to any other Obligations then due and payable, and thereafter, to Revolving Loan Borrower (to be wired to the Designated Account) or such other Person entitled thereto under applicable law.

(v) At any time that an Application Event has occurred and is continuing and except as otherwise provided herein with respect to Defaulting Lenders, all payments remitted to Agent and all proceeds of Collateral received by Agent shall be applied as follows:

(A) first, to pay any Lender Group Expenses (including cost or expense reimbursements) or indemnities then due to Agent under the Loan Documents, until paid in full,

(B) second, to pay any fees or premiums then due to Agent under the Loan Documents until paid in full,

(C) third, to pay interest due in respect of all Protective Advances until paid in full,

(D) fourth, to pay the principal of all Protective Advances until paid in full,

(E) fifth, ratably, to pay any Lender Group Expenses (including cost or expense reimbursements) or indemnities then due to any of the Lenders under the Loan Documents, until paid in full,

(F) sixth, ratably, to pay any fees or premiums then due to any of the Lenders under the Loan Documents until paid in full,

(G) seventh, to pay interest accrued in respect of the Swing Loans until paid in full,

(H) eighth, to pay the principal of all Swing Loans until paid in full,

(I) ninth, ratably, to pay interest accrued in respect of the Revolving Loans (other than Protective Advances) and the Term Loan until paid in full,

(J) tenth, ratably

(1) ratably, to pay the principal of all Revolving Loans and the Term Loan until paid in full, and

(2) to Agent, to be held by Agent, for the benefit of Issuing Bank (and for the ratable benefit of each of the Lenders that have an obligation to pay to Agent, for the account of Issuing Bank, a share of each Letter of Credit Disbursement), as cash collateral in an amount up to 105% of the Letter of Credit Usage (to the extent permitted by applicable law, such cash collateral shall be applied to the reimbursement of any Letter of Credit Disbursement as and when such disbursement occurs and, if a Letter of Credit expires undrawn, the cash collateral held by Agent in respect of such Letter of Credit shall, to the extent permitted by applicable law, be reapplied pursuant to this Section 2.4(b)(iii), beginning with tier (A) hereof),

(K) eleventh, ratably to the Bank Product Providers based upon amounts then certified by the applicable Bank Product Provider to Agent (in form and substance satisfactory to Agent) to be due and payable to such Bank Product Providers on account of Bank Product Obligations, and with any balance to be paid to Agent, to be held by Agent, for the ratable benefit of the Bank Product Providers, as cash collateral (which cash collateral may be released by Agent to the applicable Bank Product Provider and applied by such Bank Product Provider to the payment or reimbursement of any amounts due and payable with respect to Bank Product Obligations owed to the applicable Bank Product Provider as and when such amounts first become due and payable and, if and at such time as all such Bank Product Obligations are paid or otherwise satisfied in full),

(L) twelfth, ratably to pay any Obligations owed to Defaulting Lenders, and

(M) thirteenth, to Borrowers (to be wired to the Designated Account) or such other Person entitled thereto under applicable law.

(vi) Agent promptly shall distribute to each Lender, pursuant to the applicable wire instructions received from each Lender in writing, such funds as it may be entitled to receive, subject to a Settlement delay as provided in Section 2.3(e).

(vii) In each instance, so long as no Application Event has occurred and is continuing, Section 2.4(b)(i) shall not apply to any payment made by Borrowers to Agent and specified by Borrowers to be for the payment of specific Obligations then due and payable (or prepayable) under any provision of this Agreement or any other Loan Document, including without limitation, the Term Loan.

(viii) For purposes of Sections 2.4(b)(ii) and (b)(iii), "paid in full" of a type of Obligation means payment in cash or immediately available funds of all amounts owing on account of such type of Obligation, including interest accrued after the commencement of any Insolvency Proceeding, default interest, interest on interest, and expense reimbursements, irrespective of whether any of the foregoing would be or is allowed or disallowed in whole or in part in any Insolvency Proceeding.

(ix) In the event of a direct conflict between the priority provisions of this Section 2.4 and any other provision contained in this Agreement or any other Loan Document, it is the intention of the parties hereto that such provisions be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, if the conflict relates to the provisions of Section 2.3(g) and this Section 2.4, then the provisions of Section 2.3(g) shall control and govern, and if otherwise, then the terms and provisions of this Section 2.4 shall control and govern.

(c) **Reduction of Revolver Commitments.** The Revolver Commitments shall terminate on the Maturity Date. Revolving Loan Borrower may reduce the Revolver Commitments, without premium or penalty, to an amount (which may be zero) not less than the sum of (A) the Revolver Usage as of such date, plus (B) the principal amount of all Revolving Loans not yet made as to which a request has been given by Revolving Loan Borrower under Section 2.3(a), plus (C) the amount of all Letters of Credit not yet issued as to which a request has been given by Revolving Loan Borrower pursuant to Section 2.11(a). Each such reduction shall be in an amount which is not less than $5,000,000 (unless the Revolver Commitments are being reduced to zero and the amount of the Revolver Commitments in effect immediately prior to such reduction are less than $5,000,000), shall be made by providing not less than five (5) Business Days prior written notice to Agent, and shall be irrevocable. The Revolver Commitments once reduced may not be increased; provided, that, the Revolver Commitments may not be reduced to an amount less than the outstanding principal amount of the Term Loan.

(d) **Optional Prepayments.**

(v) **Revolving Loans.** Revolving Loan Borrower may prepay the principal of any Revolving Loan at any time in whole or in part, without premium or penalty.

(vi) **Term Loan.** Term Loan Borrower may, upon at least five (5) Business Days prior written notice to Agent, prepay the principal of the Term Loan, in whole or in part. Each prepayment made pursuant to this Section 2.4(d)(ii) shall be accompanied by the payment of accrued interest to the date of such payment on the amount prepaid. Each such prepayment shall be applied against the remaining installments of principal due on the Term Loan in the inverse order of maturity (for the avoidance of doubt, any amount that is due and payable on the Maturity Date shall constitute an installment).

(e) **Mandatory Prepayments.**

(i) **Borrowing Base**. If, at any time, (A) the Revolver Usage on such date exceeds (B) the Borrowing Base reflected in the Borrowing Base Certificate most recently delivered by Borrowers to Agent, then Borrowers shall promptly, but in any event, within 1 (one) Business Day prepay the Obligations in accordance with Section 2.4(f)(i) in an aggregate amount equal to the amount of such excess.

(ii) **Dispositions.** At any time upon the occurrence and during the continuation of a Cash Dominion Event, within one (1) Business Day of the date of receipt by any Loan Party of the Net Cash Proceeds of any voluntary or involuntary sale or disposition by such Loan Party of assets (including insurance proceeds and proceeds from casualty losses or condemnations, but excluding proceeds from sales or dispositions which qualify as Permitted Dispositions under clauses (a), (b), (c), (d), (e), (j), (k), (l), (m), (n), (o), (p), or (q) of the definition of Permitted Dispositions), Borrowers shall prepay the outstanding principal amount of the Obligations in accordance with Section 2.4(f)(ii) in an amount equal to 100% of such Net Cash Proceeds (including condemnation awards and payments in lieu thereof)

received by such Person in connection with such sales or dispositions; provided that, so long as (A) no Default or Event of Default shall have occurred and is continuing or would result therefrom, (B) such Borrower shall have given Agent prior written notice of such Borrower's intention to apply such monies to the costs of replacement of the properties or assets that are the subject of such sale or disposition or the cost of purchase or construction of other assets useful in the business of such Borrower or its Subsidiaries, (C) the monies are held in a Deposit Account in which Agent has a perfected first-priority security interest, and (D) such Borrower or its Subsidiaries, as applicable, either complete such replacement, purchase, or construction within 180 days after the initial receipt of such monies or enter into a binding commitment during such 180 day period to complete such replacement, purchase or construction, then the Loan Party whose assets were the subject of such disposition shall have the option to apply such monies to the costs of replacement of the assets that are the subject of such sale or disposition or the costs of purchase or construction of other assets useful in the business of such Loan Party unless and to the extent that such applicable period shall have expired without such replacement, purchase, or construction being made or completed or without a binding commitment to complete such replacement, purchase or construction being entered into, in which case, any amounts remaining in the Deposit Account referred to in clause (C) above shall be paid to Agent and applied in accordance with Section 2.4(f)(ii); provided, that, no Loan Party shall have the right to use such Net Cash Proceeds (excluding insurance proceeds and proceeds from casualty losses) to make such replacements, purchases, or construction in excess of $1,500,000 in any given fiscal year. Nothing contained in this Section 2.4(e)(ii) shall permit any Borrower or any of its Subsidiaries to sell or otherwise dispose of any assets other than in accordance with Section 6.4.

(iii) **Extraordinary Receipts.** Upon and during the continuance of a Cash Dominion Event, within 1 Business Day of the date of receipt by any Borrower or any of its Subsidiaries of any Extraordinary Receipts, Borrowers shall prepay the outstanding principal amount of the Obligations in accordance with Section 2.4(f)(ii) in an amount equal to 100% of such Extraordinary Receipts, net of any reasonable expenses incurred in collecting such Extraordinary Receipts.

(iv) **Indebtedness.** Upon the occurrence and during the continuance of a Cash Dominion Event, within one (1) Business Day of the date of incurrence by any Borrower or any of its Subsidiaries of any Indebtedness (other than Permitted Indebtedness), Borrowers shall prepay the outstanding principal amount of the Obligations in accordance with Section 2.4(f)(ii) in an amount equal to 100% of the Net Cash Proceeds received by such Person in connection with such incurrence. The provisions of this Section 2.4(e)(iv) shall not be deemed to be implied consent to any such incurrence otherwise prohibited by the terms of this Agreement.

(f) **Application of Payments.**

(iii) Each prepayment pursuant to Section 2.4(e)(i) shall, (A) so long as no Application Event shall have occurred and be continuing, be applied, *first*, to the outstanding principal amount of the Revolving Loans until paid in full, *second*, to cash collateralize the Letters of Credit in an amount equal to 105% of the then outstanding Letter of Credit Usage, and *third*, to the outstanding principal amount of the Term Loan until paid in full, and (B) if an Application Event shall have occurred and be continuing, be applied in the manner set forth in Section 2.4(b)(iii). Each such prepayment of the Term Loan shall be applied against the remaining installments of principal of the Term Loan in the inverse order of maturity (for the avoidance of doubt, any amount that is due and payable on the Maturity Date shall constitute an installment).

(iv) Each prepayment pursuant to Section 2.4(e)(ii), 2.4(e)(iii), and 2.4(e)(iv), shall (A) so long as no Application Event shall have occurred and be continuing, be applied, *first*, to the outstanding principal amount of the Term Loan until paid in full, *second*, to the outstanding principal amount of the Revolving Loans, until paid in full, and *third*, to cash collateralize the Letters of Credit in an amount equal to 105% of the then outstanding Letter of Credit Usage, and (B) if an Application Event shall have occurred and be continuing, be applied in the manner set forth in Section 2.4(b)(iii). Each such prepayment of the Term Loan shall be applied against the remaining installments of principal of the Term Loan in the inverse order of maturity (for the avoidance of doubt, any amount that is due and payable on the Maturity Date shall constitute an installment).

2.5 **Promise to Pay; Promissory Notes.**

(a) Borrowers agree to pay the Lender Group Expenses on the earlier of (i) the first day of the month following the date on which the applicable Lender Group Expenses were first incurred or (ii) the date on which demand therefor is made by Agent (it being acknowledged and agreed that any charging of such costs, expenses or Lender Group Expenses to the Loan Account pursuant to the provisions of Section 2.6(d) shall be deemed to constitute a demand for payment thereof for the purposes of this subclause (b)). Borrowers promise to pay all of the Obligations (including principal, interest, premiums, if any, fees, costs, and expenses (including Lender Group Expenses)) in full on the Maturity Date or, if earlier, on the date on which the Obligations (other than the Bank Product Obligations) become due and payable pursuant to the terms of this Agreement. Borrowers agree that their obligations contained in the first sentence of this Section 2.5(a) shall survive payment or satisfaction in full of all other Obligations.

(b) Any Lender may request that any portion of its Revolver Commitment or the Loans made by it be evidenced by one or more promissory notes. In such event, Borrowers shall execute and deliver to such Lender the requested promissory notes payable to the order of such Lender in a form furnished by Agent and reasonably satisfactory to Borrowers. Thereafter, the portion of the Revolver Commitment and Loans evidenced by such promissory notes and interest thereon shall at all times be represented by one or more promissory notes in such form payable to the order of the payee named therein.

2.6 **Interest Rates and Letter of Credit Fee: Rates, Payments, and Calculations.**

(a) **Interest Rates.** Except as provided in Section 2.6(c), all Obligations (except for undrawn Letters of Credit) shall bear interest as follows:

(v) if the relevant Obligation is a LIBOR Rate Loan, at a *per annum* rate equal to the LIBOR Rate plus the LIBOR Rate Margin,

(vi) if the relevant Obligation is a Daily LIBOR Rate Loan, at a *per annum* rate equal to the Daily LIBOR Rate plus the Daily LIBOR Rate Margin,

(vii) if the relevant Obligation is the Term Loan, at a *per annum* rate equal to the LIBOR Rate for a one (1) month Interest Period plus the LIBOR Rate Margin; and

(viii) otherwise, at a *per annum* rate equal to the Base Rate plus the Base Rate Margin.

(b) **Letter of Credit Fee.** Borrowers shall pay Agent (for the ratable benefit of the Lenders), a Letter of Credit fee (the "Letter of Credit Fee") (which fee shall be in addition to the fronting fees and commissions, other fees, charges and expenses set forth in Section 2.11(k)) that shall accrue at a rate equal to 2.25% *per annum* times the undrawn amount of all outstanding Letters of Credit.

(c) **Default Rate.** Upon the occurrence and during the continuation of an Event of Default upon the election of Agent or the Required Lenders,

(v) all Obligations (except for undrawn Letters of Credit) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest at a *per annum* rate equal to 2.00 percentage points above the per annum rate otherwise applicable thereunder, and

(vi) the Letter of Credit Fee shall be increased to 2.00 percentage points above the *per annum* rate otherwise applicable hereunder.

(d) **Payment.** Except to the extent provided to the contrary in Section 2.10, Section 2.11(k) or Section 2.12(a), (i) all interest, all Letter of Credit Fees, and all other fees payable hereunder or under any of the other Loan Documents shall be due and payable, in arrears, on the first day of each month; and (ii) all costs and expenses payable hereunder or under any of the other Loan Documents, and all Lender Group Expenses shall be due and payable on the earlier of (x) the first day of the month following the date on which the applicable costs, expenses, or Lender Group Expenses were first incurred or (y) the date on which demand therefor is made by Agent (it being acknowledged and agreed that any charging of such costs, expenses or Lender Group Expenses to the Loan Account pursuant to the provisions of the following sentence shall be deemed to constitute a demand for payment thereof for the purposes of this subclause (y)). Borrowers hereby authorize Agent, from time to time without prior notice to Borrowers, to charge to the Loan Account (A) on the first day of each month, all interest accrued during the prior month on the Revolving Loans or the Term Loan hereunder, (B) on the first day of each month, all Letter of Credit Fees accrued or chargeable hereunder during the prior month, (C) as and when incurred or accrued, all fees and costs provided for in Section 2.10 (a) or (c), (D) on the first day of each month, the Unused Line Fee accrued during the prior month pursuant to Section 2.10(b), (E) as and when due and payable, all other fees payable hereunder or under any of the other Loan Documents, (F) as and when incurred or accrued, the fronting fees and all commissions, other fees, charges and expenses provided for in Section 2.11(i), (G) as and when incurred or accrued, all other Lender Group Expenses, and (H) as and when due and payable all other payment obligations payable under any Loan Document or any Bank Product Agreement (including any amounts due and payable to the Bank Product Providers in respect of Bank Products). All amounts (including interest, fees, costs, expenses, Lender Group Expenses, or other amounts payable hereunder or under any other Loan Document or under any Bank Product Agreement) charged to the Loan Account shall if not paid when due thereupon constitute Revolving Loans hereunder, shall constitute Obligations hereunder, and shall initially accrue interest at the rate then applicable to Revolving Loans that are Base Rate Loans (unless and until converted into LIBOR Rate Loans or Daily Rate LIBOR Rate Loans in accordance with the terms of this Agreement).

(e) **Computation.** All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year, in each case, for the actual number of days elapsed in the period during which the interest or fees accrue. In the event the Base Rate or the Daily Adjusted LIBOR Rate is changed from time to time hereafter, the rates of interest hereunder based upon the Base Rate and the Daily Adjusted LIBOR Rate, as the case may be, automatically and immediately shall be increased or decreased by an amount equal to such change in the Base Rate or the Daily Adjusted LIBOR Rate, as the case may be.

(f) **Intent to Limit Charges to Maximum Lawful Rate.** In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and the Lender Group, in executing and delivering this

Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, that, anything contained herein to the contrary notwithstanding, if such rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, *ipso facto*, as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum amount as is allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.7 **Crediting Payments.** The receipt of any payment item by Agent shall not be required to be considered a payment on account unless such payment item is a wire transfer of immediately available federal funds made to Agent's Account or unless and until such payment item is honored when presented for payment. Should any payment item not be honored when presented for payment, then Borrowers shall be deemed not to have made such payment and interest shall be calculated accordingly. Anything to the contrary contained herein notwithstanding, any payment item shall be deemed received by Agent only if it is received into Agent's Account on a Business Day on or before 1:30 p.m. If any payment item is received into Agent's Account on a non-Business Day or after 1:30 p.m. on a Business Day (unless Agent, in its sole discretion, elects to credit it on the date received), it shall be deemed to have been received by Agent as of the opening of business on the immediately following Business Day.

2.8 **Designated Account.** Agent is authorized to make the Revolving Loans and the Term Loan, and Issuing Bank is authorized to issue the Letters of Credit, under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person or, without instructions, if pursuant to Section 2.6(d). Borrowers agree to establish and maintain the Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Revolving Loans requested by Borrowers and made by Agent or the Lenders hereunder. Unless otherwise agreed by Agent and Borrowers, any Revolving Loan or Swing Loan requested by Borrowers and made by Agent or the Lenders hereunder shall be made to the Designated Account.

2.9 **Maintenance of Loan Account; Statements of Obligations.** Agent shall maintain an account on its books in the name of Borrowers (the "Loan Account") on which Borrowers will be charged with the Term Loan, all Revolving Loans (including Extraordinary Advances and Swing Loans) made by Agent, Swing Lender, or the Lenders to Borrowers or for Borrowers' account, the Letters of Credit issued or arranged by Issuing Bank for Borrowers' account, and with all other payment Obligations hereunder or under the other Loan Documents, including, accrued interest, fees and expenses, and Lender Group Expenses. In accordance with Section 2.7, the Loan Account will be credited with all payments received by Agent from Borrowers or for Borrowers' account. Agent shall make available to Borrowers monthly statements regarding the Loan Account, including the principal amount of the Term Loan and the Revolving Loans, interest accrued hereunder, fees accrued or charged hereunder or under the other Loan Documents, and a summary itemization of all charges and expenses constituting Lender Group Expenses accrued hereunder or under the other Loan Documents, and each such statement, absent manifest error, shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrowers and the Lender Group unless, within 30 days after Agent first

makes such a statement available to Borrowers, Borrowers shall deliver to Agent written objection thereto describing the error or errors contained in such statement.

2.10 **Fees.**

(a) **Amendment and Restatement Fee.** Borrowers shall pay to Agent, for the account of Agent, an amendment and restatement fee in the amount of $210,000, which fee shall be duly earned and payable on the Restatement Effective Date.

(b) **Servicing Fee**. Revolving Loan Borrower shall pay to Agent monthly a servicing fee in an amount equal to $2,500 in respect of Agent's services for each month (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of and payable in advance on the first date of the calendar month occurring after the Restatement Effective Date and on the first day of each month hereafter.

(c) **Unused Line Fee.** Revolving Loan Borrower shall pay to Agent for the ratable account of the Lenders, an unused line fee (the "Unused Line Fee") in an amount equal to .25% *per annum* times the result of (i) the aggregate amount of the Maximum Revolver Amount less (ii) the Average Revolver Usage and average outstanding principal amount of the Term Loan during the immediately preceding month (or portion thereof), which Unused Line Fee shall be due and payable on the first day of each month; provided, that, if an Event of Default has occurred and is continuing, such Unused Line Fee shall be due and payable, in arrears, on the first day of each month, prior to the date on which the Obligations are paid in full and on the date on which the Obligations are paid in full.

(d) **Field Examination and Other Fees.** Borrowers shall pay to Agent, field examination, appraisal, and valuation fees and charges, as and when incurred or chargeable, as follows (i) a fee of $1,000 per day, per examiner, plus out-of-pocket expenses (including travel, meals, and lodging) for each field examination of any Borrower performed by personnel employed by Agent, and (ii) the fees or charges paid or incurred by Agent (but, in any event, no less than a charge of $1,000 per day, per Person, plus out-of-pocket expenses (including travel, meals, and lodging)) if it elects to employ the services of one or more third Persons to perform field examinations of any Borrower or its Subsidiaries, to establish electronic collateral reporting systems, to appraise the Collateral, or any portion thereof, or to assess any Borrower's or its Subsidiaries' business valuation; provided, that,

(i) as to appraisals, (A) at Agent's option, there shall be no more than two (2) inventory appraisals in any twelve (12) consecutive month period at the expense of Loan Parties, (B) at any time an Event of Default has occurred and is continuing, there shall be such other and additional appraisals as Agent may request at the expense of Loan Parties, and (C) at any other times there shall be such other appraisals as Agent may request at its expense; and

(ii) as to field examinations, (A) there shall be no more than one (1) field examination in any twelve (12) consecutive month period at the expense of Loan Parties, unless Average Excess Availability, for any period of thirty (30) consecutive days is less than $30,000,000 or Borrowers and their Subsidiaries, on a combined basis, have TTM EBITDA of less than $100,000,000 during such twelve (12) consecutive month period, in which case, at Agent's option, up to two (2) field examinations at the expense of Loan Parties during such twelve (12) consecutive month period, (B) at any time an Event of Default has occurred and is continuing, there shall be such other field examinations as Agent may request at the expense of Loan Parties, and (C) at any other times there shall be such other field examinations as Agent may request at its expense.

2.11 **Letters of Credit.**

(a) Subject to the terms and conditions of this Agreement, upon the request of Revolving Loan Borrower made in accordance herewith, and prior to the Maturity Date, Issuing Bank agrees to issue a requested Letter of Credit for the account of Revolving Loan Borrower. By submitting a request to Issuing Bank for the issuance of a Letter of Credit, Borrowers shall be deemed to have requested that Issuing Bank issue the requested Letter of Credit. Each request for the issuance of a Letter of Credit, or the amendment, renewal, or extension of any outstanding Letter of Credit, shall be irrevocable and shall be made in writing by an Authorized Person and delivered to Issuing Bank via telefacsimile or other electronic method of transmission reasonably acceptable to Issuing Bank and reasonably in advance of the requested date of issuance, amendment, renewal, or extension. Each such request shall be in form and substance reasonably satisfactory to Issuing Bank and (i) shall specify (A) the amount of such Letter of Credit, (B) the date of issuance, amendment, renewal, or extension of such Letter of Credit, (C) the proposed expiration date of such Letter of Credit, (D) the name and address of the beneficiary of the Letter of Credit, and (E) such other information (including, the conditions to drawing, and, in the case of an amendment, renewal, or extension, identification of the Letter of Credit to be so amended, renewed, or extended) as shall be necessary to prepare, amend, renew, or extend such Letter of Credit, and (ii) shall be accompanied by such Issuer Documents as Agent or Issuing Bank may request or require, to the extent that such requests or requirements are consistent with the Issuer Documents that Issuing Bank generally requests for Letters of Credit in similar circumstances. Bank's records of the content of any such request will be conclusive. Anything contained herein to the contrary notwithstanding, Issuing Bank may, but shall not be obligated to issue a Letter of Credit that supports the obligations of Borrowers or one of their Subsidiaries in respect of (x) a lease of real property to the extent that the face amount of such Letter of Credit exceeds the highest rent (including all rent-like charges) payable under such lease for a period of one year, or (y) an employment contract to the extent that the face amount of such Letter of Credit exceeds the highest compensation payable under such contract for a period of one year.

(b) Issuing Bank shall have no obligation to issue a Letter of Credit if any of the following would result after giving effect to the requested issuance:

(i) the Letter of Credit Usage would exceed $5,000,000, or

(ii) the Letter of Credit Usage would exceed the Maximum Revolver Amount less the outstanding principal amount of Revolving Loans (including Swing Loans) and the Term Loan, or

(iii) the Letter of Credit Usage would exceed the Borrowing Base at such time less the outstanding principal balance of the Revolving Loans (inclusive of Swing Loans) at such time.

(c) In the event there is a Defaulting Lender as of the date of any request for the issuance of a Letter of Credit, the Issuing Bank shall not be required to issue or arrange for such Letter of Credit to the extent (i) the Defaulting Lender's Letter of Credit Exposure with respect to such Letter of Credit may not be reallocated pursuant to Section 2.3(g)(ii) or (ii) the Issuing Bank has not otherwise entered into arrangements reasonably satisfactory to it and Borrowers to eliminate the Issuing Bank's risk with respect to the participation in such Letter of Credit of the Defaulting Lender, which arrangements may include Borrowers cash collateralizing such Defaulting Lender's Letter of Credit Exposure in accordance with Section 2.3(g)(ii). Additionally, Issuing Bank shall have no obligation to issue a Letter of Credit if (A) any order, judgment, or decree of any Governmental Authority or arbitrator shall, by its terms, purport to enjoin or restrain Issuing Bank from issuing such Letter of Credit, or any law applicable to Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority

with jurisdiction over Issuing Bank shall prohibit or request that Issuing Bank refrain from the issuance of letters of credit generally or such Letter of Credit in particular, (B) the issuance of such Letter of Credit would violate one or more policies of Issuing Bank applicable to letters of credit generally, or (C) if amounts demanded to be paid under any Letter of Credit will or may not be in United States Dollars.

(d) Any Issuing Bank (other than Wells Fargo or any of its Affiliates) shall notify Agent in writing no later than the Business Day immediately following the Business Day on which such Issuing Bank issued any Letter of Credit; provided that (i) until Agent advises any such Issuing Bank that the provisions of Section 3.2 are not satisfied, or (ii) unless the aggregate amount of the Letters of Credit issued in any such week exceeds such amount as shall be agreed by Agent and such Issuing Bank, such Issuing Bank shall be required to so notify Agent in writing only once each week of the Letters of Credit issued by such Issuing Bank during the immediately preceding week as well as the daily amounts outstanding for the prior week, such notice to be furnished on such day of the week as Agent and such Issuing Bank may agree. Each Letter of Credit shall be in form and substance reasonably acceptable to Issuing Bank, including the requirement that the amounts payable thereunder must be payable in Dollars. If Issuing Bank makes a payment under a Letter of Credit, Revolving Loan Borrower shall pay to Agent an amount equal to the applicable Letter of Credit Disbursement on the Business Day such Letter of Credit Disbursement is made and, in the absence of such payment, the amount of the Letter of Credit Disbursement immediately and automatically shall be deemed to be a Revolving Loan hereunder (notwithstanding any failure to satisfy any condition precedent set forth in Section 3) and, initially, shall bear interest at the rate then applicable to Revolving Loans that are Base Rate Loans. If a Letter of Credit Disbursement is deemed to be a Revolving Loan hereunder, Borrowers' obligation to pay the amount of such Letter of Credit Disbursement to Issuing Bank shall be automatically converted into an obligation to pay the resulting Revolving Loan. Promptly following receipt by Agent of any payment from Borrowers pursuant to this paragraph, Agent shall distribute such payment to Issuing Bank or, to the extent that Lenders have made payments pursuant to Section 2.11(e) to reimburse Issuing Bank, then to such Lenders and Issuing Bank, then to Agent and Issuing Bank as their interests may appear.

(e) Promptly following receipt of a notice of a Letter of Credit Disbursement pursuant to Section 2.11(d), each Lender agrees to fund its Pro Rata Share of any Revolving Loan deemed made pursuant to Section 2.11(d) on the same terms and conditions as if Borrowers had requested the amount thereof as a Revolving Loan and Agent shall promptly pay to Issuing Bank the amounts so received by it from the Lenders. By the issuance of a Letter of Credit (or an amendment, renewal, or extension of a Letter of Credit) and without any further action on the part of Issuing Bank or the Lenders, Issuing Bank shall be deemed to have granted to each Lender, and each Lender shall be deemed to have purchased, a participation in each Letter of Credit issued by Issuing Bank, in an amount equal to its Pro Rata Share of such Letter of Credit, and each such Lender agrees to pay to Agent, for the account of Issuing Bank, such Lender's Pro Rata Share of any Letter of Credit Disbursement made by Issuing Bank under the applicable Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to Agent, for the account of Issuing Bank, such Lender's Pro Rata Share of each Letter of Credit Disbursement made by Issuing Bank and not reimbursed by Borrowers on the date due as provided in Section 2.11(d), or of any reimbursement payment that is required to be refunded (or that Agent or Issuing Bank elects, based upon the advice of counsel, to refund) to Borrowers for any reason. Each Lender acknowledges and agrees that its obligation to deliver to Agent, for the account of Issuing Bank, an amount equal to its respective Pro Rata Share of each Letter of Credit Disbursement pursuant to this Section 2.11(e) shall be absolute and unconditional and such remittance shall be made notwithstanding the occurrence or continuation of an Event of Default or Default or the failure to satisfy any condition set forth in Section 3. If any such Lender fails to make available to Agent the amount of such Lender's Pro Rata Share of a Letter of Credit Disbursement as provided in this Section, such Lender

shall be deemed to be a Defaulting Lender and Agent (for the account of Issuing Bank) shall be entitled to recover such amount on demand from such Lender together with interest thereon at the Defaulting Lender Rate until paid in full.

(f) Each Borrower agrees to indemnify, defend and hold harmless each member of the Lender Group (including Issuing Bank and its branches, Affiliates, and correspondents) and each such Person's respective directors, officers, employees, attorneys and agents (each, including Issuing Bank, a "Letter of Credit Related Person") (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, liabilities, fines, costs, penalties, and damages, and all reasonable fees and disbursements of attorneys, experts, or consultants and all other costs and expenses actually incurred in connection therewith or in connection with the enforcement of this indemnification (as and when they are incurred and irrespective of whether suit is brought), which may be incurred by or awarded against any such Letter of Credit Related Person (other than Taxes, which shall be governed by Section 17) (the "Letter of Credit Indemnified Costs"), and which arise out of or in connection with, or as a result of:

(i) any Letter of Credit or any pre-advice of its issuance;

(ii) any transfer, sale, delivery, surrender or endorsement of any Drawing Document at any time(s) held by any such Letter of Credit Related Person in connection with any Letter of Credit;

(iii) any action or proceeding arising out of, or in connection with, any Letter of Credit (whether administrative, judicial or in connection with arbitration), including any action or proceeding to compel or restrain any presentation or payment under any Letter of Credit, or for the wrongful dishonor of, or honoring a presentation under, any Letter of Credit;

(iv) any independent undertakings issued by the beneficiary of any Letter of Credit;

(v) any unauthorized instruction or request made to Issuing Bank in connection with any Letter of Credit or requested Letter of Credit or error in computer or electronic transmission;

(vi) an adviser, confirmer or other nominated person seeking to be reimbursed, indemnified or compensated;

(vii) any third party seeking to enforce the rights of an applicant, beneficiary, nominated person, transferee, assignee of Letter of Credit proceeds or holder of an instrument or document;

(viii) the fraud, forgery or illegal action of parties other than the Letter of Credit Related Person;

(ix) Issuing Bank's performance of the obligations of a confirming institution or entity that wrongfully dishonors a confirmation; or

(x) the acts or omissions, whether rightful or wrongful, of any present or future de jure or de facto governmental or regulatory authority or cause or event beyond the control of the Letter of Credit Related Person;

in each case, including that resulting from the Letter of Credit Related Person's own negligence; provided, however, that such indemnity shall not be available to any Letter of Credit Related Person claiming indemnification under clauses (i) through (x) above to the extent that such Letter of Credit

Indemnified Costs may be finally determined in a final, non-appealable judgment of a court of competent jurisdiction to have resulted directly from the gross negligence or willful misconduct of the Letter of Credit Related Person claiming indemnity. Borrowers hereby agree to pay the Letter of Credit Related Person claiming indemnity on demand from time to time all amounts owing under this Section 2.11(f). If and to the extent that the obligations of Borrowers under this Section 2.11(f) are unenforceable for any reason, Borrowers agree to make the maximum contribution to the Letter of Credit Indemnified Costs permissible under applicable law. This indemnification provision shall survive termination of this Agreement and all Letters of Credit.

(g) Borrowers are responsible for preparing or approving the final text of the Letter of Credit as issued by Issuing Bank, irrespective of any assistance Issuing Bank may provide such as drafting or recommending text or by Issuing Bank's use or refusal to use text submitted by Borrowers. Borrowers are solely responsible for the suitability of the Letter of Credit for Borrowers' purposes. With respect to any Letter of Credit containing an "automatic amendment" to extend the expiration date of such Letter of Credit, Issuing Bank, in its sole and absolute discretion, may give notice of nonrenewal of such Letter of Credit and, if Borrowers do not at any time want such Letter of Credit to be renewed, Borrowers will so notify Agent and Issuing Bank at least 15 calendar days before Issuing Bank is required to notify the beneficiary of such Letter of Credit or any advising bank of such nonrenewal pursuant to the terms of such Letter of Credit.

(h) Borrowers' reimbursement and payment obligations under this Section 2.11 are absolute, unconditional and irrevocable and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever, including:

(i) any lack of validity, enforceability or legal effect of any Letter of Credit or this Agreement or any term or provision therein or herein;

(ii) payment against presentation of any draft, demand or claim for payment under any Drawing Document that does not comply in whole or in part with the terms of the applicable Letter of Credit or which proves to be fraudulent, forged or invalid in any respect or any statement therein being untrue or inaccurate in any respect, or which is signed, issued or presented by a Person or a transferee of such Person purporting to be a successor or transferee of the beneficiary of such Letter of Credit;

(iii) Issuing Bank or any of its branches or Affiliates being the beneficiary of any Letter of Credit;

(iv) Issuing Bank or any correspondent honoring a drawing against a Drawing Document up to the amount available under any Letter of Credit even if such Drawing Document claims an amount in excess of the amount available under the Letter of Credit;

(v) the existence of any claim, set-off, defense or other right that any Borrower or any of its Subsidiaries may have at any time against any beneficiary any assignee of proceeds, Issuing Bank or any other Person;

(vi) any other event, circumstance or conduct whatsoever, whether or not similar to any of the foregoing that might, but for this Section 2.11(i), constitute a legal or equitable defense to or discharge of, or provide a right of set-off against, any Borrower's or any of its Subsidiaries' reimbursement and other payment obligations and liabilities, arising under, or in connection with, any Letter of Credit, whether against Issuing Bank, the beneficiary or any other Person; or

(vii) the fact that any Default or Event of Default shall have occurred and be continuing;

provided, however, that subject to Section 2.11(g) above, the foregoing shall not release Issuing Bank from such liability to Borrowers as may be finally determined in a final, non-appealable judgment of a court of competent jurisdiction against Issuing Bank following reimbursement or payment of the obligations and liabilities, including reimbursement and other payment obligations, of Borrowers to Issuing Bank arising under, or in connection with, this Section 2.11 or any Letter of Credit.

(i) Borrowers shall pay immediately upon demand to Agent for the account of Issuing Bank as non-refundable fees, commissions, and charges (it being acknowledged and agreed that any charging of such fees, commissions, and charges to the Loan Account pursuant to the provisions of Section 2.6(d) shall be deemed to constitute a demand for payment thereof for the purposes of this Section 2.11(k)): (i) a fronting fee which shall be imposed by Issuing Bank upon the issuance of each Letter of Credit of 0.125% per annum of the face amount thereof, plus (ii) any and all other customary commissions, fees and charges then in effect imposed by, and any and all expenses incurred by, Issuing Bank, or by any adviser, confirming institution or entity or other nominated person, relating to Letters of Credit, at the time of issuance of any Letter of Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including transfers, assignments of proceeds, amendments, drawings, renewals or cancellations).

(j) If by reason of (x) any Change in Law, or (y) compliance by Issuing Bank or any other member of the Lender Group with any direction, request, or requirement (irrespective of whether having the force of law) of any Governmental Authority or monetary authority including, Regulation D of the Board of Governors as from time to time in effect (and any successor thereto):

(i) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letter of Credit issued or caused to be issued hereunder or hereby, or

(ii) there shall be imposed on Issuing Bank or any other member of the Lender Group any other condition regarding any Letter of Credit,

and the result of the foregoing is to increase, directly or indirectly, the cost to Issuing Bank or any other member of the Lender Group of issuing, making, participating in, or maintaining any Letter of Credit or to reduce the amount receivable in respect thereof, then, and in any such case, Agent may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Borrowers, and Borrowers shall pay within 30 days after demand therefor, such amounts as Agent may specify to be necessary to compensate Issuing Bank or any other member of the Lender Group for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate then applicable to Base Rate Loans hereunder; provided, that (A) Borrowers shall not be required to provide any compensation pursuant to this Section 2.11(j) for any such amounts incurred more than 180 days prior to the date on which the demand for payment of such amounts is first made to Borrowers, and (B) if an event or circumstance giving rise to such amounts is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof. The determination by Agent of any amount due pursuant to this Section 2.11(j), as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

(k) Unless otherwise expressly agreed by Issuing Bank and Borrowers when a Letter of Credit is issued, (i) the rules of the ISP and the UCP shall apply to each standby Letter of Credit, and (ii) the rules of the UCP shall apply to each commercial Letter of Credit.

(l) In the event of a direct conflict between the provisions of this Section 2.11 and any provision contained in any Issuer Document, it is the intention of the parties hereto that such provisions be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.11 shall control and govern.

2.12 **LIBOR Option**.

(a) **Interest and Interest Payment Dates.** In lieu of having interest charged at the rate based upon the Base Rate or the Daily LIBOR Rate with respect to Revolving Loans, Revolving Loan Borrower shall have the option, subject to Section 2.12(b) below (the "LIBOR Option") to have interest on all or a portion of the Revolving Loans be charged (whether at the time when made (unless otherwise provided herein), upon conversion from a Base Rate Loan or a Daily LIBOR Rate Loan, as the case may be, to a LIBOR Rate Loan, or upon continuation of a LIBOR Rate Loan as a LIBOR Rate Loan) at a rate of interest based upon the LIBOR Rate. Interest on LIBOR Rate Loans shall be payable on the earliest of (i) the last day of the Interest Period applicable thereto; (ii) the date on which all or any portion of the Obligations are accelerated pursuant to the terms hereof, or (iii) the date on which this Agreement is terminated pursuant to the terms hereof. On the last day of each applicable Interest Period, unless Revolving Loan Borrower has properly exercised the LIBOR Option with respect thereto, the interest rate applicable to such LIBOR Rate Loan automatically shall convert to the rate of interest then applicable to Base Rate Loans of the same type hereunder. At any time that an Event of Default has occurred and is continuing, at the written election of the Required Lenders, Revolving Loan Borrower no longer shall have the option to request that Revolving Loans bear interest at a rate based upon the LIBOR Rate or the Daily LIBOR Rate.

(b) **LIBOR Election.**

(i) Revolving Loan Borrower may, at any time and from time to time, so long as such Borrower has not received a notice from Agent (which notice Agent may elect to give or not give in its discretion unless Agent is directed to give such notice by the Required Lenders, in which case, it shall give the notice to Borrowers), after the occurrence and during the continuance of an Event of Default, to terminate the right of Revolving Loan Borrower to exercise the LIBOR Option during the continuance of such Event of Default, elect to exercise the LIBOR Option by notifying Agent prior to 11:00 a.m. at least 1 Business Day prior to the commencement of the proposed Interest Period (the "LIBOR Deadline"). Notice of Revolving Loan Borrowers' election of the LIBOR Option for a permitted portion of the Revolving Loans and an Interest Period pursuant to this Section shall be made by delivery to Agent of a LIBOR Notice received by Agent before the LIBOR Deadline, or by telephonic notice received by Agent before the LIBOR Deadline (to be confirmed by delivery to Agent of a LIBOR Notice received by Agent prior to 5:00 p.m. on the same day). Promptly upon its receipt of each such LIBOR Notice, Agent shall provide a copy thereof to each of the affected Lenders.

(ii) Each LIBOR Notice shall be irrevocable and binding on Borrowers. In connection with each LIBOR Rate Loan, each Borrower shall indemnify, defend, and hold Agent and the Lenders harmless against any loss, cost, or expense actually incurred by Agent as a result of (A) the payment of any principal of any LIBOR Rate Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (B) the conversion of any LIBOR Rate Loan other than on the last day of the Interest Period applicable thereto, or (C) the failure to borrow, convert, continue or prepay any LIBOR Rate Loan on the date specified in any LIBOR Notice delivered pursuant hereto (such losses, costs, or expenses, "Funding Losses"). A certificate of Agent or a Lender delivered to

Administrative Borrower setting forth in reasonable detail any amount or amounts that Agent or such Lender is entitled to receive pursuant to this Section 2.12 shall be conclusive absent manifest error. Borrowers shall pay such amount to Agent or the Lender, as applicable, within 30 days of the date of its receipt of such certificate.

(iii) Unless Agent, in its sole discretion, agrees otherwise, Revolving Loan Borrower shall have not more than five (5) LIBOR Rate Loans in effect at any given time. Revolving Loan Borrower may only exercise the LIBOR Option for proposed LIBOR Rate Loans of at least $1,000,000.

(c) **Conversion.** Revolving Loan Borrower may convert LIBOR Rate Loans to Base Rate Loans or Daily LIBOR Rate Loans, as the case may be, at any time; provided, that in the event that LIBOR Rate Loans are converted or prepaid on any date that is not the last day of the Interest Period applicable thereto, including as a result of any prepayment through the required application by Agent of any payments or proceeds of Collateral in accordance with Section 2.4(b) or for any other reason, including early termination of the term of this Agreement or acceleration of all or any portion of the Obligations pursuant to the terms hereof, each Borrower shall indemnify, defend, and hold Agent and the Lenders and their Participants harmless against any and all Funding Losses in accordance with Section 2.12 (b)(ii).

(d) **Special Provisions Applicable to LIBOR Rate.**

(i) The LIBOR Rate may be adjusted by Agent with respect to any Lender on a prospective basis to take into account any additional or increased costs to such Lender of maintaining or obtaining any eurodollar deposits or increased costs, in each case, due to changes in applicable law occurring subsequent to the commencement of the then applicable Interest Period, including any Changes in Law (including any changes in tax laws (except changes of general applicability in corporate income tax laws) and changes in the reserve requirements imposed by the Board of Governors, which additional or increased costs would increase the cost of funding or maintaining loans bearing interest at the LIBOR Rate. In any such event, the affected Lender shall give Borrowers and Agent notice of such a determination and adjustment and Agent promptly shall transmit the notice to each other Lender and, upon its receipt of the notice from the affected Lender, Borrowers may, by notice to such affected Lender (A) require such Lender to furnish to Borrowers a statement setting forth in reasonable detail the basis for adjusting such LIBOR Rate and the method for determining the amount of such adjustment, or (B) repay the LIBOR Rate Loans of such Lender with respect to which such adjustment is made (together with any amounts due under Section 2.12(b)(ii)).

(ii) In the event that any change in market conditions or any Change in Law shall at any time after the date hereof, in the reasonable opinion of any Lender, make it unlawful or impractical for such Lender to fund or maintain LIBOR Rate Loans or to continue such funding or maintaining, or to determine or charge interest rates at the LIBOR Rate, such Lender shall give notice of such changed circumstances to Agent and Borrowers and Agent promptly shall transmit the notice to each other Lender and (y) in the case of any LIBOR Rate Loans of such Lender that are outstanding, the date specified in such Lender's notice shall be deemed to be the last day of the Interest Period of such LIBOR Rate Loans, and interest upon the LIBOR Rate Loans of such Lender thereafter shall accrue interest at the rate then applicable to Base Rate Loans, and (z) Borrowers shall not be entitled to elect the LIBOR Option until such Lender determines that it would no longer be unlawful or impractical to do so.

(e) **No Requirement of Matched Funding.** Anything to the contrary contained herein notwithstanding, neither Agent, nor any Lender, nor any of their Participants, is required actually to

acquire eurodollar deposits to fund or otherwise match fund any Obligation as to which interest accrues at the LIBOR Rate.

2.13 **Capital Requirements.**

(a) If, after the date hereof, Issuing Bank or any Lender determines that (iv) any Change in Law regarding capital or reserve requirements for banks or bank holding companies, or (v) compliance by Issuing Bank or such Lender, or their respective parent bank holding companies with any guideline, request or directive of any Governmental Authority regarding capital adequacy (whether or not having the force of law), has the effect of reducing the return on Issuing Bank's, such Lender's, or such holding companies' capital as a consequence of Issuing Bank's or such Lender's commitments hereunder to a level below that which Issuing Bank, such Lender, or such holding companies could have achieved but for such Change in Law or compliance (taking into consideration Issuing Bank's, such Lender's, or such holding companies' then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by Issuing Bank or such Lender to be material, then Issuing Bank or such Lender may notify Borrowers and Agent thereof. Following receipt of such notice, Borrowers agree to pay Issuing Bank or such Lender on demand the amount of such reduction of return of capital as and when such reduction is determined, payable within 30 days after presentation by Issuing Bank or such Lender of a statement in the amount and setting forth in reasonable detail Issuing Bank's or such Lender's calculation thereof and the assumptions upon which such calculation was based (which statement shall be deemed true and correct absent manifest error). In determining such amount, Issuing Bank or such Lender may use any reasonable averaging and attribution methods. Failure or delay on the part of Issuing Bank or any Lender to demand compensation pursuant to this Section shall not constitute a waiver of Issuing Bank's or such Lender's right to demand such compensation; provided that Borrowers shall not be required to compensate Issuing Bank or a Lender pursuant to this Section for any reductions in return incurred more than 180 days prior to the date that Issuing Bank or such Lender notifies Borrowers of such Change in Law giving rise to such reductions and of such Lender's intention to claim compensation therefor; provided further that if such claim arises by reason of the Change in Law that is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

(b) If Issuing Bank or any Lender requests additional or increased costs referred to in Section 2.11(j) or Section 2.12(d)(i) or amounts under Section 2.13(a) or sends a notice under Section 2.12(d)(ii) relative to changed circumstances (such Issuing Bank or Lender, an "Affected Lender"), then such Affected Lender shall use reasonable efforts to promptly designate a different one of its lending offices or to assign its rights and obligations hereunder to another of its offices or branches, if (i) in the reasonable judgment of such Affected Lender, such designation or assignment would eliminate or reduce amounts payable pursuant to Section 2.11(j), Section 2.12(d)(i) or Section 2.13(a), as applicable, or would eliminate the illegality or impracticality of funding or maintaining LIBOR Rate Loans and (ii) in the reasonable judgment of such Affected Lender, such designation or assignment would not subject it to any material unreimbursed cost or expense and would not otherwise be materially disadvantageous to it. Borrowers agree to pay all reasonable out-of-pocket costs and expenses incurred by such Affected Lender in connection with any such designation or assignment. If, after such reasonable efforts, such Affected Lender does not so designate a different one of its lending offices or assign its rights to another of its offices or branches so as to eliminate Borrowers' obligation to pay any future amounts to such Affected Lender pursuant to Section 2.11(j), Section 2.12(d)(i) or Section 2.13(a), as applicable, or to enable Borrowers to obtain LIBOR Rate Loans, then Borrowers (without prejudice to any amounts then due to such Affected Lender under Section 2.11(j), Section 2.12(d)(i) or Section 2.13(a), as applicable) may, unless prior to the effective date of any such assignment the Affected Lender withdraws its request for

such additional amounts under Section 2.11(j), Section 2.12(d)(i) or Section 2.13(a), as applicable, or indicates that it is no longer unlawful or impractical to fund or maintain LIBOR Rate Loans, may designate a different Issuing Bank or substitute a Lender, in each case, reasonably acceptable to Agent to purchase the Obligations owed to such Affected Lender and such Affected Lender's commitments hereunder (a "Replacement Lender"), and if such Replacement Lender agrees to such purchase, such Affected Lender shall assign to the Replacement Lender its Obligations and commitments, and upon such purchase by the Replacement Lender, which such Replacement Lender shall be deemed to be Issuing Bank" or a "Lender" (as the case may be) for purposes of this Agreement and such Affected Lender shall cease to be "Issuing Bank" or a "Lender" (as the case may be) for purposes of this Agreement.

(c) Notwithstanding anything herein to the contrary, the protection of Sections 2.11(j), 2.12(d) and 2.13 shall be available to Issuing Bank and each Lender (as applicable) regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, judicial ruling, judgment, guideline, treaty or other change or condition which shall have occurred or been imposed, so long as it shall be customary for issuing banks or lenders affected thereby to comply therewith. Notwithstanding any other provision herein, neither Issuing Bank nor any Lender shall demand compensation pursuant to this Section 2.13 if it shall not at the time be the general policy or practice of Issuing Bank or such Lender (as the case may be) to demand such compensation in similar circumstances under comparable provisions of other credit agreements, if any.

2.14 **Joint and Several Liability of Borrowers.**

(a) Each Borrower is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by the Lender Group under this Agreement, for the mutual benefit, directly and indirectly, of each Borrower and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(b) Each Borrower, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers, with respect to the payment and performance of all of the Obligations (including any Obligations arising under this Section 2.14), it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Borrower without preferences or distinction among them.

(c) If and to the extent that any Borrower shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event the other Borrowers will make such payment with respect to, or perform, such Obligation until such time as all of the Obligations are paid in full.

(d) The Obligations of each Borrower under the provisions of this Section 2.14 constitute the absolute and unconditional, full recourse Obligations of each Borrower enforceable against each Borrower to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of the provisions of this Agreement (other than this Section 2.14(d)) or any other circumstances whatsoever.

(e) Except as otherwise expressly provided in this Agreement, each Borrower hereby waives notice of acceptance of its joint and several liability, notice of any Revolving Loans or Letters of Credit issued under or pursuant to this Agreement, notice of the occurrence of any Default, Event of Default, or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by Agent or Lenders under or in respect of any of the Obligations, any requirement of diligence or to mitigate damages and, generally, to the extent permitted by applicable law, all demands, notices and other

formalities of every kind in connection with this Agreement (except as otherwise provided in this Agreement). Each Borrower hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Agent or Lenders at any time or times in respect of any default by any Borrower in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by Agent or Lenders in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Borrower. Without limiting the generality of the foregoing, each Borrower assents to any other action or delay in acting or failure to act on the part of any Agent or Lender with respect to the failure by any Borrower to comply with any of its respective Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions of this Section 2.14 afford grounds for terminating, discharging or relieving any Borrower, in whole or in part, from any of its Obligations under this Section 2.14, it being the intention of each Borrower that, so long as any of the Obligations hereunder remain unsatisfied, the Obligations of each Borrower under this Section 2.14 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Borrower under this Section 2.14 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any other Borrower or any Lender or Agent.

(f) Each Borrower represents and warrants to Agent and Lenders that such Borrower is currently informed of the financial condition of Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Borrower further represents and warrants to Agent and Lenders that such Borrower has read and understands the terms and conditions of the Loan Documents. Each Borrower hereby covenants that such Borrower will continue to keep informed of Borrowers' financial condition and of all other circumstances which bear upon the risk of nonpayment or nonperformance of the Obligations.

(g) The provisions of this Section 2.14 are made for the benefit of Agent, each member of the Lender Group, each Bank Product Provider, and their respective successors and assigns, and may be enforced by it or them from time to time against any or all Borrowers as often as occasion therefor may arise and without requirement on the part of Agent, any member of the Lender Group, any Bank Product Provider, or any of their successors or assigns first to marshal any of its or their claims or to exercise any of its or their rights against any Borrower or to exhaust any remedies available to it or them against any Borrower or to resort to any other source or means of obtaining payment of any of the Obligations hereunder or to elect any other remedy. The provisions of this Section 2.15 shall remain in effect until all of the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by Agent or any Lender upon the insolvency, bankruptcy or reorganization of any Borrower, or otherwise, the provisions of this Section 2.15 will forthwith be reinstated in effect, as though such payment had not been made.

(h) Each Borrower hereby agrees that it will not enforce any of its rights of contribution or subrogation against any other Borrower with respect to any liability incurred by it hereunder or under any of the other Loan Documents, any payments made by it to Agent or Lenders with respect to any of the Obligations or any collateral security therefor until such time as all of the Obligations have been paid in full in cash. Any claim which any Borrower may have against any other Borrower with respect to any payments to any Agent or any member of the Lender Group hereunder or under any of the Bank Product

Agreements are hereby expressly made subordinate and junior in right of payment, without limitation as to any increases in the Obligations arising hereunder or thereunder, to the prior payment in full in cash of the Obligations and, in the event of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding under the laws of any jurisdiction relating to any Borrower, its debts or its assets, whether voluntary or involuntary, all such Obligations shall be paid in full in cash before any payment or distribution of any character, whether in cash, securities or other property, shall be made to any other Borrower therefor.

(i) Each Borrower hereby agrees that after the occurrence and during the continuance of any Default or Event of Default, such Borrower will not demand, sue for or otherwise attempt to collect any indebtedness of any other Borrower owing to such Borrower until the Obligations shall have been paid in full in cash. If, notwithstanding the foregoing sentence, such Borrower shall collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by such Borrower as trustee for Agent, and such Borrower shall deliver any such amounts to Agent for application to the Obligations in accordance with Section 2.4(b).

3. **CONDITIONS; TERM OF AGREEMENT.**

3.1 **Conditions Precedent to the Initial Extension of Credit.** The obligation of each Lender to continue the financing arrangements under the Existing Credit Agreement make the initial extensions of credit provided for hereunder is subject to the fulfillment, to the satisfaction of Agent and each Lender, of each of the conditions precedent set forth on Schedule 3.1.

3.2 **Conditions Precedent to all Extensions of Credit.** The obligation of the Lender Group (or any member thereof) to make any Revolving Loans hereunder (or to extend any other credit hereunder) at any time shall be subject to the following conditions precedent:

(i) the representations and warranties of each Borrower or its Subsidiaries contained in this Agreement or in the other Loan Documents shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of such earlier date); and

(j) no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof.

3.3 **Maturity.** This Agreement shall continue in full force and effect for a term ending on the Maturity Date.

3.4 **Effect of Maturity.** On the Maturity Date, all commitments of the Lender Group to provide additional credit hereunder shall automatically be terminated and all of the Obligations immediately shall become due and payable without notice or demand and Borrowers shall be required to repay all of the Obligations in full. No termination of the obligations of the Lender Group (other than payment in full of the Obligations and termination of the Revolver

Commitments) shall relieve or discharge any Loan Party of its duties, obligations, or covenants hereunder or under any other Loan Document and Agent's Liens in the Collateral shall continue to secure the Obligations and shall remain in effect until all Obligations have been paid in full and the Revolver Commitments have been terminated. When all of the Obligations have been paid in full and the Lender Group's obligations to provide additional credit under the Loan Documents have been terminated irrevocably, Agent will, at Borrowers' sole expense, execute and deliver any termination statements, lien releases, discharges of security interests, and other similar discharge or release documents (and, if applicable, in recordable form) as are reasonably necessary to release, as of record, Agent's Liens and all notices of security interests and liens previously filed by Agent.

3.5 **Early Termination by Borrowers.** Borrowers have the option, at any time upon five (5) Business Days prior written notice to Agent, to terminate this Agreement and terminate the Revolver Commitment hereunder by repaying to Agent all of the Obligations in full. The foregoing notwithstanding, (a) Borrowers may rescind termination notices relative to proposed payments in full of the Obligations with the proceeds of third party Indebtedness if the closing for such issuance or incurrence does not happen on or before the date of the proposed termination (in which case, a new notice shall be required to be sent in connection with any subsequent termination), and (b) Borrowers may extend the date of termination at any time with the consent of Agent (which consent shall not be unreasonably withheld or delayed).

3.6 **Conditions Subsequent.** The obligation of Agent to continue to make Revolving Loans (or otherwise extend credit hereunder) is subject to the fulfillment, on or before the date applicable thereto, of the conditions subsequent set forth on Schedule 3.6 (the failure by Borrowers to so perform or cause to be performed such conditions subsequent as and when required by the terms thereof (unless such date is extended, in writing, by Agent, shall constitute an Event of Default).

4. REPRESENTATIONS AND WARRANTIES.

In order to induce the Lender Group to enter into this Agreement, each Borrower makes the following representations and warranties to the Lender Group which shall be true, correct, and complete, in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof), as of the Restatement Effective Date, and shall be true, correct, and complete, in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof), as of the date of the making of each Revolving Loan (or other extension of credit) made thereafter, as though made on and as of the date of such Revolving Loan (or other extension of credit) (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of such earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

4.1 **Due Organization and Qualification; Subsidiaries.**

(k) Each Loan Party (i) is duly organized and existing and in good standing under the laws of the jurisdiction of its organization, (ii) is qualified to do business in any state where the failure to be so qualified could reasonably be expected to result in a Material Adverse Effect, and (iii) has all requisite corporate, limited liability company or other company power and authority to own and operate its properties, to carry on its business as now conducted and as proposed to be conducted, to enter into the Loan Documents to which it is a party and to carry out the transactions contemplated thereby.

(l) Set forth on Schedule 4.1(b) (as such Schedule may be updated from time to time to reflect changes resulting from transactions permitted under this Agreement) is a complete and accurate description of the authorized Equity Interests of each Borrower, by class, and, as of the Restatement Effective Date, a description of the number of shares of each such class that are issued and outstanding. No Borrower is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its Equity Interests or any security convertible into or exchangeable for any of its Equity Interests.

(m) Set forth on Schedule 4.1(c) (as such Schedule may be updated from time to time to reflect changes resulting from transactions permitted under this Agreement), is a complete and accurate list of the Loan Parties' direct and indirect Subsidiaries, showing: (i) the number of shares of each class of common and preferred Equity Interests authorized for each of such Subsidiaries, and (ii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by Borrower or its Subsidiaries as applicable. All of the outstanding Equity Interests of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(n) Except as set forth on Schedule 4.1(d), as of the Restatement Effective Date, there are no subscriptions, options, warrants, or calls relating to any shares of any Borrower's or any of its Subsidiaries' Equity Interests, including any right of conversion or exchange under any outstanding security or other instrument.

4.2 **Due Authorization; No Conflict.**

(g) As to each Loan Party, the execution, delivery, and performance by such Loan Party of the Loan Documents to which it is a party have been duly authorized by all necessary corporate, limited liability company or other company action on the part of such Loan Party.

(h) As to each Loan Party, the execution, delivery, and performance by such Loan Party of the Loan Documents to which it is a party do not and will not (i) violate any material provision of federal, state, or local law or regulation applicable to any Loan Party or its Subsidiaries, the Governing Documents of any Loan Party or its Subsidiaries, or any order, judgment, or decree of any court or other Governmental Authority binding on any Loan Party or its Subsidiaries, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material agreement of any Loan Party or its Subsidiaries where any such conflict, breach or default could individually or in the aggregate reasonably be expected to have a Material Adverse Effect, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any assets of any Loan Party, other than Permitted Liens, or (iv) require any approval of any holder of Equity Interests of a Loan Party or any approval or consent of any Person under any material agreement of any Loan Party, other than consents or approvals that have been obtained and that are still in force and effect and except, in the case of material agreements, for consents or approvals, the failure to obtain could not individually or in the aggregate reasonably be expected to cause a Material Adverse Effect.

4.3 **Governmental Consents.** The execution, delivery, and performance by each Loan Party of the Loan Documents to which such Loan Party is a party and the consummation of the transactions contemplated by the Loan Documents do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority, other than registrations, consents, approvals, notices, or other actions that have been obtained and that are still in force and effect and except for filings and recordings with respect to the Collateral to be made, or otherwise delivered to Agent for filing or recordation, as of the Restatement Effective Date.

4.4 **Binding Obligations; Perfected Liens.**

(g) Each Loan Document has been duly executed and delivered by each Loan Party that is a party thereto and is the legally valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(h) Agent's Liens are validly created, perfected (other than (i) in respect of motor vehicles that are subject to a certificate of title, (ii) money, (iii) letter-of-credit rights (other than supporting obligations, (iv) commercial tort claims (other than those that, by the terms of the Guaranty and Security Agreement, are required to be perfected), and (v) any Deposit Accounts and Securities Accounts not subject to a Control Agreement as permitted by Section 7(k)(iv) of the Guaranty and Security Agreement, and subject only to the filing of financing statements, (and in the case of registered intellectual property, federal or other similar filings) and the recordation of the Mortgages, in each case, in the appropriate filing offices), and first priority Liens, subject only to Permitted Liens.

4.5 **Title to Assets; No Encumbrances.** Each of the Loan Parties and its Subsidiaries has (a) good, sufficient and legal title to (in the case of fee interests in Real Property), (b) valid leasehold interests in (in the case of leasehold interests in real or personal property), and (c) good and marketable title to (in the case of all other personal property), all of their respective assets reflected in their most recent financial statements delivered pursuant to Section 5.1, in each case except for assets disposed of since the date of such financial statements to the extent permitted hereby. All of such assets are free and clear of Liens except for Permitted Liens.

4.6 **Litigation.**

(a) As of the Restatement Effective Date, except as set forth or otherwise disclosed on Schedule 4.6 hereto, there are no actions, suits, or proceedings pending or, to the knowledge of any Borrower, after due inquiry, threatened in writing against a Loan Party or any of its Subsidiaries that either individually or in the aggregate could reasonably be expected to result in a Material Adverse Effect.

(b) Schedule 4.6 sets forth a complete and accurate description, with respect to each of the actions, suits, or proceedings with asserted liabilities in excess of, or that could reasonably be expected to result in liabilities in excess of, $500,000 that, as of the Restatement Effective Date, is pending or, to the knowledge of any Borrower, after due inquiry, threatened against a Loan Party or any of its Subsidiaries, of (i) the parties to such actions, suits, or proceedings, (ii) the nature of the dispute that is the subject of such actions, suits, or proceedings, (iii) the procedural status, as of the Restatement Effective Date, with

respect to such actions, suits, or proceedings, and (iv) whether any liability of the Loan Parties' and their Subsidiaries in connection with such actions, suits, or proceedings is covered by insurance.

4.7 **Compliance with Laws.** No Loan Party nor any of its Subsidiaries (a) is in violation of any applicable laws, rules, regulations, executive orders, or codes (including Environmental Laws) that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect, or (b) is subject to or in default with respect to any final judgments, writs, injunctions, decrees, rules or regulations of any court or any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

4.8 **No Material Adverse Effect.** (i) The financial statements relating to the Loan Parties and their Subsidiaries for the fiscal years ended December 31, 2011, December 31, 2012, and December 31, 2013 and the period ended September 30, 2014 and (ii) the historical financial statements relating to the Loan Parties and their Subsidiaries pursuant to Section 5.1(a) after the Restatement Effective Date, in each case, that have been delivered by Borrowers to Agent have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and present fairly in all material respects, the Loan Parties' and their Subsidiaries' consolidated financial condition as of the date thereof and results of operations for the period then ended. Since December 31, 2013, no event, circumstance, or change has occurred that has or could reasonably be expected to result in a Material Adverse Effect with respect to the Loan Parties and their Subsidiaries.

4.9 **Solvency.**

(m) Revolving Loan Borrower and Term Loan Borrower, taken as whole, are Solvent.

(n) No transfer of property is being made by any Loan Party and no obligation is being incurred by any Loan Party in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of such Loan Party.

4.10 **Employee Benefits.**

(f) Except as set forth on Schedule 4.10, as of the date hereof, no Loan Party, none of their Subsidiaries, nor any of their ERISA Affiliates maintains or contributes to any Benefit Plan.

(g) Except as could not reasonably be expected to result in a Material Adverse Effect, each Loan Party and each of the ERISA Affiliates has complied with ERISA, the IRC and all applicable laws regarding each Benefit Plan.

(h) Except as could not reasonably be expected to result in a Material Adverse Effect, each Employee Benefit Plan other than a Multiemployer Plan is, and has been, maintained in substantial compliance with ERISA, the IRC, all applicable laws and the terms of each such Employee Benefit Plan.

(i) Except as could not reasonably be expected to result in a Material Adverse Effect, each Employee Benefit Plan other than a Multiemployer Plan that is intended to qualify under Section 401(a)

of the IRC has received a favorable determination letter from the Internal Revenue Service or an application for such letter is currently being processed by the Internal Revenue Service. To the best knowledge of each Loan Party and the ERISA Affiliates after due inquiry, nothing has occurred which would prevent, or cause the loss of, such qualification.

(j) Except as could not reasonably be expected to result in a Material Adverse Effect, no liability to the PBGC (other than for the payment of current premiums which are not past due) by any Loan Party or ERISA Affiliate has been incurred or is expected by any Loan Party or ERISA Affiliate to be incurred with respect to any Pension Plan.

(k) Except as could not reasonably be expected to result in a Material Adverse Effect, no Notification Event exists or has occurred in the past six (6) years.

(l) Except as could not reasonably be expected to result in a Material Adverse Effect, no Loan Party or ERISA Affiliate has provided any security under Section 436 of the IRC.

4.11 **Environmental Condition.** Except as set forth on Schedule 4.11, (a) to each Borrower's knowledge, no Loan Party's nor any of its Subsidiaries' properties or assets has ever been used by a Loan Party, its Subsidiaries, or by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials, where such disposal, production, storage, handling, treatment, release or transport was in violation, of any applicable Environmental Law except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (b) to each Borrower's knowledge, after due inquiry, as of the Restatement Effective Date no Loan Party's nor any of its Subsidiaries' material properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, (c) as of the Restatement Effective Date, no Loan Party nor any of its Subsidiaries has received notice that a Lien arising under any outstanding Environmental Law that could reasonably be expected to have a Material Adverse Effect has attached to any revenues or to any Real Property owned or operated by a Loan Party or its Subsidiaries, and (d) no Loan Party nor any of its Subsidiaries nor any of their respective facilities or operations is subject to any outstanding written order, consent decree, or settlement agreement with any Person relating to any Environmental Law or Environmental Liability that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

4.12 **Complete Disclosure.** All factual information taken as a whole (other than forward-looking information and projections and information of a general economic nature and general information about Borrowers' industry) furnished by or on behalf of a Loan Party or its Subsidiaries in writing to Agent or any Lender (including all information contained in the Schedules hereto or in the other Loan Documents) for purposes of or in connection with this Agreement or the other Loan Documents, and all other such factual information taken as a whole (other than forward-looking information and projections and information of a general economic nature and general information about Borrowers' industry) hereafter furnished by or on behalf of a Loan Party or its Subsidiaries in writing to Agent or any Lender will be, true and accurate, in all material respects, on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading in any material respect at such time in light of the circumstances under which

such information was provided. The Projections delivered to Agent on October 22, 2014 represent, and as of the date on which any other Projections are delivered to Agent, such additional Projections represent, Borrowers' good faith estimate, on the date such Projections are delivered, of the Loan Parties' and their Subsidiaries' future performance for the periods covered thereby based upon assumptions believed by Borrowers to be reasonable at the time of the delivery thereof to Agent (it being understood that such Projections are subject to significant uncertainties and contingencies, many of which are beyond the control of the Loan Parties and their Subsidiaries, and no assurances can be given that such Projections will be realized, and although reflecting Borrowers' good faith estimate, projections or forecasts based on methods and assumptions which Borrowers believed to be reasonable at the time such Projections were prepared, are not to be viewed as facts, and that actual results during the period or periods covered by the Projections may differ materially from projected or estimated results).

4.13 **Patriot Act.** To the extent applicable, each Loan Party is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the "Patriot Act"). No part of the proceeds of the loans made hereunder will be used by any Loan Party or any of their Affiliates, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

4.14 **Indebtedness.** Set forth on Schedule 4.14 is a true and complete list of all Indebtedness of each Loan Party and each of its Subsidiaries outstanding immediately prior to the Restatement Effective Date that is to remain outstanding immediately after giving effect to the closing hereunder on the Restatement Effective Date and such Schedule accurately sets forth the aggregate principal amount of such Indebtedness as of the Restatement Effective Date.

4.15 **Payment of Taxes.** Except as otherwise permitted under Section 5.5, all material tax returns and reports of each Loan Party and its Subsidiaries required to be filed by any of them have been timely filed, and all material taxes shown on such tax returns to be due and payable and all assessments, fees and other governmental charges upon a Loan Party and its Subsidiaries and upon their respective assets, income, businesses and franchises that are due and payable have been paid when due and payable. Each Loan Party and each of its Subsidiaries have made adequate provision in accordance with GAAP for all taxes not yet due and payable except as could not reasonably be expected to have a Material Adverse Effect. No Borrower knows of any proposed tax assessment against a Loan Party or any of its Subsidiaries that is not being or will not be actively contested by such Loan Party or such Subsidiary diligently, in good faith, and by appropriate proceedings; provided such reserves or other appropriate provisions, if any, as shall be required in conformity with GAAP shall have been made or provided therefor.

4.16 **Margin Stock.** No Loan Party nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the loans made to Borrowers will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock or for any purpose that violates the provisions of Regulation T, U or X of the Board of Governors.

4.17 **Governmental Regulation.** No Loan Party nor any of its Subsidiaries is subject to regulation under the Federal Power Act or the Investment Company Act of 1940 or under any other federal or state statute or regulation which may limit its ability to incur Indebtedness or which may otherwise render all or any portion of the Obligations unenforceable. No Loan Party nor any of its Subsidiaries is a “registered investment company” or a company “controlled” by a “registered investment company” or a “principal underwriter” of a “registered investment company” as such terms are defined in the Investment Company Act of 1940.

4.18 **OFAC.** No Loan Party nor any of its Subsidiaries is in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC. No Loan Party nor any of its Subsidiaries (a) is a Sanctioned Person or a Sanctioned Entity, (b) has its assets located in Sanctioned Entities, or (c) derives revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. No proceeds of any loan made hereunder will be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

4.19 **Employee and Labor Matters.** There is (i) no unfair labor practice complaint pending or, to the knowledge of any Borrower, threatened against any Borrower or its Subsidiaries before the National Labor Relations Board that could reasonably be expected to result in a Material Adverse Effect and no grievance or arbitration proceeding pending on the Restatement Effective Date or to the knowledge of Borrowers, threatened against any Borrower or its Subsidiaries which arises out of or under any collective bargaining agreement and that could reasonably be expected to result in a Material Adverse Effect, and (ii) no strike, labor dispute, slowdown, stoppage or similar action or grievance pending or threatened in writing against any Borrower or its Subsidiaries that could reasonably be expected to result in a Material Adverse Effect. None of any Borrower or its Subsidiaries has incurred any liability or obligation under the Worker Adjustment and Retraining Notification Act or similar state law, which remains unpaid or unsatisfied except as could not reasonably be expected to result in a Material Adverse Effect. The hours worked and payments made to employees of each Borrower and its Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable legal requirements, except to the extent such violations could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. All material payments due from any Borrower or its Subsidiaries on account of wages and employee health and welfare insurance and other benefits have been paid or accrued as a liability on the books of Borrowers, except where the failure to do so could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

4.20 **Reserved.**

4.21 **Leases.** Each Loan Party and its Subsidiaries enjoy peaceful and undisturbed possession under all leases material to their business and to which they are parties or under which they are operating, and, subject to Permitted Protests, all of such material leases are valid and subsisting and no material default by the applicable Loan Party or its Subsidiaries exists under any of them.

4.22 **Eligible Accounts.** As to each Account that is identified by Borrowers as an Eligible Account in a Borrowing Base Certificate submitted to Agent, such Account is, as of the date thereof, (a) a bona fide existing payment obligation of the applicable Account Debtor created by the sale and delivery of Inventory or the rendition of services to such Account Debtor in the ordinary course of the Borrowers' business,(b) owed to a Borrower without any known defenses, disputes, offsets, counterclaims, or rights of return or cancellation, and (c) not excluded as ineligible by virtue of one or more of the excluding criteria (other than any Agent-discretionary criteria) set forth in the definition of Eligible Accounts.

4.23 **Eligible Inventory.** As to each item of Inventory that is identified by Borrowers as Eligible Inventory in a Borrowing Base Certificate submitted to Agent, such Inventory is, as of the date thereof, (a) of good and merchantable quality, free from known defects, and (b) not excluded as ineligible by virtue of one or more of the excluding criteria (other than any Agent-discretionary criteria) set forth in the definition of Eligible Inventory.

4.24 **Location of Inventory; Chief Executive Office.** The Inventory of Borrowers with an aggregate value in excess of $500,000 (as to all locations) is not stored with a bailee, warehouseman, or similar party unless such bailee, warehouseman or similar party has executed a Collateral Access Agreement (or as otherwise permitted pursuant to Section 3.6 hereof) and is located only at, or in-transit between, the locations identified on Schedule 4.24 (as such Schedule may be updated pursuant to Section 5.15).

4.25 **Inventory Records.** Each Loan Party keeps correct and accurate records itemizing and describing the type, quality, and quantity of its and its Subsidiaries' Inventory and the book value thereof.

4.26 **Reserved.**

4.27 **Reserved.**

4.28 **Hedge Agreements**. On each date that any Hedge Agreement is executed by any Hedge Provider, Borrower and each other Loan Party that is eligible shall satisfy all eligibility, suitability and other requirements under the Commodity Exchange Act (7 U.S.C. § 1, et seq., as in effect from time to time) and the Commodity Futures Trading Commission regulations.

5. AFFIRMATIVE COVENANTS.

Each Borrower covenants and agrees that, until termination of all of the Revolver Commitments and payment in full of the Obligations (other than contingent indemnification obligations and other inchoate obligations for which a claim has not been made by Agent or Lenders):

5.1 **Financial Statements, Reports, Certificates.** Borrowers (a) will deliver to Agent, each of the financial statements, reports, and other items set forth on Schedule 5.1 no later than the times specified therein, (b)agree that no Subsidiary of a Loan Party will have a fiscal year different from that of Parent (c)agree to maintain a system of accounting that enables Borrowers to produce financial statements in accordance with GAAP, and (d) agree that they will, and will cause each other Loan Party to, (i) keep a reporting system that shows all additions, sales, claims, returns, and allowances with respect to their and their Subsidiaries' sales, and (ii) maintain their billing systems and practices substantially as in effect as of the Restatement Effective Date and shall only make material modifications thereto with notice to, and with the consent of, Agent (such consent not to be unreasonably withheld).

5.2 **Reporting.** Borrowers (a) will deliver to Agent each of the reports set forth on Schedule 5.2 at the times specified therein, and (b) agree to use commercially reasonable efforts in cooperation with Agent to facilitate and implement a system of electronic collateral reporting in order to provide electronic reporting of each of the items set forth on such Schedule, provided, electronic collateral reporting as to Accounts shall be implemented no later than thirty (30) days after Revolving Loan Borrower has requested that Agent and Lenders include Accounts in the calculation of the Borrowing Base.

5.3 **Existence.** Except as otherwise permitted under Section 6.3 or Section 6.4, each Borrower will, and will cause each Loan Party to, at all times preserve and keep in full force and effect such Person's valid existence and good standing in its jurisdiction of organization and, except as could not reasonably be expected to result in a Material Adverse Effect, good standing with respect to all other jurisdictions in which it is qualified to do business and any rights, franchises, permits, licenses, accreditations, authorizations, or other approvals which the failure to maintain could reasonably be expected to result in a Material Adverse Effect.

5.4 **Maintenance of Properties.** Each Borrower will, and will cause each of its Subsidiaries to, maintain and preserve all of its assets that are necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear, tear, casualty, and condemnation and Permitted Dispositions excepted (and except where the failure to so maintain and preserve assets could not reasonably be expected to result in a Material Adverse Effect).

5.5 **Taxes.** Each Borrower will, and will cause each of its Subsidiaries to, pay in full before delinquency or before the expiration of any extension period all material governmental assessments and taxes imposed, levied, or assessed against it, or any of its assets or in respect of any of its income, businesses, or franchises, except to the extent that the validity of such governmental assessment or tax is the subject of a Permitted Protest.

5.6 **Insurance.** Each Borrower will, and will cause each of its Subsidiaries to, (a) maintain insurance respecting each of each Borrower's and its Subsidiaries' assets wherever located, covering liabilities, losses or damages as are customarily are insured against by other Persons engaged in same or similar businesses and similarly situated and located. All such policies of insurance shall be with financially sound and reputable insurance companies reasonably acceptable to Agent (it being agreed that, as of the Restatement Effective Date, Factory Mutual Insurance Company is acceptable to Agent) and in such amounts as is carried generally in

accordance with sound business practice by companies in similar businesses similarly situated and located and, in any event, in amount, adequacy, and scope reasonably satisfactory to Agent (it being agreed that the amount, adequacy, and scope of the policies of insurance of Borrowers in effect as of the Restatement Effective Date are acceptable to Agent). All property insurance policies covering the Collateral are to be made payable to Agent for the benefit of Agent and the Lenders, as their interests may appear, in case of loss, pursuant to a standard loss payable endorsement with a standard non-contributory "lender" or "secured party" clause and are to contain such other provisions as Agent may reasonably require to fully protect the Lenders' interest in the Collateral and to any payments to be made under such policies. All certificates of property and general liability insurance of each Loan Party and its Subsidiaries and its Subsidiaries are to be delivered to Agent, with the loss payable (but only in respect of Collateral) and additional insured endorsements in favor of Agent and shall provide for not less than 30 days (10 days in the case of non-payment) prior written notice to Agent of the exercise of any right of cancellation. If any Borrower or its Subsidiaries fails to maintain such insurance, Agent may arrange for such insurance, but at Borrowers' expense and without any responsibility on Agent's part for obtaining the insurance, the solvency of the insurance companies, the adequacy of the coverage, or the collection of claims. Borrowers shall give Agent prompt notice of any loss exceeding $1,000,000 covered by their or their Subsidiaries' casualty or business interruption insurance. Upon the occurrence and during the continuance of an Event of Default, Agent shall have the right to file claims under any property and general liability insurance policies in respect of the Collateral, to receive, receipt and give acquittance for any payments that may be payable thereunder, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any such insurance policies.

5.7 **Inspection.**

(e) Each Borrower will, and will cause each of its Subsidiaries other Loan Party to, permit Agent, any Lender and each of their respective duly authorized representatives to visit any of its properties and inspect any of its assets or books and records, to examine and make copies of its books and records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers and employees (provided an authorized representative of a Borrower shall be allowed to be present) at such reasonable times and intervals as Agent or any Lender, as applicable, may designate and, so long as no Event of Default has occurred and is continuing, with reasonable prior notice to Borrowers and during regular business hours; provided that, for the avoidance of doubt, appraisals and field examinations shall be subject to Section 2.10(d) hereof.

(f) Each Borrower will, and will cause each of its Subsidiaries other Loan Party to, permit Agent and each of its duly authorized representatives to conduct appraisals and valuations at such reasonable times and intervals as Agent may designate subject to Section 2.10(d).

5.8 **Compliance with Laws.** Each Borrower will, and will cause each of its Subsidiaries to, comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

5.9 **Environmental.** Each Borrower will, and will cause each of its Subsidiaries to,

(m) Keep any property either owned or operated by any Borrower or its Subsidiaries free of any Environmental Liens or post bonds or other financial assurances sufficient to satisfy the obligations or liability evidenced by such Environmental Liens,

(n) Comply with Environmental Laws, except to the extent that could not reasonably be expected to have a Material Adverse Effect, and provide to Lender documentation of such compliance which Lender reasonably requests,

(o) Promptly notify Lender of any release of which any Borrower has knowledge of a Hazardous Material in any reportable quantity from or onto property owned or operated by any Borrower or its Subsidiaries and take any Remedial Actions required to abate said release or otherwise to come into compliance with applicable Environmental Law, except to the extent that could not reasonably be expected to have a Material Adverse Effect, and

(p) Promptly, but in any event within 5 Business Days of its receipt thereof, provide Lender with written notice of any of the following: (i) notice that an Environmental Lien has been filed against any material portion of the real or personal property of a Borrower or its Subsidiaries, (ii) commencement of any material Environmental Action or written notice that an material Environmental Action will be filed against a Borrower or its Subsidiaries, and (iii) written notice of a material violation, citation, or other administrative order from a Governmental Authority.

5.10 **Disclosure Updates.** Each Borrower will, promptly and in no event later than 5 Business Days after obtaining knowledge thereof, notify Agent if any written information, exhibit, or report furnished to Agent or the Lenders contained, at the time it was furnished, any untrue statement of a material fact or omitted to state any material fact necessary to make the statements contained therein, taken as a whole, not misleading in light of the circumstances in which made. The foregoing to the contrary notwithstanding, any notification pursuant to the foregoing provision will not cure or remedy the effect of the prior untrue statement of a material fact or omission of any material fact nor shall any such notification have the effect of amending or modifying this Agreement or any of the Schedules hereto.

5.11 **Formation of Subsidiaries** Each Borrower will, at the time that any Loan Party forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Restatement Effective Date, within 10 Business Days of such formation or acquisition (or such later date as permitted by Agent in its sole discretion) (a) cause such new Subsidiary to provide to Agent a joinder to the Guaranty and Security Agreement, together with such other security agreements, as well as appropriate financing statements (and with respect to all property subject to a mortgage, fixture filings), all in form and substance reasonably satisfactory to Agent (including being sufficient to grant Agent a first priority Lien (subject to Permitted Liens) in and to the Collateral owned by such newly formed or acquired Subsidiary); provided, that the joinder to the Guaranty and Security Agreement, and such other security agreements shall not be required to be provided to Agent with respect to any Subsidiary of any Borrower that is a CFC or a direct or indirect Subsidiary of a CFC if providing such agreements would result in adverse tax consequences or the costs to the Loan Parties of providing such guaranty or such security agreements are unreasonably excessive (as determined by Agent in its Permitted Discretion in

consultation with Borrowers) in relation to the benefits to Agent of the security or guarantee afforded thereby, (b) if such new Subsidiary is not a corporation, provide, or cause the applicable Loan Party to provide, to Agent a pledge agreement (or an addendum to the Guaranty and Security Agreement) and appropriate certificates and powers or financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary in form and substance reasonably satisfactory to Agent; provided, that only 65% of the total outstanding voting Equity Interests of any Subsidiary of a Borrower that is a CFC or a CFC Holding Company (and none of the Equity Interests of any direct or indirect Subsidiary of such CFC or CFC Holding Company) shall be required to be pledged if pledging a greater amount would result in adverse tax consequences or the costs to the Loan Parties of providing such pledge are unreasonably excessive (as determined by Agent in consultation with Borrowers) in relation to the benefits to Agent of the security afforded thereby (which pledge, if reasonably requested by Agent, shall be governed by the laws of the jurisdiction of such Subsidiary), and (c) provide to Agent all other documentation, including one or more opinions of counsel reasonably satisfactory to Agent, which, in its opinion, is appropriate with respect to the execution and delivery of the applicable documentation referred to above (including policies of title insurance or other documentation with respect to all Real Property owned in fee and subject to a mortgage); it being understood that notwithstanding anything in the Loan Documents to the contrary, no Real Property other than the Mebane Premises shall be part of the Collateral unless such Real Property has a fair market value in excess of $5,000,000. Any document, agreement, or instrument executed or issued pursuant to this Section 5.11 shall constitute a Loan Document.

5.12 **Further Assurances.** Each Borrower will, and will cause each of the other Loan Parties to, at any time upon the reasonable request of Agent, execute or deliver to Agent any and all financing statements, fixture filings, security agreements, pledges, assignments, mortgages, deeds of trust, opinions of counsel, and all other documents (the "Additional Documents") that Agent may reasonably request in form and substance reasonably satisfactory to Agent, to create, perfect, and continue perfected or to better perfect Agent's Liens in all of the Collateral owned by each Borrower and each other Loan Party (whether now owned or hereafter arising or acquired, tangible or intangible, real or personal), to create and perfect Liens in favor of Agent in any Real Property acquired by any Borrower or any other Loan Party with a fair market value in excess of $5,000,000, and in order to fully consummate all of the transactions contemplated hereby and under the other Loan Documents; provided that the foregoing shall not apply to any Subsidiary of a Borrower that is a CFC, a CFC Holding Company or any direct or indirect Subsidiary of a CFC or CFC Holding Company if providing such documents would result in adverse tax consequences or the costs to the Loan Parties of providing such documents are unreasonably excessive (as determined by Agent in its Permitted Discretion in consultation with Borrowers) in relation to the benefits to Agent of the security afforded thereby. To the maximum extent permitted by applicable law, if any Borrower or any other Loan Party refuses or fails to execute or deliver any reasonably requested Additional Documents within a reasonable period of time following the request to do so, each Borrower and each other Loan Party hereby authorizes Agent to execute any such Additional Documents in the applicable Loan Party's name and authorizes Agent to file such executed Additional Documents in any appropriate filing office. In furtherance of, and not in limitation of, the foregoing, each Loan Party shall take such actions as Agent may reasonably request from time to time to ensure that the Obligations are guarantied by

the Guarantors, if any, and are secured by substantially all of the assets of each Loan Party (other than Excluded Property (as defined in the Guaranty and Security Agreement).

5.13 **Reserved.**

5.14 **Compliance with ERISA and the IRC**. In addition to and without limiting the generality of Section 5.8, except as, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, each Borrower will, and will cause each of the other Loan Parties to, (a) comply with applicable provisions of ERISA and the IRC with respect to all Benefit Plans, (b) without the prior written consent of Agent, not take any action or fail to take action the result of which could result in a Loan Party or ERISA Affiliate incurring a material liability to the PBGC or to a Multiemployer Plan (other than to pay contributions or premiums payable in the ordinary course), (c) not participate in any prohibited transaction that could result in other than a de minimis civil penalty excise tax, fiduciary liability or correction obligation under ERISA or the IRC, and (d) operate each Employee Benefit Plan other than a Multiemployer Plan in such a manner that will not incur any tax liability under the IRC (including Section 4980B of the IRC). Each Loan Party agrees to furnish to Agent upon Agent's written request such additional information about any Employee Benefit Plan for which any Loan Party or ERISA Affiliate could reasonably expect to incur any material liability. With respect to each Pension Plan (other than a Multiemployer Plan) except as could not reasonably be expected to result in a Material Adverse Effect, the Loan Parties and the ERISA Affiliates shall (i) satisfy in full and in a timely manner, without incurring any late payment or underpayment charge or penalty and without giving rise to any Lien, all of the contribution and funding requirements of the IRC and of ERISA, and (ii) pay, or cause to be paid, to the PBGC in a timely manner, without incurring any late payment or underpayment charge or penalty, all premiums required pursuant to ERISA.

5.15 **Location of Inventory; Chief Executive Office.** Each Borrower will, and will cause each of its Subsidiaries to, keep its Inventory other than Inventory with a value of less than $500,000 in the aggregate (as to all locations) and Inventory in-transit only at the locations identified on Schedule 4.24 and their chief executive offices only at the locations identified on Schedule 5.15; provided, that Borrowers may amend Schedule 4.24 or Schedule 5.15 so long as such amendment occurs by written notice to Agent not less than 10 days prior to the date on which such Inventory is moved to such new location or such chief executive office is relocated and so long as such new location is within the continental United States.

5.16 **Bank Products**. Loan Parties have established their primary depository and treasury management relationships with Wells Fargo or one or more of its Affiliates and will continue to maintain such depository and treasury management relationships at all times during the term of the Agreement.

6. NEGATIVE COVENANTS.

Each Borrower covenants and agrees that, until termination of all of the Revolver Commitment and payment in full of the Obligations (other than contingent indemnification obligations and other inchoate obligations for which a claim has not been made by Agent or Lenders):

6.1 **Indebtedness.** Each Borrower will not, and will not permit any of its Subsidiaries to create, incur, assume, suffer to exist, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except for Permitted Indebtedness.

6.2 **Liens.** Each Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume, or suffer to exist, directly or indirectly, any Lien on or with respect to any of its assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens.

6.3 **Restrictions on Fundamental Changes.** Each Borrower will not, and will not permit any of its Subsidiaries to,

(a) enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its Equity Interests, except for (i) any merger between Loan Parties, provided, that a Borrower must be the surviving entity of any such merger to which it is a party and no merger may occur between Parent and any Borrower, (ii) any merger between a Loan Party and a Subsidiary of such Loan Party that is not a Loan Party so long as such Loan Party is the surviving entity of any such merger, and (iii) any merger between Subsidiaries of any Borrower that are not Loan Parties,

(b) liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), except for (i) the liquidation or dissolution of non-operating Subsidiaries of any Borrower with nominal assets and nominal liabilities, (ii) the liquidation or dissolution of a Loan Party (other than any Borrower) or any of its wholly-owned Subsidiaries so long as all of the assets (including any interest in any Equity Interests) of such liquidating or dissolving Loan Party or Subsidiary are transferred to a Loan Party that is not liquidating or dissolving, or (iii) the liquidation or dissolution of a Subsidiary of any Borrower that is not a Loan Party so long as all of the assets of such liquidating or dissolving Subsidiary are transferred to a Subsidiary of a Borrower that is not liquidating or dissolving or to a Borrower and so long as if the Equity Interests of such Subsidiary were subject to a Lien in favor of the Agent the assets are transferred to a Loan Party, or

(c) suspend or cease operating a substantial portion of its or their business, except as permitted pursuant to clauses (a) or (b) above or in connection with a transaction permitted under Section 6.4.

6.4 **Disposal of Assets.** Other than Permitted Dispositions or transactions expressly permitted by Sections 6.3 or 6.9, each Borrower will not, and will not permit any of its Subsidiaries to convey, sell, lease, license, assign, transfer, or otherwise dispose of any of its or their assets.

6.5 **Nature of Business.** Each Borrower will not, and will not permit any of its Subsidiaries to make any material change in the nature of its or their business as described in Schedule 6.5 or acquire any properties or assets that are not reasonably related to the conduct of such business activities or business activities that are reasonably related or ancillary thereto; provided, that the foregoing shall not prevent any Borrower and its Subsidiaries from engaging in any business that is reasonably related or ancillary to its or their business.

6.6 **Prepayments and Amendments.** Each Borrower will not, and will not permit any of its Subsidiaries to,

(g) Except in connection with Refinancing Indebtedness permitted by Section 6.1,

(i) optionally prepay, redeem, defease, purchase, or otherwise acquire any Indebtedness of any Borrower or its Subsidiaries, other than (A) the Obligations in accordance with this Agreement and (B) optional prepayments, redemptions, defeasances, purchases or other acquisitions of any of the Noteholder Debt (as such term is defined in the 2021 Notes Intercreditor Agreement) in accordance and pursuant to the guaranties referred to in clause (m) of the definition of Permitted Indebtedness, or

(ii) make any payment on account of Indebtedness that has been contractually subordinated in right of payment to the Obligations if such payment is not permitted at such time under the subordination terms and conditions, or

(h) Directly or indirectly, amend, modify, or change any of the terms or provisions of

(i) any agreement, instrument, document, indenture, or other writing evidencing or concerning Permitted Indebtedness other than (A) the Obligations in accordance with this Agreement, and (B) any agreement, instrument, document, indenture, or other writing evidencing or concerning any Permitted Indebtedness (other than the Permitted Indebtedness referred to in clause (A)), but only so long as such amendments, modifications or changes to the terms of such Permitted Indebtedness shall not be, in the case of clause (B) hereof, either individually or in the aggregate, expected to be materially adverse to the interests of Agent and the Lender Group (for the avoidance of doubt, and by way of example, in the case of amendments, modifications and changes to Permitted Indebtedness permitted under clauses (m) and (n) of the definition of Permitted Indebtedness, any amendment, modification or change to documents relating to such Indebtedness, which results in a shortening of the average weighted maturity (measured as of the amendment, modification or change) of such Indebtedness, any increase in the interest rate applicable to such Indebtedness, any shortening of the maturity date thereof, or any increase in the frequency or amount of amortization of such Indebtedness during the term of this Agreement, are understood to be changes materially adverse to the interests of Agent and the Lender Group); or

(ii) the Governing Documents of (A) the Term Loan Borrower, or (B) of any other Loan Party or any of its Subsidiaries if the effect thereof, either individually or in the aggregate, could reasonably be expected to be materially adverse to the interests of the Agent and the Lender Group; and

(i) in addition to payments of Indebtedness permitted pursuant to clause (a) above, so long as no Event of Default shall have occurred and be continuing or would result therefrom,

(i) Revolving Loan Borrower or any its Subsidiaries may optionally prepay, redeem, defease or otherwise acquire any Indebtedness of any Borrower or its Subsidiaries which is Permitted Indebtedness (other than Subordinated Indebtedness), provided, that, (A) as of the date of any such payment, Excess Availability at any time during the immediately preceding ten (10) consecutive day period shall have been not less than $5,000,000, (B) average Excess Availability for the thirty (30) consecutive day period ending on the date of such payment shall have been not less than $5,000,000, and (C) after giving effect to the transaction or payment, on a pro forma basis using the most recent calculation of the Borrowing Base immediately prior to any such payment or transaction, the Excess Availability shall be not less than such amount set forth in clause (c)(i)(B) above, and

(ii) Revolving Loan Borrower may optionally prepay, redeem, defease or otherwise acquire any Indebtedness of any Borrower or its Subsidiaries which is Permitted Indebtedness consisting of Subordinated Indebtedness so long as such payments are expressly permitted by the terms of any subordination terms and conditions governing such Subordinated Indebtedness.

6.7 **Restricted Payments.** Each Borrower will not, and will not permit any of its Subsidiaries to make any Restricted Payment; provided, that,

(o) each Borrower, and its Subsidiaries, may declare and make dividend payments or other distributions payable solely in the Equity Interests of such Person (other than Disqualified Equity Interests),

(p) any Borrower or Subsidiary that is not a Loan Party may make Restricted Payments to any Loan Party and Term Loan Borrower may make Restricted Payments to Revolving Loan Borrower.

(q) so long as no Event of Default shall have occurred and be continuing or would result therefrom, Revolving Loan Borrower may make Restricted Payments to VGRH, provided, that, (i) as of the date of any such payment, Excess Availability at any time during the immediately preceding ten (10) consecutive day period shall have been not less than $5,000,000, (ii) average Excess Availability for the thirty (30) consecutive day period ending on the date of such payment shall have been not less than $5,000,000, and (iii) after giving effect to the transaction or payment, on a pro forma basis using the most recent calculation of the Borrowing Base immediately prior to any such payment or transaction, the Excess Availability shall be not less than such amount set forth in clause (c)(ii) above, and

(r) Borrowers and their Subsidiaries may make Restricted Payments in order to make payments in respect of Subordinated Indebtedness in respect of which Borrowers and their Subsidiaries are liable to the extent expressly permitted under the subordination agreement governing such Subordinated Indebtedness by and between the holder of such Subordinated Indebtedness and the Agent.

6.8 **Accounting Methods.** Each Borrower will not, and will not permit any of its Subsidiaries to modify or change its fiscal year or its method of accounting (other than as may be required to conform to GAAP).

6.9 **Investments.** Each Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, make or acquire any Investment or incur any liabilities (including contingent obligations) for or in connection with any Investment except for Permitted Investments.

6.10 **Transactions with Affiliates.** Each Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction with any Affiliate of any Borrower or any of its Subsidiaries except for:

(j) transactions among Borrowers and their respective Affiliates otherwise permitted in Section 6 of this Agreement,

(k) to the extent permitted by the 2021 Notes Indenture, Revolving Loan Borrower may make payments and engage in the transactions pursuant to (i) the Corporate Services Agreement, dated as of January 1, 1992, as amended from time to time, between Revolving Loan Borrower and VGRH; provided, that, such payments do not exceed $6,898,572 in the aggregate during any consecutive twelve month (12) period, plus the five percent (5%) per annum increase on such fees per annum to the extent paid in any such twelve (12) month period by Borrower to VGRH (as of the Restatement Effective Date, the aggregate amount of such payments during any such twelve (12) month period, is $7,985,959) and (ii) the Services Agreement, dated February 26, 1991, as amended from time to time, between Parent (successor-in-interest to Brooke Group Ltd., successor by assignment to Brooke Management Inc.) and

Revolving Loan Borrower; provided, that, such payments do not exceed $1,764,000 in the aggregate during any consecutive twelve month (12) period (as of the Restatement Effective Date, the aggregate amount of such payments during any such twelve (12) month period, is $1,764,000),

(l) Revolving Loan Borrower may make payments and engage in the transactions permitted under Section 4.11(a) of the 2021 Notes Indenture; provided, that, (i) each such transaction is in Revolving Loan Borrower's ordinary course of business on prices and terms no less favorable than would have been obtained in an arm's length transaction with a Person not an Affiliate, (ii) Revolving Loan Borrower shall provide Agent with written reports, on the tenth (10th) day of each month setting forth the nature and amount of each such transaction for the immediately prior month, including, without limitation, all payments with respect thereto and outstanding indebtedness owed thereunder, (iii) the aggregate indebtedness owed to Borrower in connection with all such transactions outstanding at any time does not exceed $500,000, and (iv) such transaction or series of related transactions does not involve payments or delivery of goods or services by Revolving Loan Borrower having a value in excess of $500,000 in each case,

(m) the Maple Transactions so long as:

(i) Revolving Loan Borrower's guarantee of the Term Loan shall continue in full force and effect,

(ii) Term Loan Borrower's guarantee of all of the Obligations shall be in full force and effect,

(iii) the first mortgage and lien granted by Term Loan Borrower to Agent on the Mebane Premises and in the Mebane Lease shall secure all of the Obligations of Term Loan Borrower,

(iv) the Mebane Lease (A) shall be for a period of not less than one (1) year after the Maturity Date, with a monthly rental at least equal to the monthly payment of principal and interest due on the Term Loan, and (B) shall not be amended, modified or terminated in any manner materially adverse to Agent and Lender without the prior written consent of Agent, such consent not to be unreasonably withheld,

(v) reserved.

(vi) the Collateral shall include, without limitation, Revolving Loan Borrower's rights under the Mebane Lease. Agent is authorized (in its discretion) by Revolving Loan Borrower and Term Loan Borrower to charge the monthly rental and other sums owed by Revolving Loan Borrower to Term Loan Borrower under the Mebane Lease, when due and payable, directly to Revolving Loan Borrower's loan account with Agent for the account of Term Loan Borrower and to apply such monthly rentals in payment of the monthly installments of principal and interest due in respect of the Term Loan,

(vii) Revolving Loan Borrower shall not (A) make any loans or capital contributions to, investments in or guarantees of the debt of Term Loan Borrower except for the loan or capital contribution by Borrower to Term Loan Borrower in an amount not to exceed $2,600,000 to be utilized by Term Loan Borrower to pay to 3C Alliance LLP a portion of the purchase price for the Mebane Premises, (B) permit or cause Term Loan Borrower to amend its certificate or articles of formation or its operating agreement which would allow Term Loan Borrower to be engaged in any other business except for the ownership of the Mebane Premises and (C) permit Term Loan Borrower to incur indebtedness (other than

the Obligations of Term Loan Borrower) which is other than non-recourse to Term Loan Borrower or Revolving Loan Borrower,

(viii) Term Loan Borrower shall not (A) distribute any funds to Revolving Loan Borrower, (B) amend its certificate or articles of formation or its operating agreement to allow Term Loan Borrower to be engaged in any other business except for the ownership of the Mebane Premises and (C) incur indebtedness (other than the Obligations of Term Loan Borrower) which is other than non-recourse to Term Loan Borrower or Borrower, and

(ix) in the event of a refinance of the Mebane Premises, Term Loan Borrower shall deliver, in form reasonably satisfactory to Agent, to (A) a mortgagee waiver in favor of Agent and (B) a non-disturbance and attornment agreement in favor of Agent and Revolving Loan Borrower;

(n) the Liggett Agreement;

(o) the Vector Agreements;

(p) the guaranty and related grants of Liens contemplated by the 2021 Notes Intercreditor Agreement by Revolving Loan Borrower and the Term Loan Borrower and their respective Subsidiaries of the Indebtedness owing with respect to the 2021 Notes and the 2021 Notes Indenture and any refinancing, refunding, extensions, renewals, issuances, replacements, amendments or modifications thereof to the extent permitted by the 2021 Notes Intercreditor Agreement. Borrowers shall furnish to Agent all notices or demands relating to an event of default under or acceleration of the maturity of such indebtedness either received by any Borrower or on its behalf, promptly after the receipt thereof, or sent by any Borrower or on its behalf, concurrently with the sending thereof, as the case may be;

(q) transactions permitted by Section 6.3 or Section 6.7.

6.11 **Use of Proceeds.** Each Borrower will not, and will not permit any of its Subsidiaries to, use the proceeds of any loan made hereunder for any purpose other than (a) to pay the fees, costs, and expenses incurred in connection with this Agreement, the other Loan Documents, and the transactions contemplated hereby and thereby, (b) thereafter, consistent with the terms and conditions hereof, for their lawful and permitted purposes including working capital, capital expenditures, and general corporate purposes(including that no part of the proceeds of the loans made to Borrowers will be used to purchase or carry any such Margin Stock or to extend credit to others for the purpose of purchasing or carrying any such Margin Stock or for any purpose that violates the provisions of Regulation T, U or X of the Board of Governors).

6.12 **Reserved.**

6.13 **Inventory with Bailees.** Each Borrower will not, and will not permit any of its Subsidiaries to, store its Inventory with a value in excess of $500,000 in the aggregate (as to all locations) at any time with a bailee, warehouseman, or similar party unless such bailee, warehouseman or similar party has executed a Collateral Access Agreement (or as otherwise permitted pursuant to Section 3.6 hereof).

6.14 **Reserved.**

6.15 **Employee Benefits**.

(a) Each Borrower will not, and will not permit any of its Subsidiaries to, terminate, or permit any ERISA Affiliate to terminate, any Pension Plan in a manner, or take any other action with respect to any Pension Plan, which could reasonably be expected to result in any liability of any Loan Party or ERISA Affiliate to the PBGC that could reasonably be expected to have a Material Adverse Effect.

(b) Each Borrower will not, and will not permit any of its Subsidiaries to, fail to make, or permit any ERISA Affiliate to fail to make, full payment when due of all amounts which, under the provisions of any Benefit Plan, agreement relating thereto or applicable Law, any Loan Party or ERISA Affiliate is required to pay if such failure could reasonably be expected to have a Material Adverse Effect.

(c) Except as could not reasonably be expected to have a Material Adverse Effect, each Borrower will not, and will not permit any of its Subsidiaries to, amend, or permit any ERISA Affiliate to amend, a Pension Plan resulting in a material increase in current liability such that a Loan Party or ERISA Affiliate is required to provide security to such Plan under the IRC.

6.16 **Immaterial Subsidiaries.** Eve Holdings Inc. shall not engage in any business other than its ownership of international trademarks and related intellectual property and Liggett & Myers Holding Inc. shall not engage in any business other than its management of pension related assets and liabilities, in each case, as engaged in as of the Restatement Effective Date.

7. **FINANCIAL COVENANTS.**

Each Borrower covenants and agrees that, until termination of the Revolver Commitment and payment in full of the Obligations, Borrowers will:

(i) **Minimum EBITDA.** If, at any time, Excess Availability is less than $20,000,000, Revolving Loan Borrower and its Subsidiaries, on a combined basis, shall have minimum EBITDA, determined for each of the most recently ended twelve (12) consecutive fiscal months of Borrowers for which Agent has received financial statements, of not less than $100,000,000, provided, that, the foregoing shall only be applicable during a Compliance Period.

(j) **Capital Expenditures.** Not make Capital Expenditures (excluding the amount, if any, of Capital Expenditures made with Net Cash Proceeds reinvested pursuant to the proviso in Section 2.4(e)(ii)) in any fiscal year in an amount greater than $20,000,000; provided, that if the amount of the Capital Expenditures permitted to be made in any fiscal year is greater than the actual amount of the Capital Expenditures (excluding the amount, if any, of Capital Expenditures made with Net Cash Proceeds reinvested pursuant to the proviso in Section 2.4(e)(ii)) actually made in such fiscal year (the amount by which such permitted Capital Expenditures for such fiscal year exceeds the actual amount of Capital Expenditures for such fiscal year, the "Excess Amount"), then the lesser of (i) such Excess Amount and (ii) $10,000,000 (such lesser amount referred to as the "Carry-Over Amount") may be carried forward to the next succeeding Fiscal Year (the "Succeeding Fiscal Year"); provided further that the Carry-Over Amount applicable to a particular Succeeding Fiscal Year may not be used in that Fiscal Year until the amount permitted above to be expended in such Fiscal Year has first been used in full and the Carry-Over Amount applicable to a particular Succeeding Fiscal Year may not be carried forward to another fiscal year.

8. **EVENTS OF DEFAULT.**

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 **Payments.** If Borrowers fail to pay when due and payable, or when declared due and payable, (a) all or any portion of the Obligations consisting of interest, fees, or charges due the Lender Group, reimbursement of Lender Group Expenses, or other amounts (other than any portion thereof constituting principal) constituting Obligations (including any portion thereof that accrues after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), and such failure continues for a period of 3 Business Days, (b) all or any portion of the principal of the Loans, or (c) any amount payable to Issuing Bank in reimbursement of any drawing under a Letter of Credit;

8.2 **Covenants.** If any Loan Party or any of its Subsidiaries:

(c) fails to perform or observe any covenant or other agreement contained in any of (i) Sections 3.6, 5.1(a), 5.2(a), 5.3 (solely if any Borrower is not in good standing in its jurisdiction of organization), 5.6, 5.7 (solely if any Borrower refuses to allow Agent or its representatives or agents to visit any Borrower's properties, inspect its assets or books or records, examine and make copies of its books and records, or discuss Borrowers' affairs, finances, and accounts with officers and employees of any Borrower), 5.10, 5.11, or 5.14, of this Agreement, (ii) Section 6 of this Agreement, (iii) Section 7 of this Agreement, or (iv) Section 7 of the Guaranty and Security Agreement;

(d) fails to perform or observe any covenant or other agreement contained in any of Sections (other than if any Borrower is not in good standing in its jurisdiction of organization), 5.1 (other than clause (a)) 5.2 (other than clause (a)), 5.3 (other than as set forth in Section 8.2 (a) above), 5.4, 5.5, 5.8, and 5.12 of this Agreement and such failure continues for a period of ten (10) days after the earlier of (i) the date on which such failure shall first become known to any officer of any Borrower or (ii) the date on which written notice thereof is given to Borrowers by Agent; or

(e) fails to perform or observe any covenant or other agreement contained in this Agreement, or in any of the other Loan Documents, in each case, other than any such covenant or agreement that is the subject of another provision of this Section 8 (in which event such other provision of this Section 8 shall govern), and such failure continues for a period of thirty (30) days after the earlier of (i) the date on which such failure shall first become known to any officer of any Borrower or (ii) the date on which written notice thereof is given to Borrowers by Agent;

8.3 **Judgments.** If one or more judgments, orders, or awards for the payment of money involving an amount in excess of \$1,000,000 in any one case or \$5,000,000 in the aggregate (except to the extent fully covered (other than to the extent of customary deductibles) by insurance pursuant to which the insurer has not denied coverage) is entered or filed against a Loan Party or any of its Subsidiaries, or with respect to any of their respective assets, and either (a) there is a period of 30 consecutive days at any time after the entry of any such judgment, order, or award during which (1) the same is not discharged, satisfied, vacated, or bonded pending appeal, or (2) a stay of enforcement thereof is not in effect, or (b) enforcement proceedings are commenced upon such judgment, order, or award;

8.4 **Voluntary Bankruptcy, etc.** If an Insolvency Proceeding is commenced by a Loan Party or any of its Subsidiaries;

8.5 **Involuntary Bankruptcy, etc.** If an Insolvency Proceeding is commenced against a Loan Party or any of its Subsidiaries and any of the following events occur: (a) such Loan Party or such Subsidiary consents to the institution of such Insolvency Proceeding against it, (b) the petition commencing the Insolvency Proceeding is not timely controverted, (c) the petition commencing the Insolvency Proceeding is not dismissed within 60 calendar days of the date of the filing thereof, (d) an interim trustee is appointed to take possession of all or any substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, such Loan Party or its Subsidiary, or (e) an order for relief shall have been issued or entered therein;

8.6 **Default Under Other Agreements.** If there is (a) a default in one or more agreements to which a Loan Party or any of its Subsidiaries is a party with one or more third Persons relative to a Loan Party's or any of its Subsidiaries' Indebtedness involving an aggregate amount of $1,000,000 or more, and such default (i) occurs at the final maturity of the obligations thereunder, or (ii) results in a right by such third Person, irrespective of whether exercised, to accelerate the maturity of such Loan Party's or its Subsidiary's obligations thereunder, or (b) a default by any Loan Party or any of its Subsidiaries in or an involuntary early termination (where a Loan Party or any of its Subsidiaries is the affected party) of one or more Hedge Agreements to which a Loan Party or any of its Subsidiaries is a party involving an aggregate amount owed by a Loan Party or any of its Subsidiaries of $5,000,000 or more;

8.7 **Representations, etc.** If any warranty, representation, certificate, statement, or Record made herein or in any other Loan Document or delivered in writing to Agent or any Lender in connection with this Agreement or any other Loan Document proves to be untrue in any material respect (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of the date of issuance or making or deemed making thereof;

8.8 **Guaranty.** If the obligation of any Guarantor under the guaranty contained in the Guaranty and Security Agreement is limited or terminated by operation of law or by such Guarantor (other than in accordance with the terms of this Agreement);

8.9 **Security Documents.** If the Guaranty and Security Agreement or any other Loan Document that purports to create a Lien, shall, for any reason, fail or cease to create a valid and perfected, and except for Permitted Liens, first priority Lien on the Collateral covered thereby, except (a) as a result of a disposition of the applicable Collateral in a transaction permitted under this Agreement, (b) with respect to Collateral the aggregate value of which, for all such Collateral, does not exceed at any time, $500,000, or (c) as the result of an action or failure to act on the part of Agent, or (d) as expressly provided in the 2021 Notes Intercreditor Agreement or any intercreditor agreement entered into in connection with 2021 Equivalent Note Indebtedness;

8.10 **Loan Documents.** The validity or enforceability of any Loan Document shall at any time for any reason (other than solely as the result of an action or failure to act on the part of

Agent) be declared to be null and void, or a proceeding shall be commenced by a Loan Party or its Subsidiaries, or by any Governmental Authority having jurisdiction over a Loan Party or its Subsidiaries, seeking to establish the invalidity or unenforceability thereof, or a Loan Party or its Subsidiaries shall deny that such Loan Party or its Subsidiaries has any liability or obligation purported to be created under any Loan Document;

8.11 **Change of Control.** A Change of Control shall occur, whether directly or indirectly;

8.12 **ERISA**. The occurrence of any of the following events: (a) any Loan Party or ERISA Affiliate fails to make full payment when due of all amounts which any Loan Party or ERISA Affiliate is required to pay as contributions, installments, or otherwise to or with respect to any Loan Party Pension Plan or Multiemployer Plan, and such failure could reasonably be expected to result in a Material Adverse Effect, (b) a Notification Event, which could reasonably be expected to result in a Material Adverse Effect, or (c) any Loan Party or ERISA Affiliate completely or partially withdraws from one or more Multiemployer Plans and any Loan Party incurs Withdrawal Liability which could reasonably be expected to have a Material Adverse Effect, or fails to make any Withdrawal Liability payment when due; or

8.13 **Chief Executive Officer**. Any change in the chief executive officer or the chief financial officer of Revolving Loan Borrower, except if such new chief executive officer has substantial operational and managerial experience in the tobacco products industry or other manufacturing or other business which is commensurate or greater in size (in terms of EBITDA) than the business conducted by Revolving Loan Borrower and its Subsidiaries, taken as a whole, or such new chief financial officer has substantial financial management experience or such change is otherwise reasonably satisfactory to Agent.

9. **RIGHTS AND REMEDIES.**

9.1 **Rights and Remedies.** Upon the occurrence and during the continuation of an Event of Default, Agent may, and, at the instruction of the Required Lenders, shall (in each case under clauses (a) or (b) by written notice to Borrowers), in addition to any other rights or remedies provided for hereunder or under any other Loan Document or by applicable law, do any one or more of the following:

(f) (i) declare the principal of, and any and all accrued and unpaid interest and fees in respect of, the Loans and all other Obligations (other than the Bank Product Obligations), whether evidenced by this Agreement or by any of the other Loan Documents to be immediately due and payable, whereupon the same shall become and be immediately due and payable and Borrowers shall be obligated to repay all of such Obligations in full, without presentment, demand, protest, or further notice or other requirements of any kind, all of which are hereby expressly waived by each Borrower and (ii) direct Borrowers to provide (and Borrowers agree that upon receipt of such notice Borrowers will provide) Letter of Credit Collateralization to Agent to be held as security for Borrowers' reimbursement obligations for drawings that may subsequently occur under issued and outstanding Letters of Credit;

(g) declare the Revolver Commitments terminated, whereupon the Revolver Commitments shall immediately be terminated together with (i) any obligation of Agent to make Revolving Loans, and (ii) the obligation of Issuing Bank to issue Letters of Credit; and

(h) exercise all other rights and remedies available to Agent under the Loan Documents, under applicable law, or in equity.

The foregoing to the contrary notwithstanding, upon the occurrence of any Event of Default described in Section 8.4 or Section 8.5, in addition to the remedies set forth above, without any notice to Borrowers or any other Person or any act by the Lender Group, the Revolver Commitments shall automatically terminate and the Obligations (other than the Bank Product Obligations), inclusive of the principal of, and any and all accrued and unpaid interest and fees in respect of, the Loans and all other Obligations (other than the Bank Product Obligations), whether evidenced by this Agreement or by any of the other Loan Documents, shall automatically become and be immediately due and payable and Borrowers shall automatically be obligated to repay all of such Obligations in full (including Borrowers being obligated to provide (and Borrowers agree that they will provide) (1) Letter of Credit Collateralization to Agent to be held as security for Borrowers' reimbursement obligations in respect of drawings that may subsequently occur under issued and outstanding Letters of Credit and (2) Bank Product Collateralization to be held as security for Borrowers' or their Subsidiaries' obligations in respect of outstanding Bank Products), without presentment, demand, protest, or notice or other requirements of any kind, all of which are expressly waived by Borrowers.

9.2 **Remedies Cumulative.** The rights and remedies of the Lender Group under this Agreement, the other Loan Documents, and all other agreements shall be cumulative. The Lender Group shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by the Lender Group of one right or remedy shall be deemed an election, and no waiver by the Lender Group of any Event of Default shall be deemed a continuing waiver. No delay by the Lender Group shall constitute a waiver, election, or acquiescence by it.

10. **WAIVERS; INDEMNIFICATION.**

10.1 **Demand; Protest; etc.** Each Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of documents, instruments, chattel paper, and guarantees at any time held by the Lender Group on which any Borrower may in any way be liable.

10.2 **The Lender Group's Liability for Collateral.** Each Borrower hereby agrees that: (a) so long as Agent complies with its obligations, if any, under the Code, the Lender Group shall not in any way or manner be liable or responsible for: (i) the safekeeping of the Collateral, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof, or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person, and (b) all risk of loss, damage, or destruction of the Collateral shall be borne by Borrowers.

10.3 **Indemnification.** Each Borrower shall pay, indemnify, defend, and hold the Agent-Related Persons, the Lender Related Persons, and each Participant (each, an "Indemnified

Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, liabilities, fines, costs, penalties, and damages, and all reasonable fees and disbursements of attorneys, experts, or consultants and all other costs and expenses actually incurred in connection therewith or in connection with the enforcement of this indemnification (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them (a) in connection with or as a result of or related to the execution and delivery (provided that Borrowers shall not be liable for costs and expenses (including attorneys' fees) of any Lender (other than Wells Fargo) incurred in advising, structuring, drafting, reviewing, administering or syndicating the Loan Documents), enforcement, performance, or administration (including any restructuring or workout with respect hereto) of this Agreement, any of the other Loan Documents, or the transactions contemplated hereby or thereby or the monitoring of Borrowers' and their Subsidiaries' compliance with the terms of the Loan Documents, (provided, that the indemnification in this clause (a) or clause (b) shall not extend to (i) disputes solely between or among the Lenders that do not involve any acts or omissions of any Loan Party, or (ii) disputes solely between or among the Lenders and their respective Affiliates that do not involve any acts or omissions of any Loan Party; it being understood and agreed that the indemnification in this clause (a) shall extend to Agent (but not the Lenders) relative to disputes between or among Agent on the one hand, and one or more Lenders, or one or more of their Affiliates, on the other hand, (b) with respect to any actual or prospective investigation, litigation, or proceeding related to this Agreement, any other Loan Document, the making of any Loans or issuance of any Letters of Credit hereunder, or the use of the proceeds of the Loans or the Letters of Credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event, or circumstance in any manner related thereto, and (c) in connection with or arising out of any presence or release of Hazardous Materials at, on, under, to or from any assets or properties owned, leased or operated by any Borrower or any of its Subsidiaries or any Environmental Actions, Environmental Liabilities or Remedial Actions related in any way to any such assets or properties of any Borrower or any of its Subsidiaries (each and all of the foregoing, the "Indemnified Liabilities"). The foregoing to the contrary notwithstanding, no Borrower shall have any obligation to any Indemnified Person under this Section 10.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person or its officers, directors, employees, attorneys, or agents. This provision shall survive the termination of this Agreement and the repayment in full of the Obligations. If any Indemnified Person makes any payment to any other Indemnified Person with respect to an Indemnified Liability as to which Borrowers were required to indemnify the Indemnified Person receiving such payment, the Indemnified Person making such payment is entitled to be indemnified and reimbursed by Borrowers with respect thereto. **WITHOUT LIMITATION, THE FOREGOING INDEMNITY SHALL APPLY TO EACH INDEMNIFIED PERSON WITH RESPECT TO INDEMNIFIED LIABILITIES WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF ANY NEGLIGENT ACT OR OMISSION OF SUCH INDEMNIFIED PERSON OR OF ANY OTHER PERSON.** This Section 10.3 shall not apply with respect to any Taxes or any costs attributable to Taxes, which shall be governed by Section 17.

11. **NOTICES.**

Unless otherwise provided in this Agreement, all notices or demands relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, electronic mail (at such email addresses as a party may designate in accordance herewith), or telefacsimile. In the case of notices or demands to any Borrower or Agent, as the case may be, they shall be sent to the respective address set forth below:

If to any Borrower: Liggett Group LLC
c/o Liggett Vector Brands LLC
3800 Paramount Parkway, Suite 250
Morrisville, North Carolina 27560
Attn: John Long, Nick Anson
Tel No.: 919-990-3516
Tel No.: 919-990-3562
Email: jlong@ lvbrands.com
Email: nanson@ lvbrands.com

with copies to: Vector Group Ltd.
4400 Biscayne Boulevard, 10th Floor
Miami, Florida 33137-3212
Attn: Marc Bell
Telephone No.: 305-579-8018
Telecopy No.: 305-579-8016
Email: mbell@ vectorgroupltd.com

If to Agent: 100 Park Avenue, 14th Floor
New York, New York 10017
MAC J0149-030
Attn: Portfolio Manager - Liggett
Tel No.: 212-545-4491
Telecopy No.: (212) 545-4283
Email: andrew.rogow@ wellsfargo.com
Email: marc.breier@ wellsfargo.com

Any party hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other party. All notices or demands sent in accordance with this Section 11, shall be deemed received on the earlier of the date of actual receipt or 3 Business Days after the deposit thereof in the mail; provided, that (a) notices sent by overnight courier service shall be deemed to have been given when received, (b)notices by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient) and (j) notices by electronic mail shall be deemed received upon the sender's receipt of an acknowledgment from the intended recipient (such as by the "return receipt requested" function, as available, return email or other written acknowledgment).

12. **CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER; JUDICIAL REFERENCE PROVISION.**

(s) **THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT IN RESPECT OF SUCH OTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO, AND ANY CLAIMS, CONTROVERSIES OR DISPUTES ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

(t) **THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK; PROVIDED, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE AGENT ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 12(b).**

(u) **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP HEREBY WAIVE THEIR RESPECTIVE RIGHTS, IF ANY, TO A JURY TRIAL OF ANY CLAIM, CONTROVERSY, DISPUTE OR CAUSE OF ACTION DIRECTLY OR INDIRECTLY BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS (EACH A "CLAIM"). EACH BORROWER AND EACH MEMBER OF THE LENDER GROUP REPRESENTS THAT IT HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.**

(v) **EACH BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK AND THE STATE OF NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT AGENT MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST ANY LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.**

(w) **NO CLAIM MAY BE MADE BY (I) ANY LOAN PARTY AGAINST THE AGENT, ANY OTHER LENDER, OR THE ISSUING BANK, OR ANY AFFILIATE, DIRECTOR, OFFICER, EMPLOYEE, COUNSEL, REPRESENTATIVE, AGENT, OR ATTORNEY-IN-FACT OF ANY OF THEM OR (II) THE AGENT, ANY OTHER LENDER OR ISSUING BANK AGAINST ANY LOAN PARTY OR ANY AFFILIATE, DIRECTOR, OFFICER, EMPLOYEE, COUNSEL, REPRESENTATIVE, AGENT, OR ATTORNEY-IN-FACT OF ANY OF THEM, IN EACH CASE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES OR LOSSES IN RESPECT OF ANY CLAIM FOR BREACH OF CONTRACT OR ANY OTHER THEORY OF LIABILITY ARISING OUT OF OR RELATED TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY ACT, OMISSION, OR EVENT OCCURRING IN CONNECTION THEREWITH, AND THE AGENT, EACH OTHER LENDER, ISSUING BANK AND EACH LOAN PARTY HEREBY WAIVES, RELEASES, AND AGREES NOT TO SUE UPON ANY CLAIM FOR SUCH DAMAGES, WHETHER OR NOT ACCRUED AND WHETHER OR NOT KNOWN OR SUSPECTED TO EXIST IN ITS FAVOR.**

13. **ASSIGNMENTS AND PARTICIPATIONS.**

13.1 **Assignments and Participations.**

(q) (i) Subject to the conditions set forth in clause (a)(ii) below, any Lender may assign and delegate all or any portion of its rights and duties under the Loan Documents (including the Obligations owed to it in respect of the outstanding amount of the Term Loan and its Revolver Commitment) to one or more assignees so long as such prospective assignee is an Eligible Transferee (each, an "Assignee"), with the prior written consent (such consent not be unreasonably withheld or delayed) of:

(A) Revolving Loan Borrower; provided, that no consent of Revolving Loan Borrower shall be required (1) if an Event of Default has occurred and is continuing, or (2) in connection with an assignment to a Person that is a Lender or an Affiliate (other than natural persons) of a Lender; provided further, that Revolving Loan Borrower shall be deemed to have consented to a proposed assignment unless they object thereto by written notice to Agent within 5 Business Days after having received notice thereof; and

(B) Agent, Swing Lender, and Issuing Bank.

(ii) Assignments shall be subject to the following additional conditions:

(A) no assignment may be made to (i) a natural person, (ii) a Loan Party, an Affiliate of a Loan Party, or (iii) any holder of any Subordinated Indebtedness,

(B) the amount of the Revolver Commitment and the other rights and obligations of the assigning Lender hereunder and under the other Loan Documents subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to Agent) shall be in a minimum amount (unless waived by Agent) of $5,000,000 (except such minimum amount shall not apply to (I) an assignment or delegation by any Lender to any other Lender, an Affiliate of any Lender, or a Related Fund of such Lender or (II) a group of new Lenders, each of which is an Affiliate of each other or a Related Fund of such new Lender to the extent that the aggregate amount to be assigned to all such new Lenders is at least $5,000,000);

(C) each Assignment must include the same Pro Rata Share of such Lender's Revolver Commitment (and outstanding Revolving Loans) and the same Pro Rata Share of the outstanding amount of its Term Loan;

(D) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement;

(E) the parties to each assignment shall execute and deliver to Agent an Assignment and Acceptance; provided, that Borrowers and Agent may continue to deal solely and directly with the assigning Lender in connection with the interest so assigned to an Assignee until written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, have been given to Borrowers and Agent by such Lender and the Assignee, the Assignment and Acceptance shall include a representation and warranty (which shall be expressly for the benefit of the Lender Group) that, as of the date of the assignment, it does not have any material non-public information with respect to any Borrower or its Subsidiaries that (I) has not been disclosed to the Lenders (other than Lenders that do not wish to receive material non-public information with respect to any Borrower or its Subsidiaries) prior to such time and (II) could not reasonably be expected to have a material effect upon, or otherwise be material, (a) to a Lender's decision to participate in any assignment pursuant to this Section 13.1 or (b) to the market price of the Term Loan;

(F) unless waived by Agent, the assigning Lender or Assignee has paid to Agent, for Agent's separate account, a processing fee in the amount of $3,500, and

(G) the assignee, if it is not a Lender, shall deliver to Agent an Administrative Questionnaire in a form approved by Agent (the "Administrative Questionnaire").

(r) From and after the date that Agent receives the executed Assignment and Acceptance and has recorded the applicable assignment in the Register, if applicable, payment of the required processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall be a "Lender" and shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assigning Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (except with respect to Section 10.3) and be released from any future obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, such Lender shall cease to be a party hereto and thereto); provided, that nothing contained herein shall release any assigning Lender from obligations that survive the termination of this Agreement, including such assigning Lender's obligations under Section 16 and Section 19.9(a).

(s) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Loan Document furnished pursuant hereto, (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by any Borrower of any of its obligations under this Agreement or any other Loan Document furnished

pursuant hereto, (iii) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance, (iv) such Assignee will, independently and without reliance upon Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, (v) such Assignee appoints and authorizes Agent to take such actions and to exercise such powers under this Agreement and the other Loan Documents as are delegated to Agent, by the terms hereof and thereof, together with such powers as are reasonably incidental thereto, and (vi) such Assignee agrees that it will perform all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(t) Immediately upon Agent's receipt of the required processing fee, if applicable, and delivery of notice to the assigning Lender pursuant to Section 13.1(b), this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Revolver Commitments arising therefrom. The Revolver Commitment allocated to each Assignee shall reduce such Revolver Commitments of and Obligations owed to the assigning Lender *pro tanto*.

(u) Any Lender may at any time sell to one or more commercial banks, financial institutions, or other Persons (a "Participant") participating interests in all or any portion of its Obligations, its Revolver Commitment, and the other rights and interests of that Lender (the "Originating Lender") hereunder and under the other Loan Documents; provided, that (i) the Originating Lender shall remain a "Lender" for all purposes of this Agreement and the other Loan Documents and the Participant receiving the participating interest in the Obligations, the Revolver Commitments, and the other rights and interests of the Originating Lender hereunder shall not constitute a "Lender" hereunder or under the other Loan Documents and the Originating Lender's obligations under this Agreement shall remain unchanged, (ii) the Originating Lender shall remain solely responsible for the performance of such obligations, (iii) Borrowers, Agent, and the Lenders shall continue to deal solely and directly with the Originating Lender in connection with the Originating Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) no Lender shall transfer or grant any participating interest under which the Participant has the right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating, (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating (other than a waiver of default interest), (C) release all or substantially all of the Collateral or guaranties (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating, (D) postpone the payment of, or reduce the amount of, the interest or fees payable to such Participant through such Lender (other than a waiver of default interest), or (E) decreases the amount or postpones the due dates of scheduled principal payable to such Participant through such Lender, (v) no participation shall be sold to a natural person, (vi) no participation shall be sold to a Loan Party, an Affiliate of a Loan Party or any holder of Subordinated Indebtedness. The rights of any Participant only shall be derivative through the Originating Lender with whom such Participant participates and no Participant shall have any rights under this Agreement or the other Loan Documents or any direct rights as to the other Lenders, Agent, Borrowers, the Collateral, or otherwise in respect of the Obligations. No Participant shall have the right to participate directly in the making of decisions by the Lenders among themselves.

(v) In connection with any such assignment or participation or proposed assignment or participation or any grant of a security interest in, or pledge of, its rights under and interest in this Agreement, a Lender may, subject to the provisions of Section 19.9, disclose all documents and information which it now or hereafter may have relating to any Borrower and its Subsidiaries and their respective businesses.

(w) Any other provision in this Agreement notwithstanding, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Bank or U.S. Treasury Regulation 31 CFR §203.24, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

(x) Agent (as a non-fiduciary agent on behalf of Borrowers) shall maintain, or cause to be maintained, a register (the "Register") on which it enters the name and address of each Lender as the registered owner of the Term Loan and any Revolving Loan (and the principal amount thereof and stated interest thereon) held by such Lender (each, a "Registered Loan"). Other than in connection with an assignment by a Lender of all or any portion of its portion of the Term Loan to an Affiliate of such Lender or a Related Fund of such Lender (i) a Registered Loan (and the registered note, if any, evidencing the same) may be assigned or sold in whole or in part only by registration of such assignment or sale on the Register (and each registered note shall expressly so provide) and (ii) any assignment or sale of all or part of such Registered Loan (and the registered note, if any, evidencing the same) may be effected only by registration of such assignment or sale on the Register, together with the surrender of the registered note, if any, evidencing the same duly endorsed by (or accompanied by a written instrument of assignment or sale duly executed by) the holder of such registered note, whereupon, at the request of the designated assignee(s) or transferee(s), one or more new registered notes in the same aggregate principal amount shall be issued to the designated assignee(s) or transferee(s). Prior to the registration of assignment or sale of any Registered Loan (and the registered note, if any evidencing the same), Borrowers shall treat the Person in whose name such Registered Loan (and the registered note, if any, evidencing the same) is registered as the owner thereof for the purpose of receiving all payments thereon and for all other purposes, notwithstanding notice to the contrary. In the case of any assignment by a Lender of all or any portion of its Term Loan to an Affiliate of such Lender or a Related Fund of such Lender, and which assignment is not recorded in the Register, the assigning Lender, on behalf of Borrowers, shall maintain a register comparable to the Register and the effectiveness of such assignment shall be subject to the same requirements that apply to other assignments under this clause (h).

(y) In the event that a Lender sells participations in any Registered Loan, such Lender, as a non-fiduciary agent on behalf of Borrowers, shall maintain (or cause to be maintained) a register on which it enters the name of all participants in the Registered Loans held by it (and the principal amount of and stated interest on the portion of such Registered Loans that is subject to such participations) (the "Participant Register"). A Registered Loan (and the Registered Note, if any, evidencing the same) may be participated in whole or in part only by registration of such participation on the Participant Register (and each registered note shall expressly so provide). Any participation of such Registered Loan (and the registered note, if any, evidencing the same) may be effected only by the registration of such participation on the Participant Register.

(z) Agent and any Lender that has assigned all or any portion of its Term Loan to an Affiliate of such Lender or a Related Fund of such Lender shall make a copy of its Register (and each Lender that has sold participations in any Registered Loan shall make a copy of its Participant Register) available for review by Borrowers from time to time as Borrowers may reasonably request.

(aa) Notwithstanding anything herein or any other Loan Document to the contrary shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in clause (e) of this Section13.1) any legal or equitable right, remedy or claim under or by reason of this Agreement.

14. **SUCCESSORS.**

14.1 **Successors.** This Agreement and the other Loan Documents shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, that no Borrower may assign this Agreement or any rights or duties hereunder without the Lenders' prior written consent and any prohibited assignment shall be absolutely void *ab initio*. No consent to assignment by the Lenders shall release any Borrower from its Obligations. A Lender may assign this Agreement and the other Loan Documents and its rights and duties hereunder and thereunder pursuant to Section 13.1 and, except as expressly required pursuant to Section 13.1, no consent or approval by any Borrower is required in connection with any such assignment.

15. **AMENDMENTS; WAIVERS.**

15.1 **Amendments and Waivers.**

(r) No amendment, waiver or other modification of any provision of this Agreement or any other Loan Document (other than Bank Product Agreements or any Fee Letter), and no consent with respect to any departure by any Borrower therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by Agent at the written request of the Required Lenders) and the Loan Parties that are party thereto and then any such waiver or consent shall be effective, but only in the specific instance and for the specific purpose for which given; provided, that no such waiver, amendment, or consent shall, unless in writing and signed by all of the Lenders directly affected thereby and all of the Loan Parties that are party thereto, do any of the following:

(i) increase the amount of or extend the expiration date of any Revolver Commitment of any Lender or amend or modify the last sentence of Section 2.4(c)(i),

(ii) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees, or other amounts due hereunder or under any other Loan Document,

(iii) reduce the principal of, or the rate of interest on, any loan or other extension of credit hereunder, or reduce any fees or other amounts payable hereunder or under any other Loan Document (except (y) in connection with the waiver of applicability of Section 2.6(c) (which waiver shall be effective with the written consent of the Required Lenders) and (z) for the avoidance of doubt, that any amendment or modification of defined terms used in the financial covenants in this Agreement shall not constitute a reduction in the rate of interest or a reduction of fees for purposes of this clause (iii)),

(iv) amend or modify this Section or any provision of this Agreement providing for consent or other action by all Lenders,

(v) amend or modify Section 3.1,

(vi) amend or modify Section 16.11,

(vii) other than as permitted by Section 16.11, release Agent's Lien in and to any of the Collateral,

(viii) amend, modify, or eliminate the definitions of "Required Lenders" or "Pro Rata Share",

(ix) contractually subordinate any of Agent's Liens, or

(x) other than in connection with a merger, liquidation, dissolution or sale of such Person expressly permitted by the terms hereof or the other Loan Documents, release any Borrower or any Guarantor from any obligation for the payment of money under this Agreement or the other Loan Documents or consent to the assignment or transfer by any Borrower or any Guarantor of any of its rights or duties under this Agreement or the other Loan Documents.

(xi) amend, modify, or eliminate any of the provisions of Section 2.4(b)(i), (ii) or (iii).

(s) No amendment, waiver, modification, or consent shall amend, modify or waive:

(i) the definition of, or any of the terms or provisions of, any Fee Letter, without the written consent of Agent and Borrowers (and shall not require the written consent of any of the Lenders);

(ii) any provision of Section 16 pertaining to Agent, or any other rights or duties of Agent under this Agreement or the other Loan Documents, without the written consent of Agent, Borrowers, and the Required Lenders;

(t) No amendment, waiver, modification, elimination, or consent shall amend, without written consent of Agent, Borrowers and the Supermajority Lenders, modify, or eliminate the definition of Borrowing Base or any of the defined terms (including the definitions of Eligible Accounts or Eligible Inventory) that are used in such definition to the extent that any such change results in more credit being made available to Borrowers based upon the Borrowing Base, but not otherwise;

(u) No amendment, waiver, modification, elimination, or consent shall amend, modify, or waive any provision of this Agreement or the other Loan Documents pertaining to Issuing Bank, or any other rights or duties of Issuing Bank under this Agreement or the other Loan Documents, without the written consent of Issuing Bank, Agent, Borrowers, and the Required Lenders;

(v) No amendment, waiver, modification, elimination, or consent shall amend, modify, or waive any provision of this Agreement or the other Loan Documents pertaining to Swing Lender, or any other rights or duties of Swing Lender under this Agreement or the other Loan Documents, without the written consent of Swing Lender, Agent, Borrowers, and the Required Lenders; and

(w) Anything in this Section 15.1 to the contrary notwithstanding, (i) any amendment, modification, waiver, consent, termination or release of, or with respect to any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves and does not affect the rights or obligations of any Borrower or other Loan Party shall not require the consent of any Loan Party, and (ii) any amendment, waiver, modification, elimination, or consent of or with respect to any provision of this Agreement or any other Loan Document may be entered into without the consent of, or over the objection of, any Defaulting Lender and (ii) Agent may, with the consent of Borrowers only, amend, modify or supplement this Agreement to cure any ambiguity, omission, defect or inconsistency, so long as such amendment, modification or supplement does not adversely affect the rights of Agent, any Lender or Issuing Bank.

15.2 **Replacement of Certain Lenders.**

(a) If (i) any action to be taken by the Lender Group or Agent hereunder requires the consent, authorization, or agreement of all Lenders or all Lenders affected thereby and if such action has received the consent, authorization, or agreement of the Required Lenders but not of all Lenders or all Lenders affected thereby, or (ii) any Lender makes a claim for compensation under Section 16, then Borrowers or Agent, upon at least 5 Business Days prior irrevocable notice, may permanently replace any Lender that failed to give its consent, authorization, or agreement (a "Non-Consenting Lender") or any Lender that made a claim for compensation (a "Tax Lender") with one or more Replacement Lenders, and the Non-Consenting Lender or Tax Lender, as applicable, shall have no right to refuse to be replaced hereunder. Such notice to replace the Non-Consenting Lender or Tax Lender, as applicable, shall specify an effective date for such replacement, which date shall not be later than 15 Business Days after the date such notice is given.

(b) Prior to the effective date of such replacement, the Non-Consenting Lender or Tax Lender, as applicable, and each Replacement Lender shall execute and deliver an Assignment and Acceptance, subject only to the Non-Consenting Lender or Tax Lender, as applicable, being repaid in full its share of the outstanding Obligations (without any premium or penalty of any kind whatsoever, but including (i) all interest, fees and other amounts that may be due in payable in respect thereof, and (ii) an assumption of its Pro Rata Share of participations in the Letters of Credit). If the Non-Consenting Lender or Tax Lender, as applicable, shall refuse or fail to execute and deliver any such Assignment and Acceptance prior to the effective date of such replacement, Agent may, but shall not be required to, execute and deliver such Assignment and Acceptance in the name or and on behalf of the Non-Consenting Lender or Tax Lender, as applicable, and irrespective of whether Agent executes and delivers such Assignment and Acceptance, the Non-Consenting Lender or Tax Lender, as applicable, shall be deemed to have executed and delivered such Assignment and Acceptance. The replacement of any Non-Consenting Lender or Tax Lender, as applicable, shall be made in accordance with the terms of Section 13.1. Until such time as one or more Replacement Lenders shall have acquired all of the Obligations, the Revolver Commitments, and the other rights and obligations of the Non-Consenting Lender or Tax Lender, as applicable, hereunder and under the other Loan Documents, the Non-Consenting Lender or Tax Lender, as applicable, shall remain obligated to make the Non-Consenting Lender's or Tax Lender's, as applicable, Pro Rata Share of Revolving Loans and to purchase a participation in each Letter of Credit, in an amount equal to its Pro Rata Share of participations in such Letters of Credit.

15.3 **No Waivers; Cumulative Remedies.** No failure by Agent or any Lender to exercise any right, remedy, or option under this Agreement or any other Loan Document, or delay by Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by Agent or any Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by Agent or any Lender on any occasion shall affect or diminish Agent's and each Lender's rights thereafter to require strict performance by Borrowers of any provision of this Agreement. Agent's and each Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy that Agent or any Lender may have.

16. AGENT; THE LENDER GROUP.

16.1 **Appointment and Authorization of Agent.** Each Lender hereby designates and appoints Wells Fargo as its agent under this Agreement and the other Loan Documents and each

Lender hereby irrevocably authorizes (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to designate, appoint, and authorize) Agent to execute and deliver each of the other Loan Documents on its behalf and to take such other action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Agent agrees to act as agent for and on behalf of the Lenders (and the Bank Product Providers) on the conditions contained in this Section 16. Any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document notwithstanding, Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender (or Bank Product Provider), and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement or the other Loan Documents with reference to Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only a representative relationship between independent contracting parties. Each Lender hereby further authorizes (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent to act as the secured party under each of the Loan Documents that create a Lien on any item of Collateral. Except as expressly otherwise provided in this Agreement, Agent shall have and may use its sole discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions that Agent expressly is entitled to take or assert under or pursuant to this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, or of any other provision of the Loan Documents that provides rights or powers to Agent, Lenders agree that Agent shall have the right to exercise the following powers as long as this Agreement remains in effect: (a) maintain, in accordance with its customary business practices, ledgers and records reflecting the status of the Obligations, the Collateral, payments and proceeds of Collateral, and related matters, (b) execute or file any and all financing or similar statements or notices, amendments, renewals, supplements, documents, instruments, proofs of claim, notices and other written agreements with respect to the Loan Documents, (c) make Revolving Loans, for itself or on behalf of Lenders, as provided in the Loan Documents, (d) exclusively receive, apply, and distribute payments and proceeds of the Collateral as provided in the Loan Documents, (e) open and maintain such bank accounts and cash management arrangements as Agent deems necessary and appropriate in accordance with the Loan Documents for the foregoing purposes, (f) perform, exercise, and enforce any and all other rights and remedies of the Lender Group with respect to any Borrower or its Subsidiaries, the Obligations, the Collateral, or otherwise related to any of same as provided in the Loan Documents, and (g) incur and pay such Lender Group Expenses as Agent may deem necessary or appropriate for the performance and fulfillment of its functions and powers pursuant to the Loan Documents.

16.2 **Delegation of Duties.** Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys in fact and shall be

entitled to advice of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney in fact that it selects as long as such selection was made without gross negligence or willful misconduct.

16.3 **Liability of Agent.** None of the Agent-Related Persons shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (b) be responsible in any manner to any of the Lenders (or Bank Product Providers) for any recital, statement, representation or warranty made by any Borrower or any of its Subsidiaries or Affiliates, or any officer or director thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Borrower or its Subsidiaries or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lenders (or Bank Product Providers) to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the books and records or properties of any Borrower or its Subsidiaries.

16.4 **Reliance by Agent.** Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, telefacsimile or other electronic method of transmission, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent, or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrowers or counsel to any Lender), independent accountants and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless Agent shall first receive such advice or concurrence of the Lenders as it deems appropriate and until such instructions are received, Agent shall act, or refrain from acting, as it deems advisable. If Agent so requests, it shall first be indemnified to its reasonable satisfaction by the Lenders (and, if it so elects, the Bank Product Providers) against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders (and Bank Product Providers).

16.5 **Notice of Default or Event of Default.** Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest, fees, and expenses required to be paid to Agent for the account of the Lenders and, except with respect to Events of Default of which Agent has actual knowledge, unless Agent shall have received written notice from a Lender or Borrowers referring to this Agreement, describing such Default or Event of Default, and stating that such

notice is a "notice of default." Agent promptly will notify the Lenders of its receipt of any such notice or of any Event of Default of which Agent has actual knowledge. If any Lender obtains actual knowledge of any Event of Default, such Lender promptly shall notify the other Lenders and Agent of such Event of Default. Each Lender shall be solely responsible for giving any notices to its Participants, if any. Subject to Section 16.4, Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with Section 9; provided, that unless and until Agent has received any such request, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable.

16.6 **Credit Decision.** Each Lender (and Bank Product Provider) acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by Agent hereinafter taken, including any review of the affairs of any Borrower and its Subsidiaries or Affiliates, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender (or Bank Product Provider). Each Lender represents (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to represent) to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such due diligence, documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of each Borrower or any other Person party to a Loan Document, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrowers. Each Lender also represents (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to represent) that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of each Borrower or any other Person party to a Loan Document. Except for notices, reports, and other documents expressly herein required to be furnished to the Lenders by Agent, Agent shall not have any duty or responsibility to provide any Lender (or Bank Product Provider) with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any Borrower or any other Person party to a Loan Document that may come into the possession of any of the Agent-Related Persons. Each Lender acknowledges (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that Agent does not have any duty or responsibility, either initially or on a continuing basis (except to the extent, if any, that is expressly specified herein) to provide such Lender (or Bank Product Provider) with any credit or other information with respect to any Borrower, its Affiliates or any of their respective business, legal, financial or other affairs, and irrespective of whether such information came into Agent's or its Affiliates' or representatives' possession before or after the date on which such Lender became a party to this Agreement (or such Bank Product Provider entered into a Bank Product Agreement).

16.7 **<u>Costs and Expenses; Indemnification</u>.** Agent may incur and pay Lender Group Expenses to the extent Agent reasonably deems necessary or appropriate for the performance and fulfillment of its functions, powers, and obligations pursuant to the Loan Documents, including court costs, attorneys fees and expenses, fees and expenses of financial accountants, advisors, consultants, and appraisers, costs of collection by outside collection agencies, auctioneer fees and expenses, and costs of security guards or insurance premiums paid to maintain the Collateral, whether or not Borrowers are obligated to reimburse Agent or Lenders for such expenses pursuant to this Agreement or otherwise. Agent is authorized and directed to deduct and retain sufficient amounts from payments or proceeds of the Collateral received by Agent to reimburse Agent for such out-of-pocket costs and expenses prior to the distribution of any amounts to Lenders (or Bank Product Providers). In the event Agent is not reimbursed for such costs and expenses by Borrowers or their Subsidiaries, each Lender hereby agrees that it is and shall be obligated to pay to Agent such Lender's ratable thereof. Whether or not the transactions contemplated hereby are consummated, each of the Lenders, on a ratable basis, shall indemnify and defend the Agent-Related Persons (to the extent not reimbursed by or on behalf of Borrowers and without limiting the obligation of Borrowers to do so) from and against any and all Indemnified Liabilities; <u>provided</u>, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct nor shall any Lender be liable for the obligations of any Defaulting Lender in failing to make a Revolving Loan or other extension of credit hereunder. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for such Lender's ratable share of any costs or out of pocket expenses (including attorneys, accountants, advisors, and consultants fees and expenses) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement or any other Loan Document to the extent that Agent is not reimbursed for such expenses by or on behalf of Borrowers. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of Agent.

16.8 **<u>Agent in Individual Capacity</u>.** Wells Fargo and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, provide Bank Products to, acquire Equity Interests in, and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with any Borrower and its Subsidiaries and Affiliates and any other Person party to any Loan Document as though Wells Fargo were not Agent hereunder, and, in each case, without notice to or consent of the other members of the Lender Group. The other members of the Lender Group acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, pursuant to such activities, Wells Fargo or its Affiliates may receive information regarding a Borrower or its Affiliates or any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of such Borrower or such other Person and that prohibit the disclosure of such information to the Lenders (or Bank Product Providers), and the Lenders acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver Agent will use its reasonable best efforts to obtain), Agent shall not be under any obligation to

provide such information to them. The terms “Lender” and “Lenders” include Wells Fargo in its individual capacity.

16.9 **Successor Agent.** Agent may resign as Agent upon 30 days (10 days if an Event of Default has occurred and is continuing) prior written notice to the Lenders (unless such notice is waived by the Required Lenders) and Borrowers (unless such notice is waived by Borrowers) and without any notice to the Bank Product Providers. If Agent resigns under this Agreement, the Required Lenders shall be entitled, with (so long as no Event of Default has occurred and is continuing) the consent of Borrowers (such consent not to be unreasonably withheld, delayed, or conditioned), appoint a successor Agent for the Lenders (and the Bank Product Providers). If, at the time that Agent’s resignation is effective, it is acting as Issuing Bank or the Swing Lender, such resignation shall also operate to effectuate its resignation as Issuing Bank or the Swing Lender, as applicable, and it shall automatically be relieved of any further obligation to issue Letters of Credit, or to make Swing Loans. If no successor Agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with the Lenders and Borrowers, a successor Agent. If Agent has materially breached or failed to perform any material provision of this Agreement or of applicable law, the Required Lenders may agree in writing to remove and replace Agent with a successor Agent from among the Lenders with (so long as no Event of Default has occurred and is continuing) the consent of Borrowers (such consent not to be unreasonably withheld, delayed, or conditioned). In any such event, upon the acceptance of its appointment as successor Agent hereunder, such successor Agent shall succeed to all the rights, powers, and duties of the retiring Agent and the term “Agent” shall mean such successor Agent and the retiring Agent’s appointment, powers, and duties as Agent shall be terminated. After any retiring Agent’s resignation hereunder as Agent, the provisions of this Section 16 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor Agent has accepted appointment as Agent by the date which is 30 days following a retiring Agent’s notice of resignation, the retiring Agent’s resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of Agent hereunder until such time, if any, as the Lenders appoint a successor Agent as provided for above.

16.10 **Lender in Individual Capacity.** Any Lender and its respective Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, provide Bank Products to, acquire Equity Interests in and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with any Borrower and its Subsidiaries and Affiliates and any other Person party to any Loan Documents as though such Lender were not a Lender hereunder without notice to or consent of the other members of the Lender Group (or the Bank Product Providers). The other members of the Lender Group acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, pursuant to such activities, such Lender and its respective Affiliates may receive information regarding a Borrower or its Affiliates or any other Person party to any Loan Documents that is subject to confidentiality obligations in favor of such Borrower or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to acknowledge) that, in such circumstances (and in the absence of a waiver of such confidentiality obligations,

which waiver such Lender will use its reasonable best efforts to obtain), such Lender shall not be under any obligation to provide such information to them.

16.11 **Collateral Matters.**

(a) The Lenders hereby irrevocably authorize (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent to release any Lien on any Collateral (i) upon the termination of the Revolver Commitments and payment and satisfaction in full by Borrowers of all of the Obligations, (ii)constituting property being sold or disposed of if a release is required or desirable in connection therewith and if Borrowers certify to Agent that the sale or disposition is permitted under Section 6.4 as amended or modified from time to time (and Agent may rely conclusively on any such certificate, without further inquiry), (iii) constituting property in which no Borrower or its Subsidiaries owned any material interest at the time Agent's Lien was granted nor at any time thereafter, (iv) constituting property leased or licensed to a Borrower or its Subsidiaries under a lease or license that has expired or is terminated in a transaction permitted under this Agreement as amended or modified from time to time, (v) in connection with a credit bid or purchase authorized under this Section 16.11, or (vi) as provided below with the consent of (y) if the release is of all or substantially all of the Collateral, all of the Lenders (without requiring the authorization of the Bank Product Providers), or (z) otherwise, the Required Lenders (without requiring the authorization of the Bank Product Providers). The Loan Parties and the Lenders hereby irrevocably authorize (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to authorize) Agent, based upon the instruction of the Required Lenders, to (a) consent to the sale of, credit bid, or purchase (either directly or indirectly through one or more entities) all or any portion of the Collateral at any sale thereof conducted under the provisions of the Bankruptcy Code, including Section 363 of the Bankruptcy Code, (b) credit bid or purchase (either directly or indirectly through one or more entities) all or any portion of the Collateral at any sale or other disposition thereof conducted under the provisions of the Code, including pursuant to Sections 9-610 or 9-620 of the Code, or (c) credit bid or purchase (either directly or indirectly through one or more entities) all or any portion of the Collateral at any other sale or foreclosure conducted or consented to by Agent in accordance with applicable law in any judicial action or proceeding or by the exercise of any legal or equitable remedy. In connection with any such credit bid or purchase, (i) the Obligations owed to the Lenders and the Bank Product Providers shall be entitled to be, and shall be, credit bid on a ratable basis (with Obligations with respect to contingent or unliquidated claims being estimated for such purpose if the fixing or liquidation thereof would not impair or unduly delay the ability of Agent to credit bid or purchase at such sale or other disposition of the Collateral and, if such contingent or unliquidated claims cannot be estimated without impairing or unduly delaying the ability of Agent to credit bid at such sale or other disposition, then such claims shall be disregarded, not credit bid, and not entitled to any interest in the Collateral that is the subject of such credit bid or purchase) and the Lenders and the Bank Product Providers whose Obligations are credit bid shall be entitled to receive interests (ratably based upon the proportion of their Obligations credit bid in relation to the aggregate amount of Obligations so credit bid) in the Collateral that is the subject of such credit bid or purchase (or in the Equity Interests of the any entities that are used to consummate such credit bid or purchase), and (ii) Agent, based upon the instruction of the Required Lenders, may accept non-cash consideration, including debt and equity securities issued by any entities used to consummate such credit bid or purchase and in connection therewith Agent may reduce the Obligations owed to the Lenders and the Bank Product Providers (ratably based upon the proportion of their Obligations credit bid in relation to the aggregate amount of Obligations so credit bid) based upon the value of such non-cash consideration. Except as provided in clauses (i) through (v) above, Agent will not execute and deliver a release of any Lien on any Collateral without the prior written authorization of (y) if the release is of all or substantially all of the Collateral, all of the Lenders (without requiring the authorization of the Bank Product Providers), or (z) otherwise, the

Required Lenders (without requiring the authorization of the Bank Product Providers). Upon request by Agent or Borrowers at any time, the Lenders will (and if so requested, the Bank Product Providers will) confirm in writing Agent's authority to release any such Liens on particular types or items of Collateral pursuant to this Section 16.11; provided, that (1) anything to the contrary contained in any of the Loan Documents notwithstanding, Agent shall not be required to execute any document or take any action necessary to evidence such release on terms that, in Agent's opinion, could expose Agent to liability or create any obligation or entail any consequence other than the release of such Lien without recourse, representation, or warranty, and (2) such release shall not in any manner discharge, affect, or impair the Obligations or any Liens (other than those expressly released) upon (or obligations of Borrowers in respect of) any and all interests retained by any Borrower, including, the proceeds of any sale, all of which shall continue to constitute part of the Collateral. Each Lender further hereby irrevocably authorize (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to irrevocably authorize) Agent, at its option and in its sole discretion, to subordinate any Lien granted to or held by Agent under any Loan Document to the holder of any Permitted Lien on such property if such Permitted Lien secures Permitted Purchase Money Indebtedness.

(b) Agent shall have no obligation whatsoever to any of the Lenders (or the Bank Product Providers) (i) to verify or assure that the Collateral exists or is owned by Borrowers or their Subsidiaries or is cared for, protected, or insured or has been encumbered, (ii) to verify or assure that Agent's Liens have been properly or sufficiently or lawfully created, perfected, protected, or enforced or are entitled to any particular priority, (iii) to verify or assure that any particular items of Collateral meet the eligibility criteria applicable in respect thereof, (iv) to impose, maintain, increase, reduce, implement, or eliminate any particular reserve hereunder or to determine whether the amount of any reserve is appropriate or not, or (v) to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission, or event related thereto, subject to the terms and conditions contained herein, Agent may act in any manner it may deem appropriate, in its sole discretion given Agent's own interest in the Collateral in its capacity as one of the Lenders and that Agent shall have no other duty or liability whatsoever to any Lender (or Bank Product Provider) as to any of the foregoing, except as otherwise expressly provided herein.

16.12 **Restrictions on Actions by Lenders; Sharing of Payments.**

(a) Each of the Lenders agrees that it shall not, without the express written consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the written request of Agent, set off against the Obligations, any amounts owing by such Lender to any Borrower or its Subsidiaries or any deposit accounts of any Borrower or its Subsidiaries now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so in writing by Agent, take or cause to be taken any action, including, the commencement of any legal or equitable proceedings to enforce any Loan Document against any Borrower or any Guarantor or to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral.

(b) If, at any time or times any Lender shall receive (i) by payment, foreclosure, setoff, or otherwise, any proceeds of Collateral or any payments with respect to the Obligations, except for any such proceeds or payments received by such Lender from Agent pursuant to the terms of this Agreement, or (ii) payments from Agent in excess of such Lender's Pro Rata Share of all such distributions by Agent, such Lender promptly shall (A) turn the same over to Agent, in kind, and with such endorsements as may be required to negotiate the same to Agent, or in immediately available funds, as applicable, for the

account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (B) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, that to the extent that such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

16.13 **Agency for Perfection.** Agent hereby appoints each other Lender (and each Bank Product Provider) as its agent (and each Lender hereby accepts (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to accept) such appointment) for the purpose of perfecting Agent's Liens in assets which, in accordance with Article 8 or Article 9, as applicable, of the Code can be perfected by possession or control. Should any Lender obtain possession or control of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver possession or control of such Collateral to Agent or in accordance with Agent's instructions.

16.14 **Payments by Agent to the Lenders.** All payments to be made by Agent to the Lenders (or Bank Product Providers) shall be made by bank wire transfer of immediately available funds pursuant to such wire transfer instructions as each party may designate for itself by written notice to Agent. Concurrently with each such payment, Agent shall identify whether such payment (or any portion thereof) represents principal, premium, fees, or interest of the Obligations.

16.15 **Concerning the Collateral and Related Loan Documents.** Each member of the Lender Group authorizes and directs Agent to enter into this Agreement and the other Loan Documents. Each member of the Lender Group agrees (and by entering into a Bank Product Agreement, each Bank Product Provider shall be deemed to agree) that any action taken by Agent in accordance with the terms of this Agreement or the other Loan Documents relating to the Collateral and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders (and such Bank Product Provider). In the event of any conflict between the terms of this Agreement and the provisions of any other Loan Document (other than the 2021 Notes Intercreditor Agreement), the term of this Agreement shall govern and control.

16.16 **Field Examination Reports; Confidentiality; Disclaimers by Lenders; Other Reports and Information.** By becoming a party to this Agreement, each Lender:

(a) is deemed to have requested that Agent furnish such Lender, promptly after it becomes available, a copy of each field examination report respecting any Borrower or its Subsidiaries (each, a "Report") prepared by or at the request of Agent, and Agent shall so furnish each Lender with such Reports,

(b) expressly agrees and acknowledges that Agent does not (i) make any representation or warranty as to the accuracy of any Report, and (ii) shall not be liable for any information contained in any Report,

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or other party performing any field examination will inspect only specific information regarding Borrowers and their Subsidiaries and will rely significantly upon Borrowers' and their Subsidiaries' books and records, as well as on representations of Borrowers' personnel,

(d) agrees to keep all Reports and other material, non-public information regarding Borrowers and their Subsidiaries and their operations, assets, and existing and contemplated business plans in a confidential manner in accordance with Section 19.9, and

(e) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold Agent and any other Lender preparing a Report harmless from any action the indemnifying Lender may take or fail to take or any conclusion the indemnifying Lender may reach or draw from any Report in connection with any loans or other credit accommodations that the indemnifying Lender has made or may make to Borrowers, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of Borrowers, and (ii) to pay and protect, and indemnify, defend and hold Agent, and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including, attorneys fees and costs) incurred by Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

(f) In addition to the foregoing, (x) any Lender may from time to time request of Agent in writing that Agent provide to such Lender a copy of any report or document provided by any Borrower or its Subsidiaries to Agent that has not been contemporaneously provided by such Borrower or such Subsidiary to such Lender, and, upon receipt of such request, Agent promptly shall provide a copy of same to such Lender, (y) to the extent that Agent is entitled, under any provision of the Loan Documents, to request additional reports or information from any Borrower or its Subsidiaries, any Lender may, from time to time, reasonably request Agent to exercise such right as specified in such Lender's notice to Agent, whereupon Agent promptly shall request of Borrowers the additional reports or information reasonably specified by such Lender, and, upon receipt thereof from such Borrower or such Subsidiary, Agent promptly shall provide a copy of same to such Lender, and (z) any time that Agent renders to Borrowers a statement regarding the Loan Account, Agent shall send a copy of such statement to each Lender.

16.17 **Several Obligations; No Liability.** Notwithstanding that certain of the Loan Documents now or hereafter may have been or will be executed only by or in favor of Agent in its capacity as such, and not by or in favor of the Lenders, any and all obligations on the part of Agent (if any) to make any credit available hereunder shall constitute the several (and not joint) obligations of the respective Lenders on a ratable basis, according to their respective Revolver Commitments, to make an amount of such credit not to exceed, in principal amount, at any one time outstanding, the amount of their respective Revolver Commitments. Nothing contained herein shall confer upon any Lender any interest in, or subject any Lender to any liability for, or in respect of, the business, assets, profits, losses, or liabilities of any other Lender. Each Lender shall be solely responsible for notifying its Participants of any matters relating to the Loan

Documents to the extent any such notice may be required, and no Lender shall have any obligation, duty, or liability to any Participant of any other Lender. Except as provided in Section 16.7, no member of the Lender Group shall have any liability for the acts of any other member of the Lender Group. No Lender shall be responsible to any Borrower or any other Person for any failure by any other Lender (or Bank Product Provider) to fulfill its obligations to make credit available hereunder, nor to advance for such Lender (or Bank Product Provider) or on its behalf, nor to take any other action on behalf of such Lender (or Bank Product Provider) hereunder or in connection with the financing contemplated herein.

16.18 **Intercreditor Agreement**.

(a) Each member of the Lender Group authorizes and directs the Agent to enter into this Agreement and the other Loan Documents to which it is a party, including the 2021 Notes Intercreditor Agreement. Each Lender agrees that any action taken by the Agent, or Required Lenders in accordance with the terms of this Agreement or the other Loan Documents and the exercise by the Agent or Required Lenders of their respective powers set forth herein or therein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders. In the event of any conflict between the terms of the 2021 Notes Intercreditor Agreement and the provisions of any Loan Document, the term of the 2021 Notes Intercreditor Agreement shall govern and control.

(b) Each member of the Lender Group and any other holder of any Obligations acknowledges that the 2021 Notes are secured by Liens on the Collateral and that the exercise of certain of the rights and remedies of Agent under the Loan Documents may be subject to the provisions of the 2021 Notes Intercreditor Agreement. Each Lender and Issuing Bank irrevocably (i) consents to the subordination of Liens provided for under the 2021 Notes Intercreditor Agreement and the other terms and conditions therein, (ii) authorizes and directs the Agent to execute and deliver the 2021 Notes Intercreditor Agreement and any documents relating thereto, in each case, on behalf of such Lender or such Issuing Bank and to take all actions (and execute all documents) required (or deemed advisable) by it in accordance with the terms of the 2021 Notes Intercreditor Agreement, in each case, and without any further consent, authorization or other action by such Lender or Issuing Bank, (iii) agrees that, upon the execution and delivery thereof, such Lender and Issuing Bank will be bound by the provisions of the 2021 Notes Intercreditor Agreement as if it were a signatory thereto and will take no actions contrary to the provisions of the 2021 Notes Intercreditor Agreement, (iv) agrees that no Lender or Issuing Bank shall have any right of action whatsoever against the Agent as a result of any action taken by Agent pursuant to this Section or in accordance with the terms of the 2021 Notes Intercreditor Agreement and (v) acknowledges (or is deemed to acknowledge) that a copy of the 2021 Notes Intercreditor Agreement has been delivered, or made available, to such Lender and Issuing Bank. Each Lender and Issuing Bank hereby further irrevocably authorizes and directs the Agent to enter into such amendments, supplements or other modifications to the 2021 Notes Intercreditor Agreement as are approved by Agent and the Required Lenders, provided, that, Agent may execute and deliver such amendments, supplements and modifications thereto as are contemplated by the 2021 Notes Intercreditor Agreement in connection with any extension, renewal, refinancing or replacement of this Agreement or any refinancing of the Obligations, in each case, on behalf of such Lender and Issuing Bank and without any further consent, authorization or other action by any Lender or Issuing Bank. The Agent shall have the benefit of the provisions of Section 16 with respect to all actions taken by it pursuant to this Section or in accordance with the terms of the 2021 Notes Intercreditor Agreement to the full extent thereof.

17. **WITHHOLDING TAXES.**

17.1 **Payments.** All payments made by Borrowers hereunder or under any note or other Loan Document will be made without setoff, counterclaim, or other defense. In addition, all such payments will be made free and clear of, and without deduction or withholding for, any present or future Indemnified Taxes, and in the event any deduction or withholding of Indemnified Taxes is required, Borrowers shall comply with the next sentence of this Section 17.1. If any Indemnified Taxes are required to be deducted or withheld from any payment made by Borrowers hereunder or under any note or other Loan Document, Borrowers shall be entitled to make such deduction or withholding, shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and agree to pay the full amount of such Indemnified Taxes and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement, any note, or Loan Document, including any amount paid pursuant to this Section 17.1 after withholding or deduction for or on account of any Indemnified Taxes, will not be less than the amount provided for herein. Borrowers will furnish to Agent as promptly as possible after the date the payment of any Indemnified Tax is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by Borrowers. Borrowers agree to pay any present or future stamp, value added or documentary taxes or any other excise or property taxes, charges, or similar levies that arise from any payment made hereunder or from the execution, delivery, performance, recordation, or filing of, or otherwise with respect to this Agreement or any other Loan Document.

17.2 **Status of Lenders.**

(a) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Borrowers and the Agent, at the time or times prescribed by law or reasonably requested by either Borrower or the Agent, such properly completed and duly executed documentation reasonably requested by such Borrower or the Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by a Borrower or the Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by such Borrower or the Agent as will enable such Borrower or the Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

(b) Without limiting the generality of the foregoing:

(iii) any Lender that is a U.S. Person shall deliver to the Borrowers and the Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter at the time or times prescribed by law or upon the reasonable request of a Borrower or the Agent), properly completed and duly executed copies of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(iv) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrowers and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter at the time or times prescribed by law or upon the reasonable request of a Borrower or the Agent), whichever of the following is applicable:

(A) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document,

properly completed and duly executed originals of IRS Form W-8BEN or W-8BEN-E, as applicable, establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, properly completed and duly executed originals of IRS Form W-8BEN or W-8BEN-E, as applicable, establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits," "other income" or other applicable article of such tax treaty;

(B) executed copies of IRS Form W-8ECI;

(C) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the IRC, (x) a certificate substantially in the form of Exhibit D-1 to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the IRC, a "10 percent shareholder" of the Borrower within the meaning of Section 871(h)(3)(B) of the IRC, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the IRC (a "U.S. Tax Compliance Certificate") and (y) properly completed and duly executed originals of IRS Form W-8BEN or W-8BEN-E, as applicable; or

(D) to the extent a Foreign Lender is not the beneficial owner, properly completed and duly executed originals of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit D-2 or Exhibit D-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit D-4 on behalf of each such direct and indirect partner;

(v) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrowers and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), properly completed and duly executed originals of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(vi) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the IRC, as applicable), such Lender shall deliver to the Borrowers and the Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the IRC) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower and the Administrative Agent in writing of its legal inability to do so.

17.3 **Treatment of Certain Refunds**. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 17 (including by the payment of additional amounts pursuant to this Section 17), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party related to the receipt of such refund and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this Section 17.3 (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section 17.3, in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this Section 17.3 the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

17.4 **Survival**. Each party's obligations under this Section 17 shall survive the resignation or replacement of the Agent or any assignment of rights by, or the replacement of, a Lender, and the repayment, satisfaction or discharge of all obligations under any Loan Document.

17.5 **Agent as Lender.** Agent shall be treated as a Lender for purposes of this Section 17.

18. **AMENDMENT AND RESTATEMENT.**

18.1 **Existing Obligations**. Each Borrower hereby acknowledges, confirms and agrees that Borrowers are indebted to Agent for loans and advances to Borrowers under the Existing Credit Agreement, as of the close of business on January 13, 2015, in the aggregate principal amount of $6,672,164.12 in respect of Revolving Loans (under the Existing Credit Agreement), and $3,564,584.09 in respect of the Term Loan, together with all interest accrued and accruing thereon (under the Term Loan Note as in effect immediately prior to the Restatement Effective Date) (to the extent applicable), and all fees, costs, expenses and other charges relating thereto under the Existing Credit Agreement, all of which are unconditionally owing by Borrowers to Agent, without offset, defense or counterclaim of any kind, nature or description whatsoever.

18.2 **Acknowledgment of Security Interests**.

(a) Each Borrower and Guarantor hereby acknowledges, confirms and agrees that Agent has had and shall on and after the date hereof continue to have, for itself and the benefit of the Issuing Bank and the Bank Product Providers, a security interest in and lien upon the Collateral heretofore granted to Agent (or its predecessor in whatever capacity) pursuant to the Existing Loan Documents to secure the Obligations.

(b) The liens and security interests of Agent in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such liens and security interests to Agent, whether under the Existing Credit Agreement, this Agreement or any of the other Existing Loan Documents.

18.3 **Existing Loan Documents**. Each Borrower and Guarantor hereby acknowledges, confirms and agrees that as of the date hereof: (i) the Existing Credit Agreement and each of the other Existing Loan Documents were duly executed and delivered by Borrowers and Guarantors and are in full force and effect, (ii) the agreements and obligations of Borrowers and Guarantors contained in the Existing Credit Agreement and the other Existing Loan Documents to which it is a party constitute the legal, valid and binding obligations of such Borrower enforceable against it in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally, and Borrowers have no valid defense to the enforcement of such obligations except to the extent enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally and (iii) Agent is entitled to all of the rights and remedies provided for in the Existing Credit Agreement and the Existing Loan Documents.

18.4 **Restatement**. Except as otherwise stated in Section 18.13 and this Section 18.4, as of the date hereof, the terms, conditions, agreements, covenants, representations and warranties set forth in the Existing Credit Agreement are hereby amended and restated in their entirety, and as so amended and restated, replaced and superseded, by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement and the other Loan Documents, except that nothing herein or in the other Loan Documents shall impair or adversely affect the continuation of the liability of each Borrower for the Obligations heretofore granted, pledged and/or assigned to Agent. The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Indebtedness and other obligations and liabilities of each Borrower evidenced by or arising under the Existing Loan Agreement, and the liens and security interests securing such Indebtedness and other obligations and liabilities, which shall not in any manner be impaired, limited, terminated, waived or released.

18.5 **Release**. Each Borrower and Guarantor for itself and its successors and assigns does hereby remise, release, discharge and hold Agent, its officers, directors, and employees and their respective predecessors, successors and assigns harmless from all claims, demands, debts, sums of money, accounts, damages, judgments, financial obligations, actions, causes of action, suits at law or in equity, of any kind or nature whatsoever, whether or not now existing or known,

which such Borrower, Guarantor or their respective successors or assigns has had or may now or hereafter claim to have against Agent or its officers, directors, and employees and their respective predecessors, successors and assigns in any way arising from or connected with the Existing Credit Agreement and the other Existing Loan Documents or the arrangements set forth therein or transactions thereunder up to and including the date hereof.

19. **GENERAL PROVISIONS.**

19.1 **Effectiveness.** This Agreement shall be binding and deemed effective when executed by each Borrower, Agent, and each Lender whose signature is provided for on the signature pages hereof.

19.2 **Section Headings.** Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

19.3 **Interpretation.** Neither this Agreement nor any uncertainty or ambiguity herein shall be construed against the Lender Group or any Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

19.4 **Severability of Provisions.** Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

19.5 **Bank Product Providers.** Each Bank Product Provider in its capacity as such shall be deemed a third party beneficiary hereof and of the provisions of the other Loan Documents for purposes of any reference in a Loan Document to the parties for whom Agent is acting. Agent hereby agrees to act as agent for such Bank Product Providers and, by virtue of entering into a Bank Product Agreement, the applicable Bank Product Provider shall be automatically deemed to have appointed Agent as its agent and to have accepted the benefits of the Loan Documents. It is understood and agreed that the rights and benefits of each Bank Product Provider under the Loan Documents consist exclusively of such Bank Product Provider's being a beneficiary of the Liens and security interests (and, if applicable, guarantees) granted to Agent and the right to share in payments and collections out of the Collateral as more fully set forth herein. In addition, each Bank Product Provider, by virtue of entering into a Bank Product Agreement, shall be automatically deemed to have agreed that Agent shall have the right, but shall have no obligation, to establish, maintain, relax, or release reserves in respect of the Bank Product Obligations and that if reserves are established there is no obligation on the part of Agent to determine or insure whether the amount of any such reserve is appropriate or not. In connection with any such distribution of payments or proceeds of Collateral, Agent shall be entitled to assume no amounts are due or owing to any Bank Product Provider unless such Bank Product Provider has provided a written certification (setting forth a reasonably detailed calculation) to Agent as to the amounts that are due and owing to it and such written certification is received by Agent a reasonable period of time prior to the making of such distribution. Agent

shall have no obligation to calculate the amount due and payable with respect to any Bank Products, but may rely upon the written certification of the amount due and payable from the applicable Bank Product Provider. In the absence of an updated certification, Agent shall be entitled to assume that the amount due and payable to the applicable Bank Product Provider is the amount last certified to Agent by such Bank Product Provider as being due and payable (less any distributions made to such Bank Product Provider on account thereof). Borrowers may obtain Bank Products from any Bank Product Provider, although Borrowers are not required to do so. Each Borrower acknowledges and agrees that no Bank Product Provider has committed to provide any Bank Products and that the providing of Bank Products by any Bank Product Provider is in the sole and absolute discretion of such Bank Product Provider. Notwithstanding anything to the contrary in this Agreement or any other Loan Document, no provider or holder of any Bank Product shall have any voting or approval rights hereunder (or be deemed a Lender) solely by virtue of its status as the provider or holder of such agreements or products or the Obligations owing thereunder, nor shall the consent of any such provider or holder be required (other than in their capacities as Lenders, to the extent applicable) for any matter hereunder or under any of the other Loan Documents, including as to any matter relating to the Collateral or the release of Collateral or Guarantors.

19.6 **Debtor-Creditor Relationship.** The relationship between the Lenders and Agent, on the one hand, and the Loan Parties, on the other hand, is solely that of creditor and debtor. No member of the Lender Group has (or shall be deemed to have) any fiduciary relationship or duty to any Loan Party arising out of or in connection with the Loan Documents or the transactions contemplated thereby, and there is no agency or joint venture relationship between the members of the Lender Group, on the one hand, and the Loan Parties, on the other hand, by virtue of any Loan Document or any transaction contemplated therein.

19.7 **Counterparts; Electronic Execution.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Loan Document mutatis mutandis.

19.8 **Revival and Reinstatement of Obligations; Certain Waivers.** If any member of the Lender Group or any Bank Product Provider repays, refunds, restores, or returns in whole or in part, any payment or property (including any proceeds of Collateral) previously paid or transferred to such member of Lender Group or such Bank Product Provider in full or partial satisfaction of any Obligation or on account of any other obligation of any Loan Party under any Loan Document or any Bank Product Agreement, because the payment, transfer, or the incurrence of the obligation so satisfied is asserted or declared to be void, voidable, or otherwise recoverable under any law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent transfers, preferences, or other

voidable or recoverable obligations or transfers (each, a "Voidable Transfer"), or because such member of the Lender Group or Bank Product Provider elects to do so on the reasonable advice of its counsel in connection with a claim that the payment, transfer, or incurrence is or may be a Voidable Transfer, then, as to any such Voidable Transfer, or the amount thereof that such member of the Lender Group or Bank Product Provider elects to repay, restore, or return (including pursuant to a settlement of any claim in respect thereof), and as to all reasonable costs, expenses, and attorneys' fees of such member of the Lender Group or Bank Product Provider related thereto, (i) the liability of the Loan Parties with respect to the amount or property paid, refunded, restored, or returned will automatically and immediately be revived, reinstated, and restored and will exist and (ii) Agent's Liens securing such liability shall be effective, revived, and remain in full force and effect, in each case, as fully as if such Voidable Transfer had never been made. If, prior to any of the foregoing, (A) Agent's Liens shall have been released or terminated or (B) any provision of this Agreement shall have been terminated or cancelled, Agent's Liens, or such provision of this Agreement, shall be reinstated in full force and effect and such prior release, termination, cancellation or surrender shall not diminish, release, discharge, impair or otherwise affect the obligation of any Loan Party in respect of such liability or any Collateral securing such liability.

19.9 **Confidentiality.**

(c) Agent and Lenders each individually (and not jointly or jointly and severally) agree that material, non-public information regarding Borrowers and their Subsidiaries, their operations, assets, and existing and contemplated business plans ("Confidential Information") shall be treated by Agent and the Lenders in a confidential manner, and shall not be disclosed by Agent and the Lenders to Persons who are not parties to this Agreement, except: (i) to attorneys for and other advisors, accountants, auditors, and consultants to any member of the Lender Group and to employees, directors and officers of any member of the Lender Group (the Persons in this clause (i),"Lender Group Representatives") on a "need to know" basis in connection with this Agreement and the transactions contemplated hereby and on a confidential basis, (ii) to Subsidiaries and Affiliates of any member of the Lender Group (including the Bank Product Providers), provided that any such Subsidiary or Affiliate shall have agreed to receive such information hereunder subject to the terms of this Section 19.9, (iii) as may be required by regulatory authorities so long as such authorities are informed of the confidential nature of such information, (iv) as may be required by statute, decision, or judicial or administrative order, rule, or regulation; provided that (x) prior to any disclosure under this clause (iv), the disclosing party agrees to provide Borrowers with prior notice thereof, to the extent that it is practicable to do so and to the extent that the disclosing party is permitted to provide such prior notice to Borrowers pursuant to the terms of the applicable statute, decision, or judicial or administrative order, rule, or regulation and (y) any disclosure under this clause (iv) shall be limited to the portion of the Confidential Information as may be required by such statute, decision, or judicial or administrative order, rule, or regulation, (v) as may be agreed to in advance in writing by Borrowers, (vi) as requested or required by any Governmental Authority pursuant to any subpoena or other legal process, provided, that, (x) prior to any disclosure under this clause (vi) the disclosing party agrees to provide Borrowers with prior written notice thereof, to the extent that it is practicable to do so and to the extent that the disclosing party is permitted to provide such prior written notice to Borrowers pursuant to the terms of the subpoena or other legal process and (y) any disclosure under this clause (vi) shall be limited to the portion of the Confidential Information as may be required by such Governmental Authority pursuant to such subpoena or other legal process, (vii) as to any such information that is or becomes generally available to the public (other than as a result of prohibited disclosure by Agent or the Lenders or the Lender Group Representatives), (viii) in connection with any assignment, participation or pledge of any Lender's interest under this Agreement, provided that prior to receipt of Confidential Information any such assignee, participant, or pledgee shall have agreed in writing to receive such Confidential Information either subject to the terms of this Section 19.9 or pursuant to confidentiality requirements

substantially similar to those contained in this Section 19.9 (and such Person may disclose such Confidential Information to Persons employed or engaged by them as described in clause (i) above), (ix) in connection with any litigation or other adversary proceeding involving parties hereto which such litigation or adversary proceeding involves claims related to the rights or duties of such parties under this Agreement or the other Loan Documents; provided, that, prior to any disclosure to any Person (other than any Loan Party, Agent, any Lender any of their respective Affiliates, or their respective counsel) under this clause (ix) with respect to litigation involving any Person (other than any Borrower, Agent, any Lender, any of their respective Affiliates, or their respective counsel), the disclosing party agrees to provide Borrowers with prior written notice thereof, and (x) in connection with, and to the extent reasonably necessary for, the exercise of any secured creditor remedy under this Agreement or under any other Loan Document.

(d) Anything in this Agreement to the contrary notwithstanding, Agent may disclose information concerning the terms and conditions of this Agreement and the other Loan Documents to loan syndication and pricing reporting services or in its marketing or promotional materials, with such information to consist of deal terms and other information customarily found in such publications or marketing or promotional materials and may otherwise use the name, logos, and other insignia of any Borrower or the other Loan Parties and the Revolver Commitments provided hereunder in any "tombstone" or other advertisements, on its website or in other marketing materials of the Agent.

(e) The Loan Parties hereby acknowledge that Agent or its Affiliates may make available to the Lenders materials or information provided by or on behalf of Borrowers hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, SyndTrak or another similar electronic system (the "Platform") and certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Loan Parties or their securities) (each, a "Public Lender"). The Loan Parties shall be deemed to have authorized Agent and its Affiliates and the Lenders to treat Borrower Materials marked "PUBLIC" or otherwise at any time filed with the SEC as not containing any material non-public information with respect to the Loan Parties or their securities for purposes of United States federal and state securities laws. All Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated as "Public Investor" (or another similar term). Agent and its Affiliates and the Lenders shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" or that are not at any time filed with the SEC as being suitable only for posting on a portion of the Platform not marked as "Public Investor" (or such other similar term).

19.10 **Survival.** All representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that Agent, Issuing Bank, or any Lender may have had notice or knowledge of any Default or Event of Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of, or any accrued interest on, any Loan or any fee or any other amount payable under this Agreement is outstanding or unpaid or any Letter of Credit is outstanding and so long as the Revolver Commitments have not expired or been terminated.

19.11 **Patriot Act.** Each Lender that is subject to the requirements of the Patriot Act hereby notifies Borrowers that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of each Borrower and other information that will allow such Lender to identify each Borrower in accordance with the Patriot Act. In addition, if Agent is required by law or regulation or internal policies to do so, it shall have the right to periodically conduct (a) Patriot Act searches, OFAC/PEP searches, and customary individual background checks for the Loan Parties and (b) OFAC/PEP searches and customary individual background checks for the Loan Parties' senior management and key principals, and each Borrower agrees to cooperate in respect of the conduct of such searches and further agrees that the reasonable costs and charges for such searches shall constitute Lender Group Expenses hereunder and be for the account of Borrowers.

19.12 **Integration.** This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof. The foregoing to the contrary notwithstanding, all Bank Product Agreements, if any, are independent agreements governed by the written provisions of such Bank Product Agreements, which will remain in full force and effect, unaffected by any repayment, prepayments, acceleration, reduction, increase, or change in the terms of any credit extended hereunder, except as otherwise expressly provided in such Bank Product Agreement.

19.13 **Revolving Loan Borrower as Agent for Borrowers.** Each Borrower hereby irrevocably appoints Revolving Loan Borrower as the borrowing agent and attorney-in-fact for all Borrowers (the "Administrative Borrower") which appointment shall remain in full force and effect unless and until Agent shall have received prior written notice signed by each Borrower that such appointment has been revoked and that another Borrower has been appointed Administrative Borrower. Each Borrower hereby irrevocably appoints and authorizes the Administrative Borrower (a) to provide Agent with all notices with respect to Revolving Loans, the Term Loan, and Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement and the other Loan Documents (and any notice or instruction provided by Administrative Borrower shall be deemed to be given by Borrowers hereunder and shall bind each Borrower), (b) to receive notices and instructions from members of the Lender Group (and any notice or instruction provided by any member of the Lender Group to the Administrative Borrower in accordance with the terms hereof shall be deemed to have been given to each Borrower), and (c) to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Revolving Loans and Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loan Account and Collateral in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Borrowers in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that Lender Group shall not incur liability to any Borrower as a result hereof. Each Borrower expects to derive benefit, directly or indirectly, from the handling of the Loan Account and the Collateral in a combined fashion since the successful operation of each Borrower is dependent on the continued successful performance of the integrated group. To induce the Lender Group to do so, and in consideration thereof, each Borrower hereby jointly

and severally agrees to indemnify each member of the Lender Group and hold each member of the Lender Group harmless against any and all liability, expense, loss or claim of damage or injury, made against the Lender Group by any Borrower or by any third party whosoever, arising from or incurred by reason of (i) the handling of the Loan Account and Collateral of Borrowers as herein provided, or (ii) the Lender Group's relying on any instructions of the Administrative Borrower, except that Borrowers will have no liability to the relevant Agent-Related Person or Lender-Related Person under this Section 19.13 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Agent-Related Person or Lender-Related Person, as the case may be.

[Signature pages to follow.]

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

BORROWERS:

LIGGETT GROUP LLC,
a Delaware Limited Liability Company, as Administrative Borrower and Revolving Loan Borrower

By: /s/ Ronald J. Bernstein
Name: Ronald J. Bernstein
Title: Manager

100 MAPLE LLC,
a Delaware Limited Liability Company,
as Term Loan Borrower

By: /s/ Ronald J. Bernstein
Name: Ronald J. Bernstein
Title: Manager

WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as Agent, a Lender and Issuing Bank

By: /s/ Andrew Rogow
Name: Andrew Rogow
Title: Vice President

Schedule 1.1

DEFINITIONS

As used in the Agreement, the following terms shall have the following definitions:

"2021 Note Equivalent Indebtedness" means any guarantee made by any Borrower or any of their respective Subsidiaries of Indebtedness of the Parent (other than the 2021 Notes or the Additional Permitted 2021 Notes and the 2021 Notes Indenture) after the date hereof, in lieu of Parent issuing any Additional Permitted 2021 Notes or Indebtedness issued in partial repayment of the 2021 Notes or any of the Additional Permitted 2021 Notes, as otherwise permitted hereunder; provided, that:

(g) the sum of (i) the aggregate outstanding principal amount (or any other Indebtedness in connection with the relevant transactions, if applicable) of all 2021 Note Equivalent Indebtedness, and (ii) the aggregate outstanding principal amount (or any other Indebtedness in connection with the relevant transactions, if applicable) of all Indebtedness outstanding under the Additional Permitted 2021 Notes does not cause Parent to breach the "Secured Leverage Ratio" covenant set forth in the 2021 Notes Indenture as in effect on February 12, 2013 (whether or not such 2021 Notes Indenture is in full force and effect at the time of the incurrence of the 2021 Equivalent Indebtedness) or any other covenant set forth in the 2021 Notes Indenture, if such 2021 Notes Indenture is still in effect,

(h) any such 2021 Note Equivalent Indebtedness shall not have a scheduled final maturity date earlier than the later of (i) the maturity date of the 2021 Notes or (ii) one hundred eighty (180) days after the Maturity Date,

(i) the Weighted Average Life to Maturity of any such 2021 Note Equivalent Indebtedness shall not be shorter than the Weighted Average Life to Maturity of the initial term loans under the First Lien Term Loan Credit Agreement,

(j) such 2021 Note Equivalent Indebtedness shall not be secured by any property or assets of the Borrower or their Subsidiaries other than the Collateral securing the 2021 Notes,

(k) as of the date of incurring or issuing any of such 2021 Note Equivalent Indebtedness and after giving effect thereto, no Event of Default shall exist or have occurred and be continuing,

(l) any mandatory payments shall be on terms substantially similar to, or (taken as a whole) no more favorable to the holder of such Indebtedness than (as reasonably determined by the Borrowers) those in respect of the 2021 Notes except as Agent may otherwise agree, and

(m) to the extent secured, such 2021 Note Equivalent Indebtedness shall be subject to the 2021 Notes Intercreditor Agreement or such other intercreditor agreement as is reasonably satisfactory to Agent.

"2021 Notes" shall mean, collectively, (a) the 7.750% Senior Secured Notes due 2021 (including exchange notes), in the original principal amount of $450,000,000, and (b) any Additional Permitted 2021 Notes, issued by Parent pursuant to the 2021 Notes Indenture, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated, refinanced or replaced (to the extent not prohibited by this Agreement and the 2021 Notes Intercreditor Agreement).

"2021 Notes Indenture" shall mean the Indenture dated as of February 12, 2013, by and among Parent, the subsidiary guarantors party thereto and 2021 Notes Trustee, as trustee, with respect to the 2021 Notes, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated, refinanced or replaced (to the extent not prohibited by this Agreement and the 2021 Notes Intercreditor Agreement).

"2021 Notes Intercreditor Agreement" shall mean the Intercreditor and Lien Subordination Agreement, dated as of February 12, 2013 executed by and among Agent, the 2021 Notes Trustee, Revolving Loan Borrower and Term Loan Borrower, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

"2021 Notes Trustee" shall mean U.S. Bank National Association, in its capacity as trustee under the 2021 Notes Indenture, and any successor, replacement or additional trustee under the 2021 Notes Indenture, and their respective successors and assigns.

"Account" means an account (as that term is defined in the Code).

"Account Debtor" means any Person who is obligated on an Account, chattel paper, or a general intangible.

"Accounting Changes" means changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants (or successor thereto or any agency with similar functions).

"Additional Permitted 2021 Notes" shall mean any and all notes issued under the 2021 Notes Indenture to the extent that the issuance of such notes does not cause Parent to breach the "Secured Leverage Ratio" covenant relating to the incurrence of indebtedness and described in the 2021 Notes Indenture as in effect on February 12, 2013. On the Restatement Effective Date, $150,000,000 of Additional Permitted 2021 Notes have been issued.

"Administrative Borrower" has the meaning specified therefor in Section 19.13 of the Agreement.

"Administrative Questionnaire" has the meaning specified therefor in Section 13.1(a) of the Agreement.

"Affected Lender" has the meaning specified therefor in Section 2.13(b) of the Agreement.

"Affiliate" means, as applied to any Person, any other Person who controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" means the possession, directly or indirectly through one or more intermediaries, of the power to direct the management and policies of a Person, whether through the ownership of Equity Interests, by contract, or otherwise; provided, that, for purposes of the definition of Eligible Accounts and Section 6.10 of the Agreement: (a) any Person which owns directly or indirectly 10% or more of the Equity Interests having ordinary voting power for the election of directors or other members of the governing body of a Person or 10% or more of the partnership or other ownership interests of a Person (other than as a limited partner of such Person) shall be deemed an Affiliate of such Person, (b) each director (or comparable manager) of a Person shall be deemed to be an Affiliate of such Person, and (c) each partnership in which a Person is a general partner shall be deemed an Affiliate of such Person.

"Agent" has the meaning specified therefor in the preamble to the Agreement.

"Agent-Related Persons" means Agent, together with its Affiliates, officers, directors, employees, attorneys, and agents.

"Agent's Account" means the Deposit Account of Agent identified on Schedule A-1 to this Agreement (or such other Deposit Account of Agent that has been designated as such, in writing, by Agent to Borrowers and the Lenders).

"Agent's Liens" means the Liens granted by each Loan Party to Agent under the Loan Documents and securing the Obligations.

"Agreement" means the Credit Agreement to which this Schedule 1.1 is attached.

"Applicable Margin" means (a) in the case of a Base Rate Loan, zero (-0-) percentage points (the "Base Rate Margin"), (b) in the case of a LIBOR Rate Loan or the Term Loan, 2.25 percentage points (the "LIBOR Rate Margin"), and (c) in the case of Daily LIBOR Rate Loans, 2.25 percentage Loans (the "Daily LIBOR Rate Margin").

"Application Event" means the occurrence of a failure by Borrowers to repay all of the Obligations in full on the Maturity Date, or (b) the occurrence and continuation of an Event of Default and the election by Agent or the Required Lenders to require that payments and proceeds of Collateral be applied pursuant to Section 2.4(b)(iii) of the Agreement.

"Assignee" has the meaning specified therefor in Section 13.1(a) of the Agreement.

"Assignment and Acceptance" means an Assignment and Acceptance Agreement substantially in the form of Exhibit A-1 to the Agreement.

"Authorized Person" means any one of the individuals identified on Schedule A-2 to the Agreement, as such schedule is updated from time to time by written notice from Borrowers to Agent.

"Availability" means, as of any date of determination, the amount that Revolving Loan Borrower is entitled to borrow as Revolving Loans under Section 2.1 of the Agreement (after giving effect to the then outstanding Revolver Usage).

"Average Availability" means, with respect to any period, the sum of the aggregate amount of Availability for each Business Day in such period (calculated as of the end of each respective Business Day) divided by the number of Business Days in such period.

"Average Excess Availability" means, with respect to any period, the sum of the aggregate amount of Excess Availability for each Business Day in such period (calculated as of the end of each respective Business Day) divided by the number of Business Days in such period.

"Average Revolver Usage" means, with respect to any period, the sum of the aggregate amount of Revolver Usage for each Business Day in such period (calculated as of the end of each respective Business Day) divided by the number of Business Days in such period.

"Bank Product" means any one or more of the following financial products or accommodations extended to a Borrower or its Subsidiaries by a Bank Product Provider or for which a Borrower has

guaranteed such Subsidiary's or other Affiliate of Borrower (as approved by Agent): (a) credit cards (including commercial cards (including so-called 'purchase cards", "procurement cards" or "p-cards")), (b) credit card processing services, (c) debit cards, (d) stored value cards, (e) Cash Management Services, or (f) transactions under Hedge Agreements.

"Bank Product Agreements" means those agreements entered into from time to time by a Borrower or its Subsidiaries with a Bank Product Provider in connection with the obtaining of any of the Bank Products.

"Bank Product Collateralization" means providing cash collateral (pursuant to documentation reasonably satisfactory to Agent) to be held by Agent for the benefit of the Bank Product Providers (other than the Hedge Providers) in an amount determined by Agent as sufficient to satisfy the reasonably estimated credit exposure with respect to the then existing Bank Product Obligations (other than Hedge Obligations).

"Bank Product Obligations" means (a) all obligations, liabilities, reimbursement obligations, fees, or expenses owing by the Revolving Loan Borrower and its Subsidiaries to any Bank Product Provider pursuant to or evidenced by a Bank Product Agreement and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, (b)all Hedge Obligations, and (c) all amounts that Agent or any Lender is obligated to pay to a Bank Product Provider as a result of Agent or such Lender purchasing participations from, or executing guarantees or indemnities or reimbursement obligations to, a Bank Product Provider with respect to the Bank Products provided by such Bank Product Provider to Parent, a Borrower or one of its Subsidiaries.

"Bank Product Provider" means Wells Fargo or any of its Affiliates, including each of the foregoing in its capacity, if applicable, as a Hedge Provider.

"Bank Product Reserves" means, as of any date of determination, those reserves that Agent determines necessary or appropriate to establish in its Permitted Discretion, subject to Section 2.1(c) of the Agreement (based upon the Bank Product Providers' determination of the liabilities and obligations of each Borrower and its Subsidiaries in respect of Bank Product Obligations) in respect of Bank Products then provided or outstanding.

"Bankruptcy Code" means title 11 of the United States Code, as in effect from time to time.

"Base Rate" means the greatest of (a) the Federal Funds Rate plus ½%, (b) the LIBOR Rate (which rate shall be calculated based upon an Interest Period of 1 month and shall be determined on a daily basis), plus 1 percentage point, and (c) the rate of interest announced, from time to time, within Wells Fargo at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publications as Wells Fargo may designate.

"Base Rate Loan" means each portion of the Revolving Loans that bears interest at a rate determined by reference to the Base Rate.

"Base Rate Margin" has the meaning set forth in the definition of Applicable Margin.

“Benefit Plan” means a “defined benefit plan” (as defined in Section 3(35) of ERISA) for which any Borrower or any of its Subsidiaries or ERISA Affiliates has been an “employer” (as defined in Section 3(5) of ERISA) within the past six years.

“Board of Directors” means, as to any Person, the board of directors (or comparable managers) of such Person, or any committee thereof duly authorized to act on behalf of the board of directors (or comparable managers).

“Board of Governors” means the Board of Governors of the Federal Reserve System of the United States (or any successor).

“Borrower” and “Borrowers” have the respective meanings specified therefor in the preamble to the Agreement.

“Borrower Materials” has the meaning specified therefor in Section 19.9(c) of the Agreement.

“Borrowing” means a borrowing consisting of Revolving Loans made on the same day by the Lenders (or Agent on behalf thereof), or by Swing Lender in the case of a Swing Loan, or by Agent in the case of an Extraordinary Advance.

“Borrowing Base” means, as of any date of determination, the result of:

(a) the amount equal to the sum of:

(i) the lesser of: (A) eighty-five percent (85%) of the Net Amount of Eligible Accounts, or (B) $10,000,000; *plus*

(ii) the lesser of: (A) the sum of (1) eighty percent (80%) of the Value of Eligible Inventory consisting of packaged cigarettes (whether reflected in Revolving Loan Borrower’s books and records, in accordance with its accounting practices in effect on the date hereof, as finished goods or manufactured stock) plus (2) the Designated Percentage of the Value of Eligible Inventory consisting of leaf tobacco at such time plus zero percent (0%) of the Value of Eligible Inventory consisting of raw materials, other than leaf tobacco, for the manufacture of cigarettes, or (B) $60,000,000; *minus*

(b) the aggregate amount of reserves, if any, established by Agent under Section 2.1(c) of the Agreement.

“Borrowing Base Certificate” means a certificate in the form of Exhibit B-1 executed by either the senior vice-president of manufacturing and finance or vice-president of management and finance of Administrative Borrower.

“Business Day” means any day that is not a Saturday, Sunday, or other day on which banks are authorized or required to close in the state of New York, except that, if a determination of a Business Day shall relate to a LIBOR Rate Loan, the term “Business Day” also shall exclude any day on which banks are closed for dealings in Dollar deposits in the London interbank market.

“Capital Expenditures” means, with respect to any Person for any period, the amount of all expenditures by such Person and its Subsidiaries during such period that are capital expenditures as determined in accordance with GAAP, whether such expenditures are paid in cash or financed, but

excluding, without duplication (a) expenditures made during such period in connection with the replacement, substitution, or restoration of assets or properties, (b) with respect to the purchase price of assets that are purchased substantially contemporaneously with the trade-in of existing assets during such period, the amount that the gross amount of such purchase price is reduced by the credit granted by the seller of such assets for the assets being traded in at such time, (c) capitalized software development costs to the extent such costs are deducted from net earnings under the definition of EBITDA for such period, and (d) expenditures during such period that, pursuant to a written agreement, are reimbursed by a third Person (excluding any Borrower or any of its Affiliates).

"Capital Lease" means a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"Capitalized Lease Obligation" means that portion of the obligations under a Capital Lease that is required to be capitalized in accordance with GAAP.

"Cash Dominion Event" means any of the following: (a) for any period of ten (10) consecutive Business Days, Excess Availability is less than $5,000,000, (b) at any time, Excess Availability is less $3,000,000, or (c) an Event of Default shall have occurred and be continuing and Agent or Required Lenders have elected that a Cash Dominion Event has occurred under this clause (c); provided, that, (i) to the extent that the Cash Dominion Event has occurred due to clauses (a) or (b) of this definition, if Excess Availability is equal to or greater than $5,000,000 for at least sixty (60) consecutive Business Days (or such shorter period agreed by Agent), the Cash Dominion Event shall no longer be deemed to exist or be continuing until such time as the Excess Availability may again be less than the applicable specified amount, (ii) to the extent that the Cash Dominion Event has occurred due to clause (c) of this definition, if no Event of Default exists for sixty (60) consecutive Business Days (or such shorter period agreed by Agent), the Cash Dominion Event shall no longer be deemed to exist or be continuing until such time as an Event of Default may thereafter occur again and (iii) unless otherwise agreed by Agent, a Cash Dominion Event may not be cured more than two (2) times in any twelve (12) month period or five (5) times during the term of the Agreement. In the event that a Cash Dominion Event would exist pursuant to clause (a), (b) or (c) of the immediately preceding sentence, as a direct result of a proposed Borrowing by a Revolving Loan Borrower, the proceeds of which shall be used to pay excise Taxes and/or any payment required to be made under the Master Settlement Agreement, no Cash Dominion Event shall be deemed to exist, provided, that, Agent has received evidence, that EBITDA of Borrowers and their Subsidiaries, on a consolidated basis, is equal to or greater than $80,000,000 for the most recent twelve (12) consecutive months ended for which Agent has received financial statements immediately prior to any such Borrowing (for purposes of this section any Borrowing made on or about the date(s) that excise taxes are due and payable or a payment is required under the Master Settlement Agreement shall be deemed to be a Borrowing requested for such purpose).

"Cash Equivalents" means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within 1 year from the date of acquisition thereof, (b) marketable direct obligations issued or fully guaranteed by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within 1 year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Rating Group ("S&P") or Moody's Investors Service, Inc. ("Moody's"), (c) commercial paper maturing no more than 270 days from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's, (d) certificates of deposit, time deposits, overnight bank deposits or bankers' acceptances maturing within 1 year from the

date of acquisition thereof issued by any bank organized under the laws of the United States or any state thereof or the District of Columbia or any United States branch of a foreign bank having at the date of acquisition thereof combined capital and surplus of not less than $1,000,000,000, (e) Deposit Accounts maintained with (i) any bank that satisfies the criteria described in clause (d) above, or (ii) any other bank organized under the laws of the United States or any state thereof so long as the full amount maintained with any such other bank is insured by the Federal Deposit Insurance Corporation, (f) repurchase obligations of any commercial bank satisfying the requirements of clause (d) of this definition or recognized securities dealer having combined capital and surplus of not less than $1,000,000,000, having a term of not more than seven days, with respect to securities satisfying the criteria in clauses (a) or (d) above, (g) debt securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the criteria described in clause (d) above, and (h) Investments in money market funds substantially all of whose assets are invested in the types of assets described in clauses (a) through (g) above.

"Cash Management Services" means any cash management or related services including treasury, depository, return items, overdraft, controlled disbursement, merchant store value cards, e-payables services, electronic funds transfer, interstate depository network, automatic clearing house transfer (including the Automated Clearing House processing of electronic funds transfers through the direct Federal Reserve Fedline system) and other customary cash management arrangements.

"CFC" means a controlled foreign corporation (as that term is defined in the IRC).

"CFC Holding Company" means a Subsidiary of either Borrower (a) that is treated as a disregarded entity for U.S. federal income tax purposes, (b) the primary assets of which consists of Equity Interests in either (i) one or more CFCs or (ii) one or more other CFC Holding Companies, and (c) that conducts no material business other than holding such Equity Interests.

"Change in Control" means that:

(a) Parent fails to own and control, directly or indirectly, 51% of the Equity Interests of Revolving Loan Borrower;

(b) Revolving Loan Borrower fails to own and control, directly or indirectly, 100% of the Equity Interests of Term Loan Borrower and its other Subsidiaries; or

(c) the occurrence of any "Change in Control" as defined in the 2021 Notes Indenture or, if the 2021 Notes have been refinanced, the indenture or other agreement governing such Refinancing Indebtedness thereof.

"Change in Law" means the occurrence after the date of the Agreement of: (a) the adoption or effectiveness of any law, rule, regulation, judicial ruling, judgment or treaty, (b) any change in any law, rule, regulation, judicial ruling, judgment or treaty or in the administration, interpretation, implementation or application by any Governmental Authority of any law, rule, regulation, guideline or treaty, or (c) the making or issuance by any Governmental Authority of any request, rule, guideline or directive, whether or not having the force of law; provided that notwithstanding anything in the Agreement to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines or directives concerning capital adequacy promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory

authorities shall, in each case, be deemed to be a "Change in Law," regardless of the date enacted, adopted or issued.

"Code" means the New York Uniform Commercial Code, as in effect from time to time.

"Collateral" means all assets and interests in assets and proceeds thereof now owned or hereafter acquired by any Loan Party in or upon which a Lien is granted by such Person in favor of Agent under any of the Loan Documents.

"Collateral Access Agreement" means a landlord waiver, bailee letter, or acknowledgement agreement of any lessor, warehouseman, processor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in any Loan Party's books and records, Equipment, or Inventory, in each case, in form and substance reasonably satisfactory to Agent.

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 to the Agreement delivered by the chief financial officer, senior vice president of manufacturing and finance or vice president of manufacturing and finance of Administrative Borrower to Agent.

"Compliance Period" means the period commencing on the date on which the Excess Availability is less than $20,000,000 and ending on the date on which Excess Availability has been equal to or greater than $20,000,000 for any consecutive sixty (60) day period (or such shorter period agreed by Agent) thereafter.

"Confidential Information" has the meaning specified therefor in Section 19.9(a) of the Agreement.

"Consolidated Net Income" shall mean, with respect to any Person, for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries, on a consolidated basis, for such period, excluding to the extent included therein any extraordinary, one-time or non-recurring gains or non-cash losses, after deducting all charges which should be deducted before arriving at the net income (loss) for such period and after deducting the Provision for Taxes for such period, all as determined in accordance with GAAP; provided, that, (a) the net income of any Person that is not a majority owned Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of cash dividends or similar distributions paid to such Person or a majority owned Subsidiary of such Person; (b) the effect of any change in accounting principles adopted by (or applicable) such Person or its Subsidiaries after the date hereof (including any cumulative effects resulting from changes in purchase accounting principles) shall be excluded; and (c) the net income (if positive) of any majority-owned Subsidiary of such Person to the extent the payment of cash dividends or similar cash distributions by such Subsidiary is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such majority-owned Subsidiary shall be excluded (except to the extent of the amount of cash dividends or similar distributions paid to such Person or a majority owned Subsidiary of such Person). For the purpose of this definition, net income excludes any material gain or non-cash loss, together with any related fees and expenses and Provision for Taxes, for such gain or non-cash loss realized upon the sale or other disposition of any assets or of any Equity Interests of such Person or a Subsidiary of such Person.

"Control Agreement" means a control agreement, in form and substance reasonably satisfactory to Agent, executed and delivered by a Borrower or one of its Subsidiaries, Agent, and the applicable securities intermediary (with respect to a Securities Account) or bank (with respect to a Deposit Account).

"Copyright Security Agreement" has the meaning specified therefor in the Guaranty and Security Agreement.

"Daily One Month LIBOR" shall mean the rate of interest per annum determined by Agent on the rate for United States dollar deposits for delivery of funds for one (1) month as reported on Reuters Screen LIBOR01 page (or any successor page) at approximately 11:00 a.m., London time, or, for any day not a Business Day, the immediately preceding Business Day (or if not so reported, then as determined by Bank from another recognized source or interbank quotation). When interest is determined in relation to the Daily One Month LIBOR, each change in the interest rate shall become effective each Business Day that Agent determines that the Daily One Month LIBOR has changed.

"Daily LIBOR Rate Loan" means each portion of a Revolving Loan that bears interest at a rate determined by reference to the Daily One Month LIBOR Rate.

"Daily LIBOR Rate Margin" has the meaning set forth in the definition of Applicable Margin.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Defaulting Lender" means any Lender that (a) has failed to fund any amounts required to be funded by it under the Agreement on the date that it is required to do so under the Agreement (including the failure to make available to Agent amounts required pursuant to a Settlement or to make a required payment in connection with a Letter of Credit Disbursement),(b) notified Borrowers, Agent, or any Lender in writing that it does not intend to comply with all or any portion of its funding obligations under the Agreement, (c) has made a public statement to the effect that it does not intend to comply with its funding obligations under the Agreement or under other agreements generally (as reasonably determined by Agent) under which it has committed to extend credit, (d) failed, within 1 Business Day after written request by Agent, to confirm that it will comply with the terms of the Agreement relating to its obligations to fund any amounts required to be funded by it under the Agreement, (e) otherwise failed to pay over to Agent or any other Lender any other amount required to be paid by it under the Agreement on the date that it is required to do so under the Agreement, or (f) (i)becomes or is insolvent or has a parent company that has become or is insolvent or (ii) becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, or custodian or appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

"Defaulting Lender Rate" means (d) for the first 3 days from and after the date the relevant payment is due, the Base Rate, and (e) thereafter, the interest rate then applicable to Revolving Loans that are Base Rate Loans (inclusive of the Base Rate Margin applicable thereto).

"Deposit Account" means any deposit account (as that term is defined in the Code).

"Designated Account" means the Deposit Account of Revolving Loan Borrower identified on Schedule D-1 to the Agreement (or such other Deposit Account of Revolving Loan Borrower located at Designated Account Bank that has been designated as such, in writing, by Borrowers to Agent).

“Designated Account Bank” has the meaning specified therefor in Schedule D-1 to the Agreement (or such other bank that is located within the United States that has been designated as such, in writing, by Borrowers to Agent).

“Designated Percentage” shall mean the lesser of (a) sixty percent (60%) multiplied by Borrower’s Eligible Cost (as that term is used and reported in the most recent appraisal report rendered from time to time pursuant to this Agreement; it being understood that for purposes hereof, “Eligible Cost” shall have the meaning set forth in, and shall be calculated using the method of calculation thereof that is employed, in the appraisal reports delivered prior to Restatement Effective Date) of Eligible Inventory consisting of leaf tobacco as reflected on the books and records of Borrower maintained by Borrower in good faith, or (b) eighty-five percent (85%) of the net orderly liquidation value of Eligible Inventory consisting of leaf tobacco as indicated by the most recent appraisal report thereof rendered from time to time pursuant to this Agreement, assuming an orderly liquidation sale within ninety (90) days.

“Dilution” means, as of any date of determination, a percentage, based upon the experience of the immediately prior twelve (12) months, that is the result of dividing the Dollar amount of (a) bad debt write-downs, discounts, advertising allowances, credits, or other dilutive items with respect to Borrowers’ Accounts during such period, by (b) Borrowers’ billings with respect to Accounts during such period.

“Dilution Reserve” means, as of any date of determination, an amount sufficient to reduce the advance rate against Eligible Accounts by 1 percentage point for each percentage point by which Dilution is in excess of 5%.

“Disqualified Equity Interests” shall mean any Equity Interest that, by its terms (or by the terms of any security or other Equity Interests into which it is convertible or for which it is exchangeable), or upon the happening of any event or condition (a) matures or is mandatorily redeemable (other than solely for Qualified Equity Interests), pursuant to a sinking fund obligation or otherwise (except as a result of a change of control or asset sale so long as any rights of the holders thereof upon the occurrence of a change of control or asset sale event shall be subject to the prior repayment in full of the Loans and all other Obligations that are accrued and payable and the termination of the Revolver Commitments), (b) is redeemable at the option of the holder thereof (other than solely for Qualified Equity Interests), in whole or in part, (c) provides for the scheduled payments of dividends in cash, or (d) is or becomes convertible into or exchangeable for Indebtedness or any other Equity Interests that would constitute Disqualified Equity Interests, in each case, prior to the date that is 180 days after the Maturity Date.

“Dollars” or “$” means United States dollars.

“Drawing Document” means any Letter of Credit or other document presented for purposes of drawing under any Letter of Credit.

“EBITDA” means, with respect to any fiscal period, as to any Person, with respect to any period, an amount equal to: (a) the Consolidated Net income of such Person, and its Subsidiaries for such period, plus (b) depreciation and amortization, imputed interest, deferred compensation for such period and other non-cash charges (to the extent deducted in the computation of Consolidated Net Income of such Person), all in accordance with GAAP, plus (c) Interest Expense for such period (to the extent deducted in the computation of Consolidated Net Income of such Person), plus (d) the Provision for Taxes for such period (to the extent deducted in the computation of Consolidated Net Income of such Person).

“Eligible Accounts” means those Accounts created by Revolving Loan Borrower in the ordinary course of its business, that arise out of its sale of goods or rendition of services, that comply with each of

the representations and warranties respecting Eligible Accounts made in the Loan Documents, and that are not excluded as ineligible by virtue of one or more of the excluding criteria set forth below; provided, that such criteria may be revised from time to time by Agent in Agent's Permitted Discretion to address the results of any field examination performed by (or on behalf of) Agent from time to time after the August 29, 2014. In determining the amount to be included, Eligible Accounts shall be calculated net of customer deposits, unapplied cash, taxes, discounts, credits, allowances, and rebates. Eligible Accounts shall not include the following:

(a) Accounts (other than those set forth in the parenthetical of clause (g) below) that unpaid more than the earlier of ninety (90) days after the invoice date or forty-five (45) days after the due date of the original invoice for them,

(b) Accounts owed by an Account Debtor (or its Affiliates) where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (a) above,

(c) Accounts with respect to which the Account Debtor is an Affiliate of Revolving Loan Borrower or an employee or agent of Revolving Loan Borrower or any Affiliate of Revolving Loan Borrower,

(d) Accounts arising in a transaction wherein goods are placed on consignment or are sold pursuant to a guaranteed sale, a sale or return, a sale on approval, a bill and hold, or any other terms by reason of which the payment by the Account Debtor may be conditional (it being understood that the right of an account debtor to return goods to Borrowers in the ordinary course of Borrowers' business consistent with past practices shall not constitute conditional payment),

(e) Accounts that are not payable in Dollars,

(f) Accounts with respect to which the Account Debtor either (i) does not maintain its chief executive office in the United States, or (ii) is not organized under the laws of the United States or any state thereof, or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof, unless (A) the Account is supported by an irrevocable letter of credit reasonably satisfactory to Agent in its Permitted Discretion (as to form, substance, and issuer or domestic confirming bank) that has been delivered to Agent and is directly drawable by Agent, or (B) the Account is covered by credit insurance in form, substance, and amount, and by an insurer, reasonably satisfactory to Agent in its Permitted Discretion, or (C) such Account is otherwise acceptable in all respects to Agent (subject to such lending formula with respect thereto as Agent may determine),

(g) Accounts with respect to which the Account Debtor is either (i) the United States or any department, agency, or instrumentality of the United States (unless (A) the Accounts are Accounts with respect to which Borrowers have complied, to the reasonable satisfaction of Agent, with the Assignment of Claims Act, 31 USC §3727 or (B) (1) such Account results from sales in the ordinary course of business to the United States military which arise from only military purchase orders or, in any other case, upon Agent's request, the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner satisfactory to Agent in its Permitted Discretion and (2) such Accounts are not unpaid more than one hundred twenty (120) days after the date of the original invoice for them), or (ii) any state of the United States,

(h) Accounts with respect to which the Account Debtor is a creditor of Revolving Loan Borrower, has or has asserted a right of recoupment or setoff, or has disputed its obligation to pay all or any portion of the Account, to the extent of such claim, right of recoupment or setoff, or dispute,

(i) Accounts with respect to an Account Debtor and its Affiliates whose total obligations owing to Borrowers exceed 20% of all Eligible Accounts, to the extent of the obligations owing by such Account Debtor and its Affiliates in excess of such percentage; provided, that, in each case, the amount of Eligible Accounts that are excluded because they exceed the foregoing percentage shall be determined by Agent in its Permitted Discretion based on all of the otherwise Eligible Accounts prior to giving effect to any eliminations based upon the foregoing concentration limit,

(j) Accounts with respect to which the Account Debtor is subject to an Insolvency Proceeding, is not Solvent, has gone out of business, or as to which Revolving Loan Borrower has received notice of an imminent Insolvency Proceeding or a material impairment of the financial condition of such Account Debtor,

(k) Accounts, the collection of which, Agent, in its Permitted Discretion, believes to be doubtful, including by reason of the Account Debtor's financial condition,

(l) Accounts that are not subject to a valid and perfected first priority Agent's Lien,

(m) Accounts with respect to which (i) the goods giving rise to such Account have not been shipped and billed to the Account Debtor, or (ii) the services giving rise to such Account have not been performed and billed to the Account Debtor,

(n) Accounts with respect to which the Account Debtor is a Sanctioned Person or Sanctioned Entity, or

(o) Accounts that represent the right to receive progress payments or other advance billings that are due prior to the completion of performance by the applicable Borrower of the subject contract for goods or services

"Eligible Inventory" means Inventory of a Borrower, that complies with each of the representations and warranties respecting Eligible Inventory made in the Loan Documents, and that is not excluded as ineligible by virtue of one or more of the excluding criteria set forth below; provided, that such criteria may be revised from time to time by Agent in Agent's Permitted Discretion to address the results of any field examination or appraisal performed by Agent from time to time after August 29, 2014. In determining the amount to be so included, Inventory shall be valued at the lower of cost or market on a basis consistent with Borrowers' historical accounting practices. An item of Inventory shall not be included in Eligible Inventory if:

(a) a Borrower does not have good, valid, and marketable title thereto,

(b) a Borrower does not have actual and exclusive possession thereof (either directly or through a bailee or agent of a Borrower),

(c) it is not located at one of the locations in the continental United States set forth on Schedule E-1 to the Agreement as such schedule may be updated by notice from Revolving Loan Borrower to Agent from time to time (or in-transit from one such location to another such location),

(d) it is in-transit to or from a location of a Borrower (other than in-transit from one location set forth on Schedule E-1 to the Agreement to another location set forth on Schedule E-1 to the Agreement as such schedule may be updated by notice from Revolving Loan Borrower to Agent from time to time),

(e) it is located on real property leased by a Borrower or in a contract warehouse, in each case, unless it is subject to a Collateral Access Agreement executed by the lessor or warehouseman, as the case may be to the extent required by Section 6.13 hereof, and unless it is segregated or otherwise separately identifiable from goods of others, if any, stored on the premises,

(f) it is the subject of a bill of lading or other document of title,

(g) it is not subject to a valid and perfected first priority Agent's Lien,

(h) it consists of goods returned or rejected by a Borrower's customers,

(i) it consists of goods that are obsolete or slow moving, restrictive or custom items, work-in-process, raw materials (other than tobacco leaf), or goods that constitute spare parts, packaging and shipping materials, supplies used or consumed in Borrowers' business, bill and hold goods, defective goods, "seconds," or Inventory acquired on consignment, or

(j) it is subject to third party trademark, licensing or other proprietary rights, unless Agent is satisfied in its Permitted Discretion that such Inventory can be freely sold by Agent on and after the occurrence of an Event of a Default despite such third party rights.

"Eligible Transferee" means (a) any Lender (other than a Defaulting Lender), any Affiliate of any Lender and any Related Fund of any Lender; and (b) (i) a commercial bank organized under the laws of the United States or any state thereof, and having total assets in excess of $1,000,000,000; (ii) a savings and loan association or savings bank organized under the laws of the United States or any state thereof, and having total assets in excess of $1,000,000,000; (iii) a commercial bank organized under the laws of any other country or a political subdivision thereof; provided that (A) (x) such bank is acting through a branch or agency located in the United States or (y) such bank is organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development or a political subdivision of such country, and (B) such bank has total assets in excess of $1,000,000,000; (c) any other entity (other than a natural person) that is an "accredited investor" (as defined in Regulation D under the Securities Act) that extends credit or buys loans as one of its businesses including insurance companies, investment or mutual funds and lease financing companies, and having total assets in excess of $1,000,000,000; and (d) during the continuation of an Event of Default, any other Person approved by Agent; provided, that, no Affiliate of any Loan Party or any holder of Subordinated Indebtedness shall qualify as an Eligible Transferee.

"Employee Benefit Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA, whether or not subject to ERISA, (a) that is or within the preceding six (6) years has been sponsored, maintained or contributed to by any Loan Party or ERISA Affiliate or (b) to which any Loan Party or ERISA Affiliate has, or has had at any time within the preceding six (6) years, any liability, contingent or otherwise.

"Environmental Action" means any written complaint, summons, citation, notice, directive, order, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter, or other written communication from any Governmental Authority, or any third party involving violations of Environmental Laws or releases of Hazardous Materials (a) from any assets, properties, or businesses of

any Borrower, any Subsidiary of any Borrower, or any of their predecessors in interest, (b) from adjoining properties or businesses, or (c) from or onto any facilities which received Hazardous Materials generated by any Borrower, any Subsidiary of any Borrower, or any of their predecessors in interest.

"Environmental Law" means any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy, or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, in each case, to the extent binding on any Borrower or its Subsidiaries, relating to the environment, the effect of the environment on employee health, or Hazardous Materials, in each case as amended from time to time.

"Environmental Liabilities" means all liabilities, monetary obligations, losses, damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts, or consultants, and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand, or Remedial Action required, by any Governmental Authority or any third party, and which relate to any Environmental Action.

"Environmental Lien" means any Lien in favor of any Governmental Authority for Environmental Liabilities.

"Equipment" means equipment (as that term is defined in the Code).

"Equity Interest" means, with respect to a Person, all of the shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in such Person, whether voting or nonvoting, including capital stock (or other ownership or profit interests or units), preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statutes thereto, and all regulations and guidance promulgated thereunder. Any reference to a specific section of ERISA shall be deemed to be a reference to such section of ERISA and any successor statutes, and all regulations and guidance promulgated thereunder.

"ERISA Affiliate" means each entity, trade or business (whether or not incorporated) that together with a Loan Party or a Subsidiary would be (or has been) treated as a "single employer" within the meaning of section 4001(b)(1) of ERISA or subsections (b), (c), (m) or (o) of section 414 of the IRC. ERISA Affiliate shall include any Subsidiary of any Loan Party.

"Event of Default" has the meaning specified therefor in Section 8 of the Agreement.

"Excess Amount" has the meaning specified therefor in Section 2.14 of the Agreement.

"Excess Availability" means, as of any date of determination, the amount equal to (a) Availability minus (b) the aggregate amount of all trade payables owed to suppliers of Borrower which are more than sixty (60) days past due as of such time.

"Exchange Act" means the Securities Exchange Act of 1934, as in effect from time to time.

"Excluded Taxes" means (i) any Tax imposed on or measured by the net income or net profits of any Lender or any Participant (including any franchise, branch profits or similar Taxes), in each case imposed by the jurisdiction (or by any political subdivision or taxing authority thereof) in which such Lender or such Participant is organized, the jurisdiction (or by any political subdivision or taxing authority thereof) in which such Lender's or such Participant's principal office is located, or any jurisdiction as a result of a present or former connection between such Lender or such Participant and the jurisdiction or Taxing authority imposing the Tax (other than any such connection arising solely from such Lender or such Participant having executed, delivered or performed its obligations or received payment under, or enforced its rights or remedies under the Agreement or any other Loan Document); (ii) Taxes resulting from a Lender's or a Participant's failure to comply with the requirements of Section 17.2 of the Agreement, (iii) any United States federal withholding Taxes that would be imposed on amounts payable to a Lender or a Participant based upon the applicable withholding rate in effect at the time such Lender becomes a party to the Agreement or such Participant acquires an interest in a Loan (or designates a new lending office) except to the extent, pursuant to Section 17 of the Agreement, amounts with respect to such Taxes were payable to such Lender's assignor immediately before such Lender became a party hereto, to such Participant's participating Lender immediately before such Participant acquired an interest in a Loan, or to such Lender or Participant immediately before it changed its lending office, and (iv) any United States federal withholding taxes imposed under FATCA.

"Existing Credit Agreement" means the Second Amended and Restated Loan and Security Agreement, dated February 21, 2012, as amended by Amendment No. 1 to Second Amended and Restated Loan and Security Agreement, dated as of February 28, 2014, by and among the Revolving Loan Borrower, as borrower, the Term Loan Borrower, as Guarantor, and Wells Fargo, as lender.

"Existing Loan Documents" means, collectively, (a) the Existing Credit Agreement, (b) the Existing Mebane Documents, and (c) all documents delivered in connection therewith prior to the Restatement Effective Date.

"Existing Mebane Documents" means collectively, (a) the Term Loan Note, and (b) the Fee and Leasehold Deed of Trust and Security Agreement, dated November 22, 1999, made by Term Loan Borrower, as Term Loan Borrower and Revolving Loan Borrower, as lessee in favor of Kenneth M. Greene, as Trustee for the benefit of Agent, as the same now exists or may hereafter be amended, modified, amended and restated, and (c) all other documents delivered in connection therewith prior to the Restatement Effective Date.

"Extraordinary Advances" has the meaning specified therefor in Section 2.3(d)(iii) of the Agreement.

"Extraordinary Receipts" means (a) so long as no Event of Default has occurred and is continuing, proceeds of judgments, proceeds of settlements, or other consideration of any kind received in connection with any cause of action or claim, and (b) if an Event of Default has occurred and is continuing, any payments received by Loan Party not in the ordinary course of business (and not consisting of proceeds described in Section 2.4(e)(ii) of the Agreement) consisting of (i) proceeds of judgments, proceeds of settlements, or other consideration of any kind received in connection with any cause of action or claim, and (ii) indemnity payments (other than to the extent such indemnity payments are immediately payable to a Person that is not an Affiliate of any Borrower or any of its Subsidiaries.

"FATCA" means Sections 1471 through 1474 of the IRC, as of the date of the Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to

comply with), any intergovernmental agreements and legislation entered into in connection with the implementation of such Sections, any current or future regulations, implementing rules or official interpretations thereof, and any agreements entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal to, for each day during such period, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by Agent from three Federal funds brokers of recognized standing selected by it.

"Fee Letter" means any fee letter, entered into after the date with the Agreement, among Borrowers and Agent, in form and substance reasonably satisfactory to Agent.

"Foreign Lender" means any Lender or Participant that is not a United States person within the meaning of IRC section 7701(a)(30).

"Fund" means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Funding Date" means the date on which a Borrowing occurs.

"Funding Losses" has the meaning specified therefor in Section 2.12(b)(ii) of the Agreement.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"Governing Documents" means, with respect to any Person, the certificate or articles of incorporation, by-laws, or other organizational documents of such Person.

"Governmental Authority" means the government of any nation or any political subdivision thereof, whether at the national, state, territorial, provincial, municipal or any other level, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guarantor" means each Person that becomes a guarantor after the Restatement Effective Date pursuant to Section 5.11 of the Agreement.

"Guaranty and Security Agreement" means that certain Amended and Restated Guaranty and Security agreement, dated as of even date with the Agreement, in form and substance reasonably satisfactory to Agent, executed and delivered by each of the Borrowers and each of the Guarantors to Agent, as the same may be amended, restated, amended and restated or supplemented from time to time.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify

substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hedge Agreement" means a "swap agreement" as that term is defined in Section 101(53B)(A) of the Bankruptcy Code.

"Hedge Obligations" means any and all obligations or liabilities, whether absolute or contingent, due or to become due, now existing or hereafter arising, of Revolving Loan Borrower and its Subsidiaries arising under, owing pursuant to, or existing in respect of Hedge Agreements entered into with one or more of the Hedge Providers.

"Hedge Provider" means Wells Fargo or any of its Affiliates.

"Indebtedness" as to any Person means (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, or other similar financial products, (c) all obligations of such Person as a lessee under Capital Leases, (d) all obligations or liabilities of others secured by a Lien on any asset of such Person, irrespective of whether such obligation or liability is assumed, (e) all obligations of such Person to pay the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business and repayable in accordance with customary trade practices and, for the avoidance of doubt, other than royalty payments payable in the ordinary course of business in respect of non-exclusive licenses), (f) all monetary obligations of such Person owing under Hedge Agreements (which amount shall be calculated based on the amount that would be payable by such Person if the Hedge Agreement were terminated on the date of determination), (g) any Disqualified Equity Interests of such Person, and (h) any obligation of such Person guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse) any obligation of any other Person that constitutes Indebtedness under any of clauses (a) through (g) above. For purposes of this definition, (i) the amount of any Indebtedness represented by a guaranty or other similar instrument shall be the lesser of the principal amount of the obligations guaranteed and still outstanding and the maximum amount for which the guaranteeing Person may be liable pursuant to the terms of the instrument embodying such Indebtedness, and (ii) the amount of any Indebtedness which is limited or is non-recourse to a Person or for which recourse is limited to an identified asset shall be valued at the lesser of (A) if applicable, the limited amount of such obligations, and (B) if applicable, the fair market value of such assets securing such obligation.

"Indemnified Liabilities" has the meaning specified therefor in Section 10.3 of the Agreement.

"Indemnified Person" has the meaning specified therefor in Section 10.3 of the Agreement.

"Indemnified Taxes" means, any Taxes other than Excluded Taxes.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Interest Expense" means, for any period, as to any Person, as determined in accordance with GAAP, the total interest expense of such Person, whether paid or accrued during such period but without duplication (including the interest component of Capital Leases for such period), including, without limitation, discounts in connection with the sale of any Accounts that are sold for purposes other than collection, but excluding interest paid in property other than cash and any other interest expense not payable in cash.

"Interest Period" means, with respect to each LIBOR Rate Loan, a period commencing on the date of the making of such LIBOR Rate Loan (or the continuation of a LIBOR Rate Loan or the conversion of a Base Rate Loan to a LIBOR Rate Loan) and ending 1, 2, or 3 months thereafter; provided, that (a) interest shall accrue at the applicable rate based upon the LIBOR Rate from and including the first day of each Interest Period to, but excluding, the day on which any Interest Period expires, (b) any Interest Period that would end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day, (c) with respect to an Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period), the Interest Period shall end on the last Business Day of the calendar month that is 1, 2, or 3 months after the date on which the Interest Period began, as applicable, and (d) Borrowers may not elect an Interest Period which will end after the Maturity Date. For purposes of the Term Loan only, the Interest Period shall always be one (1) month.

"Inventory" means inventory (as that term is defined in the Code).

"Inventory Reserves" means, as of any date of determination, (a) Landlord Reserves, and (b) those reserves that Agent deems necessary or appropriate, in its Permitted Discretion and subject to Section 2.1(c), to establish and maintain (including reserves for slow moving Inventory and Inventory shrinkage) with respect to Eligible Inventory.

"Investment" means, with respect to any Person, any investment by such Person in any other Person (including Affiliates) in the form of loans, guarantees, advances, capital contributions (excluding (a) commission, travel, and similar advances to officers and employees of such Person made in the ordinary course of business, and (b) *bona fide* accounts receivable arising in the ordinary course of business), or acquisitions of Indebtedness, Equity Interests, or all or substantially all of the assets of such other Person (or of any division or business line of such other Person), and any other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustment for increases or decreases in value, or write-ups, write-downs, or write-offs with respect to such Investment.

"IRC" means the Internal Revenue Code of 1986, as in effect from time to time and any successor statutes, and all regulations and guidance promulgated thereunder. Any reference to a specific section of the IRC shall be deemed to be a reference to such section of the IRC and any successor statutes, and all regulations and guidance promulgated thereunder.

"ISP" means, with respect to any Letter of Credit, the International Standby Practices 1998 (International Chamber of Commerce Publication No. 590) and any subsequent revision thereof adopted by the International Chamber of Commerce on the date such Letter of Credit is issued.

"Issuer Document" means, with respect to any Letter of Credit, a letter of credit application, a letter of credit agreement, or any other document, agreement or instrument entered into (or to be entered into) by a Borrower in favor of Issuing Bank and relating to such Letter of Credit.

"Issuing Bank" means Wells Fargo or any other Lender that, at the request of Borrowers and with the consent of Agent, agrees, in such Lender's sole discretion, to become an Issuing Bank for the purpose of issuing Letters of Credit pursuant to Section 2.11 of the Agreement, and Issuing Bank shall be a Lender.

"Landlord Reserve" means, as to each location at which a Borrower has Eligible Inventory or books and records (and, in the case of books and records, such books and records are not also located at a location subject to a Collateral Access Agreement) located and as to which a Collateral Access Agreement has not been received by Agent, a reserve that Agent determines is necessary or appropriate in its Permitted Discretion in an amount up to the greater of (a) the number of months' rent for which the landlord will have, under applicable law, a Lien in the Inventory of such Borrower to secure the payment of rent or other amounts under the lease relative to such location, or (b) three (3) months' rent under the lease relative to such location.

"Lender" has the meaning set forth in the preamble to the Agreement, shall include Issuing Bank and the Swing Lender, and shall also include any other Person made a party to the Agreement pursuant to the provisions of Section 13.1 of the Agreement and "Lenders" means each of the Lenders or any one or more of them.

"Lender Group" means each of the Lenders (including Issuing Bank and the Swing Lender) and Agent, or any one or more of them.

"Lender Group Expenses" means all (a) costs or expenses (including taxes and insurance premiums) required to be paid by any Borrower or its Subsidiaries under any of the Loan Documents that are paid, advanced, or incurred by the Lender Group, (b) documented out-of-pocket fees or charges paid or incurred by Agent in connection with the Lender Group's transactions with each Borrower and its Subsidiaries under any of the Loan Documents, including, photocopying, notarization, couriers and messengers, telecommunication, public record searches, filing fees, recording fees, publication, real estate surveys, real estate title policies and endorsements, and environmental audits, (c) Agent's customary fees and charges imposed or incurred in connection with any background checks or OFAC/PEP searches related to any Borrower or its Subsidiaries, (d) Agent's customary fees and charges (as adjusted from time to time) with respect to the disbursement of funds (or the receipt of funds) to or for the account of any Borrower (whether by wire transfer or otherwise), together with any out-of-pocket costs and expenses incurred in connection therewith, (e) customary charges imposed or incurred by Agent resulting from the dishonor of checks payable by or to any Loan Party, (f) reasonable documented out-of-pocket costs and expenses paid or incurred by the Lender Group to correct any default or enforce any provision of the Loan Documents, or during the continuance of an Event of Default, in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated, (g) field examination, appraisal, and valuation fees and expenses of Agent related to any field examinations, appraisals, or valuation to the extent of the fees and charges (and up to the amount of any limitation) provided in Section 2.10 of the Agreement, (h) Agent's reasonable costs and expenses (including reasonable documented attorneys fees and expenses) relative to third party claims or any other lawsuit or adverse proceeding paid or incurred, whether in enforcing or defending the Loan Documents or otherwise in connection with the transactions contemplated by the Loan Documents, Agent's Liens in and to the Collateral, or the Lender Group's

relationship with any Borrower or any of its Subsidiaries (subject to the limitations set forth in Section 10.3 of the Agreement, (i) Agent's reasonable documented costs and expenses (including reasonable documented attorneys' fees and due diligence expenses) incurred in advising, structuring, drafting, reviewing, administering (including travel, meals, and lodging), syndicating (including reasonable costs and expenses relative to the rating of the Term Loan, CUSIP, DXSyndicate™, SyndTrak or other communication costs incurred in connection with a syndication of the loan facilities) (to the extent mutually agreed upon by Agent and the Revolving Loan Borrower), or amending, waiving, or modifying the Loan Documents, and (j) Agent's and each Lender's reasonable documented costs and expenses (including reasonable documented attorneys, accountants, consultants, and other advisors fees and expenses) incurred in terminating, enforcing (including reasonable attorneys, accountants, consultants, and other advisors fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning any Loan Party or in exercising rights or remedies under the Loan Documents), or defending the Loan Documents, irrespective of whether a lawsuit or other adverse proceeding is brought, or in taking any enforcement action or any Remedial Action with respect to the Collateral.

"Lender Group Representatives" has the meaning specified therefor in Section 19.9 of the Agreement.

"Lender-Related Person" means, with respect to any Lender, such Lender, together with such Lender's Affiliates, officers, directors, employees, and attorneys.

"Lender-Related Persons" means Lender, together with its Affiliates, officers, directors, employees, attorneys.

"Letter of Credit" means a letter of credit (as that term is defined in the Code) issued by Issuing Bank.

"Letter of Credit Collateralization" means either (a) providing cash collateral (pursuant to documentation reasonably satisfactory to Agent, including provisions that specify that the Letter of Credit Fees and all commissions, fees, charges and expenses provided for in Section 2.11(k) of the Agreement (including any fronting fees) will continue to accrue while the Letters of Credit are outstanding) to be held by Agent for the benefit of Issuing Bank and Lenders in an amount equal to 105% of the then existing Letter of Credit Usage, (b) delivering to Agent documentation executed by all beneficiaries under the Letters of Credit, in form and substance reasonably satisfactory to Agent and Issuing Bank, terminating all of such beneficiaries' rights under the Letters of Credit, or (c) providing Agent with a standby letter of credit, in form and substance reasonably satisfactory to Agent, from a commercial bank acceptable to Agent (in its sole discretion) in an amount equal to 105% of the then existing Letter of Credit Usage (it being understood that the Letter of Credit Fee and all fronting fees set forth in the Agreement will continue to accrue while the Letters of Credit are outstanding and that any such fees that accrue must be an amount that can be drawn under any such standby letter of credit).

"Letter of Credit Disbursement" means a payment made by Issuing Bank pursuant to a Letter of Credit.

"Letter of Credit Exposure" means, as of any date of determination with respect to any Lender, such Lender's Pro Rata Share of the Letter of Credit Usage on such date.

"Letter of Credit Fee" has the meaning specified therefor in Section 2.6(b) of the Agreement.

"Letter of Credit Indemnified Costs" has the meaning specified therefor in Section 2.11(f) of the Agreement.

"Letter of Credit Related Person" has the meaning specified therefor in Section 2.11(f) of the Agreement.

"Letter of Credit Usage" means, as of any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit.

"LIBOR Deadline" has the meaning specified therefor in Section 2.12(b)(i) of the Agreement.

"LIBOR Notice" means a written notice in the form of Exhibit L-1 to the Agreement.

"LIBOR Option" has the meaning specified therefor in Section 2.12(a) of the Agreement.

"LIBOR Rate" means the rate per annum rate appearing on Reuters Screen LIBOR01 (or on any successor or substitute page of such Service, or any successor to or substitute for such Service) two (2) Business Days prior to the commencement of the requested Interest Period, for a term, and in an amount, comparable to the Interest Period and the amount of the LIBOR Rate Loan requested (whether as an initial LIBOR Rate Loan or as a continuation of a LIBOR Rate Loan or as a conversion of a Base Rate Loan to a LIBOR Rate Loan) by Borrowers in accordance with the Loan Documents (and, if any such rate is below zero, the LIBOR Rate shall be deemed to be zero), which determination shall be made by Agent and shall be conclusive in the absence of manifest error.

"LIBOR Rate Loan" means each portion of a Revolving Loan or the Term Loan that bears interest at a rate determined by reference to the LIBOR Rate.

"LIBOR Rate Margin" has the meaning set forth in the definition of Applicable Margin.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, charge, deposit arrangement, encumbrance, easement, lien (statutory or other), security interest, or other security arrangement and any other preference, priority, or preferential arrangement of any kind or nature whatsoever, including any conditional sale contract or other title retention agreement, the interest of a lessor under a Capital Lease and any synthetic or other financing lease having substantially the same economic effect as any of the foregoing.

"Liggett Agreement" shall mean that certain Sales, Marketing and Distribution Agreement, dated January 1, 2011, by and between Revolving Loan Borrower and Liggett Vector Brands LLC (successor to Liggett Vector Brands Inc.), as may be amended from time to time.

"Loan" shall mean any Revolving Loan, or Term Loan made (or to be made) hereunder.

"Loan Account" has the meaning specified therefor in Section 2.9 of the Agreement.

"Loan Documents" means the Agreement, the Control Agreements, the Copyright Security Agreement, any Borrowing Base Certificate, the Guaranty and Security Agreement, any Issuer Documents, the Letters of Credit, any Mortgages, the Patent Security Agreement, the Trademark Security Agreement, the Term Loan Note, the 2021 Notes Intercreditor Agreement, any other note or notes executed by Borrowers in connection with the Agreement and payable to any member of the Lender

Group, and any other instrument or agreement entered into, now or in the future, by any Borrower or any of its Subsidiaries and any member of the Lender Group in connection with the Agreement.

"Loan Party" means any Borrower or any Guarantor, if any.

"Maple Transactions" shall mean, collectively, the Term Loan and the Mebane Lease.

"Margin Stock" as defined in Regulation U of the Board of Governors as in effect from time to time.

"Master Settlement Agreement" means that certain settlement agreement, dated November 23, 1998, between Philip Morris Incorporated, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and R.J. Reynolds Tobacco Company, as the original participating manufacturers, Liggett Group, Inc., and any other tobacco product manufacturer that becomes a signatory, as the participating manufacturers, and 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Marianas, as amended from time to time.

"Material Adverse Effect" means (a) a material adverse effect in the business, operations, results of operations, assets, liabilities or financial condition of Borrowers and their Subsidiaries, taken as a whole, (b) a material impairment of Borrowers' and their Subsidiaries ability to perform their obligations under the Loan Documents to which they are parties or of the Lender Group's ability to enforce the Obligations or realize upon the Collateral (other than as a result of as a result of an action taken or not taken that is solely in the control of Agent), or (c) a material impairment of the enforceability or priority of Agent's Liens with respect to all or a material portion of the Collateral.

"Maturity Date" means March 31, 2020.

"Maximum Revolver Amount" means $60,000,000, decreased by the amount of reductions in the Revolver Commitments made in accordance with Section 2.4(c) of the Agreement.

"Mebane Lease" shall mean the lease, dated November 17, 1999 made by Term Loan Borrower, as lessor, to Revolving Loan Borrower, as lessee, of the Mebane Premises, as the same may be amended, restated, amended and restated or supplemented from time to time, in accordance with the terms of this Agreement.

"Mebane Premises" shall mean the land, buildings, fixtures and other improvements at 100 Maple Lane, Mebane, North Carolina.

"Moody's" has the meaning specified therefor in the definition of Cash Equivalents.

"Mortgages" means, individually and collectively, one or more mortgages, deeds of trust, or deeds to secure debt, executed and delivered by a Borrower or one of its Subsidiaries in favor of Agent, in form and substance reasonably satisfactory to Agent, that encumber the Real Property Collateral as the same may be amended, restated, amended and restated, modified or supplemented from time to time, including without limitation, the Amended and Restated Fee and Leasehold Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated of even date herewith, made by Term Loan Borrower, and Revolving Loan Borrower, as lessee in favor of Agent for the benefit of the Lender Group and the Bank Product Provider.

"Multiemployer Plan" means any multiemployer plan within the meaning of Section 3(37) or 4001(a)(3) of ERISA with respect to which any Loan Party or ERISA Affiliate has an obligation to contribute or has any liability, contingent or otherwise or could be assessed withdrawal liability assuming a complete withdrawal from any such multiemployer plan.

"Net Amount of Eligible Accounts" shall mean the gross amount of Eligible Accounts less (a) sales, excise or similar taxes billed to the account debtor as such and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto, including, without limitation, accrued promotional reserves (including coupon and sticker programs, if any), shelving accruals, competitive incentives, profit rebates, and other items representing potential offsets against Accounts, as determined by Agent in its Permitted Discretion.

"Net Cash Proceeds" means:

(a) with respect to any sale or disposition by any Loan Party of assets, the amount of cash proceeds actually received by such Loan Party from time to time (whether as initial consideration or through the payment of deferred consideration) by or on behalf of such Borrower or such Subsidiary, in connection therewith after deducting therefrom only (i) the amount of any Indebtedness secured by any Permitted Lien on any asset (other than (A) Indebtedness owing to Agent or any Lender under the Agreement or the other Loan Documents and (B) Indebtedness assumed by the purchaser of such asset) which is required to be, and is, repaid in connection with such sale or disposition, (ii) reasonable fees, commissions, and expenses related thereto and required to be paid by such Loan Party in connection with such sale or disposition (including, without limitation, legal, accounting, investment banking, valuation, investment and financial advisor fees), (iii) taxes (including, without limitation, sales, transfer, deed or mortgage recording taxes) paid or payable to any taxing authorities by such Loan Party in connection with such sale or disposition, in each case to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid or payable to a Person that is not an Affiliate of any Borrower or any of its Subsidiaries (other than pursuant to any Tax Sharing Agreement), and are properly attributable to such transaction; (iv)(1) amounts held in escrow to be applied as part of the purchase price of any such sale or disposition and (2) all amounts that are set aside as a reserve (A) for adjustments in respect of the purchase price of such assets, (B) for any liabilities associated with such sale or casualty (including reserves for pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations associated with any such sale or disposition), and (C) for the payment of unassumed liabilities relating to the assets sold or otherwise disposed of at the time of, or within 30 days after, the date of such sale or other disposition, to the extent that in each case the funds described above in this clause (iv) are (x) deposited into escrow with a third party escrow agent or set aside in a separate Deposit Account that is subject to a Control Agreement in favor of Agent and (y) paid to Agent as a prepayment of the applicable Obligations in accordance with Section 2.4(e) of the Agreement at such time when such amounts are no longer required to be set aside as such a reserve; and (v) other out-of-pocket fees and expenses actually incurred in connection therewith; and

(b) with respect to the issuance or incurrence of any Indebtedness by any Loan Party, the aggregate amount of cash actually from time to time (whether as initial consideration or through the payment or disposition of deferred consideration) by or on behalf of such Loan Party in connection with such issuance or incurrence, after deducting therefrom only (i) reasonable fees, commissions, and expenses related thereto and required to be paid by such Loan Party in connection with such issuance or incurrence (including, without limitation, legal, accounting and investment banking fees, advisory fees, sales commissions or underwriting discounts, (ii) taxes paid or payable to any taxing authorities by such

Borrower or such Subsidiary in connection with such issuance or incurrence, in each case to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid or payable to a Person that is not an Affiliate of any Borrower or any of its Subsidiaries, and are properly attributable to such transaction, and (iii) other out-of-pocket fees and expenses actually incurred in connection therewith.

"Non-Consenting Lender" has the meaning specified therefor in Section 15.2(a) of the Agreement.

"Non-Defaulting Lender" means each Lender other than a Defaulting Lender.

"Notification Event" means (a) the occurrence of a "reportable event" described in Section 4043 of ERISA for which the 30-day notice requirement has not been waived by applicable regulations issued by the PBGC, (b) the withdrawal of any Loan Party or ERISA Affiliate from a Pension Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, (c) the termination of a Pension Plan, the filing of a notice of intent to terminate a Pension Plan or the treatment of a Pension Plan amendment as a termination, under Section 4041 of ERISA, if the plan assets are not sufficient to pay all plan liabilities, (d) the institution of proceedings to terminate, or the appointment of a trustee with respect to, any Pension Plan by the PBGC or any Pension Plan or Multiemployer Plan administrator, (e) any other event or condition that would constitute grounds under Section 4042(a) of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan, (f) the imposition of a Lien pursuant to the IRC or ERISA in connection with any Benefit Plan, (g) the partial or complete withdrawal of any Loan Party or ERISA Affiliate from a Multiemployer Plan (other than any withdrawal that would not constitute an Event of Default under Section 8.12), (h) any event or condition that results in the reorganization or insolvency of a Multiemployer Plan under Sections of ERISA, (i) any event or condition that results in the termination of a Multiemployer Plan under Section 4041A of ERISA or the institution by the PBGC of proceedings to terminate or to appoint a trustee to administer a Multiemployer Plan under ERISA, (j) any Pension Plan being in "at risk status" within the meaning of IRC Section 430(i), (k) any Multiemployer Plan being in "endangered status" or "critical status" within the meaning of IRC Section 432(b) or the determination that any Multiemployer Plan is or is expected to be insolvent or in reorganization within the meaning of Title IV of ERISA, (l) with respect to any Pension Plan, any Loan Party or ERISA Affiliate incurring a substantial cessation of operations within the meaning of ERISA Section 4062(e), (m) the failure of any Pension Plan or Multiemployer Plan to meet the minimum funding standards within the meaning of the IRC or ERISA (including Section 412 of the IRC or Section 302 of ERISA), in each case, whether or not waived, (n) the filing of an application for a waiver of the minimum funding standards within the meaning of the IRC or ERISA (including Section 412 of the IRC or Section 302 of ERISA) with respect to any Pension Plan or Multiemployer Plan, (o) the failure to make by its due date a required payment or contribution with respect to any Pension Plan or Multiemployer Plan, or (p) any event that results in or could reasonably be expected to result in in a liability to any Loan Party or ERISA Affiliate pursuant to Section 401(a)(29) of the IRC or (q) any of the foregoing as determined by the Revolving Loan Borrower or Agent in its Permitted Discretion is reasonably likely to occur in the following 30 days.

"Obligations" means (a) all loans (including the Term Loan and the Revolving Loans (inclusive of Extraordinary Advances and Swing Loans), debts, principal, interest (including any interest that accrues after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), reimbursement or indemnification obligations with respect to Letters of Credit (irrespective of whether contingent), premiums, liabilities (including all amounts charged to the Loan Account pursuant to the Agreement), obligations (including

indemnification obligations), fees (including the fees provided for in any Fee Letter), Lender Group Expenses (including any fees or expenses that accrue after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), guaranties, and all covenants and duties of any other kind and description owing by any Loan Party arising out of, under, pursuant to, in connection with, or evidenced by the Agreement or any of the other Loan Documents and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all interest not paid when due and all other expenses or other amounts that Borrowers are required to pay or reimburse by the Loan Documents or by law or otherwise in connection with the Loan Documents, and (b) all Bank Product Obligations. Without limiting the generality of the foregoing, the Obligations of Borrowers under the Loan Documents include the obligation to pay (i) the principal of the Revolving Loans and the Term Loan, (ii) interest accrued on the Revolving Loans and the Term Loan, (iii) the amount necessary to reimburse Issuing Bank for amounts paid or payable pursuant to Letters of Credit, (iv) Letter of Credit commissions, fees (including fronting fees) and charges, (v) Lender Group Expenses, (vi) fees payable under the Agreement or any of the other Loan Documents, and (vii) indemnities and other amounts payable by any Loan Party under any Loan Document. Any reference in the Agreement or in the Loan Documents to the Obligations shall include all or any portion thereof and any extensions, modifications, renewals, or alterations thereof, both prior and subsequent to any Insolvency Proceeding.

"OFAC" means The Office of Foreign Assets Control of the U.S. Department of the Treasury.

"Originating Lender" has the meaning specified therefor in Section 13.1(e) of the Agreement.

"Overadvance" means, as of any date of determination, that the Revolver Usage is greater than any of the limitations set forth in Section 2.1 or Section 2.11.

"Parent" means Vector Group Ltd., a Delaware corporation.

"Participant" has the meaning specified therefor in Section 13.1(e) of the Agreement.

"Participant Register" has the meaning set forth in Section 13.1(i) of the Agreement.

"Patent Security Agreement" has the meaning specified therefor in the Guaranty and Security Agreement.

"Patriot Act" has the meaning specified therefor in Section 4.13 of the Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor agency.

"Pension Plan" means any Employee Benefit Plan, other than a Multiemployer Plan, which is subject to the provisions of Title IV or Section 302 of ERISA or Sections 412 or 430 of the Code sponsored, maintained, or contributed to by any Loan Party or ERISA Affiliate or to which any Loan Party or ERISA Affiliate has any liability, contingent or otherwise.

"Perfection Certificate" means a certificate in the form of Exhibit P-1 to the Agreement.

"Permitted Discretion" means a determination made in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

"Permitted Dispositions" means:

(a) sales, abandonment, or other dispositions of Equipment and other personal property or assets (other than Accounts or Eligible Inventory) that is substantially worn, damaged, or obsolete or no longer used or useful in the ordinary course of business and leases or subleases of Real Property not useful in the conduct of the business of Borrowers and their Subsidiaries,

(b) sales of Inventory to buyers in the ordinary course of business,

(c) the use or transfer of money or Cash Equivalents in a manner that is not prohibited by the terms of the Agreement or the other Loan Documents,

(d) the licensing, on a non-exclusive basis, of patents, trademarks, copyrights, and other intellectual property rights in the ordinary course of business,

(e) the granting of Permitted Liens and the incurrence of Permitted Indebtedness,

(f) the sale or discount, in each case without recourse, of accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof,

(g) any involuntary loss, damage or destruction of property,

(h) any involuntary condemnation, seizure or taking, by exercise of the power of eminent domain or otherwise, or confiscation or requisition of use of property,

(i) the leasing or subleasing of assets of any Borrower or its Subsidiaries in the ordinary course of business other than Mebane Premises (except pursuant to the Mebane Lease).

(j) the sale or issuance of Equity Interests (other than Disqualified Equity Interests) of any Borrower or any of their Subsidiaries,

(k) (i) the lapse of registered patents, trademarks, copyrights and other intellectual property of any Borrower or any of its Subsidiaries to the extent not economically desirable in the conduct of its business, required under applicable law or materially adverse to the interests of the Lender Group, or (ii) the abandonment of patents, trademarks, copyrights, or other intellectual property rights in the ordinary course of business so long as (in the case of clause (ii)), (A) with respect to copyrights, such copyrights are not material revenue generating copyrights, and (B) such abandonment is not materially adverse to the interests of the Lender Group,

(l) the making of Restricted Payments and the transactions permitted under Section 6.10, in each case to the extent such payments and transactions are expressly permitted to be made pursuant to the Agreement, and

(m) the making of Permitted Investments,

(n) sales of marketable securities, liquid investments and other equivalent financial instruments in connection with ordinary course cash management of Borrowers and their Subsidiaries,

(o) the surrender or waiver of contractual rights or tort claims in the ordinary course of business,

(p) the sale, lease, license, transfer or other disposition of assets (i) among Loan Parties (ii) among Subsidiaries who are not Loan Parties and (iii) from Subsidiaries who are not Loan Parties to Loan Parties

(q) other sales, leases, licenses, transfer or other dispositions of assets (other than Eligible Accounts or Eligible Inventory) with a fair market value not to exceed $500,000 in the aggregate per fiscal year.

"Permitted Indebtedness" means:

(a) the Obligations (including guarantees thereof).

(b) Indebtedness set forth on Schedule 4.14 to the Agreement and any Refinancing Indebtedness in respect of such Indebtedness,

(c) Permitted Purchase Money Indebtedness and any Refinancing Indebtedness in respect of such Indebtedness,

(d) endorsement of instruments or other payment items for deposit,

(e) Indebtedness consisting of (i) guarantees incurred in the ordinary course of business with respect to surety and appeal bonds, performance bonds, bid bonds, appeal bonds, completion guarantee and similar obligations or with respect to workers' compensation claims; (ii) guarantees arising with respect to customary indemnification obligations or purchase price adjustments to purchasers in connection with Permitted Dispositions or acquisitions of assets; and (iii) guarantees with respect to Indebtedness of any Borrower or one of its Subsidiaries,

(f) Indebtedness incurred in the ordinary course of business under performance, surety, statutory, or appeal bonds or in respect of workers' compensation claims,

(g) Indebtedness owed to any Person providing unemployment insurance, health, disability and other employee benefits or property, casualty, liability, or other insurance to any Borrower or any of its Subsidiaries, so long as the amount of such Indebtedness is not in excess of the amount of the unpaid cost of, and shall be incurred only to defer the cost of, such insurance for the year in which such Indebtedness is incurred and such Indebtedness is outstanding only during such year,

(h) the incurrence by any Borrower or its Subsidiaries of Indebtedness under Hedge Agreements that are incurred for the bona fide purpose of hedging the interest rate, commodity, or foreign currency risks associated with Borrowers' and its Subsidiaries' operations and not for speculative purposes,

(i) Indebtedness incurred in the ordinary course of business in respect of credit cards, credit card processing services, debit cards, stored value cards, commercial cards (including so-called "'purchase cards", "procurement cards" or "p-cards"), or Cash Management Services,

(j) Indebtedness composing Permitted Investments,

(k) unsecured Indebtedness incurred in respect of netting services, overdraft protection, and other like services, including overdrafts, in each case, incurred in the ordinary course of business,

(l) accrual of interest, accretion or amortization of original issue discount, or the payment of interest in kind, in each case, on Indebtedness that otherwise constitutes Permitted Indebtedness, and

(m) any guaranty made by each Borrower and their respective subsidiaries of the Indebtedness owing by Parent with respect to the 2021 Notes and the 2021 Notes Indenture, any Refinancing Indebtedness thereof and any other refinancing, refunding, extensions, renewals, issuances or replacements thereof to the extent permitted under the Agreement,

(n) any guaranty made by each Borrower and their respective subsidiaries of the Indebtedness owing by Parent with respect to 2021 Note Equivalent Indebtedness and any other refinancing, refunding, extensions, renewals, issuances or replacements thereof to the extent permitted under the Agreement,

(o) guarantees of any Indebtedness of any Subsidiary of Borrowers to Lenders or any Affiliate of Lenders in connection with Bank Products,

(p) other Indebtedness of a type not otherwise specifically permitted in clauses (m) and (n) above, in an aggregate principal amount not to exceed $5,000,000 at any time outstanding.

"Permitted Investments" means:

(a) Investments in cash and Cash Equivalents,

(b) Investments in negotiable instruments deposited or to be deposited for collection in the ordinary course of business,

(c) advances made in connection with purchases of goods or services in the ordinary course of business,

(d) Investments received in settlement of amounts due to any Loan Party or any of its Subsidiaries effected in the ordinary course of business or owing to any Loan Party or any of its Subsidiaries as a result of Insolvency Proceedings involving an account debtor or upon the foreclosure or enforcement of any Lien in favor of a Loan Party or its Subsidiaries,

(e) Investments owned by any Loan Party or any of its Subsidiaries on the Restatement Effective Date and set forth on Schedule P-1 to the Agreement,

(f) guarantees permitted under the definition of Permitted Indebtedness,

(g) Equity Interests or other securities acquired in connection with the satisfaction or enforcement of Indebtedness or claims due or owing to a Loan Party or its Subsidiaries (in bankruptcy of customers or suppliers or otherwise outside the ordinary course of business) or as security for any such Indebtedness or claims,

(h) deposits of cash made in the ordinary course of business to secure performance of operating leases,

(i) an Investment in the form of capital contribution made by Revolving Loan Borrower in Term Loan Borrower, in an amount not to exceed $2,600,000, which was utilized by Term Loan Borrower to pay to 3C Alliance LLP a portion of the purchase price for the Mebane Premises, and

(j) Investments resulting from entering into (i) Bank Product Agreements, or (ii) agreements relative to Indebtedness that is permitted under clause (j) of the definition of Permitted Indebtedness.

(k) Investments (as of the date hereof) consisting of the ownership of the Equity Interests of their respective Subsidiaries; and

(l) other Investments in an amount not to exceed $1,000,000 at any time outstanding.

"Permitted Liens" means

(a) Liens granted to Agent, or for the benefit of, Agent, Issuing Bank and Lenders (and in the case of Bank Products any affiliate of Agent) to secure the Obligations,

(b) Liens for unpaid taxes, assessments, or other governmental charges or levies that either (i) are not yet delinquent, or (ii) do not have priority over Agent's Liens and the underlying taxes, assessments, or charges or levies are the subject of Permitted Protests,

(c) judgment Liens arising solely as a result of the existence of judgments, orders, or awards that do not constitute an Event of Default under Section 8.3 of the Agreement,

(d) Liens set forth on Schedule P-2 to the Agreement; provided, that to qualify as a Permitted Lien, any such Lien described on Schedule P-2 to the Agreement shall only secure the Indebtedness that it secures on the Restatement Effective Date and any Refinancing Indebtedness in respect thereof,

(e) the interests of lessors under operating leases and non-exclusive licensors under license agreements,

(f) purchase money Liens or the interests of lessors under Capital Leases to the extent that such Liens or interests secure Permitted Purchase Money Indebtedness and so long as (i) such Lien attaches only to the asset purchased or acquired and the proceeds thereof, and (ii) such Lien only secures the Indebtedness that was incurred to acquire or finance the asset purchased or acquired or any Refinancing Indebtedness in respect thereof,

(g) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers and other non-consensual statutory Liens (other than Liens securing the payment of taxes), incurred in the ordinary course of business and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet delinquent, or (ii) are the subject of Permitted Protests,

(h) Liens on cash deposited to secure any Borrower's and its Subsidiaries obligations in connection with worker's compensation or other unemployment insurance and other types of social security,

(i) Liens on cash deposited to secure any Borrower's and its Subsidiaries obligations in connection with the making or entering into of bids, tenders, or leases in the ordinary course of business and not in connection with the borrowing of money,

(j) Liens on amounts deposited to secure any Borrower's and its Subsidiaries reimbursement obligations with respect to surety, performance or appeal bonds obtained in the ordinary course of business,

(k) with respect to any Real Property, easements, rights of way, licenses, covenants, and zoning restrictions and other restrictions on the use of real property that do not materially interfere with or impair the use or operation thereof,

(l) non-exclusive licenses of patents, trademarks, copyrights, and other intellectual property rights in the ordinary course of business,

(m) Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is the subject of permitted Refinancing Indebtedness and so long as the replacement Liens only encumber those assets that secured the original Indebtedness,

(n) rights of setoff or bankers' liens upon deposits of funds in favor of banks or other depository institutions, solely to the extent incurred in connection with the maintenance of such Deposit Accounts in the ordinary course of business,

(o) Liens granted in the ordinary course of business on the unearned portion of insurance premiums securing the financing of insurance premiums to the extent the financing is permitted under the definition of Permitted Indebtedness,

(p) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods, and

(q) the security interests and liens in the Collateral granted by each Borrower and its respective Subsidiaries to the 2021 Notes Trustee to secure Indebtedness under the 2021 Notes and the 2021 Notes Indenture, any Refinancing Indebtedness thereof and any other refinancing, refunding, extensions, renewals, issuances or replacements thereof to the extent permitted under the Agreement, so long as such liens and security interests are subordinate to those granted in favor of Agent pursuant to the Loan Documents and are subject to the 2021 Notes Intercreditor Agreement or a replacement agreement in form and substance reasonably satisfactory to Agent,

(r) security interests and liens in the Collateral granted by any Borrower or its Subsidiaries to secure 2021 Note Equivalent Indebtedness; provided, that, such liens are subordinate to those granted in favor of Agent pursuant to the Loan Documents and subject to an intercreditor agreement substantially similar to the 2021 Notes Intercreditor Agreement which shall be in form and substance reasonably satisfactory to Agent,

(s) licenses, leases or subleases with respect to personal property (other than Accounts and Inventory) granted by any Borrower or their respective Subsidiaries to third parties in the ordinary course of business that do not interfere in any material respect with the business of any Borrower or any of their respective Subsidiaries, and

(t) other Liens on assets (other than Accounts, Inventory or the Mebane Premises) securing obligations in an aggregate amount not to exceed $250,000 at any time outstanding.

"Permitted Protest" means the right of any Borrower or any of its Subsidiaries to protest any Lien (other than any Lien that secures the Obligations), taxes (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on such Borrower's or its Subsidiaries' books and records in such amount as is required under GAAP, (b) any such protest is instituted promptly and prosecuted diligently by such Borrower or its Subsidiary, as applicable, in good faith, and (c) Agent is satisfied (as determined in its

Permitted Discretion) that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of Agent's Liens.

"Permitted Purchase Money Indebtedness means, as of any date of determination, Indebtedness (other than the Obligations, but including Capitalized Lease Obligations), incurred after the Restatement Effective Date for the purpose of financing all or any part of the acquisition of any fixed asset or real property.

"Person" means natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Platform" has the meaning specified therefor in Section 19.9(c) of the Agreement.

"Projections" means Borrowers' forecasted (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements, all prepared on a basis consistent with Borrowers' historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Protective Advances" has the meaning specified therefor in Section 2.3(d)(i) of the Agreement.

"Provision for Taxes" shall mean an amount equal to all taxes imposed on or measured by net income or due under any Tax Sharing Agreement, whether Federal, State, Provincial, country or local, and whether foreign or domestic, that are paid or payable by any Person in respect of any period in accordance with GAAP.

"Pro Rata Share" means, as of any date of determination:

(a) with respect to a Lender's obligation to make all or a portion of the Revolving Loans, with respect to such Lender's right to receive payments of interest, fees, and principal with respect to the Revolving Loans, and with respect to all other computations and other matters related to the Revolver Commitments or the Revolving Loans, the percentage obtained by dividing (i) the Revolving Loan Exposure of such Lender by (ii) the aggregate Revolving Loan Exposure of all Lenders,

(b) with respect to a Lender's obligation to participate in the Letters of Credit, with respect to such Lender's obligation to reimburse Issuing Bank, and with respect to such Lender's right to receive payments of Letter of Credit Fees, and with respect to all other computations and other matters related to the Letters of Credit, the percentage obtained by dividing (i) the Revolving Loan Exposure of such Lender by (ii) the aggregate Revolving Loan Exposure of all Lenders; provided, that if all of the Revolving Loans have been repaid in full and all Revolver Commitments have been terminated, but Letters of Credit remain outstanding, Pro Rata Share under this clause shall be determined as if the Revolver Commitments had not been terminated and based upon the Revolver Commitments as they existed immediately prior to their termination,

(c) with respect to a Lender's right to receive payments of interest, fees, and principal with respect to the Term Loan, and with respect to all other computations and other matters related to the Term Loan, the percentage obtained by dividing (i) the Term Loan Exposure of such Lender by (ii) the aggregate Term Loan Exposure of all Lenders, and

(d) with respect to all other matters and for all other matters as to a particular Lender (including the indemnification obligations arising under Section 16.7 of the Agreement), the percentage obtained by dividing (i) the Revolving Loan Exposure and the Term Loan Exposure of such Lender by (ii) the aggregate Revolving Loan Exposure and Term Loan Exposure of all Lenders, in any such case as the applicable percentage may be adjusted by assignments permitted pursuant to Section 13.1; provided, that if all of the Loans have been repaid in full, all Letters of Credit have been made the subject of Letter of Credit Collateralization, and all Revolver Commitments have been terminated, Pro Rata Share under this clause shall be determined as if the Revolving Loan Exposures had not been repaid, collateralized, or terminated and shall be based upon the Revolving Loan Exposures as they existed immediately prior to their repayment, collateralization, or termination.

"Public Lender" has the meaning specified therefor in Section 19.9(c) of the Agreement.

"Qualified Equity Interest" means and refers to any Equity Interests issued by Revolving Loan Borrower (and not by one or more of its Subsidiaries) that is not a Disqualified Equity Interest.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Borrower or one of its Subsidiaries and the improvements thereto.

"Real Property Collateral" means the Real Property identified on Schedule R-1 to the Agreement.

"Receivable Reserves" means, as of any date of determination, those reserves that Agent deems necessary or appropriate, in its Permitted Discretion and subject to Section 2.1(c), to establish and maintain (including reserves for rebates, discounts, warranty claims, and returns) with respect to the Eligible Accounts.

"Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

"Reference Period" has the meaning set forth in the definition of EBITDA.

"Refinancing Indebtedness" means refinancings, renewals, or extensions of Indebtedness so long as:

(a) such refinancings, renewals, or extensions do not result in an increase in the principal amount of the Indebtedness so refinanced, renewed, or extended, other than by the amount of premiums paid thereon and the fees and expenses incurred in connection therewith and by the amount of unfunded commitments with respect thereto,

(b) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity (measured as of the refinancing, renewal, or extension) of the Indebtedness so refinanced, renewed, or extended, nor are they on terms or conditions (other than interest rate) that, taken as a whole, are or could reasonably be expected to be materially adverse to the interests of the Lender Group,

(c) if the Indebtedness that is refinanced, renewed, or extended was subordinated in right of payment to the Obligations, then the terms and conditions of the refinancing, renewal, or extension must include subordination terms and conditions that are at least as favorable to the Lender Group as those that were applicable to the refinanced, renewed, or extended Indebtedness, and

(d) the Indebtedness that is refinanced, renewed, or extended is not recourse to any Person that is liable on account of the Obligations other than those Persons which were obligated with respect to the Indebtedness that was refinanced, renewed, or extended.

"Register" has the meaning set forth in Section 13.1(h) of the Agreement.

"Related Fund" means a Fund that is administered or managed by (i) a Lender, (ii) an Affiliate of a Lender or (iii) an entity or an Affiliate of an entity that administers or manages a Lender.

"Remedial Action" means all actions taken to (a) clean up, remove, remediate, contain, treat, monitor, assess, evaluate, or in any way address Hazardous Materials in the indoor or outdoor environment, (b) prevent or minimize a release or threatened release of Hazardous Materials so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, (c) restore or reclaim natural resources or the environment, (d) perform any pre-remedial studies, investigations, or post-remedial operation and maintenance activities, or (e) conduct any other actions with respect to Hazardous Materials required by Environmental Laws.

"Required Lenders" means, at any time, Lenders having or holding more than 50% of the sum of (a) the aggregate Revolving Loan Exposure of all Lenders, plus (b) the aggregate Term Loan Exposure of all Lenders; provided, that (i) the Revolving Loan Exposure and Term Loan Exposure of any Defaulting Lender shall be disregarded in the determination of the Required Lenders, (ii) at any time there are 2 or more Lenders (who are not Affiliates of one another), "Required Lenders" must include at least 2 Lenders (who are not Affiliates of one another).

"Reserves" means, as of any date of determination, those reserves (other than Receivable Reserves, Bank Product Reserves, and Inventory Reserves) that Lender deems necessary or appropriate, in its Permitted Discretion and subject to Section 2.1(c), to establish and maintain (including reserves with respect to (a) sums that any Borrower or its Subsidiaries are required to pay under any Section of the Agreement or any other Loan Document (such as taxes, assessments, insurance premiums, or, in the case of leased assets, rents or other amounts payable under such leases but excluding the Obligations) and has failed to pay, and (b) amounts owing by any Borrower or its Subsidiaries to any Person other than Agent or Lenders to the extent secured by a Lien on, or trust over, any of the Collateral (other than a Permitted Lien), which Lien or trust, in the Permitted Discretion of Agent likely would have a priority superior to the Agent's Liens (such as Liens or trusts in favor of landlords, warehousemen, carriers, mechanics, materialmen, laborers, or suppliers, or Liens or trusts for ad valorem, excise, sales, or other taxes where given priority under applicable law) in and to such item of the Collateral) with respect to the Borrowing Base or the Maximum Revolver Amount.

"Restatement Effective Date" means the first date all the conditions precedent in Section 3.1 are satisfied or waived by Agent.

"Restricted Payment" means to (a) declare or pay any dividend or make any other payment or distribution, directly or indirectly, on account of Equity Interests issued by any Borrower or its Subsidiaries (including any payment in connection with any merger or consolidation involving Borrower) or to the direct or indirect holders of Equity Interests issued by any Borrower in their capacity as such (other than dividends or distributions payable in Qualified Equity Interests issued by a Borrower, or (b) purchase, redeem, make any sinking fund or similar payment, or otherwise acquire or retire for value (including in connection with any merger or consolidation involving any Borrower) any Equity Interests issued by any Borrower, and (c) make any payment to retire, or to obtain the surrender of, any outstanding warrants, options, or other rights to acquire Equity Interests of any Borrower now or hereafter

outstanding, and (d) make, or cause or suffer to permit any Borrower or any of its Subsidiaries to make, any payment or prepayment of principal of, premium, if any, or interest on, or redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, any Subordinated Indebtedness. For the avoidance of doubt, payments under any Tax Sharing Agreement shall not constitute Restricted Payments.

"Revolver Commitments" means, with respect to each Lender, its Revolver Commitment, and, with respect to all Lenders, their Revolver Commitments, as the context requires, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 to the Agreement or in the Assignment and Acceptance pursuant to which such Lender became a Lender under the Agreement, as such amounts may be reduced or increased from time to time pursuant to assignments made in accordance with the provisions of Section 13.1 of the Agreement. On the Restatement Effective Date, the sum of all Lenders' Revolver Commitments is $60,000,000.

"Revolver Usage" means, as of any date of determination, the sum of (a) the amount of outstanding Revolving Loans (inclusive of Swing Loans and Protective Advances), *plus* (b) the amount of the Letter of Credit Usage.

"Revolving Loan Borrower" has the meaning specified therefor in the preamble to the Agreement.

"Revolving Loan Exposure" means, with respect to any Lender, as of any date of determination (a) prior to the termination of the Revolver Commitment, the amount of such Lender's Revolver Commitment, and (b) after the termination of the Revolver Commitment, the aggregate outstanding principal amount of the Revolving Loans of such Lender.

"Revolving Loans" has the meaning specified therefor in Section 2.1(a) of the Agreement.

"Sanctioned Entity" means (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

"Sanctioned Person" means a person named on the list of Specially Designated Nationals maintained by OFAC.

"S&P" has the meaning specified therefor in the definition of Cash Equivalents.

"SEC" means the United States Securities and Exchange Commission and any successor thereto.

"Securities Account" means a securities account (as that term is defined in the Code).

"Securities Act" means the Securities Act of 1933, as amended from time to time, and any successor statute.

"Settlement" has the meaning specified therefor in Section 2.3(e)(i) of the Agreement.

"Settlement Date" has the meaning specified therefor in Section 2.3(e)(i) of the Agreement.

“Solvent” means, with respect to Borrowers and their Subsidiaries, taken as a whole, as of any date of determination, that (a) at fair valuations, the sum of Borrowers’ and their Subsidiaries’ consolidated debts (including contingent liabilities) is less than all of Borrowers’ and their Subsidiaries’ assets, (b) Borrowers and their Subsidiaries are not engaged or about to engage in a business or transaction for which the remaining assets of Borrowers and their Subsidiaries, taken as a whole, are unreasonably small in relation to the business or transaction or for which the property remaining with Borrowers and their Subsidiaries, taken as a whole, is an unreasonably small capital, and (c) Borrowers and their Subsidiaries, taken as a whole, have not incurred and do not intend to incur, or reasonably believe that they will incur, debts beyond their ability to pay such debts as they become due (whether at maturity or otherwise), and (d) Borrowers and their Subsidiaries taken as a whole are “solvent” or not “insolvent”, as applicable within the meaning given those terms and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under Statement of Financial Accounting Standard No. 5).

“Standard Letter of Credit Practice” means, for Issuing Bank, any domestic or foreign law or letter of credit practices applicable in the city in which Issuing Bank issued the applicable Letter of Credit or, for its branch or correspondent, such laws and practices applicable in the city in which it has advised, confirmed or negotiated such Letter of Credit, as the case may be, in each case, (a) which letter of credit practices are of banks that regularly issue letters of credit in the particular city, and (b) which laws or letter of credit practices are required or permitted under ISP or UCP, as chosen in the applicable Letter of Credit.

“Subordinated Indebtedness” means any unsecured Indebtedness of any Borrower or its Subsidiaries incurred from time to time that is subordinated in right of payment to the Obligations and (a) that is only guaranteed by the Guarantors, (b) that is not subject to scheduled amortization, redemption, sinking fund or similar payment and does not have a final maturity, in each case, on or before the date that is six months after the Maturity Date, (c) that does not include any financial covenants or any covenant or agreement that is more restrictive or onerous on any Loan Party in any material respect than any comparable covenant in the Agreement and is otherwise on terms and conditions reasonably acceptable to Agent, (d) shall be limited to cross-payment default and cross-acceleration to designated “senior debt” (including the Obligations”), and (e) the terms and conditions of the subordination are reasonably acceptable to Agent and if requested by Agent, Borrowers shall have delivered a subordination agreement, in form and substance reasonably acceptable to Agent and Required Lenders.

“Subsidiary” of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the Equity Interests having ordinary voting power to elect a majority of the Board of Directors of such corporation, partnership, limited liability company, or other entity.

“Supermajority Lenders” means, at any time, Lenders having or holding more than 66 2/3% of the sum of (a) the aggregate Revolving Loan Exposure of all Lenders plus (b) the aggregate Term Loan Exposure of all Lenders; provided , that (i) the Revolving Loan Exposure and Term Loan Exposure of any Defaulting Lender shall be disregarded in the determination of Supermajority Lenders, and (ii) at any time there are 2 or more Lenders (who are not Affiliates of one another), “Supermajority Lenders” must include at least 2 Lenders (who are not Affiliates of one another).

"Swing Lender" means Wells Fargo or any other Lender that, at the request of Borrowers and with the consent of Agent agrees, in such Lender's sole discretion, to become the Swing Lender under Section 2.3(b) of the Agreement.

"Swing Loan" has the meaning specified therefor in Section 2.3(b) of the Agreement.

"Swing Loan Exposure" means, as of any date of determination with respect to any Lender, such Lender's Pro Rata Share of the outstanding principal amount of the Swing Loans on such date.

"Tax Sharing Agreement" has the meaning specified therefor in the definition of "Vector Agreements".

"Taxes" means any taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein, including all interest, additions to tax or penalties with respect thereto.

"Tax Lender" has the meaning specified therefor in Section 15.2(a) of the Agreement.

"Term Loan" shall mean the borrowing by Term Loan Borrower from Agent on or about August 10, 2007 in the original principal amount of $8,000,000 which is secured by a first mortgage and lien in favor of Agent on the Mebane Premises. As of the date hereof, after giving effect to the execution and delivery of this Agreement, the outstanding principal amount of the Term Loan is $3,564,584.09.

"Term Loan Note" means the Second Amended and Restated Term Promissory Note, dated the Restatement Effective Date, in the original principal amount of $3,564,584.09 made by Term Loan Borrower in favor of Agent for the benefit of Lenders, as the same may be amended, restated, amended and restated, or supplemented from time to time.

"Term Loan Exposure" means, with respect to any Lender, as of any date of determination, the outstanding principal amount of the Term Loan held by such Lender.

"Trademark Security Agreement" has the meaning specified therefor in the Guaranty and Security Agreement.

"TTM EBITDA" means, as of any date of determination, EBITDA of Borrowers and their Subsidiaries determined on a consolidated basis in accordance with GAAP, for the 12 month period most recently ended.

"UCP" means , with respect to any Letter of Credit, the Uniform Customs and Practice for Documentary Credits 2007 Revision, International Chamber of Commerce Publication No. 600 and any subsequent revision thereof adopted by the International Chamber of Commerce on the date such Letter of Credit is issued.

"United States" means the United States of America.

"Unused Line Fee" has the meaning specified therefor in Section 2.10(c) of the Agreement.

"U.S. Person" means any Person that is a "United States Person" as defined in Section 7701(a)(30) of the IRC.

"Value" shall mean, as determined by Agent in good faith, with respect to Inventory, the lower of (a) cost computed on a first-in-first-out basis (except, that, Inventory consisting of leaf tobacco shall be computed on an average cost basis) in accordance with GAAP or (b) market value.

"Vector Agreements" shall mean, collectively, (a) Sales, Marketing and Distribution Agreement, dated January 1, 2011, by and between Liggett Vector Brands LLC (successor to Liggett Vector Brands Inc.) and Vector Tobacco Inc., as may be amended from time to time, (b) Contract Manufacturing Agreement, dated as of January 1, 2011, by and between Borrower and Vector Tobacco Inc., as may be amended from time to time, and (c) Agreement for Production and Storage Space, dated August 15, 2005, by and between Borrower and Vector Tobacco Inc., as amended on April 1, 2010 and as may be further amended from time to time, and (d) Revolving Loan Borrower may make payments required pursuant to the Tax Sharing Agreement, dated June 29, 1990, as amended by the Agreement, dated May 24, 1999, by and between VGRH and Revolving Loan Borrower (formerly known as Liggett & Myers Tobacco Company and successor-in-interest to Brooke Group Holding Inc., Eve Holdings Inc. and Chesterfield Assets Inc.), as may be amended from time to time or any other tax sharing agreement or arrangement with Parent or VGRH, (each a "Tax Sharing Agreement").

"VGRH" shall mean VGR Holding LLC (formerly VGR Holding Inc., formerly BGLS Inc.), an Affiliate of Revolving Loan Borrower.

"Voidable Transfer" has the meaning specified therefor in Section 19.8 of the Agreement.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing: (a) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by (b) the then-outstanding principal amount of such Indebtedness.

"Wells Fargo" means Wells Fargo Bank, National Association, a national banking association.

"Withdrawal Liability" means liability with respect to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

EXHIBIT 4.17

THIRD SUPPLEMENTAL INDENTURE

THIRD SUPPLEMENTAL INDENTURE (this "*Supplemental Indenture*"), dated as of February 20, 2015, among Eve Holdings LLC, a Delaware limited liability company (the "*Guaranteeing Subsidiary*"), an indirect subsidiary of Vector Group Ltd. (or its permitted successor), a Delaware corporation (the "*Company*"), the Company, the other Guarantors (as defined in the Indenture referred to herein) and U.S. Bank National Association, as trustee under the Indenture referred to below (the "*Trustee*").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "*Indenture*"), dated as of February 12, 2013, as supplemented by the first supplemental indenture, dated as of September 10, 2013, as supplemented by the second supplemental indenture, dated as of April 15, 2014, providing for the issuance of 7.750% Senior Secured Notes due 2021 (the "*Notes*");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Company's Obligations under the Notes and the Indenture on the terms and conditions set forth herein (the "*Note Guarantee*"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AGREEMENT TO GUARANTEE. The Guaranteeing Subsidiary hereby agrees to provide an unconditional Guarantee on the terms and subject to the conditions set forth in the Note Guarantee and in the Indenture including but not limited to Article 11 thereof.

4. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator, stockholder or agent of the Guaranteeing Subsidiary, as such, shall have any liability for any obligations of the Company or any Guaranteeing Subsidiary under the Notes, any Note Guarantees, the Collateral Documents, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive

liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

5. NEW YORK LAW TO GOVERN. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

6. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

7. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

8. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

EVE HOLDINGS LLC

By: ________________________________
Name:
Title:

VECTOR GROUP LTD.

By: ________________________________
Name: J. Bryant Kirkland
Title: Vice President, Treasurer and Chief Financial Officer

VGR HOLDING LLC

By: ________________________________
Name: J. Bryant Kirkland
Title: Vice President, Treasurer and Chief Financial Officer

LIGGETT GROUP LLC

By: ________________________________
Name: John R. Long
Title: Vice President, General Counsel and Secretary

LIGGETT VECTOR BRANDS LLC

By: ________________________________
Name: John R. Long
Title: Vice President and General Counsel

VECTOR RESEARCH LLC

By: ________________________________
Name: Nicholas Anson
Title: Vice President of Finance, Treasurer and Chief Financial Officer

VECTOR TOBACCO INC.

By: ________________________________
Name: Nicholas Anson
Title: Vice President of Finance, Treasurer and Chief Financial Officer

LIGGETT & MYERS HOLDINGS INC.

By: ________________________________

Name: J. Bryant Kirkland
Title: Treasurer

100 MAPLE LLC

By: ________________________________

Name: John R. Long
Title: Secretary

V.T. AVIATION LLC

By: ________________________________

Name: Nicholas Anson
Title: Vice President of Finance, Treasurer and Chief Financial Officer

VGR AVIATION LLC

By: ________________________________

Name: Nicholas Anson
Title: Vice President of Finance, Treasurer and Chief Financial Officer

ZOOM E-CIGS LLC

By: ________________________________

Name: John R. Long
Title: Vice President, General Counsel and Secretary

ACCOMMODATIONS ACQUISITION CORPORATION

By: ________________________________

Name: J. Bryant Kirkland
Title: Vice President and Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: ________________________________
Authorized Signatory

Exhibit 12.1

VECTOR GROUP LTD.

Computation of Ratio of Earnings to Fixed Charges

(Dollars in Thousands, Except Ratios)

(Unaudited)

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Earnings as defined:					
Pre-tax income (loss)	82,487	63,487	53,717	123,157	85,570
Distributions from investees	5,152	4,251	19,169	9,322	12,212
Interest expense	146,787	147,084	132,538	93,939	72,572
(Income) in equity of affiliate	(4,103)	(22,925)	(29,764)	(19,966)	(23,963)
Interest portion of rental expense (1)	7,505	2,174	1,367	1,438	1,223
Total earnings	237,828	194,071	177,027	207,890	147,614
Fixed charges as defined:					
Interest expense	146,787	147,084	132,538	93,939	72,572
Interest portion of rent expense (1)	7,505	2,174	1,367	1,438	1,223
Total fixed charges	154,292	149,258	133,905	95,377	73,795
Ratio of earnings to fixed charges	1.54	1.30	1.32	2.18	2.00

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

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

The following is a list of our active subsidiaries as of December 31, 2014, including the jurisdiction of incorporation of each and the names under which such subsidiaries conduct business. In the case of each subsidiary which is indented, its immediate parent owns beneficially all of the voting securities.

VGR Holding LLC	Delaware
Liggett Group LLC	Delaware
Vector Tobacco Inc.	Virginia
Liggett Vector Brands LLC	Delaware
Accommodations Acquisition Corporation	Delaware
New Valley LLC	Delaware
Douglas Elliman Realty, LLC	New York
New Valley PS LLC	Delaware

Not included above are other subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary, as such term is defined by Rule 1-02(w) of Regulation S-X.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-24217, 333-50189, 333-59615, 333-59210, 333-71596, 333-118113, 333-130406 and 333-196274) and on Form S-3 (Nos. 33-63119, 333-45377, 33-38869, 333-46055, 333-62156, 333-69294, 333-82212, 333-121502, 333-121504, 333-125077, 333-135816, 333-135962, 333-137093, 333-178284, 333-178413, 333-184878 and 333-201264) of Vector Group Ltd. of our report dated March 4, 2015, relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Miami, Florida
March 4, 2015

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-24217, 333-50189, 333-59615, 333-59210, 333-71596, 333-118113, 333-130406 and 333-196274) and on Form S-3 (Nos. 33-63119, 333-45377, 33-38869, 333-46055, 333-62156, 333-69294, 333-82212, 333-121502, 333-121504, 333-125077, 333-135816, 333-135962, 333-137093, 333-178284, 333-178413, 333-184878 and 333-201264) of Vector Group Ltd. of our report dated March 4, 2015, relating to the financial statements and financial statement schedule of Liggett Group LLC, which appears in this Form 10-K of Vector Group Ltd.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Raleigh, North Carolina
March 4, 2015

EXHIBIT 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-24217, 333-50189, 333-59615, 333-59210, 333-71596, 333-118113, 333-130406 and 333-196274) and on Form S-3 (Nos. 33-63119, 333-45377, 33-38869, 333-46055, 333-62156, 333-69294, 333-82212, 333-121502, 333-121504, 333-125077, 333-135816, 333-135962, 333-137093, 333-178284, 333-178413, 333-184878 and 333-201264) of Vector Group Ltd. of our report dated March 4, 2015, relating to the financial statements and financial statement schedule of Vector Tobacco Inc., which appears in this Form 10-K of Vector Group Ltd.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Raleigh, North Carolina
March 4, 2015

Exhibit 23.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-24217, 333-50189, 333-59615, 333-59210, 333-71596, 333-118113, 333-130406 and 333-196274) and on Form S-3 (Nos. 33-63119, 333-45377, 33-38869, 333-46055, 333-62156, 333-69294, 333-82212, 333-121502, 333-121504, 333-125077, 333-135816, 333-135962, 333-137093, 333-178284, 333-178413, 333-184878 and 333-201264) of Vector Group Ltd. of our report dated March 3, 2014, relating to the financial statements of Douglas Elliman Realty LLC, which appear in this Form 10-K of Vector Group Ltd.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Melville, New York
March 4, 2015

EXHIBIT 31.1

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

I, Howard M. Lorber, certify that:

1. I have reviewed this annual report on Form 10-K of Vector Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2015

/s/ Howard M. Lorber

Howard M. Lorber
President and Chief Executive Officer

EXHIBIT 31.2

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

I, J. Bryant Kirkland III, certify that:

1. I have reviewed this annual report on Form 10-K of Vector Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (c) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2015

/s/ J. Bryant Kirkland III

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

EXHIBIT 32.1

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Annual Report of Vector Group Ltd. (the “Company”) on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Howard M. Lorber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2015

/s/ Howard M. Lorber

Howard M. Lorber
President and Chief Executive Officer

EXHIBIT 32.2

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Annual Report of Vector Group Ltd. (the “Company”) on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J. Bryant Kirkland III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2015

/s/ J. Bryant Kirkland III

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

Exhibit 99.1

Pursuant to the Florida Supreme Court's ruling in *Engle v. Liggett Group Inc.*, which decertified the *Engle* class on a prospective basis, former class members had until January 2008 to file individual lawsuits. Lawsuits by individuals requesting the benefit of the *Engle* ruling are referred to as the "*Engle* progeny" cases. In October 2013, the Company announced a settlement of the claims of over 4,900 *Engle* progeny plaintiffs. Notwithstanding the settlement, the claims of approximately 320 *Engle* progeny plaintiffs remain pending. For more information on the *Engle* case and on the settlement, see "Note 14. Contingencies."

(i) Engle Progeny Cases with trial dates through December 31, 2015.

Alvarez, *et al.* v. R.J. Reynolds, *et al.*, Case No. 07-030302 CA 32, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 09/17/14). Two individuals suing. The case is scheduled for trial starting 07/20/15.

Block (f/k/a Kaplan) v. R.J. Reynolds, *et al.*, Case No. 08-26341, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 05/01/08). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is scheduled for trial starting 07/08/15.

Caprio v. R.J. Reynolds, *et al.*, Case No. 07-45316, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/28/07). One individual suing. Trial commenced on 01/19/15.

Collar v. R.J. Reynolds, et al., Case No. 31 2011 CA 000115, Circuit Court of the 19th Judicial Circuit, Indian River County (case filed 02/08/11). One individual suing. The case is scheduled for trial starting 07/08/15.

Cooper v. R.J. Reynolds, *et al.*, Case No. 08-026350, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/09/08). One individual suing. The case is scheduled for trial starting 04/01/15.

Feller v. R.J. Reynolds, *et al.*, Case No. 14-13463 CA 25, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 07/07/14). One individual suing. The case is scheduled for trial starting 10/05/15.

Hull v. R.J. Reynolds, *et al.*, Case No. 14-17702CA08, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 07/07/14). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is scheduled to be tried in 10/15.

Ledea v. R.J. Reynolds, *et al.*, Case No. 07-41730 CA 22, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 12/06/07). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is scheduled to be tried in 09/15.

Lima v. R.J. Reynolds, *et al.*, Case No. 14-17705CA08, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 07/07/14). The case is scheduled to be tried in 11/15.

McCoy v. R.J. Reynolds, *et al.*, Case No. 08-25806, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/05/08). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is scheduled for trial starting 08/12/15.

Merino v. R.J. Reynolds, *et al.*, Case No. 08-01287 CA 25, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 01/10/08). One individual suing. The case is scheduled for trial starting 07/06/15.

Pijuan, *et al.* v. R.J. Reynolds, *et al.*, Case No. 10-8359, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 02/08/10). Two individuals suing. The case is scheduled for trial starting after 05/18/15.

Shulman, *et al.* v. R.J. Reynolds, *et al.*, Case No. 2007 CA 023832 MB AF, Circuit Court of the 15th Judicial Circuit, Palm Beach County (case filed 01/04/08). One individual suing. The case is scheduled for trial starting 04/10/15.

(ii) Post-Trial Engle Progeny Cases.

Boatright, *et al.* v. R.J. Reynolds, *et al.*, Case No. 53-2011-CA-000158-000-WH, Circuit Court of the 10th Judicial Circuit, Polk County (case filed 01/12/11). This was a personal injury action filed by a smoker and his spouse that proceeded to jury trial in October 2014. At the close of plaintiff's case, the court granted directed verdict to Liggett on all claims other than the claim for conspiracy to conceal. In November 2014, the jury returned a verdict in favor of plaintiffs and awarded compensatory damages in the amount of $15,000,000. The jury apportioned fault as follows: Plaintiff - 15%, Philip Morris - 85%. While the jury determined that Liggett's participation in an agreement to conceal was a legal cause of injury to plaintiffs, the court refused to allow the jury to consider apportioning fault to Liggett. The jury further assessed punitive damages against Philip Morris for $19,700,000 and Liggett for $300,000. Post-trial motions were denied. In January 2015, a joint and several judgment was entered for $12,750,000 for the compensatory damages. An additional $300,000 in punitive damages was awarded against Liggett. In February 2015, the defendants filed a notice of appeal to the Second District Court of Appeal.

Buchanan v. R.J. Reynolds, *et al.*, Case No. 2007-CA-3565, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/17/07). This was a wrongful death action that proceeded to jury trial in November 2012. In December 2012, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $5,500,000. The jury apportioned fault as follows: Decedent - 26%, Philip Morris - 37% and Liggett - 37% ($2,035,000). In April 2012, a joint and several judgment for $5,500,000 was entered against the defendants. In July 2014 the First District Court of Appeal affirmed the lower court, but certified to the Florida Supreme Court the issue of the statute of repose, which is currently before the court in *Hess*. In August 2014, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In September 2014, the Florida Supreme Court stayed the case pending the outcome of *Hess*. The parties reached a confidential settlement agreement regarding the amount of plaintiff's trial level attorneys' fees and costs in the event plaintiff prevails on appeal.

Calloway v. R.J. Reynolds, *et al.*, Case No. 08-21770, Circuit Court of the17th Judicial Circuit, Broward County (case filed 05/15/08). This was a wrongful death action that proceeded to jury trial in April 2012. In May 2012, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $20,500,000. The jury apportioned fault as follows: Decedent - 20.5%, R.J. Reynolds - 27%, Philip Morris - 25%, Lorillard - 18% and Liggett - 9.5% ($1,947,500). In August 2012, a joint and several judgment for compensatory damages of $16,100,000 plus interest was entered against all of the defendants. In addition, the judgment awarded plaintiff $7,600,000 in punitive damages against Liggett. An order of entitlement to attorneys' fees and costs was also entered against the defendants. In September 2012, the defendants filed a notice of appeal to the Fourth District Court of Appeal. The plaintiffs filed a notice of cross-appeal. Briefing is complete.

Cohen, D. v. R.J. Reynolds, *et al.*, Case No. 09-004042, Circuit Court of the 15th Judicial Circuit, Palm Beach County (case filed 02/04/09). This was a wrongful death action that proceeded to jury trial in April 2013. In May 2013, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $2,055,000. The jury apportioned fault as follows: Decedent - 40%, RJR - 30%, Lorillard - 20% and Liggett - 10% ($205,500). In June 2013, the trial court granted defendants' motion for a new trial. The new trial date has not been scheduled. Plaintiff filed a notice of appeal and the defendants filed a notice of cross appeal. Briefing is underway.

Irimi v. R.J. Reynolds, *et al.*, Case No. 08-26337 19, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/30/08). One individual sued on behalf of the estate and survivors of a deceased smoker. Trial

commenced on July 30, 2014. On August 28, 2014 the jury returned a verdict in favor of plaintiff and awarded compensatory damages in the amount of $3,123,426. The jury apportioned fault as follows: Decedent - 70%, R.J. Reynolds - 14.5%, Lorillard - 14.5% and Liggett - 1% ($31,234). On January 27, 2015, the court granted defendants' motion and ordered a new trial. Plaintiff filed a notice of appeal to the Fourth District Court of Appeal.

Lambert v. R.J. Reynolds, *et al.*, Case No. 2007-013530-CI-19, Circuit Court of the 6th Judicial Circuit, Pinellas County (case filed 02/05/08). One individual sued on behalf of the estate and survivors of a deceased smoker. Liggett was the only defendant at trial. Trial commenced on September 15, 2014. On October 1, 2014, the jury returned a verdict in favor of plaintiff and awarded compensatory damages in the amount of $3,600,000. In addition, $9,500,000 in punitive damages were awarded by the jury. The jury apportioned fault as follows: Decedent - 70% and Liggett - 30%, although because Liggett was found responsible for an intentional tort, the court refused to reduce the compensatory award by the decedent's comparative fault and final judgment was entered against Liggett for $13,100,000. Liggett will appeal.

Putney v. R.J. Reynolds, *et al.*, Case No. 07-36668, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/28/07). This was a wrongful death action that proceeded to jury trial in March 2010. In April 2010, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $15,000,000. The jury apportioned fault as follows: Decedent - 35%, Liggett - 20% ($3,008,138), R.J. Reynolds - 30% and Philip Morris - 15%. No punitive damages were awarded against Liggett. Defendants appealed the final judgment. The Fourth District Court of Appeal reversed and remanded the case for further proceedings, however, because it found that the trial court erred in entering summary judgment against defendants' on their statute of repose defense and in denying Defendants' Motion for *Remittitur* of the compensatory damage award for loss of consortium, it ruled that the award was excessive. Plaintiff filed a motion for rehearing which was denied. Both parties filed notices to involve the discretionary jurisdiction of the Florida Supreme Court. In December 2013, the Florida Supreme Court stayed the appeal pending the outcome of *Hess*. Plaintiff also moved for an award of attorneys' fees against Liggett pursuant to the fee shifting provisions of Florida's proposal for settlement statute based on a settlement offer that was not accepted by Liggett. Entitlement to an attorney fee award has been entered, and the amount of such award will be determined in a separate proceeding.

Tullo v. R.J. Reynolds, *et al.*, Case No. 2008-CA-035457, Circuit Court of the 15th Judicial Circuit, Palm Beach County (case filed 11/14/08). This was a wrongful death action that proceeded to jury trial in March 2011. In April 2011, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $4,500,000. The jury apportioned damages as follows: Plaintiff - 45%, Philip Morris - 45%, Liggett - 5% ($225,000) and Lorillard - 5%. No punitive damages were awarded. In August 2013, the Fourth District Court of Appeal affirmed. Defendants' notice to invoke the discretionary jurisdiction of the Florida Supreme Court was denied. Liggett satisfied the judgment on October 22, 2014, and other than an issue regarding the calculation of interest on the judgment and Liggett's share of plaintiff's taxable costs, this matter is concluded.

Ward v. R.J. Reynolds, *et al.*, Case No. 2008-CA-2135, Circuit Court of the 1st Judicial Circuit, Escambia County (case filed 12/13/07). This was a wrongful death action that proceeded to jury trial in January 2012. In January 2012, the jury returned a verdict in favor of the plaintiff and awarded compensatory damages in the amount of $1,000,000. The jury apportioned fault as follows: Decedent - 50%, R.J. Reynolds - 30%, Philip Morris - 10%, Lorillard - 9.9% and Liggett - 0.1% ($1,000). Philip Morris and Lorillard were dismissed from the case before trial. No punitive damages were awarded against Liggett. A joint and several judgment was entered against RJR and Liggett for $487,000. In September 2013, the First District Court of Appeal affirmed. Liggett satisfied the merits judgment on January 31, 2014. Plaintiff moved for an award of attorneys' fees against Liggett pursuant to the fee shifting provisions of Florida's proposal for settlement statute based on a settlement offer that was not accepted by Liggett. Defendants appealed the trial court's ruling that plaintiff was entitled to an attorney fee award. On June 24, 2014, the appellate court reversed the trial court's award of attorneys' fees and remanded the case to the trial court to consider an award of attorneys' fees on an alternative basis. Discovery is ongoing regarding the amount of attorneys' fees to which plaintiff may be entitled.

B. Other Individual Cases.

Bagshaw v. R.J. Reynolds, *et al.*, Case No. 06-CA-004768, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 06/01/06). One individual suing. There has been no recent activity in this case.

Calhoun, *et al.*, v. Brown & Williamson Tobacco Co., *et al.*, Case No. 02-CA-007970, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 08/27/02). Three individuals suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Capone v. Philip Morris Inc., *et al.*, Case No. 05-10312-CA-24, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/12/14). One individual suing. There has been no recent activity in this case.

Colic v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-010844, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 11/18/03). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Cotto v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-000748, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 01/22/03). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

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

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

Diamond v. R.J. Reynolds, *et al.*, Case No. 08-24533, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 05/30/08). One individual suing. There has been no recent activity in this case.

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

Fine v. Philip Morris, Inc., *et al.*, Case No. 08-000383 (AA), Circuit Court of the 15th Judicial Circuit, Palm Beach County (case filed 01/07/08). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Fuchs v. R.J. Reynolds, *et al.*, Case No. 05-CA-000681, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 01/21/05). One individual suing. There has been no recent activity in this case.

Grant v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-002673, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 03/17/03). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Grose v. R.J. Reynolds, *et al.*, Case No. 08-38276, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 08/15/08). One individual suing on behalf of the estate and survivors of a deceased smoker. In addition to Liggett, Vector Tobacco is named as a defendant. In October 2008, defendants filed a motion to dismiss the complaint. A hearing has not been scheduled.

Hearne v. R.J. Reynolds, *et al.*, Case No. 06-CA-000550, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 01/20/06). One individual suing. There has been no recent activity in this case.

Hecker v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-009336, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 10/07/03). One individual suing. There has been no recent activity in this case.

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

Lewis v. R.J. Reynolds, *et al.*, Case No. 05-CA-002167, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 03/09/05). One individual suing. There has been no recent activity in this case.

McDonald v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-004767, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 05/19/03). One individual suing. In January 2008, plaintiff filed a motion to amend the complaint alleging that plaintiff is a member of the *Engle* class. There has been no further activity in the case.

Meckler v. Liggett Group Inc., Case No. 97-03949-CA, Circuit Court of the 4th Judicial Circuit, Duval County (case filed 07/10/97). One individual suing. Liggett is the only defendant in this case. The case is dormant.

Morgan v. Brown & Williamson Tobacco Co., *et al.*, Case No. 02-CA-007084, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 08/02/02). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Quinn v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-004768, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 05/19/03). One individual suing. There has been no recent activity in this case.

Schuman v. R.J. Reynolds, *et al.*, Case No. 04-CA-009409, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 10/18/04). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Shaw v. R.J. Reynolds, *et al.*, Case No. 05-CA-002863, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 03/30/05). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Spivak v. Philip Morris Inc., *et al.*, Case No. 08-19309 (AH), Circuit Court of the 15th Judicial Circuit, Palm Beach County (case filed 06/26/08). One individual suing on behalf of the estate and survivors of a deceased smoker. There has been no recent activity in this case.

Swindells v. R.J. Reynolds, *et al.*, Case No. 06-CA-007837, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 09/01/06). One individual suing. There has been no recent activity in this case.

Ward v. Brown & Williamson Tobacco Co., *et al.*, Case No. 03-CA-008480, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 09/11/03). One individual suing. There has been no recent activity in this case.

Witt v. Brown & Williamson Tobacco Co., *et al.*, Case No. 04-CA-008530, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 09/21/04). One individual suing. There has been no recent activity in this case.

Louisiana

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

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

Maryland

Cook, *et al.* v. Union Carbide Corporation, *et al.*, Case No. 24-X-13-000445, Circuit Court, Baltimore City (case filed 09/12/13). Two individuals suing. Plaintiff and his wife seek damages allegedly caused by exposure to asbestos and cigarettes, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In November 2013, defendants moved to dismiss the complaint. The motion is pending.

Cowens, *et al.* v. John Crane-Houdaille Inc., *et al.*, Case No. 24-X-11-000335, Circuit Court, Baltimore City (case filed 09/12/13). Three individuals suing. Plaintiffs are the surviving children of decedent Frank E. Cowens. Plaintiffs seek damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Vector Tobacco Inc. In January 2014, defendants moved to dismiss the complaint. The motion is pending.

Culotta, *et al*. v. Union Carbide Corporation, *et al.*, Case No. 24-X-12-000690, Circuit Court, Baltimore City (case filed 06/20/13). One individual suing. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In July 2013, defendants moved to dismiss the complaint. The motion is pending.

Fales Jr., *et al*. v. John Crane-Houdaille, Inc., *et al.*, Case No. 24-X-11-000326, Circuit Court, Baltimore City (case filed 06/10/13). One individual suing. Plaintiff is the surviving child of decedent Lolita Fales. Plaintiff seeks damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In July 2013, defendants moved to dismiss the complaint. The motion is pending.

Thorpe, *et al*. v. Union Carbide Corporation, *et al.*, Case No. 24-X-14-000225, Circuit Court, Baltimore City (case 05/16/14). Two individuals suing. Plaintiffs are the surviving children of decedent Alice P. Thorpe. Plaintiffs seek damages allegedly caused to decedent by exposure to asbestos and cigarette smoke, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants, including Liggett Group LLC. In July 2014, defendants moved to dismiss the complaint. The motion is pending.

Wilt, *et al.* v. Union Carbide Corporation, *et al.*, Case No. 24-X-12-000529, Circuit Court, Baltimore City (case filed 04/24/14). Two individuals suing. Plaintiff and his wife seek damages allegedly caused by exposure to asbestos and cigarettes, with claims against certain asbestos manufacturer defendants and certain tobacco company defendants. In July 2014, defendants moved to dismiss the complaint. The motion is pending.

Missouri

Nuzum, *et al.* v. Brown & Williamson Tobacco Corporation, *et al.*, Case No. 03-cv-237237, Circuit Court, Jackson County (case filed 05/21/03). Two individuals suing. A status conference is scheduled in February 2015.

New York

Brantley v. The American Tobacco Company, *et al.*, Case No. 114317/01, Supreme Court of New York, New York County (case filed 07/23/01). One individual suing. The case is stayed by stipulation of the parties.

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

Hausrath, *et al.* v. Liggett Group LLC, Case No. I2001-09526, Supreme Court of New York, Erie County (case filed 01/24/02). Two individuals suing. Liggett is the only remaining defendant. In July 2013, the court granted plaintiffs' motion to restore the case to the active docket calendar. Liggett appealed and the intermediate appellate court affirmed the lower court's decision.

James v. The American Tobacco Company, *et al.*, Case No. 103034/02, Supreme Court of New York, New York County (case filed 04/04/97). One individual suing. There has been no recent activity in this case.

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

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

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

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

Ohio

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

West Virginia

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

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

II. CLASS ACTION CASES

A. Smoking Related.

In Re: Tobacco Litigation (Personal Injury Cases), Case No. 00-C-5000, Circuit Court, West Virginia, Ohio County (case filed 01/18/00). Although not technically a class action, the court consolidated approximately 750 individual smoker actions that were pending prior to 2001 for trial on some common related issues. Liggett was severed from trial of the consolidated action. After two mistrials, in May 2013, the jury rejected all but one of the plaintiffs' claims, finding in favor of plaintiffs on the claim that ventilated filter cigarettes between 1964 and July 1, 1969 should have included instructions on how to use them. The issue of damages was reserved for further proceedings not yet scheduled. The court entered judgment in October 2013, dismissing all claims lost by the plaintiffs. The judgment was affirmed on appeal. The defendants did not appeal the verdict in favor of the plaintiff on the "failure to instruct" claim which impacted less than 30 of the plaintiffs. A hearing is scheduled for February 26, 2015 to address the remaining ventilated filter claim.

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

Young, *et al.* v. American Brands Inc., *et al.*, Case No. 97-19984cv, Civil District Court, Louisiana, Orleans Parish (case filed 11/12/97). This purported personal injury class action is brought on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. No class certification hearing has been held. The plaintiffs sought to recover an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. In October 2004, the trial court stayed the *Young* case pending the outcome of an appeal in *Scott v. American Tobacco Co.,* a case seeking medical monitoring for Louisiana smokers in which Liggett was not a party. The *Scott* case was tried to a jury which denied the medical monitoring claim but determined instead that the defendants must establish a smoking cessation program. That program is ongoing. The *Scott* case is now final.

In 2013, plaintiffs' filed a motion to stay the case. The defendants did not oppose and the stay was entered by the court.

B. Price Fixing.

Smith, *et al.* v. Philip Morris, Inc., *et al.*, Case No. 00-cv-26, District Court, Kansas, Seward County (case filed 02/07/00). In this class action, plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in Kansas. The court granted class certification in November 2001. In November 2010, codefendants filed a motion for summary judgment. In addition to joining that summary judgment motion, Liggett filed a summary judgment motion in June 2011. In March 2012, the court granted the defendants' motions and dismissed the plaintiffs' claims with prejudice. In July 2014, the court of appeals affirmed the lower court's decision. On August 18, 2014, plaintiffs submitted a petition for review to the Kansas Supreme Court. A decision is pending.

III. HEALTH CARE COST RECOVERY ACTIONS

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

Exhibit 99.2

Liggett Group LLC and
Subsidiaries
Consolidated Financial Statements
as of December 31, 2014 and 2013,
and for each of the three years
ended December 31, 2014, 2013 and 2012

Liggett Group LLC and Subsidiaries
Index
December 31, 2014 and 2013

	Page(s)
Report of Independent Registered Public Accounting Firm	1
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2014 and 2013	2
Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012	4
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	5
Consolidated Statement of Member's Investment for the years ended December 31, 2014, 2013 and 2012	6
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	7
Notes to Consolidated Financial Statements for the years ended December 31, 2014, 2013 and 2012	9
Consolidated Financial Statement Schedule	
Schedule II — Valuation and Qualifying Accounts	44

Report of Independent Registered Public Accounting Firm

To the Managers and the
Member of Liggett Group LLC:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Liggett Group LLC and its subsidiaries (the "Company"), a wholly-owned subsidiary of Vector Group, Ltd., at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three 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 listed in the accompanying index 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

Raleigh, North Carolina
March 4, 2015

Liggett Group LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 445	$ 5
Accounts receivable		
Trade, less allowances of $374 and $319, respectively	14,933	8,649
Due from related parties	2,302	3,135
Other	1,382	1,046
Inventories	79,209	85,223
Income taxes receivable	744	4,824
Restricted assets	940	818
Deferred income taxes	464	467
Other current assets	2,843	1,978
Total current assets	103,262	106,145
Property, plant and equipment, net	53,513	54,448
Prepaid pension costs	25,032	26,080
Restricted assets	10,306	9,949
Deferred income taxes	4,986	8,770
Other assets	8,412	8,083
Total assets	$ 205,511	$ 213,475

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

Liggett Group LLC and Subsidiaries
Consolidated Balance Sheets (continued)
December 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
Liabilities and Member's Investment		
Current liabilities		
Current portion of notes payable and long-term debt	$ 9,482	$ 8,569
Revolving credit facility	17,766	30,424
Current payments due under the Master Settlement Agreement	18,356	16,611
Current portion of pension and post-retirement liabilities	931	939
Due to related parties	—	5,508
Accounts payable — trade	2,526	4,012
Accrued promotional expenses	16,486	16,569
Other accrued taxes, principally excise taxes	22,685	11,586
Allowance for sales returns	4,390	4,290
Litigation accruals	3,149	59,310
Deferred income taxes	1,730	1,657
Other current liabilities	4,338	1,152
Total current liabilities	101,839	160,627
Notes payable and long-term debt, less current portion	8,121	12,567
Non-current employee benefits	16,665	16,648
Deferred income taxes	3,780	3,573
Long-term payments due under the Master Settlement Agreement	24,003	25,666
Litigation accruals	25,700	27,059
Other long-term liabilities	265	—
Total liabilities	180,373	246,140
Commitments and contingencies		
Member's investment		
Contributed capital	2,150	—
Accumulated other comprehensive loss	(15,062)	(12,763)
Retained earnings (accumulated deficit)	38,050	(19,902)
Total member's investment	25,138	(32,665)
Total liabilities and member's investment	$ 205,511	$ 213,475

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

Liggett Group LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Revenues *	$ 952,133	$ 968,811	$ 1,050,226
Expenses			
Cost of goods sold *	690,565	715,330	817,633
Litigation judgment and settlement charges	2,850	88,106	1,424
Operating, selling, administrative and general expenses	67,340	68,604	72,088
Management fees paid to Vector Group Ltd.	9,370	9,008	8,663
Net loss on sale of assets	12	146	18
Operating income	181,996	87,617	150,400
Other income (expense)			
Interest income	4	1,982	21
Interest expense	(4,241)	(1,716)	(4,421)
Income before provision for income taxes	177,759	87,883	146,000
Income tax expense	(70,099)	(32,697)	(55,903)
Net income	$ 107,660	$ 55,186	$ 90,097

* Revenues and cost of goods sold include net federal excise taxes of $364,385, $404,522 and $466,538 for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Liggett Group LLC and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Net income	$ 107,660	$ 55,186	$ 90,097
Net change in forward contracts	64	63	64
Net change in pension-related amounts			
Net (loss) gain arising during the year	(4,430)	14,200	210
Amortization of loss	659	1,402	1,462
Net change in pension-related amount	(3,771)	15,602	1,672
Income tax effect on:			
Forward contracts	(25)	(24)	(24)
Pension-related amounts	1,433	(5,907)	(622)
Income tax benefit (provision) on other comprehensive income	1,408	(5,931)	(646)
Other comprehensive (loss) income, net of tax	(2,299)	9,734	1,090
Comprehensive income	$ 105,361	$ 64,920	$ 91,187

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

Liggett Group LLC and Subsidiaries
Consolidated Statement of Member's Investment
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	Contributed Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated deficit)	Total
Balance, January 1, 2012	$ 10,346	$ (23,587)	$ 22,769	$ 9,528
Net income	—	—	90,097	90,097
Change in pension related amounts, net of taxes	—	1,050	—	1,050
Change in fair value of forward contracts, net of taxes	—	40	—	40
Distributions	—	—	(103,000)	(103,000)
Balance, December 31, 2012	10,346	(22,497)	9,866	(2,285)
Net income	—	—	55,186	55,186
Change in pension related amounts, net of taxes	—	9,694	—	9,694
Change in fair value of forward contracts, net of taxes	—	40	—	40
Distributions	(10,346)	—	(84,954)	(95,300)
Balance, December 31, 2013	—	(12,763)	(19,902)	(32,665)
Net income	—	—	107,660	107,660
Change in pension related amounts, net of taxes	—	(2,338)	—	(2,338)
Change in fair value of forward contracts, net of taxes	—	39	—	39
Distributions	—	—	(51,000)	(51,000)
Stock-based compensation	108	—	—	108
Other	2,042	—	1,292	3,334
Balance, December 31, 2014	$ 2,150	$ (15,062)	$ 38,050	$ 25,138

The Member's investment is pledged as collateral for Liggett Group LLC's guarantee of Vector Group, Ltd's debt (see Note 1).

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

Liggett Group LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Cash flows from operating activities			
Net income	$ 107,660	$ 55,186	$ 90,097
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,990	8,981	9,095
Deferred income taxes	(2,798)	(3,296)	109
Loss on sale of assets	12	146	21
Non-cash stock-based compensation	108	—	—
Changes in assets and liabilities:			
Trade accounts receivable, net of allowances	(6,284)	2,269	13,410
Due (from) to related parties	(1,961)	5,440	4,249
Other receivables	(336)	(95)	(211)
Inventories	6,014	10,097	10,002
Income taxes	12,353	(12,824)	2,916
Other assets	(1,033)	6,626	(1,367)
Accounts payable, trade	(1,488)	905	(5,164)
Accrued expenses	(43,218)	48,331	3,173
Payments due under the Master Settlement Agreement	82	(36,237)	(15,571)
Employee benefits	(2,713)	(3,109)	(2,025)
Other long-term liabilities	265	25,198	237
Change in book overdraft	2	(1,936)	1,913
Net cash provided by operating activities	77,655	105,682	110,884
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	4	13	—
Increase in restricted assets	(479)	(815)	(1,392)
Increase in cash surrender value of life insurance policies	(266)	(266)	(264)
Capital expenditures	(9,256)	(9,457)	(8,918)
Net cash used in investing activities	(9,997)	(10,525)	(10,574)

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

Liggett Group LLC and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Cash flows from financing activities			
Repayments of debt	(43,724)	(7,434)	(18,970)
Proceeds from issuance of debt	40,164	6,580	14,015
Deferred finance charges	—	—	(315)
Borrowings under revolving credit facility	886,130	978,788	1,074,050
Repayments under revolving credit facility	(898,788)	(977,794)	(1,066,092)
Distributions to Vector Group, Ltd.	(51,000)	(95,300)	(103,000)
Net cash used in financing activities	(67,218)	(95,160)	(100,312)
Net increase (decrease) in cash and cash equivalents	440	(3)	(2)
Cash and cash equivalents			
Beginning of year	5	8	10
End of year	$ 445	$ 5	$ 8
Supplemental disclosures of cash flow information			
Cash payments during the period for			
Interest	$ 1,855	$ 1,671	$ 1,527
Income taxes	$ —	$ —	$ 175
Tax sharing payments to Vector Group, Ltd.	$ 59,000	$ 49,000	$ 47,800

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

1. Basis of Presentation

Liggett Group LLC (“Liggett” or the “Company”) is a wholly-owned subsidiary of VGR Holding LLC (“VGR”), all of whose membership interests are owned by Vector Group Ltd. (“Vector” or “Parent”). Liggett is principally engaged in the manufacture and sale of discount cigarettes in the United States. Certain management and administrative functions are performed by affiliates (see Note 10).

Liggett Vector Brands LLC ("Liggett Vector Brands"), a company affiliated through common owership, coordinates and executes the sales, marketing, administration and manufacturing efforts along with certain support functions for all of Vector’s tobacco operations. In consideration of the duties performed at Liggett Vector Brands on behalf of the Company, a portion of its sales, marketing, manufacturing, distribution, and administrative expenses have been allocated to Liggett for 2014, 2013, and 2012. As the primary beneficiary of these support functions, the Company has consolidated the balance sheet of Liggett Vector Brands within these financial statements beginning in 2014. The exclusion of the balances from the 2013 statements and years prior is determined to not be material to those years.

Management believes the assumptions underlying the consolidated financial statements are reasonable. However, the consolidated financial statements included herein may not necessarily reflect the Company’s results of operations, financial position, member's investment and cash flows in the future or what its results of operations, financial position, member's investment and cash flows would have been had the Company been a standalone company during the periods presented.

Vector and VGR are holding companies and, as a result, do not have any operating activities that generate revenues or cash flows. Accordingly, Vector relies on distributions from VGR and its other subsidiaries and investments, and VGR relies on distributions from its other subsidiaries, including Liggett, in order to fund its operations and meet its obligations. Vector has certain debt outstanding which requires interest and principal payments over the terms of such debt. Interest and principal to service the debt is expected to be funded by Vector’s cash and cash equivalents, investments, the operations of Vector’s subsidiaries, including Liggett, and proceeds, if any, from Vector’s future financings. During 2014, 2013 and 2012, Liggett made distributions of $51,000, $95,300, and $103,000, respectively, to VGR.

11% Senior Secured Notes due 2015

At December 31, 2012 Vector had $415,000 of principal outstanding of its 11% Senior Secured Notes due 2015 (the “Senior Secured Notes”). The Senior Secured Notes were sold in August 2007 ($165,000), September 2009 ($85,000), April 2010 ($75,000) and December 2010 ($90,000) in private offerings to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933.

The 11% Senior Secured Notes were guaranteed, subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of Vector that are engaged in the conduct of Vector’s cigarette businesses, including Liggett. Liggett's consolidated balance sheets, consolidated statements of operations, and consolidated statements of stockholder's equity as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, do not reflect any amounts related to these notes.

On January 29, 2013, Vector announced a cash tender offer with respect to any and all of the outstanding $415,000 principal amount of its 11% Senior Secured Notes due 2015. The Company retired $336,315 of the 11% Senior Secured Notes at a premium of 104.292%, plus accrued and unpaid interest on February 12, 2013. The remaining $78,685 of the 11% Senior Secured Notes were called and retired on March 14, 2013 at a redemption price of 103.667% plus accrued and unpaid interest.

7.75% Senior Secured Notes due 2021

In February 2013, Vector issued $450,000 of its 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. Vector used the net proceeds of the issuance for a cash tender offer announced on January 29, 2013, with respect to any and all of its outstanding 11% Senior Secured Notes due 2015.

On April 15, 2014, Vector completed the sale of $150,000 principal amount of its 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. Vector received net proceeds of approximately $158,670 after deducting underwriting discounts, commissions, fees and offering expenses. Vector will amortize the deferred costs and debt premium related to the additional Senior Secured Notes over the estimated life of the debt.

In August 2014, Vector 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 are guaranteed, subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of Vector that are engaged in the conduct of Vector's cigarette businesses, including Liggett. Liggett's consolidated balance sheets, consolidated statements of operations, and consolidated statements of stockholder's equity as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, December 31, 2013, and December 31, 2012, do not reflect any amounts related to these notes.

Liggett's cash flows from operations may be utilized to fund the interest and debt obligation of the 7.75% Senior Secured Notes via distributions by Liggett to VGR to Vector.

Additional Parent Company Notes

As of December 31, 2014, Vector has debt with a net amount of approximately $268,285 (face amount $513,750) in addition to the 7.75% Senior Secured Notes. This $268,285 is not reflected in Liggett's consolidated financial statements as these obligations are not collateralized by Liggett's assets nor has Liggett guaranteed these obligations. It is anticipated that the majority of the payments on this $268,285 will be funded by Vector's tobacco operations, including those of Liggett.

In addition to the 7.75% Senior Secured Notes, the Company may have to fund certain deferred income tax liabilities of Vector (see Note 6).

General Corporate Expenses

General corporate expense allocations represent costs related to corporate functions such as executive oversight, risk management, information technology, accounting, legal, investor relations, human resources, tax, employee benefits, other services and incentives Vector provides to the Company. The allocations are based on a reasonable estimation of Vector's overhead expenses based on both specific identification for certain expenses and relative percentage of the Company's revenues and expenses to Vector's total costs. All of these allocations are reflected in management fees paid to Vector in the Company's consolidated statements of operations of $9,370, $9,008 and $8,663 in 2014, 2013 and 2012, respectively.

The Company and Vector consider these general corporate expense allocations to be a reasonable reflection of the utilization of services provided. The allocations may not, however, reflect the expense the Company would have incurred as a standalone company. Actual costs which may have been incurred if the Company had been a standalone company in 2014, 2013 and 2012 would depend on a number of factors, including how the Company chose to organize itself, what if any functions were outsourced or performed by Company employees and strategic decisions made in areas such as information technology systems and infrastructure.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Liggett and its wholly-owned subsidiaries, Eve Holdings LLC, 100 Maple LLC ("Maple") and Liggett & Myers Holdings Inc. The Liggett Vector Brands statement of operations has been consolidated for each of the years ending December 31, 2014, 2013, and 2012. The Liggett Vector Brands balance sheet is consolidated as of December 31, 2014 through an out-of-period adjustment to correctly reflect the balances in the current year financial statements. Consolidation of this entity was made through an equity adjustment and did not result in a gain or loss as this transaction represents acquisition of an entity under common control. Amounts recorded were not material to our 2014 balance sheet. All significant intercompany balances and transactions have been eliminated.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, inventory valuation, deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension and postretirement plans, settlement accruals including Master Settlement Agreement ("MSA") liabilities, and litigation and defense costs. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash includes cash on hand, cash on deposit in banks and cash equivalents, comprised of short-term investments which have an original maturity of ninety days or less. Interest on short-term investments is recognized when earned. The carrying value of cash and cash equivalents, restricted assets and short-term loans approximate their fair value. The Company places its cash and cash equivalents with large commercial banks. The Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") continue to insure these balances up to $250 for FDIC and $500 SIPC. The carrying amount of bank deposits, including amounts classified as cash and cash equivalents, was approximately $445 and $5 at December 31, 2014 and 2013, respectively. All bank deposits at December 31, 2014 and December 31, 2013 are insured by the FDIC and SIPC up to their respective limits.

Accounts Receivable

Accounts receivable are recorded at their net realizable value. The allowance for doubtful accounts and terms discounts was $373 and $319 at December 31, 2014 and 2013, respectively. In 2014, accounts receivable increased by approximately $6,300 due to timing of shipments in 2014 versus 2013.

Inventories

Inventories are stated at the lower of cost or market with cost determined using the last-in, first-out ("LIFO") method. 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 cigarette industry. It is not practicable to determine the amount that will not be used or sold within one year. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions.

Restricted Assets

Restricted assets of $940 and $818 at December 31, 2014 and 2013, respectively, were classified as current assets. This balance consisted primarily of short-term deposits associated with financed equipment. Long-term restricted assets of $10,306 at December 31, 2014 consisted of $4,815 in deposits associated with financed equipment, $5,391 associated with legal bonds posted in connection with ongoing litigation, and $100 associated with a cash account securing a letter of credit. Long-term restricted assets of $9,949 at December 31, 2013 consisted of $4,706 in deposits associated with financed equipment and $5,243 of legal bonds posted in connection with ongoing litigation.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets which are twenty years for buildings and generally four to ten years for machinery and equipment.

Expenditures for repairs and maintenance 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.

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 undiscounted operating cash flow analyses 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. No impairment charges were recorded in 2014, 2013 or 2012.

Other Assets

Included in other current assets are point-of-sale materials of $1,247 and $1,250 as of December 31, 2014 and 2013, respectively. The remaining balances in other current assets of $1,596 and $728 at December 31, 2014 and 2013, respectively, relate to prepaid rent, miscellaneous receivables, other prepaid expenses and deposits.

Other non-current assets include spare parts for property, plant and equipment of $5,668 and $5,510, net of reserves of $1,637 and $1,620, as of December 31, 2014 and 2013, respectively.

Deferred financing charges of $17 and $122 as of December 31, 2014 and 2013, respectively, relate to the Company's debt agreement with Wells Fargo Bank National Association ("Wells Fargo") and have been recorded as other assets. The Company recognized amortization expense of $105, $105, and $95 in 2014, 2013, and 2012, related to deferred finance charges.

The remaining balances in other non-current assets of $2,727 and $2,451 at December 31, 2014 and 2013, respectively, consist mainly of the cash surrender values of certain life insurance policies.

Revenue Recognition

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 (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 in revenues and cost of goods sold.

Since the Company's 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.

Shipping and Handling Costs

Shipping and handling costs related to sales transactions are not billed to customers nor recorded as revenues. Shipping and handling costs of $4,508, $4,938 and $5,028 for years ended December 31, 2014, 2013 and 2012, respectively, are recorded in operating, selling, administrative and general expenses.

Advertising Costs

Advertising and related agency costs are expensed as incurred and were $2,782, $3,610 and $4,219 for the years ended December 31, 2014, 2013 and 2012, respectively. These costs are recorded as operating, selling, administrative and general expenses.

Stock Options

The Company, through an affiliate, accounts for stock compensation plans by measuring compensation cost for stock-based payments at fair value. (see Note 11).

Employee Benefits

Liggett has no employees. Employees of Liggett Vector Brands, a consolidated affiliate, perform services for Liggett and associated expenses, including benefits, of such employees are allocated to Liggett. 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 funded status of each defined benefit pension plan, retiree health care and other postretirement benefit plans and postemployment benefit plans is recognized on the balance sheet. The measurement date for determining the funded status of the plans is December 31. (see Note 5).

Income Taxes

The Company accounts for income taxes under the liability method and in accordance with the terms of the tax sharing agreement with Vector Group. The Company 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 follows authoritative guidance for accounting for uncertainty in income taxes which requires an entity to recognize 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.

Liggett's federal income tax provision and related deferred income tax amounts are determined as if the Company filed tax returns on a standalone basis. The Company and its subsidiaries are included in the consolidated federal tax return with Vector and its other U.S. subsidiaries (see Note 6).

Contingencies and Legal Costs

The Company records product liability legal expenses and other litigation costs as operating, selling, administrative and general expenses as those costs are incurred. As discussed in Note 9, legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against Liggett.

The Company records provisions in its consolidated financial statements for pending litigation when it is determined 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 9, (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; or (ii) management is unable to 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 14 state court *Engle* progeny cases, and several of these verdicts have been affirmed on appeal. At December 31, 2014, Liggett is a defendant in approximately 320 state court *Engle* progeny cases. Through December 31, 2014, other than the *Lukacs* case, the verdicts against Liggett have ranged from $1 to $3,600. In certain cases, the judgments entered have been joint and several with the other defendants. In four of these cases, punitive damages were also awarded for $300, $1,000, $7,600 and $9,500. Our potential range of loss in the six *Engle* progeny cases currently on appeal is between $0 and $28,195 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 9, 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.

Distributions and Dividends

The Company records distributions on its member's investment as dividends in its consolidated statement of member's investment to the extent of retained earnings. Any amounts exceeding retained earnings are recorded as a reduction of contributed capital.

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.

Other comprehensive income is a component of member's investment and relates to pension related adjustments and the change in the estimated fair value of forward contracts. The Company's comprehensive income was $105,361, $64,920, and $91,187 for the years ended December 31, 2014, 2013 and 2012, respectively.

The components of accumulated other comprehensive loss, net of taxes, were as follows at December 31:

	2014	2013
Pension-related amounts, net of taxes of $9,127 and $7,696, respectively	$ (15,014)	$ (12,676)
Forward contract adjustment, net of taxes of $43 and $67, respectively	(48)	(87)
Accumulated other comprehensive loss	$ (15,062)	$ (12,763)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned to a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities
Level 3: Unobservable inputs

The carrying value of cash and cash equivalents and restricted assets reported in the consolidated balance sheets approximate their fair value and are considered level one in the fair value hierarchy.

The carrying amount of borrowings outstanding under the variable rate revolving credit facility and other long-term debt is a reasonable approximation of fair value as determined under Level 2 of the Fair Value Hierarchy, based upon estimated current borrowing rates for loans with similar terms and maturities. The estimates 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.

	Fair Value Measurements as of December 31, 2014		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Financial assets:			
Cash and cash equivalents	$ 445	$ 445	$ —
Restricted assets	11,246	—	11,246
Total	$ 11,691	$ 445	$ 11,246
Financial liabilities:			
Notes payable and long-term debt	$ 35,387	—	$ 35,387
Total	$ 35,387	$ —	$ 35,387

	Fair Value Measurements as of December 31, 2013		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Financial assets:			
Cash and cash equivalents	$ 5	$ 5	$ —
Restricted assets	10,767	—	10,767
Total	$ 10,772	$ 5	$ 10,767
Financial liabilities:			
Notes payable and long-term debt	$ 51,577	—	$ 51,577
Total	$ 51,577	$ —	$ 51,577

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 United States Generally Accepted Accounting Principles ("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. This ASU is not anticipated to have a material impact on the Company's consolidated financial statements and notes to the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is the result of a convergence project between the FASB and the International Accounting Standards Board. The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting the new standard but does not anticipate it will have a material impact on the Company's consolidated financial statements or notes to the consolidated financial statements.

In April, 2014, the Financial Accounting Standards Board issued final guidance to change the criteria for reporting discontinued operations while enhancing disclosures in this area (Accounting Standards Update ("ASU") No. 2014-08). Under the new guidance, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as discontinued operations. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The guidance is effective for annual financial statements with fiscal years beginning on or after December 15, 2014 with early adoption permitted for disposals or classifications as held for sale which have not been reported in financial statements previously issued or available for issuance. Liggett will adopt the guidance effective January 1, 2015 and the guidance is not anticipated to have a material impact on the Company's consolidated financial statements and notes to the consolidated financial statements.

In March, 2014, the Emerging Issues Task Force (the "Task Force") reached a final consensus to amend the accounting guidance for stock compensation tied to performance targets (Issue No. 13-D). The objective of this guidance is to clarify the accounting treatment of certain types of performance conditions in stock-based compensation awards, more specifically, when performance targets can be achieved after the requisite service period. The Task Force concluded that performance criteria subsequent to a service period vesting requirement should be treated as vesting conditions, and as a result, this type of performance condition may delay expense recognition until achievement of the performance target is probable. Issue No. 13-D will be effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015, and early adoption is permitted. The adoption of this guidance is not anticipated to have a material impact on the Company's consolidated financial statements or notes to the consolidated financial statements.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables.

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Two wholesale customers accounted for 21% and 10% of Liggett's revenues in 2014, two wholesale customers accounted for 19% and 11% of Liggett's revenues in 2013, and two wholesale customers accounted for 18% and 10% of Liggett's revenues in 2012, respectively. 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. Liggett's largest single customer receivable balance represented approximately 13% and 7% of net accounts receivable at December 31, 2014 and 2013, respectively. 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 generally not exceeded management's expectations.

Liggett maintains cash deposits and money market accounts with major banks which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of loss is minimal.

Subsequent Events

On January 14, 2015, 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 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 Company has evaluated events that occurred subsequent to December 31, 2014, through the financial statement issue date of March 4, 2015, and determined there were no other recordable or reportable subsequent events.

3. Inventories

Inventories consist of the following at December 31:

	2014	2013
Leaf tobacco	$ 49,948	$ 49,140
Other raw materials	3,512	3,161
Work-in-process	879	353
Finished goods	54,561	59,661
Inventories at current cost	108,900	112,315
LIFO adjustment	(29,691)	(27,092)
Inventories, net	$ 79,209	$ 85,223

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 needs and are at prices, including carrying costs, established at the date of the commitment. Liggett had purchase commitments of approximately $23,988 at December 31, 2014. The Company entered into a single source supply agreement for fire safe cigarette paper through 2015.

Each year, Liggett capitalizes in inventory that portion of its MSA liability related to cigarettes shipped to public warehouses but not sold. The amount of capitalized MSA cost in finished goods inventory was $11,651 and $13,065 at December 31, 2014 and 2013, respectively.

All of the Company's inventories at December 31, 2014 and December 31, 2013 have been reported under the LIFO method.

4. Property, Plant and Equipment

Property, plant and equipment consists of the following at December 31:

	2014	2013
Land and land improvements	$ 1,442	$ 1,418
Buildings	16,286	15,097
Machinery and equipment	136,450	124,675
Property, plant and equipment	154,178	141,190
Less accumulated depreciation	(100,665)	(86,742)
Property, plant and equipment, net	$ 53,513	$ 54,448

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $10,822, $9,436, and $8,936, respectively. Future machinery and equipment purchase commitments were $3,266 at December 31, 2014.

5. Employee Benefits Plans

Defined Benefit Plans

Liggett sponsors three defined benefit pension plans (two qualified and one non-qualified) covering virtually all individuals who were employed by Liggett on a full-time basis prior to 1994. Future accruals of benefits under these three defined benefit plans were frozen between 1993 and 1995. These benefit plans provide pension benefits for eligible employees based primarily on their compensation and length of service. Contributions are made to the two qualified pension plans

in amounts necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The plans' assets and benefit obligations were measured at December 31, 2014 and 2013, respectively.

During 2014, 2013 and 2012, Vector sponsored the Supplemental Executive Retirement Plan ("SERP") where Vector will pay supplemental retirement benefits to certain key employees, including certain executive officers of Liggett. In January 2006, Vector amended and restated its SERP (the "Amended SERP"), effective January 1, 2005. The amendments to the plan were intended, among other things, to cause the plan to meet the applicable requirements of Section 409A of the Internal Revenue Code. The Amended SERP is intended to be unfunded for tax purposes, and payments under the Amended SERP will be made out of Vector's general assets. Under the Amended SERP, the benefit payable to a participant at his normal retirement date is a lump sum amount which is the actuarial equivalent of a predetermined annual retirement benefit set by Vector's board of directors. Normal retirement date is defined as the January 1 following the attainment by the participant of the latter of age 60 or the completion of eight years of employment following January 1, 2002 with Vector or a subsidiary.

At December 31, 2014, the aggregate lump sum equivalents of the annual retirement benefits payable under the Amended SERP to senior officers at normal retirement dates occurring during 2019-2023 is $6,614. In the case of a participant who becomes disabled prior to his normal retirement date of whose service is terminated without cause, the participant's benefit consists of a pro-rata portion of the full projected retirement benefit to which he would have been entitled had he remained employed through his normal retirement date, as actuarially discounted back to the date of payment. A participant who dies while working for Vector or a subsidiary (and before becoming disabled or attaining his normal retirement date) will be paid an actuarially discounted equivalent of his projected retirement benefit; conversely, a participant who retires beyond his normal retirement date will receive an actuarially increased equivalent of his projected retirement benefit.

Postretirement Medical and Life Plans

The Company provides certain postretirement medical and life insurance benefits to certain employees and retirees. Substantially all manufacturing employees as of December 31, 2014 are eligible for postretirement medical benefits if they reach retirement age while working for Liggett or certain affiliates. Retirees are required to fund 100% of participant medical premiums and, pursuant to union contracts, Liggett reimburses approximately 218 hourly retirees, who retired prior to 1991, for Medicare Part B premiums. In addition, Liggett Vector Brands provides life insurance benefits to approximately 171 active employees and 396 retirees who have reached retirement age and are eligible to receive benefits under one of the Company's defined benefit pension plans. The Company's postretirement liabilities are comprised of Medicare Part B and life insurance premiums.

The following table provides a reconciliation of benefit obligations, plan assets and the funded status of the pension plans and other postretirement benefits:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation				
Benefit obligation at January 1	$ (119,642)	$ (128,117)	$ (8,899)	$ (10,158)
Service cost	(350)	(734)	(9)	(16)
Interest cost	(5,258)	(4,726)	(430)	(417)
Benefits paid (including expenses)	10,530	12,679	552	559
Actuarial (loss) gain	(2,830)	1,256	(245)	1,133
Benefit obligation at December 31	$ (117,550)	$ (119,642)	$ (9,031)	$ (8,899)
Change in plan assets				
Fair value of plan assets at January 1	$ 137,036	$ 128,060	$ —	$ —
Actual return on plan assets	7,162	19,482	—	—
Contributions	349	2,173	552	560
Benefits paid (including expenses)	(10,530)	(12,679)	(552)	(560)
Fair value of plan assets at December 31	$ 134,017	$ 137,036	$ —	$ —
Funded status at December 31	$ 16,467	$ 17,394	$ (9,031)	$ (8,899)
Amounts recognized in the balance sheet:				
Prepaid pension cost	$ 25,032	$ 26,080	$ —	$ —
Other accrued expenses	(324)	(342)	(607)	(596)
Non-current employee benefit liabilities	(8,241)	(8,344)	(8,424)	(8,303)
Net amounts recognized	$ 16,467	$ 17,394	$ (9,031)	$ (8,899)

	Pension Benefits			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Service cost — benefits earned during the period	$ 350	$ 734	$ 870	$ 9	$ 16	$ 14
Interest cost on projected benefit obligation	5,258	4,726	5,618	430	417	465
Expected return on assets	(8,518)	(7,914)	(8,145)	—	—	—
Settlement loss	—	243	—	—	—	—
Amortization of net loss (gain)	719	1,465	1,584	(60)	(64)	(121)
Net (income) expense	$ (2,191)	$ (746)	$ (73)	$ 379	$ 369	$ 358

The following table summarizes amounts in accumulated other comprehensive income (loss) that are expected to be recognized as components of net periodic benefit cost (credit) for the year ending December 31, 2015.

	Defined Benefit Pension Plans	Post - Retirement Plans	Total
Actuarial loss (gain)	$ 785	$ (97)	$ 688

As of December 31, 2014, current year accumulated other comprehensive income (loss), before income taxes, consists of the following:

	Defined Benefit Pension Plans	Post-Retirement Benefits	Total
Prior year accumulated other comprehensive (loss) gain	$ (21,257)	$ 886	$ (20,371)
Amortization of gain (loss)	719	(60)	659
Net loss arising during the year	(4,186)	(244)	(4,430)
Current year accumulated other comprehensive (loss) income	$ (24,724)	$ 582	$ (24,142)

As of December 31, 2013, current year accumulated other comprehensive income (loss), before income taxes, consist of the following:

	Defined Benefit Pension Plans	Post-Retirement Benefits	Total
Prior year accumulated other comprehensive loss	$ (35,790)	$ (183)	$ (35,973)
Amortization of gain (loss)	1,466	(64)	1,402
Effect of settlement	243	—	243
Net gain arising during the year	12,824	1,133	13,957
Current year accumulated other comprehensive (loss) income	$ (21,257)	$ 886	$ (20,371)

As of December 31, 2014, two of the Company’s four defined benefit plans experienced accumulated benefit obligations in excess of plan assets, for which in the aggregate the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $17,596, $17,596 and $0, respectively. As of December 31, 2013, two of the Company’s four defined benefit plans experienced accumulated benefit obligations in excess of plan assets, for which in the aggregate the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $17,586, $17,586 and $0, respectively.

	Pension Benefits			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Weighted average assumptions:						
Discount rates — benefit obligation	2.75% - 4.00%	3.00% - 4.75%	3.00% - 4.75%	4.25%	5.00%	4.25%
Discount rates — service cost	3.00% - 4.75%	2.25% - 4.00%	2.25% - 4.00%	5.00%	4.25%	5.00%
Assumed rates of return on invested assets	6.50%	6.50%	7.00%	—	—	—
Salary increase assumptions	N/A	N/A	N/A	3.00%	3.00%	3.00%

Discount rates were determined by a quantitative analysis examining the prevailing prices of high quality bonds to determine an appropriate discount rate for measuring obligations. The aforementioned analyzes the cash flow from each of the Company’s two qualified defined benefit plans as well as a separate analysis of the cash flows from the postretirement medical and life insurance plans sponsored by the Company. The aforementioned analyses then construct a hypothetical bond portfolio whose cash flow from coupons and maturities match the year-by-year, projected benefit cash flow from the respective pension or retiree health plans. The Company uses the lower discount rate derived from the two independent analyses in the computation of the benefit obligation and service cost for each respective retirement liability. The Company

uses the discount rate derived from the analysis in the computation of the benefit obligation and service cost for all the plans respective retirement liability.

The Company considers input from its external advisors and historical returns in developing its expected rate of return on plan assets. The expected long-term rate of return is the weighted average of the target asset allocation of each individual asset class. The Company's actual 10-year annual rate of return on its pension plan assets was 6.6%, 7.2%, and 7.5% for the years ended December 31, 2014, 2013 and 2012, respectively, and the Company's actual five-year annual rate of return on its pension plan assets was 9.8%, 13.6%, and 2.9% for the years ended December 31, 2014, 2013 and 2012, respectively.

Gains and losses resulting from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and changes in actual returns on plan assets as compared to assumed returns. These gains and losses are only amortized to the extent that they exceed 10% of the greater of Projected Benefit Obligation and the fair value of assets. For the year ended December 31, 2014, Liggett used a 16.02 - year period for its Hourly Plan and a 16.72 - year period for its Salaried Plan to amortize pension fund gains and losses on a straight line basis. Such amounts are reflected in the pension expense calculation beginning the year after the gains or losses occur. The amortization of deferred losses negatively impacts pension expense in the future.

Plan assets are invested employing multiple investment management firms. Managers within each asset class cover a range of investment styles and focus primarily on issue selection as a means to add value. Risk is controlled through a diversification among asset classes, managers, styles and securities. Risk is further controlled both at the manager and asset class level by assigning excess return and tracking error targets. Investment managers are monitored to evaluate performance against these benchmark indices and targets.

Allowable investment types include equity, investment grade fixed income, high yield fixed income, hedge funds and short term investments. The equity fund is comprised of common stocks and mutual funds of large, medium and small companies, which are predominantly U.S. based. The investment grade fixed income fund includes managed funds investing in fixed income securities issued or guaranteed by the U.S. government, or by its respective agencies, mortgage backed securities, including collateralized mortgage obligations, and corporate debt obligations. The high yield fixed income fund includes a fund which invests in non-investment grade corporate debt securities. The hedge funds invest in both equity, including common and preferred stock, and debt obligations, including convertible debentures, of private and public companies. The Company generally utilizes its short term investments, including interest-bearing cash, to pay benefits and to deploy in special situations.

Effective November 29, 2012, the Liggett Employee Benefits Committee revised its target assets allocation to equal 50.0% equity investments, 30.0% investment grade fixed income, 10.0% high yield fixed income, 5.0% alternative investments (including hedge funds and private equity funds) and 5.0% short-term investments, with a rebalancing range of approximately plus or minus 5% around the target asset allocations.

Liggett's defined benefit retirement plan allocations at December 31, 2014 and 2013, by asset category, were as follows:

	Plan Assets At December 31,	
	2014	2013
Asset category		
Equity securities	50%	50%
Investment grade fixed income securities	29%	28%
High yield fixed income securities	10%	10%
Alternative investments	5%	6%
Short-term investments	6%	6%
	100%	100%

The defined benefit plans' recurring financial assets and liabilities subject to fair value measurements and the necessary disclosures are as follows:

	Fair Value Measurements as of December 31, 2014			
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Insurance contracts	$ 1,762	$ —	$ 1,762	$ —
Amounts in individually managed investment accounts:				
Cash	8,319	8,319	—	—
U.S. equity securities	42,046	42,046	—	—
Common collective trusts	61,877	—	61,877	—
Investment partnership	20,013	—	13,189	6,824
Total	$ 134,017	$ 50,365	$ 76,828	$ 6,824

	Fair Value Measurements as of December 31, 2013			
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Insurance contracts	$ 2,396	$ —	$ 2,396	$ —
Amounts in individually managed investment accounts:				
Cash	7,424	7,424	—	—
U.S. equity securities	46,520	46,520	—	—
Common collective trusts	57,912	—	57,912	—
Investment partnership	22,748	—	13,717	9,031
Total	$ 137,000	$ 53,944	$ 74,025	$ 9,031

The fair value determination disclosed above of assets as Level 3, under the fair value hierarchy, was determined based on unobservable inputs and were based on company assumptions, and information obtained from the investments based on the indicated market values of the underlying assets of the investment portfolio. The fair value of investments included in Level 1 are based on quoted market prices from the various stock exchanges. The Level 2 investments are based on quoted market prices of similar investments.

The changes in the fair value of these Level 3 investments as of December 31, 2014 and 2013 were as follows:

	2014	2013
Prior year balance	$ 9,031	$ 23,712
Distributions	(1,018)	(2,669)
Transfers	(641)	(13,153)
Contributions	—	—
Unrealized gain (loss) on long-term investments	3,403	(1,779)
Realized gain on long-term investments	(3,951)	2,920
Balance as of December 31	$ 6,824	$ 9,031

For 2014 measurement purposes, annual increases in Medicare Part B trends were assumed to equal rates between 1.53% and 6.29% between 2015 and 2022 and 4.5% after 2022. For 2013 measurement purposes, annual increases in Medicare Part B trends were assumed to equal rates between 4.25% and 7% between 2014 and 2022 and 4.5% after 2022.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 4	$ (4)
Effect on benefit obligation	$ 91	$ (85)

The Company does not currently anticipate that it will be required to make any contributions to comply with ERISA's minimum funding requirements, for the pension plan year beginning on January 1, 2015 and ending on December 31, 2015. Any additional funding obligation that the Company may have for subsequent years is contingent on several factors and is not reasonably estimable at this time.

Estimated future pension and postretirement medical benefits payments are as follows:

	Pension	Postretirement Medical
2015	$ 10,232	$ 607
2016	9,843	597
2017	9,505	598
2018	9,132	596
2019	15,324	596
2020-2024	37,958	2,944

Profit Sharing Plans

Liggett Vector Brands maintains 401(k) plans for substantially all employees which allow eligible employees to invest a percentage of their pre-tax compensation. Liggett Vector Brands is obligated to match a certain portion of employee contributions to the 401(k) plans. Accordingly, Liggett Vector Brands recorded contribution expenses of $1,154, $1,114, and $1,040 for the years ended December 31, 2014, 2013 and 2012, respectively.

6. Income Taxes

Liggett's income tax provision and related deferred income tax amounts are determined as if the Company filed tax returns on a standalone basis. The Company and its affiliates, currently are included in the consolidated federal income tax return of its ultimate parent, Vector.

Pursuant to a tax allocation agreement amended in 1999, the amounts provided for as currently payable for federal income taxes are based on the Company's pre-tax income for financial reporting purposes. The Company expenses and pays Vector Group, Ltd. their portion of the consolidated income tax expense in accordance with the tax allocation agreement.

The amounts provided for income taxes are as follows:

	2014	2013	2012
Current			
Federal	$ 57,662	$ 26,910	$ 43,745
State	15,235	9,083	12,049
	$ 72,897	$ 35,993	$ 55,794
Deferred			
Federal	$ 30	$ —	$ —
State	(2,828)	(3,296)	109
	$ (2,798)	$ (3,296)	$ 109
Total tax provision	$ 70,099	$ 32,697	$ 55,903

Historically, Liggett has paid Vector Group, Ltd. for its tax liabilities. While these payments have been made to the Vector Group, Ltd., they may not have been formally remitted to the Internal Revenue Service and may still represent a liability at the Vector Group, Ltd. level.

Temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows as of December 31:

	2014 Deferred Tax		2013 Deferred Tax	
	Asset	Liability	Asset	Liability
Sales and product allowances	$ 333	$ —	$ 323	$ —
Inventories	124	1,730	133	1,657
Property, plant and equipment	—	2,806	—	2,568
Employee benefit plan accruals	1,144	974	1,022	1,005
Tobacco litigation settlements	3,727	—	7,748	—
Forward contracts	6	—	11	—
Other	$ 116	$ —	$ —	$ —
Total deferred tax	$ 5,450	$ 5,510	$ 9,237	$ 5,230

Differences between the amounts provided for income taxes and amounts computed at the federal statutory tax rates are summarized as follows for the years ended December 31:

	2014	2013	2012
Income before income taxes	$ 177,759	$ 87,883	$ 146,000
Federal income tax at statutory rate	$ 62,216	$ 30,758	$ 51,100
State income taxes, net of federal taxes	8,111	3,999	6,643
Impact of domestic production deduction	(327)	(2,060)	(1,840)
Impact of other non-taxable differences	99	—	—
Income tax expense	$ 70,099	$ 32,697	$ 55,903

In 2012, the Company recognized $103 of the unrecognized tax benefits as a result of the expiration of statutes of limitations on positions reported on state and local income tax returns for prior years. No amounts related to unrecognized tax benefits were recognized in 2013 or 2014.

In 2013, the Internal Revenue Service concluded an audit of Vector's income tax return for the year ended December 31, 2009. There was no material impact on the Company’s consolidated financial statements as a result of the audit.

7. Long-Term Debt

Long-term debt consists of the following at December 31:

	2014	2013
Borrowings under revolving credit facility	$ 17,766	$ 30,424
Term loan under revolving credit facility	3,589	3,884
Equipment loans	14,014	17,252
	35,369	51,560
Less current maturities	(27,248)	(38,993)
Amount due after one year	$ 8,121	$ 12,567

The following table sets forth the future principal payment obligations:

Year Ending December 31,		
	2015	$ 27,248
	2016	4,893
	2017	1,527
	2018	1,267
	2019	434
Thereafter		—
		$ 35,369

Revolving Credit Facility and Term Loan Under Credit Facility:

At December 31, 2014, Liggett had a $50,000 credit facility with Wells Fargo. The Credit Facility is collateralized by all inventories and receivables of Liggett and a mortgage on its manufacturing facility.

On January 14, 2015, Liggett and Maple, entered into a Credit Agreement, dated as of January 14, 2015, with Wells Fargo Bank, 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 $3,540 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 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 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.

As of December 31, 2014, a total of $21,356 was outstanding under the revolving and term loan portions of the credit facility. Availability as determined under the facility was approximately $28,644 based on eligible collateral at December 31,2014.

Fair Value of Notes Payable and Long-Term Debt:

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable and long-term debt	$ 35,369	$ 35,387	$ 51,560	$ 51,577

Notes payable and long-term debt are carried on the balance sheet at amortized cost. The fair value determination disclosed above would be classified as Level 2 under the fair value hierarchy disclosed in Note 2 if such liabilities were recorded on the consolidated balance sheet at fair value. The estimated fair value of the Company's notes payable and long-term debt has been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimate presented herein are not necessarily indicative of the amount that could be realized in a current market exchange.

Equipment Loans

In 2012, Liggett refinanced $4,452 of debt related to equipment purchased in 2010. The refinanced debt had a weighted average interest rate of 5.89% and an average remaining term of 43 months. The new debt carries an interest rate of 5.96% and a term of 36 months. Total monthly installments are $135. Liggett purchased equipment for $5,040 and entered into four financing agreements for a total of $5,040 related to the equipment purchase. The weighted average interest rate of the outstanding debt is 5.26% per annum and the interest rate on the various notes ranges between 4.72% and 5.56% and is payable in installments of 36 to 48 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 4.66% per annum and the interest rates on the two notes are 3.28% and 4.99%. Total monthly installments are approximately $181.

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 new debt carries an interest rate of 4.99% and a term of 36 months.

At December 31, 2014 and 2013, the Company had $14,014 and $17,252, respectively, outstanding under these equipment loans and capital leases.

All equipment loans described above are collateralized by the equipment they finance.

8. Leases

At December 31, 2014, the Company has operating and capital leases for building space, vehicles and computer equipment. The future minimum lease payments are as follows:

	Lease Commitments
Year Ending December 31,	
2015	$ 2,461
2016	768
2017	626
2018	563
2019	25
Thereafter	—
	$ 4,443

Rental expense for the years ended December 31, 2014, 2013, and 2012, amounted to $3,897, $3,789, and $3,738, respectively.

9. Commitments and Contingencies

Tobacco-Related Litigation:

Overview

Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. The cases have generally fallen into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs (“Individual Actions”); (ii) lawsuits by individuals requesting the benefit of the *Engle* ruling ("*Engle* progeny cases"); (iii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring, as well as cases alleging that use of the terms “lights” and/or “ultra lights” constitutes a deceptive and unfair trade practice, common law fraud or violation of federal law, purporting to be brought on behalf of a class of individual plaintiffs (“Class Actions”); and (iv) health care cost recovery actions brought by various foreign and domestic governmental plaintiffs and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits (“Health Care Cost Recovery Actions”). With the commencement of new cases, the defense costs and the risks relating to the unpredictability of litigation increase. The future financial impact of the risks and expenses of litigation are not quantifiable. For the twelve months ended December 31, 2014 and 2013, Liggett incurred tobacco product liability legal expenses and other litigation costs totaling $9,944 and $9,321, respectively. The 2013 costs exclude a charge of $86,213 associated with the *Engle* progeny settlement discussed below.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending cases. Management reviews on a quarterly basis with counsel all pending litigation and evaluates whether an estimate can be made of the possible loss or range of loss that could result from an unfavorable outcome. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. Damages awarded in some tobacco-related litigation can be significant.

Bonds. Although Liggett has been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts are on appeal, there remains a risk that such relief may not be obtainable in all cases. This risk has been reduced given that a majority of states now limit the dollar amount of bonds or require no bond at all. To obtain stays on judgments pending current appeals, Liggett has secured approximately $12,268 in bonds as of February 6, 2015.

In June 2009, Florida amended its existing bond cap statute by adding a $200,000 bond cap that applies to all *Engle* progeny cases in the aggregate and establishes individual bond caps for individual *Engle* progeny cases in amounts that vary depending on the number of judgments in effect at a given time. In several cases, plaintiffs have challenged the constitutionality of the bond cap statute, but to date the courts that have addressed the issue have upheld the constitutionality of the statute. It is possible that Liggett's consolidated financial position, results of operations, and cash flows could be materially adversely affected by an unfavorable outcome of such challenges.

Accounting Policy. Liggett and its subsidiaries record provisions in their consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as disclosed in this Note 9: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; or (ii) management is unable to reasonably estimate the possible loss or range of loss that could result from an unfavorable outcome of any of the pending tobacco-related cases and, therefore, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

Cautionary Statement About Engle Progeny Cases. Judgments have been entered against Liggett and other industry defendants in *Engle* progeny cases. A number of the judgments have been affirmed on appeal and satisfied by the defendants. As of December 31, 2014, 21 *Engle* progeny cases where Liggett was a defendant at trial resulted in verdicts. Fourteen verdicts were returned in favor of the plaintiffs and seven in favor of Liggett. Excluding the *Lukacs* case, which was tried in 2002, seven years before the trials of *Engle* progeny cases commenced, the compensatory verdicts against Liggett have ranged from $1 to $3,600. In certain cases, the judgments entered have been joint and several with other defendants. In four of the cases, punitive damages were awarded against Liggett. Except as discussed in this Note 9 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, Liggett lacks information about whether plaintiffs are in fact *Engle* class members (non-class members' claims are generally time-barred), the relevant smoking history, the nature of the alleged injury and the availability of various defenses, among other things. Further, plaintiffs typically do not specify their demand for damages.

Although Liggett has generally been successful in managing litigation, litigation is subject to uncertainty and significant challenges remain, including with respect to the remaining *Engle* progeny cases. There can be no assurances that Liggett's past litigation experience will be representative of future results. Judgments have been entered against Liggett in the past, in Individual Actions and *Engle* progeny cases, and several of those judgments were affirmed on appeal and satisfied by Liggett. It is possible that the consolidated financial position, results of operations and cash flows of Liggett could be materially adversely affected by an unfavorable outcome or settlement of any of the remaining smoking-related litigation. Liggett believes, and has been so advised by counsel, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. All such cases are, and will continue to be, vigorously defended. Liggett may, however, enter into settlement discussions in particular cases if it believes it is in its best interest to do so, including the remaining *Engle* progeny cases. As of December 31, 2014, Liggett (and in certain cases Vector), had on an individual basis, settled 155 *Engle* progeny cases for approximately $1,983 in the aggregate. There were 11 settlements in the fourth quarter of 2014. In October 2013, Liggett announced a settlement of the claims of over 4,900 *Engle* progeny plaintiffs (see *Engle* Progeny Settlement below).

Individual Actions

As of December 31, 2014, there were 47 Individual Actions pending against Liggett and, in certain cases, Vector, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. These cases do not include *Engle* progeny cases or the approximately 100 individual cases pending in West Virginia state court as part of a consolidated action. The following table lists the number of Individual Actions, by state, that are pending against Liggett or Vector as of December 31, 2014:

State	Number of Cases
Florida	27
New York	8
Maryland	6
Louisiana	2
West Virginia	2
Missouri	1
Ohio	1

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

Defenses raised in Individual Actions include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, equitable defenses such as “unclean hands” and lack of benefit, failure to state a claim and federal preemption.

Engle Progeny Cases

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

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

In July 2006, the Florida Supreme Court affirmed the decision vacating the punitive damages award and held that the class should be decertified prospectively, but determined that the following Phase I findings are entitled to res judicata effect in *Engle* progeny cases: (i) that smoking causes lung cancer, among other diseases; (ii) that nicotine in cigarettes is addictive; (iii) that defendants placed cigarettes on the market that were defective and unreasonably dangerous; (iv) that defendants concealed material information knowing that the information was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vi) that defendants sold or supplied cigarettes that were defective; and (vii) that defendants were negligent. The Florida Supreme Court decision also allowed former class members to proceed to trial on individual liability issues (using the above findings) and compensatory and punitive damage issues, provided they filed their individual lawsuits by January 2008. In December 2006, the Florida Supreme Court added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations made by defendants. In October 2007, the United States Supreme Court denied defendants' petition for writ of *certiorari*.

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

Engle Progeny Settlement

On October 23, 2013, Liggett and Vector 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 exchange, the claims of over 4,900 plaintiffs were dismissed with prejudice against Liggett and Vector. In 2013 Liggett recorded a charge of $86,213 in connection with the settlement. Of this amount, $25,213 is related to certain payments discounted to their present value because the timing and amounts of such payments are fixed and determinable. The present value of the installment payments was computed using an 11% annual discount rate. The installment payments total approximately $48,000 on an undiscounted basis. Liggett's future payments will be approximately $3,500, per annum through 2028, with a cost of living increase beginning in 2021.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlement, approximately 320 plaintiffs' claims remain outstanding. Therefore, Liggett and Vector may still be subject to periodic adverse judgments which could have a material adverse affect on Liggett's consolidated financial position, results of operations and cash flows.

As of December 31, 2014, the following *Engle* progeny cases have resulted in judgments against Liggett:

Date	Case Name	County	Net Compensatory Damages (as adjusted) (1)	Punitive Damages	Status
June 2002	*Lukacs v. R.J. Reynolds*	Miami-Dade	$12,418	$0	Liggett satisfied the judgment and the case is concluded.
August 2009	*Campbell v. R.J. Reynolds*	Escambia	$156	$0	Liggett satisfied the judgment and the case is concluded.
March 2010	*Douglas v. R.J. Reynolds*	Hillsborough	$1,350	$0	Liggett satisfied the judgment and the case is concluded.
April 2010	*Clay v. R.J. Reynolds*	Escambia	$349	$1,000	Liggett satisfied the judgment and the case is concluded.
April 2010	*Putney v. R.J. Reynolds*	Broward	$3,008	$0	On June 12, 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings. Plaintiff filed a motion for rehearing which was denied. Both sides sought discretionary review from the Florida Supreme Court. The appeal is stayed pending the outcome of the Hess appeal.
April 2011	*Tullo v. R.J. Reynolds*	Palm Beach	$225	$0	Affirmed by the Fourth District Court of Appeal. Discretionary review from the Florida Supreme Court was denied. Liggett satisfied the judgment and the case is concluded, other than an issue with respect to the calculation of interest on the judgment and the amount of costs owed by Liggett.
January 2012	*Ward v. R.J. Reynolds*	Escambia	$1	$0	Liggett satisfied the merits judgment and other than an issue regarding attorneys' fees, the case is concluded.
May 2012	*Calloway v. R.J. Reynolds*	Broward	$1,947	$7,600	A joint and several judgment for $16,100 was entered against R.J. Reynolds, Philip Morris, Lorillard and Liggett. On appeal to the Fourth District Court of Appeal.
December 2012	*Buchanan v. R.J. Reynolds*	Leon	$2,035	$0	A joint and several judgment for $5,500 was entered against Liggett and Philip Morris. Judgment was affirmed by the First District Court of Appeal, but the court certified an issue of conflict with another case. The defendants sought discretionary review by the Florida Supreme Court. The appeal is stayed pending the outcome of the Hess appeal.
May 2013	*Cohen v. R.J. Reynolds*	Palm Beach	$205	$0	Defendants' motion seeking a new trial was granted by the trial court. Plaintiff appealed to the Fourth District Court of Appeal.
August 2013	*Rizzuto v. R.J. Reynolds*	Hernando	$3,479	$0	Liggett settled its portion of the judgment for $1,500 and the case is concluded as to Liggett.
August 2014	*Irimi v. R.J. Reynolds*	Broward	$0	$0	Judgment was entered against Liggett for $31. In January 2015, the trial court granted defendants' motion for a new trial. Plaintiff moved for reconsideration.
October 2014	*Lambert v. R.J. Reynolds*	Pinellas	$3,600	$9,500	A final judgment was entered against Liggett for $13,100. Liggett will appeal.
November 2014	*Boatright v. R.J. Reynolds*	Polk	$0	$300	In November 2014, the jury awarded compensatory damages in the amount of $15,000 with 15% fault apportioned to plaintiff and 85% to Philip Morris. The jury further assessed punitive damages against Philip Morris for $19,700 and Liggett for $300. Post-trial motions were denied. A joint and several judgment was entered in the amount of $12,750 on the compensatory damages. An additional $300 in punitive damages was awarded against Liggett. On appeal to the Second District Court of Appeal.
		Total Damages Awarded:	$28,773	$18,400	
		Amounts paid or compromised:	$(17,978)	$(1,000)	
		Damages remaining on Appeal:	$10,795	$17,400	

(1) Compensatory damages are adjusted to reflect the jury's allocation of comparative fault. The amounts listed above do not include attorneys' fees or statutory interest.

Through December 31, 2014, Liggett paid $20,312, including interest and legal fees, to satisfy the judgments in seven *Engle* progeny cases (*Lukacs*, *Campbell*, *Douglas*, *Clay, Tullo, Ward, and Rizzuto*).

Liggett's potential range of loss in the *Putney, Calloway, Buchanan, Cohen, Lambert and Boatright* cases is between $0 and $28,195 in the aggregate, plus accrued interest and legal fees. In determining the range of loss, Liggett considers potential settlements as well as future appellate relief. Except as disclosed elsewhere in this Note 9, Liggett is unable to determine a range of loss related to the remaining *Engle* progeny cases. No amounts have been expensed or accrued in the accompanying consolidated financial statements for the cases described above. However, as cases proceed through the appellate process, Liggett will consider accruals on a case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

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

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

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

In March 2012, in *Douglas*, the Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the *Engle* jury findings but certified to the Florida Supreme Court the question of whether granting res judicata effect to the *Engle* jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the use of *Engle* jury findings and determined that there is no violation of the defendants' due process rights. This was the first time the Florida Supreme Court addressed the merits of an *Engle* progeny case. In October 2013, the United States Supreme Court declined to review the decision and Liggett satisfied the judgment. To date, the United States Supreme Court has declined to review any decisions in *Engle* progeny cases.

In *Hess*, a case pending in Broward County, the jury returned a verdict finding that decedent relied to his detriment on an omission by the defendant before May 5, 1982 (twelve years prior to the filing of the *Engle* Complaint). Defendant moved for judgment as a matter of law on plaintiff's fraudulent concealment claim on the basis that the claim was barred by Florida's statute of repose. The trial court denied the motion and was reversed by the Fourth District Court of Appeal, which held that any *Engle* progeny claim for a fraud committed before May 5, 1982 is barred. This decision conflicts with decisions from other district courts of appeal and is before the Florida Supreme Court pursuant to its conflict jurisdiction. Oral argument occurred on April 30, 2014. A decision is pending.

Liggett Only Cases. There are currently five cases pending where Liggett is the only remaining defendant. These cases consist of three Individual Actions and two *Engle* progeny cases. In one of the Individual Actions, *Hausrath* (NY state court), plaintiff moved to restore the case to the active docket calendar after it was removed by the court. The motion was granted. There has been no recent activity in the other two Individual Actions. Trial in *Lambert*, an *Engle* progeny case, concluded on October 3, 2014 and resulted in a jury verdict against Liggett. Post trial motions were denied and final judgment was entered against Liggett for $13,100. Liggett will appeal. The other *Engle* progeny case is not currently set for trial. Cases where Liggett is the only defendant could increase as a result of the remaining *Engle* progeny cases.

Class Actions

As of December 31, 2014, there were four actions pending for which either a class had been certified or plaintiffs were seeking class certification where Liggett is a named defendant, including one alleged price fixing case. Other cigarette manufacturers are also named in these actions.

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

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

In November 1997, in *Young v. American Tobacco Co.,* a purported personal injury class action was commenced on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, allege they were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. In 2013, plaintiffs' filed a motion to stay the case. The defendants did not oppose and the stay was entered by the court.

In February 1998, in *Parsons v. AC & S Inc.*, a class was commenced on behalf of all West Virginia residents who allegedly have personal injury claims arising from exposure to cigarette smoke and asbestos fibers. The complaint seeks to recover $1,000 in compensatory and punitive damages individually and unspecified compensatory and punitive damages for the class. The case is stayed due to the December 2000 bankruptcy of three of the defendants.

In February 2000, in *Smith v. Philip Morris,* a case pending in Kansas, a class was commenced against cigarette manufacturers alleging they conspired to fix cigarette prices in violation of antitrust laws. Plaintiffs seek to recover an unspecified amount in actual and punitive damages. Class certification was granted in November 2001. In January 2012, the trial court heard oral argument on defendants' motions for summary judgment and in March 2012, the court granted the motions and dismissed plaintiffs' claims with prejudice. In July 2014, the court of appeals affirmed the lower court's decision. On August 18, 2014, plaintiffs filed a petition for review with the Kansas Supreme Court.

Although not technically a class action, in *In Re: Tobacco Litigation (Personal Injury Cases)*, a West Virginia state court consolidated approximately 750 individual smoker actions that were pending prior to 2001 for trial of certain common issues. In January 2002, the court severed Liggett from the trial of the consolidated action. After two mistrials, on May 15, 2013, the jury rejected all but one of the plaintiffs' claims, finding for the plaintiffs on the claim that ventilated filter cigarettes sold between 1964 and 1969 should have included instructions on how to use them. The issue of damages was reserved for further proceedings that have not yet been scheduled. The court entered judgment in October 2013, dismissing all claims lost by the plaintiffs. The judgment was affirmed on appeal. The defendants did not appeal the verdict in favor of the plaintiffs on the "failure to instruct" claim which impacted less than 30 plaintiffs. A hearing was scheduled for February 26, 2015 to address the remaining ventilated filter claim. If the case were to proceed against Liggett, it is estimated that Liggett could be a defendant in approximately 100 of the individual cases.

Class action suits have been filed in a number of states against cigarette manufacturers, alleging, among other things, that use of the terms "lights" and "ultra lights" constitutes unfair and deceptive trade practices. In December 2008, the United States Supreme Court, in *Altria Group v. Good*, ruled that the Federal Cigarette Labeling and Advertising Act did not preempt the state law claims asserted by the plaintiffs and that they could proceed with their claims under the Maine Unfair Trade Practices Act. The *Good* decision resulted in the filing of additional "lights" class action cases in other

states against other cigarette manufacturers. Although Liggett was not a defendant in the *Good* case, and is not currently a defendant in any other "lights" class actions, an adverse ruling or commencement of additional "lights" related class actions could have a material adverse effect on Liggett.

In addition to the cases described above, numerous class actions remain certified against other cigarette manufacturers. Adverse decisions in these cases could have a material adverse affect on Liggett's sales volume, operating income and cash flows.

Health Care Cost Recovery Actions

As of December 31, 2014, there was one remaining Health Care Cost Recovery Action pending against Liggett, *Crow Creek Sioux Tribe v. American Tobacco Company*, a South Dakota case filed in 1997, where the plaintiff seeks to recover damages based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is inactive. Other cigarette manufacturers are also named as defendants.

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

Department of Justice Lawsuit

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

In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. In May 2009, the United States Court of Appeals for the District of Columbia affirmed most of the district court's decision. The United States Supreme Court denied review. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court's Final Judgment which ordered the following relief: (i) an injunction against "committing any act of racketeering" relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against "making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States' public and that misrepresents or suppresses information concerning cigarettes"; (iv) an injunction against conveying any express or implied health message through use of descriptors on cigarette packaging or in cigarette advertising or promotional material, including "lights," "ultra lights," and "low tar," which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of "corrective statements" in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking "low tar" or "lights" cigarettes, defendants' manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to environmental tobacco smoke; (vi) the disclosure of defendants' public document websites and the production of all documents produced to the government or produced in any future court or administrative action concerning smoking and health; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedules as defendants now follow in disclosing such data to the Federal Trade Commission for a period of ten years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette business within the United States; and (ix) payment of the government's costs in bringing the action. In June 2014, the court approved a consent agreement between the defendants and the Department of Justice regarding the "corrective statements" to be issued by the defendants.

The implementation of the "corrective statements" is uncertain as the defendants are appealing the specific language of the statements.

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

Upcoming Trials

As of December 31, 2014, there were 13 *Engle* progeny cases scheduled for trial through December 31, 2015, where Liggett (and in many cases, Vector) is a named defendant. Trial dates are, however, subject to change.

MSA and Other State Settlement Agreements

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

In November 1998, Philip Morris, 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 Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of the Settling States. The MSA received final judicial approval in each Settling State.

As a result of the MSA, the Settling States released Liggett 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 use of tobacco products and imposes restrictions on lobbying activities conducted on behalf of Participating Manufacturers. In addition, the MSA provides for the appointment of an independent auditor to calculate and determine the amounts of payments owed pursuant to the MSA.

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

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 1.65% of total cigarettes sold in the United States. Liggett's domestic shipments accounted for 2.7% of the total cigarettes sold in the United States in 2014. If Liggett's market share exceeds their respective market share exemption in a given year, then on April 15 of the following year, Liggett must pay on each excess unit an amount equal (on a per-unit basis) to that due from the OPMs for that year. On December 31, 2014, Liggett paid $80,000 of their estimated 2014 MSA obligation.

Certain MSA Disputes

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, to non-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 each of their 2003 - 2006 MSA payments. The Participating Manufacturers are also entitled to potential NPM Adjustments to their 2007 - 2013 payments pursuant to agreements entered into 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 for each of those years. A Settling State that has diligently enforced its qualifying escrow statute in the year in question may be able to avoid allocation of the NPM Adjustment to the payments made by the manufacturers for the benefit of that Settling State.

For 2003 - 2013, Liggett, as applicable, disputed that they owed the Settling States the NPM Adjustments as calculated by the MSA's independent auditor. As permitted by the MSA, Liggett withheld payment or paid into a disputed payment account the amounts associated with these NPM Adjustments.

Notwithstanding provisions in the MSA requiring arbitration, litigation was filed in 49 Settling States involving the application of the NPM Adjustment for 2003 and whether it was to be determined through litigation or arbitration. These actions related to the potential NPM Adjustment for 2003, which the independent auditor under the MSA previously determined to be as much as $1,200,000 for all Participating Manufacturers. All but one of the 48 courts that decided the issue ruled that the 2003 NPM Adjustment dispute was arbitrable.

In response to a proposal from the OPMs and many of the SPMs, 45 of the Settling States, representing approximately 90% of the allocable share of the Settling States, entered into an agreement providing for a nationwide arbitration of the dispute with respect to the NPM Adjustment for 2003. In exchange, the OPMs and SPMs agreed to a 20% reduction in amounts recovered for the NPM Adjustment for 2003. In June 2010, the three person arbitration panel was selected. In November 2011, the Participating Manufacturers advised the arbitration panel that they were not contesting diligent enforcement of 16 Settling States for 2003. Substantive hearings commenced in April 2012 and were completed in June 2013.

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 2013 MSA payments. In May 2013, two additional states joined the settlement and in June 2014, another two states joined the settlement. Several non-settling states are attempting to vacate the settlement award by filing state court actions. In Idaho, a trial court denied that state's motion to vacate, and the state appealed that denial. In Colorado, a trial court also denied that state's motion to vacate; Colorado did not appeal. Although certain terms of the settlement were implemented by the independent auditor on April 15, 2013, no assurance can be given as to the ultimate outcome of the non-settling states' challenges.

As a result of the settlement, in the first nine months of 2013, Liggett recognized income of $6,466. Liggett received credits of $1,587 in April 2014 from these settling states related to the 2013 NPM Adjustment. The remaining NPM Adjustment accrual of $24,003 at December 31, 2014 relates to the disputed amounts Liggett withheld from the non-settling states for 2004 - 2010, which may be subject to payment, with interest, if Liggett loses the disputes for those years. Approximately $23,524 currently remains in the disputed payments accounts relating to the 2011, 2012 and 2013 NPM Adjustment dispute with the non-settling states.

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 of this ruling Liggett recognized income of $5,987 including interest, 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 or reduce the amount of the arbitration award. In Pennsylvania, the trial court rejected the state's motion to vacate the award, but granted its motion to reduce the award. As a result, in April 2014, Liggett received a credit in the amount of $6,441 for the 2003 NPM Adjustment (as calculated by the independent auditor). Liggett subsequently reimbursed the six states 20% of that credit pursuant to the agreement discussed above, bringing its net recovery to $5,152, which is approximately $1,315 lower than the amount to which Liggett believes it is entitled. Subsequent to the April 15, 2014 MSA payment date, a state court in Missouri issued a ruling similar to the ruling in Pennsylvania. As such, Liggett's 2003 NPM Adjustment credit could be reduced by an additional $521. In June 2014, Kentucky and Indiana agreed to settle the dispute. As a result, Liggett recognized income of approximately $1,344 in the second quarter of 2014. The Participating Manufacturers, including Liggett, appealed the Pennsylvania and Missouri decisions. If Liggett is unsuccessful in its appeals or if other states are successful with respect to any such motions, the amount of the 2003 NPM Adjustment and any interest or earnings to which Liggett is entitled could be lower than the amounts described above and Liggett would be obligated to pay the difference.

Disputes over the NPM Adjustments for 2004-2013 remain to be arbitrated with the states that have not joined the settlement.

"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. The states objected to Liggett's motion.

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. Liggett plans to work with the independent auditor to determine the amount owed for years 2001 - 2013, consistent with the Corrected Final Award. Liggett has accrued $8,500 for this matter.

Other State Settlements. The MSA replaced Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. Each of these four states, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies, separate from those settlements reached previously with Liggett. Except as described below, Liggett's agreements with these states remain in full force and effect. These states' settlement agreements with Liggett contained most favored nation provisions which could reduce Liggett's payment obligations based on subsequent settlements or resolutions by those states with certain other tobacco companies. Beginning in 1999, Liggett determined that, based on each of these four states' settlements with United States Tobacco Company, Liggett's payment obligations to those states were eliminated. With respect to all non-economic obligations under the previous settlements, Liggett believes it is entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In 2003, as a result of a dispute with Minnesota regarding its settlement agreement, Liggett agreed to pay $100 a year in any year cigarettes manufactured by Liggett are sold in that state. In or around 2003, the Attorneys General for Florida, Mississippi and Texas advised Liggett that they believed that Liggett had failed to make certain required payments under the respective settlement agreements with these states. In 2010, Liggett settled with Florida and agreed to pay $1,200 and to make further annual payments of $250 for a period of 21 years, starting in March 2011, with the payments from year 12 forward being subject to an inflation adjustment. These payments are in lieu of any other payments allegedly due to Florida. In 2012, Mississippi provided Liggett with a 60-day notice that the state intended to pursue its remedies if Liggett did not cure the alleged defaults. Liggett responded to Mississippi's letter denying the existence of any defaults. There can be no assurance that Liggett will be able to resolve the matters with Texas and Mississippi or that Liggett will not be

required to make additional payments which could adversely affect Liggett's consolidated financial position, results of operations and cash flows.

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

Management cannot predict the cash requirements related to any future defense costs, settlements or judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in this Note 9, management is unable to estimate the loss or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases and as a result has not provided any amounts in its consolidated financial statements for unfavorable outcomes.

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

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

The activity in Liggett's accruals for the MSA and tobacco litigation for the twelve months ended December 31, 2014 were as follows:

	Current Liabilities			*Non-Current Liabilities*		
	Payments due under Master Settlement Agreement	**Litigation Accruals**	**Total**	**Payments due under Master Settlement Agreement**	**Litigation Accruals**	**Total**
Balance at January 1, 2014	$ 16,611	$ 59,310	$ 75,921	$ 25,666	$ 27,059	$ 52,725
Expenses	90,590	2,849	93,439	—	—	—
NPM settlement adjustment	—	—	—	(1,344)	—	(1,344)
Change in MSA obligations capitalized as inventory	(1,414)	—	(1,414)	—	—	—
Payments	(87,750)	(62,878)	(150,628)	—	—	—
Reclassification (to) from non-current liabilities	319	3,575	3,894	(319)	(3,575)	(3,894)
Interest on withholding	—	293	293	—	2,216	2,216
Balance at December 31, 2014	$ 18,356	$ 3,149	$ 21,505	$ 24,003	$ 25,700	$ 49,703

The activity in Liggett's accruals for the MSA and tobacco litigation for the twelve months ended December 31, 2013 were as follows:

	Current Liabilities			*Non-Current Liabilities*		
	Payments due under Master Settlement Agreement	**Litigation Accruals**	**Total**	**Payments due under Master Settlement Agreement**	**Litigation Accruals**	**Total**
Balance at January 1, 2013	$ 31,677	$ 1,470	$ 33,147	$ 46,837	$ 1,861	$ 48,698
Expenses	109,392	63,293	172,685	—	25,220	25,220
MSA settlements and arbitration	(4,002)	—	(4,002)	(14,348)	—	(14,348)
Change in MSA obligations capitalized as inventory	504	—	504	—	—	—
Payments	(127,783)	(6,070)	(133,853)	—	—	—
Reclassification (to) from non-current liabilities	6,823	223	7,046	(6,823)	(223)	(7,046)
Interest on withholding	—	394	394	—	201	201
Balance at December 31, 2013	$ 16,611	$ 59,310	$ 75,921	$ 25,666	$ 27,059	$ 52,725

Other Matters

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

Liggett Vector Brands entered into an 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. The agreement expires in 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. In 2013, Liggett paid $83 for obligations under this program. Liggett believes the fair value of Liggett Vector Brands' remaining obligation under the agreement was immaterial at December 31, 2014.

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

10. Related Party Transactions

Liggett is a party to an agreement with Vector to provide various management and administrative services to Liggett in consideration for an annual management fee of $900 paid in monthly installments and annual overhead reimbursements of $864 paid in monthly installments. The charges for services under this agreement amounted to $1,764 in each of 2014, 2013 and 2012.

In addition, Liggett has entered into an annually renewable Corporate Services Agreement with VGR wherein VGR agreed to provide corporate services to Liggett at an annual fee paid in monthly installments. Corporate services provided by VGR under this agreement include the provision of administrative services related to Liggett's participation in its parent company's multi-employer benefit plan, external publication of financial results, preparation of consolidated financial statements and tax returns and such other administrative and managerial services as may be reasonably requested

by Liggett. The charges for services rendered under the agreement amounted to $7,606 in 2014, $7,244 in 2013 and $6,899 in 2012.

On January 1, 2011, Liggett entered into an updated manufacturing agreement with Vector Tobacco, an affiliate under common ownership, that will terminate on December 31, 2015, with subsequent automatic renewal for successive one year terms unless terminated by either party. Pricing is set forth in the agreement based on previously determined standard costs, and invoices are sent to Vector Tobacco on a weekly basis under the agreement. In 2014, 2013 and 2012, Liggett manufactured approximately 1.5, 1.0 and 0.8 billion cigarettes of Vector Tobacco brands respectively, and realized $97,371, $62,062 and $52,298, respectively, in net receipts from these sales and $1,962, $1,232 and $997, respectively, in profits from the agreement.

As of December 31, 2014 and 2013, Liggett has a net receivable from Vector Tobacco totaling $1,539 and $3,135, respectively. This overall net receivable position is related primarily to the manufacturing agreement between Liggett and Vector Tobacco.

The remaining related party net receivable balance of $763 at December 31, 2014 relates primarily to transactions with Liggett's affiliates, Zoom E-Cigs LLC (“Zoom”) and VGR. The remaining net payable of $5,508 at December 31, 2013 relates primarily to transactions with Liggett Vector Brands.

Liggett is party to a tax sharing agreement with Vector and certain other entities pursuant to which Liggett will pay taxes on an estimated basis to Vector as if it were filing a separate company tax return, except that the agreement effectively limits the ability of Liggett to carry back losses for refunds. Liggett is entitled to recoup overpayments in a given year out of future payments due under the agreement and is required to fund underpayments. Liggett paid $59,000 and $49,000, and $47,800 to Vector under this tax sharing agreement in 2014, 2013 and 2012, respectively. At December 31, 2014, and 2013, Liggett had a receivable balance related to tax payments to VGR, of $744 and $4,824, respectively, shown as income taxes receivable on the balance sheet.

On February 28, 2014 Liggett entered into an intercompany loan agreement with Vector. Under the terms of the loan agreement, Vector loaned Liggett $35,000 to facilitate Liggett’s approximate initial $59,200 payment into the Engle Qualified Settlement Fund (“Engle QSF”) in accordance with the settlement dated October 23, 2013, and further described in Note 9. Liggett repaid the $35,000, along with $612 in interest calculated at a per annum rate of 11%, to VGR. Liggett made this approximate $59,200 payment to the Engle QSF on February 28, 2014.

Liggett Vector Brands coordinates and executes the sales, marketing and manufacturing efforts along with certain support functions for all of Vector’s tobacco operations. In conjunction with the duties performed at Liggett Vector Brands, a portion of sales, marketing, manufacturing, distribution, and administrative expenses have been allocated to Liggett. During 2014, 2013 and 2012, Liggett expensed $75,569, $72,537 and $73,591, respectively, for the services provided by Liggett Vector Brands. The expenses have been classified as selling, general and administrative of $47,620, $45,920 and $47,165 for the years ended December 31, 2014, 2013 and 2012, respectively, and cost of goods sold of $27,949, $26,617 and $26,426 for the years ended December 31, 2014, 2013 and 2012, respectively.

Related party net (payables)/receivables consisted of the following current balances as of December 31, 2014 and 2013.

	2014	2013
Due from Vector Tobacco	$ 1,539	$ 3,135
Due from Zoom	497	—
Due to VGR	266	—
Due (to)/from Liggett Vector Brands	—	(5,508)
	$ 2,302	$ (2,373)

11. Stock Compensation

The Company’s Parent, Vector, offers stock option plans. All employees of Vector and its subsidiaries are eligible to receive grants under such plans. Information concerning Vector's common stock has been adjusted to give effect to the 5% stock dividends paid to Vector stockholders on September 26, 2014, September 27, 2013 and September 28, 2012, respectively.

There were no option grants under Vector’s stock compensation plans to Liggett Vector Brands employees during 2014, 2013 or 2012. Awards of options to employees under the Vector’s stock compensation plans generally vest over periods ranging from four to five years and have a term of ten years from the date of grant.

In October 2013, the President and Chief Executive Officer, of Liggett and Liggett Vector Brands was awarded a restricted stock grant of 28,875 shares of Vector's common stock pursuant to the Amended and Restated 1999 Long-term Incentive Plan. The shares will vest on the earlier of March 15, 2019, contingent upon performance-based targets being achieved, or October 31, 2020, if the performance-based targets are not achieved. He will receive dividends on the restricted shares as paid. In the event that his employment with Company is terminated for any reason other than his death, his disability or a change of control (as defined in this Restricted Share Agreement) of the Company, any remaining balance of the shares not previously vested will be forfeited by him. The fair market value of the restricted shares on the date of grant was $458 and is being amortized over the vesting period as a charge to compensation expense for Liggett Vector Brands.

Liggett Vector Brands had non-cash stock compensation expense of $108, $34 and $22 for the years ended December 31, 2014, 2013, and 2012, respectively. These amounts are expense allocations only and do not represent a rollforward of option balances. These amounts have been recorded in operating, selling, administrative, and general expense in the Company’s consolidated statement of operations.

As of December 31, 2014, Liggett Vector Brands had employees with options for 110,030 shares of Vector’s common stock.

Liggett Group LLC and Subsidiaries
Schedule II — Valuation and Qualifying Accounts
(dollars in thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended December 31, 2014				
Allowance for:				
Doubtful accounts	$ 110	$ 26	$ 106	$ 30
Cash discounts	209	21,247	21,112	344
Sales returns	4,290	3,235	3,135	4,390
Total	$ 4,609	$ 24,508	$ 24,353	$ 4,764
Year ended December 31, 2013				
Allowance for:				
Doubtful accounts	$ 314	$ 120	$ 324	$ 110
Cash discounts	252	22,555	22,598	209
Sales returns	4,000	3,858	3,568	4,290
Total	$ 4,566	$ 26,533	$ 26,490	$ 4,609
Year ended December 31, 2012				
Allowance for:				
Doubtful accounts	$ 304	$ 10	$ —	$ 314
Cash discounts	561	24,561	24,870	252
Sales returns	4,000	3,151	3,151	4,000
Total	$ 4,865	$ 27,722	$ 28,021	$ 4,566

Exhibit 99.3

Vector Tobacco Inc.
Financial Statements
as of December 31, 2014 and 2013,
and for each of the three years
ended December 31, 2014, 2013 and 2012

Vector Tobacco Inc.
Index
December 31, 2014 and 2013

	Page(s)
Report of Independent Registered Public Accounting Firm	1
Financial Statements	
Balance Sheets as of December 31, 2014 and 2013	2
Statements of Operations for the years ended December 31, 2014, 2013 and 2012	3
Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	4
Statement of Shareholder's Equity for the years ended December 31, 2014, 2013 and 2012	5
Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	6
Notes to Financial Statements for the years ended December 31, 2014, 2013 and 2012	7
Financial Statement Schedule	
Schedule II — Valuation and Qualifying Accounts	21

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the
Shareholder of Vector Tobacco Inc.:

In our opinion, the financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Vector Tobacco Inc. (the “Company”), a wholly-owned subsidiary of Vector Group, Ltd., at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three 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 listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related 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

Raleigh, North Carolina
March 4, 2015

Vector Tobacco Inc.
Balance Sheets
December 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 7,270	$ 10,785
Accounts receivable — trade, less allowances of $74 and $114, respectively	3,011	1,505
Due from related parties	1,524	1,215
Inventories	8,131	7,434
Deferred income taxes	4,187	4,434
Income tax receivable, net	1,984	379
Other current assets	602	663
Total current assets	26,709	26,415
Intangible asset associated with benefit under the Master Settlement Agreement	107,511	107,511
Deferred income taxes	90,397	96,735
Due from related parties	17,778	9,595
Other assets	2,526	2,236
Total assets	$ 244,921	$ 242,492
Liabilities and Shareholder's Equity		
Current liabilities		
Current payments due under the Master Settlement Agreement	$ 7,966	$ 8,737
Due to related parties	3,053	3,135
Accrued promotional expenses	2,220	2,086
Accounts payable - trade	—	27
Allowance for sales returns	430	130
Deferred income taxes	2,373	2,310
Other current liabilities	754	227
Total current liabilities	16,796	16,652
Deferred income taxes	36,915	34,029
Long-term payments due under the Master Settlement Agreement	1,806	1,905
Total liabilities	55,517	52,586
Commitments and contingencies		
Shareholder's equity		
Common shares ($1 par value per share; 1,000 shares authorized; 100 shares issued and outstanding) *	—	—
Additional paid-in capital	293,892	303,892
Accumulated other comprehensive income	115	115
Accumulated deficit	(104,603)	(114,101)
Total shareholder's equity	189,404	189,906
Total liabilities and shareholder's equity	$ 244,921	$ 242,492

* Common shares pledged as collateral for Vector Tobacco Inc.'s guarantee of Vector Group, Ltd.'s debt (see Note 1).

The accompanying notes are an integral part of these financial statements.

Vector Tobacco Inc.
Statements of Operations
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Revenues *	$ 166,247	$ 107,584	$ 86,619
Expenses			
Cost of goods sold *	142,281	76,116	58,117
Operating, selling, administrative and general expenses	6,343	5,545	2,384
Management fees paid to Vector Group, Ltd.	500	500	500
Operating income	17,123	25,423	25,618
Other income (expense)			
Interest income	643	73	—
Interest expense	—	—	(193)
Income before provision for income taxes	17,766	25,496	25,425
Income tax expense	(8,268)	(4,682)	(5,385)
Net income	$ 9,498	$ 20,814	$ 20,040

* Revenues and cost of goods sold include net federal excise taxes of $81,701, $52,180 and $41,489 for the years ended December 31, 2014, 2013 and 2012, respectively.

The accompanying notes are an integral part of these financial statements.

Vector Tobacco Inc.
Statements of Comprehensive Income
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Net income	$ 9,498	$ 20,814	$ 20,040
Net change in pension-related amounts	—	(107)	—
Other comprehensive loss	—	(107)	—
Income tax effect on pension-related amounts	—	(78)	—
Income tax expense on other comprehensive loss	—	(78)	—
Other comprehensive loss, net of tax	—	(185)	—
Comprehensive income	$ 9,498	$ 20,629	$ 20,040

The accompanying notes are an integral part of these financial statements.

Vector Tobacco Inc.
Statement of Shareholder's Equity
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars, except for share data)

	Common Shares					
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholder's Equity
Balance, January 1, 2012	100 *	$ —	$ 329,392	$ 300	$ (154,955)	$ 174,737
Net Income	—	—	—	—	20,040	20,040
Other Comprehensive Income	—	—	—	—	—	—
Distributions	—	—	(21,500)	—	—	(21,500)
Balance, December 31, 2012	100 *	—	307,892	300	(134,915)	173,277
Net Income	—	—	—	—	20,814	20,814
Other Comprehensive Loss	—	—	—	(185)	—	(185)
Distributions	—	—	(4,000)	—	—	(4,000)
Balance, December 31, 2013	100 *	—	303,892	115	(114,101)	189,906
Net Income	—	—	—	—	9,498	9,498
Other Comprehensive Loss	—	—	—	—	—	—
Distributions	—	—	(10,000)	—	—	(10,000)
Balance, December 31, 2014	100 *	$ —	$ 293,892	$ 115	$ (104,603)	$ 189,404

*Common shares pledged as collateral for Vector Tobacco Inc.’s guarantee of Vector Group, Ltd.'s debt (see Note 1).

The accompanying notes are an integral part of these financial statements.

Vector Tobacco Inc.
Statements of Cash Flows
Years Ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Cash flows from operating activities			
Net income	$ 9,498	$ 20,814	$ 20,040
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	—	10	3
Deferred income taxes	7,432	4,573	4,348
Changes in assets and liabilities:			
Trade accounts receivable, net of allowances	(1,506)	(1,240)	276
Inventories	(697)	(2,361)	(1,166)
Other assets	(10)	(83)	(194)
Accounts payable - trade	(27)	(61)	80
Due (from) to related parties	(391)	(4,297)	1,058
Other current liabilities	863	683	1,146
Income taxes	498	(82)	(218)
Employee benefits	—	(300)	(1,690)
Payments due under the Master Settlement Agreement	(773)	3,547	668
Net cash provided by operating activities	14,887	21,203	24,351
Cash flows from investing activities			
Loan financing agreements made to ZOOM, LLC	(8,183)	(9,595)	—
Increase in cash surrender value of life insurance policies and other	(219)	(218)	(219)
Net cash used in investing activities	(8,402)	(9,813)	(219)
Cash flows from financing activities			
Distributions to Vector Group, Ltd.	(10,000)	(4,000)	(21,500)
Net cash used in financing activities	(10,000)	(4,000)	(21,500)
Net (decrease) increase in cash and cash equivalents	(3,515)	7,390	2,632
Cash and cash equivalents			
Beginning of period	10,785	3,395	763
End of period	$ 7,270	$ 10,785	$ 3,395
Supplemental disclosures of cash flow information			
Cash payments during the period for			
Income taxes	$ 338	$ 191	$ 1,254

The accompanying notes are an integral part of these financial statements.

1. Basis of Presentation

Vector Tobacco Inc. (“Vector Tobacco” or the “Company”), is a wholly-owned subsidiary of VGR Holding LLC (“VGR”), which in turn is wholly owned by Vector Group, Ltd. (“Vector” or “Parent”). The Company is engaged in the manufacture and sale of conventional cigarettes in the United States through their USA, Silver Eagle, and Eagle 20 brands.

Liggett Group LLC (“Liggett”), a company affiliated through common ownership, manufactures most of Vector Tobacco’s cigarette brands under contract at Liggett’s Mebane, North Carolina manufacturing facility.

Liggett Vector Brands LLC (“Liggett Vector Brands”), a company affiliated through common ownership, coordinates and executes the sales, marketing, administration and manufacturing efforts along with certain support functions for all of Vector’s tobacco operations, including Vector Tobacco and Liggett. In consideration of the duties performed at Liggett Vector Brands on behalf of the Company, a portion of its sales, marketing, manufacturing, distribution, and administrative expenses are reimbursed by Vector Tobacco (see Note 9).

Management believes the assumptions underlying the financial statements are reasonable. However, the financial statements included herein may not necessarily reflect the Company’s results of operations, financial position, shareholder's equity and cash flows in the future or what its results of operations, financial position, shareholder's equity and cash flows would have been had the Company been a standalone company during the periods presented.

Vector and VGR are holding companies and, as a result, do not have any operating activities that generate revenues or cash flows. Accordingly, Vector relies on distributions from VGR and its other subsidiaries and investments, and VGR relies on distributions from its other subsidiaries, including Vector Tobacco, in order to fund its operations and meet its obligations. Vector has certain debt outstanding which requires interest and principal payments over the terms of such debt. Interest and principal to service the debt is expected to be funded by Vector’s cash and cash equivalents, investments, the operations of Vector’s subsidiaries, including Vector Tobacco, and proceeds, if any, from Vector’s future financings. During 2014, 2013 and 2012 Vector Tobacco made distributions of $10,000, $4,000, and $21,500 respectively, to VGR.

11% Senior Secured Notes due 2015

At December 31, 2012 Vector had $415,000 of principal outstanding of its 11% Senior Secured Notes due 2015 (the “Senior Secured Notes”). The Senior Secured Notes were sold in August 2007 ($165,000), September 2009 ($85,000), April 2010 ($75,000) and December 2010 ($90,000) in private offerings to qualified institutional investors in accordance with Rule 144A of the Securities Act of 1933.

The 11% Senior Secured Notes were guaranteed, subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of Vector that are engaged in the conduct of Vector’s cigarette businesses, including Vector Tobacco. Vector Tobacco's consolidated balance sheets, consolidated statements of operations, and consolidated statements of stockholder's equity as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, do not reflect any amounts related to these notes.

On January 29, 2013, Vector announced a cash tender offer with respect to any and all of the outstanding $415,000 principal amount of its 11% Senior Secured Notes due 2015. The Company retired $336,315 of the 11% Senior Secured Notes at a premium of 104.292%, plus accrued and unpaid interest on February 12, 2013. The remaining $78,685 of the 11% Senior Secured Notes were called and retired on March 14, 2013 at a redemption price of 103.667% plus accrued and unpaid interest.

7.75% Senior Secured Notes due 2021

In February 2013, Vector issued $450,000 of its 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. Vector used the net proceeds of the issuance for a cash tender offer announced on January 29, 2013, with respect to any and all of its outstanding 11% Senior Secured Notes due 2015.

On April 15, 2014, Vector completed the sale of $150,000 principal amount of its 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. Vector received net proceeds of approximately $158,670 after deducting underwriting discounts, commissions, fees and offering expenses.

In August 2014, Vector 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 are guaranteed, subject to certain customary automatic release provisions on a joint and several basis by all of the 100% owned domestic subsidiaries of Vector that are engaged in the conduct of Vector's cigarette businesses, including Vector Tobacco. Vector Tobacco's consolidated balance sheets, consolidated statements of operations, and consolidated statements of stockholder's equity as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, December 31, 2013, and December 31, 2012, do not reflect any amounts related to these notes.

Vector Tobacco's cash flows from operations may be utilized to fund the interest and debt obligation of the 7.75% Senior Secured Notes via distributions by Vector Tobacco to VGR to Vector.

Additional Parent Company Notes

As of December 31, 2014, Vector has debt with a net amount of approximately $268,285 (face amount $513,750) in addition to the 7.75% Senior Secured Notes. This $268,285 is not reflected in Vector Tobacco's financial statements as these obligations are not collateralized by Vector Tobacco's assets nor has Vector Tobacco guaranteed these obligations. It is anticipated that the majority of the payments on this $268,285 will be funded by Vector's tobacco operations.

In addition to the 7.75% Senior Secured Notes, the Company may have to fund certain deferred income tax liabilities of Vector (see Note 5).

General Corporate Expenses

General corporate expense allocations represent costs related to corporate functions such as executive oversight, risk management, information technology, accounting, legal, investor relations, human resources, tax, employee benefits and other services and incentives Vector provides to the Company. The allocations are based on a reasonable estimation of Vector's overhead expenses based on both specific identification for certain expenses and relative percentage of the Company's revenues and expenses to Vector's total costs. All of these allocations are reflected in management fees paid to Vector in the Company's statements of operations of $500 in each of 2014, 2013 and 2012.

The Company and Vector consider these general corporate expense allocations to be a reasonable reflection of the utilization of services provided. The allocations may not, however, reflect the expense the Company would have incurred as a standalone company. Actual costs which may have been incurred if the Company had been a standalone company in 2014, 2013 and 2012, would depend on a number of factors, including how the Company chose to organize itself, what if any functions were outsourced or performed by Company employees, and strategic decisions made in areas such as information technology systems and infrastructure.

2. Summary of Significant Accounting Policies

Principles of Consolidation

These financial statements are for Vector Tobacco only and exclude its wholly-owned subsidiary, VT Aviation LLC, as Vector consolidates this entity as its primary beneficiary.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 inventory valuation, deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances and Master Settlement Agreement ("MSA") liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash includes cash on hand, cash on deposit in banks and cash equivalents, comprised of short-term investments which have an original maturity of ninety days or less. Interest on short-term investments is recognized when earned. The carrying value of cash and cash equivalents, restricted assets and short-term loans approximates their fair value. The Company places its cash and cash equivalents with large commercial banks. Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") continue to insure these balances up to $250 for FDIC and $500 SIPC through 2014. The carrying amount of bank deposits, including amounts classified as cash and cash equivalents, was $7,270 and $10,785 at December 31, 2014 and 2013, respectively. The FDIC and SIPC continue to insure these balances up to their respective insurable limits.

Accounts Receivable

Accounts receivable-trade are recorded at their net realizable value. The allowance for doubtful accounts and terms discounts was $74 and $114 at December 31, 2014 and 2013, respectively.

Inventories

Inventories are stated at the lower of cost or market with cost determined using the last-in, first-out ("LIFO") method. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions.

Intangible Asset

The Company has recorded a indefinite-lived intangible asset of $107,511 which relates to the payment exemption of The Medallion Company Inc. ("Medallion"), acquired in April 2002, under the MSA agreement. Payments under the MSA continue in perpetuity. An annual review of this intangible asset is conducted for potential impairment as the Medallion exemption is not subject to amortization due to its indefinite useful life (see Note 3). The Company believes it will realize the benefit of the exemption for the foreseeable future.

Other Assets

Other current assets were $602 and $663 at December 31, 2014 and 2013. Other current assets included letters of credit securing bonds of $241 and $241 at December 31, 2014 and 2013, respectively, with the remainder related to prepaid expenses, including insurance.

Other non-current assets of $2,526 and $2,236 as of December 31, 2014 and 2013, respectively, are primarily related to the cash surrender values of certain life insurance policies.

Revenue Recognition

Revenues from sales are recognized upon the shipment of finished goods when title and risk of loss have passed to the customer, there is pervasive evidence of an arrangement, the sales 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 in revenues and cost of goods sold. Since the Company's 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 wide levels, regulation, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

Shipping and Handling Costs

Shipping and handling costs related to sales transactions are not billed to customers nor recorded as sales revenue. Shipping and handling costs, which were $1,011, $621 and $446 for 2014, 2013 and 2012, respectively, are recorded in operating, selling, administrative and general expenses.

Advertising Costs

Advertising and related agency costs are expensed as incurred and were $813, $785, and $47 for the years ended December 31, 2014, 2013, and 2012 respectively. These costs are recorded as operating, selling, administrative and general expenses.

Stock Options

The Company, through an affiliate, accounts for employee stock compensation plans by measuring compensation cost for share-based payments at fair value.

Employee Benefits

Vector Tobacco has no employees. Employees of Liggett Vector Brands perform services for Vector Tobacco and associated expenses, including benefits, of such employees are allocated to Vector Tobacco.

A former senior executive of Liggett Vector Brands, who retired in 2012, provided services to Vector Tobacco and participated in the Supplemental Executive Retirement Plan ("SERP") sponsored by Vector and such expenses were allocated from Vector to the Company. The cost of providing retiree pension benefits is actuarially determined and accrued over the service period of the active employee group. The funded status of the defined benefit pension plan is recognized on the balance sheet. The measurement date for determining the funded status of the plans is December 31, 2014 and 2013. As of December 31, 2014 and 2013, Vector Tobacco had no remaining liabilities under the SERP.

Income Taxes

The Company accounts for income taxes under the liability method and in accordance with the terms of the tax sharing agreement with Vector Group. The Company 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 follows authoritative guidance for accounting for uncertainty in income taxes, which requires an entity to recognize 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.

Although indefinite-lived intangible assets and goodwill are not amortized, the Company recognizes deferred tax liabilities and assets for temporary differences related to its indefinite-lived intangible asset and the tax-deductible portion of such assets. Because indefinite-lived intangible assets are not amortized for financial reporting purposes, the related deferred tax liability will not reverse until some indeterminate future period should the assets become impaired or are disposed of. Therefore, the reversal of the deferred tax liability related to the Medallion intangible asset is no longer considered a source of future taxable income in assessing the realization of deferred tax assets. As a result, the Company is required to record a deferred tax asset valuation allowance totaling approximately $4,933 and $6,172 as of December 31, 2014 and 2013, respectively.

Vector Tobacco's federal income tax provision and related deferred income tax amounts are determined as if the Company filed tax returns on a standalone basis. The Company is included in the consolidated federal tax return with Vector and its other U.S. subsidiaries (see Note 5).

Legal Costs

The Company records any product liability legal expenses and other litigation costs as operating, selling, administrative and general expenses as those costs are incurred.

The Company records provisions in its financial statements for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Legal defense costs are expensed as incurred. Litigation is subject to many uncertainties, and it is possible that the Company's financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any tobacco-related litigation.

Distributions and Dividends on Common Shares

The Company records distributions on its common shares as dividends in its statement of shareholder's equity to the extent of retained earnings. Any amounts exceeding retained earnings are recorded as a reduction of additional paid-in-capital.

Comprehensive Income

The Company early adopted authoritative guidance on comprehensive income. This guidance requires entities to present components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company elected to present items of 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. Other comprehensive income is a component of shareholder's equity and relates to pension adjustments. The Company's comprehensive income was $9,498, $20,629 and $20,040 for the years ended December 31, 2014, 2013 and 2012, respectively. The accumulated other comprehensive income balance of $115 and $115 as of December 31, 2014 and December 31, 2013, respectively, all related to pensions.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents and long-term loans approximate their fair value.

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 7,270	$ 7,270	$ 10,785	$ 10,785
Due from related parties	17,778	17,778	9,595	9,595
Total	$ 25,048	$ 25,048	$ 20,380	$ 20,380

New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 United States Generally Accepted Accounting Principles ("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. This ASU is not anticipated to have a material impact on the Company's financial statements and notes to the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is the result of a convergence project between the FASB and the International Accounting Standards Board. The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting the new standard but does not anticipate it will have a material impact on the Company's financial statements or notes to the financial statements.

In April, 2014, the Financial Accounting Standards Board issued final guidance to change the criteria for reporting discontinued operations while enhancing disclosures in this area (Accounting Standards Update ("ASU") No. 2014-08). Under the new guidance, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as discontinued operations. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The guidance is effective for annual financial statements with fiscal years beginning on or after December 15, 2014 with early adoption permitted for disposals or classifications as held for sale which have not been reported in financial statements previously issued or available for issuance. Vector Tobacco will adopt the guidance effective January 1, 2015 and the guidance is not anticipated to have a material impact on the Company's financial statements and notes to the financial statements.

In March, 2014, the Emerging Issues Task Force (the "Task Force") reached a final consensus to amend the accounting guidance for share compensation tied to performance targets (Issue No. 13-D). The objective of this guidance is to clarify the accounting treatment of certain types of performance conditions in share-based compensation awards, more specifically, when performance targets can be achieved after the requisite service period. The Task Force concluded that performance criteria subsequent to a service period vesting requirement should be treated as vesting conditions, and as a result, this type of performance condition may delay expense recognition until achievement of the performance target is probable. Issue No. 13-D will be effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015, and early adoption is permitted. The adoption of this guidance is not anticipated to have a material impact on the Company's financial statements or notes to the financial statements.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables.

Vector Tobacco's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Three customers accounted for approximately 21%, 12%, and 11% respectively, of revenues in 2014. Two customers accounted for approximately 29%, and 11% , respectively, of revenues in 2013. Two customers accounted for approximately 55%, and 16%, respectively, of revenues in 2012. Vector Tobacco's two largest single customer receivable balances represented approximately 16% and 16% of net accounts receivable at December 31, 2014 and 15% and 13% as of December 31, 2013. Ongoing credit evaluations of customers' financial condition are performed and, generally, no security is required. Vector Tobacco maintains reserves for potential credit losses and such losses, in the aggregate, have generally not exceeded management's expectations.

Vector Tobacco maintains cash deposits and money market accounts with major banks which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of loss is minimal.

Revision of Previously Reported Cash Flows From Financing and Investing Activities

During the preparation of the Company's first quarter 2014 financial statements, a misclassification was identified which resulted in the Company revising its previously reported cash flow statement for the year ended December 31, 2013 to correctly present its intercompany loan made to Zoom LLC of $9,595 as an investing activity, rather than a financing activity. This change had no effect on previously reported net income, assets, shareholders' equity or cash flows from operations. There is no resulting impact to the December 31, 2014 financial statements. The misclassification was not material to the previously reported financial statements. The December 31, 2013 cash flow statement has been revised within these financial statements.

Out of Period Adjustment

In the first quarter of 2013, an out of period adjustment was recorded to reduce pension expense by $300, which was not material to the current financial statements or prior year annual financial statements.

Subsequent Events

The Company has evaluated events that occurred subsequent to December 31, 2014, through the financial statement issue date of March 4, 2015, and determined there were no other recordable or reportable subsequent events.

3. Medallion Acquisition and Intangible Asset

On April 1, 2002, the Company acquired the stock of Medallion and certain related assets from Medallion's principal stockholder. The total purchase price consisted of $50,000 in cash and $60,000 in promissory notes, which were subsequently fully repaid.

Medallion, formerly a discount cigarette manufacturer headquartered in Richmond, Virginia, is a participant in the Master Settlement Agreement ("MSA") between the state Attorneys General and the tobacco industry. Medallion has no payment obligations under the MSA agreement except to the extent its market share exceeds approximately 0.28% of total cigarettes sold in the United States (approximately 742 million cigarettes in 2014).

In connection with the acquisition of Medallion, the Company allocated $107,511 of the total purchase price of $110,000 to Medallion's exemption under the MSA. This intangible asset was deemed to have an indefinite useful life and is tested for impairment annually or more frequently when indicators of impairment are present. In evaluating an intangible asset 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 an intangible asset is evaluated using a two-step process. The first step involves a comparison of the fair value to the Company's carrying amount. If the carrying amount exceeds the fair value, the second step is performed. The second step involves a comparison of the implied fair value and carrying value of the intangible asset. To the extent that the carrying amount exceeds the implied fair value of the intangible asset, an impairment loss is recognized.

The annual test was performed in the fourth quarter of 2014, 2013 and 2012, respectively, resulting in no impairment.

4. Inventories

Inventories consist of the following at December 31:

	2014	2013
Finished goods, at current cost	$ 8,335	$ 7,540
LIFO adjustment	(204)	(106)
	$ 8,131	$ 7,434

Each year, the Company capitalizes in inventory that portion of its MSA liability related to cigarettes shipped to public warehouses but not sold. The amount of capitalized MSA cost in finished goods inventory was $2,718 and $2,399 at December 31, 2014 and 2013, respectively (see Note 8).

Since January 1, 2004, most of Vector Tobacco's products have been manufactured at Liggett's manufacturing facility in Mebane, North Carolina under a contract manufacturing agreement with Liggett (see Note 9) and as such, Vector Tobacco generally does not hold raw materials or tobacco leaf in inventory.

All of the Company's inventories at December 31, 2014 and December 31, 2013 have been reported under the LIFO method.

5. Income Taxes

Vector Tobacco's income tax provision and related deferred income tax amounts are determined as if the Company filed tax returns on a standalone basis. The Company and its non-consolidated, wholly-owned subsidiary VT Aviation currently are included in the consolidated federal income tax return of its ultimate parent, Vector.

The amounts provided for income taxes are as follows:

	2014	2013	2012
Current			
Federal	$ —	$ —	$ —
State	836	1,938	1,382
	$ 836	$ 1,938	$ 1,382
Deferred			
Federal	$ 6,164	$ 3,029	$ 3,807
State	1,268	(285)	196
	$ 7,432	$ 2,744	$ 4,003
Total tax provision	$ 8,268	$ 4,682	$ 5,385

Vector Tobacco's operations are included in the consolidated federal and state income tax returns of its indirect parent, Vector. At December 31, 2014 and 2013, a valuation allowance has been provided against the Company's deferred tax assets in the amount of $4,933 and $6,172, respectively, as it is presently deemed more likely than not that the benefit of such net tax assets will not be utilized. The Company evaluates the realizability of its net deferred tax assets and its estimate is subject to change. The reversal of deferred tax liabilities related to the Medallion intangible asset are not considered a source of future taxable income in assessing the realization of deferred tax assets.

During the preparation of the Company's first quarter 2014 financial statements, the Company revised its previously reported December 31, 2013 and 2012 income tax receivable, non-current deferred tax assets and accumulated deficit due to an error in the Company's tax provision. The error relates solely to a net operating loss and income tax receivable under a tax sharing agreement between the Company and Vector. Amounts related to the prior periods are not considered material to the financial statements taken as a whole, but were revised in 2014 for purposes of comparability.

The following table shows the previously reported balances and the corrected balances for the affected accounts as of December 31, 2013 and 2012.

	December 31, 2013 Previously Reported Balance	December 31, 2013 Corrected Balance	December 31, 2012 Previously Reported Balance	December 31, 2012 Corrected Balance
Income tax receivable, net	$ 7,956	$ 379	$ 1,471	$ 297
Deferred income taxes	$ 92,151	$ 96,735	$ 99,894	$ 99,894
Accumulated deficit	$ (111,108)	$ (114,101)	$ (133,741)	$ (134,915)
Income tax expense	$ 2,863	$ 4,682	$ 4,211	$ 5,385
Net Income	$ 22,633	$ 20,814	$ 21,214	$ 20,040

Temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows as of December 31:

	2014 Deferred Tax		2013 Deferred Tax	
	Asset	Liability	Asset	Liability
Sales and product allowances	$ 204	$ —	$ 99	$ —
Inventories	15	2,373	15	2,310
Compensation, benefits and related items	—	78	—	78
Amortization of intangibles	—	36,837	—	33,951
Settlement payments	3,968	—	4,320	—
Net operating losses ("NOL")	95,330	—	102,907	—
Valuation allowance	(4,933)	—	(6,172)	—
Total deferred tax	$ 94,584	$ 39,288	$ 101,169	$ 36,339

Differences between the amounts provided for income taxes and amounts computed at federal statutory tax rates are summarized as follows for the years ended December 31:

	2014	2013	2012
Income before income taxes	$ 17,766	$ 25,496	$ 25,425
Federal income tax expense at statutory rate	$ 6,218	$ 8,924	$ 8,899
State income taxes, net of federal taxes	2,027	1,745	1,026
Other changes due to changes in state income tax rates	(117)	—	(70)
Change in estimated utilization of NOLs	140	(5,987)	(4,470)
Income tax expense	$ 8,268	$ 4,682	$ 5,385

There were no unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012, respectively. The Company classifies all tax-related interest and penalties as income tax expense.

In 2013, the Internal Revenue Service concluded an audit of Vector's income tax return for the year ended December 31, 2009. There was no material impact on the Company’s consolidated financial statements as a result of the audit.

6. Defined Benefit Plans

During 2012, a senior officer of the Company participated in the Supplemental Executive Retirement Plan (“SERP”) sponsored by Vector where Vector will pay supplemental retirement benefits to certain key employees. The Company recognized income of $0, and $300 and expensed $20 in relation to the SERP plan during 2014, 2013 and 2012, respectively. The executive retired on January 3, 2012 and the Company's payment under the SERP was made in July 2012. The Company paid a lump sum amount to the retiring plan participant.

As of December 31, 2013, Vector Tobacco had no remaining future obligations under the SERP.

7. Operating Leases

Vector Tobacco and Liggett are parties to an annually renewable operating agreement under which Vector Tobacco leases space and certain equipment in Liggett's manufacturing and storage facility. Vector Tobacco paid $198, $200 and $202 under this agreement in 2014, 2013 and 2012, respectively.

8. Commitments and Contingencies

Tobacco-Related Litigation

Overview

Since 1954, United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. Although new cases continue to be commenced against certain cigarette manufacturers, including Liggett, Vector Tobacco has not been named as a defendant in any such actions.

Master Settlement Agreement

In November 1998, Philip Morris, Brown & Williamson, R.J. Reynolds and Lorillard (the “Original Participating Manufacturers” or “OPMs”) (together with any other tobacco product manufacturer that becomes a signatory, the “Subsequent Participating Manufacturers” or “SPMs”) (the OPMs and SPMs are hereinafter referred to jointly as the “Participating Manufacturers”) entered into the Master Settlement Agreement (the “MSA”) with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands (collectively, the “Settling States”) to settle the asserted and unasserted health care cost recovery and certain other claims

of the Settling States. The MSA received final judicial approval in each Settling State. In February 1999, Medallion (n/k/a Vector Tobacco) became a subsequent participating manufacturer under the MSA.

As a result of the MSA, the Settling States released Vector Tobacco and other Participating 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 use of tobacco products and imposes restrictions on lobbying activities conducted on behalf of Participating Manufacturers. In addition, the MSA provides for the appointment of an independent auditor to calculate and determine the amounts of payments owed pursuant to the MSA.

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

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 (approximately 742 million cigarettes in 2014). For the years ended December 31, 2014, 2013 and 2012, Vector Tobacco's domestic shipments accounted for approximately .6%, .3% and .3%, respectively, of the total cigarettes shipped in the United States. If Vector Tobacco's market share exceeds its respective market share exemption in a given year, then by April 15 of the following year, Vector Tobacco must pay on each excess unit an amount equal (on a per-unit basis) to that due by the OPMs for that year on April 15, 2014. On December 31, 2014, Vector Tobacco paid $20,000 of their estimated $28,000 2014 MSA obligation.

Certain MSA Disputes

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, to non-participating manufacturers ("NPMs"), 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 each of their 2003 - 2006 MSA payments. The Participating Manufacturers are also entitled to potential NPM Adjustments to their 2007 - 2013 payments pursuant to agreements entered into 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 for each of those years. A Settling State that has diligently enforced its qualifying escrow statute in the year in question

may be able to avoid allocation of the NPM Adjustment to the payments made by the manufacturers for the benefit of that Settling State.

For 2003 to 2013, Vector Tobacco disputed that they owed the Settling States the NPM Adjustments as calculated by the MSA's independent auditor. As permitted by the MSA, Vector Tobacco withheld payment or paid into a disputed payment account the amounts associated with these NPM Adjustments.

Notwithstanding provisions in the MSA requiring arbitration, litigation was filed in 49 Settling States involving the application of the NPM Adjustment for 2003 and whether it was to be determined through litigation or arbitration. These actions related to the potential NPM Adjustment for 2003, which the independent auditor under the MSA previously determined to be as much as $1,200,000 for all Participating Manufacturers. All but one of the 48 courts that decided the issue ruled that the 2003 NPM Adjustment dispute was arbitrable.

In response to a proposal from the OPMs and many of the SPMs, 45 of the Settling States, representing approximately 90% of the allocable share of the Settling States, entered into an agreement providing for a nationwide arbitration of the dispute with respect to the NPM Adjustment for 2003. In exchange the OPMs and SPMs agreed to a 20% reduction in amounts recovered for the NPM Adjustment for 2003. In June 2010, the three person arbitration panel was selected. In November 2011, the Participating Manufacturers advised the arbitration panel that they were not contesting diligent enforcement of 16 Settling States for 2003. Substantive hearings commenced in April 2012 and were completed in June 2013.

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 2013 MSA payments. In May 2013, two additional states joined the settlement and in June 2014, another two states joined the settlement. Several non-settling states are attempting to vacate the settlement award by filing state court actions. In Idaho, a trial court denied that state's motion to vacate; and the state appealed that denial. In Colorado, a trial court also denied that state's motion to vacate; Colorado did not appeal. Although certain terms of the settlement were implemented by the independent auditor on April 15, 2013, no assurance can be given as to the ultimate outcome of the non-settling states' challenges.

As a result of the settlements, Vector Tobacco recognized $482 of income in 2013 and $99 in 2014. The remaining NPM Adjustment accrual of $1,806 at December 31, 2014, relates to disputed amounts Vector Tobacco has withheld from non-settling states for 2004-2010. Approximately $865 remains in the disputed payments accounts relating to the NPM Adjustment dispute with these non-settling states.

Disputes over the NPM Adjustments for 2004-2013 remain to be arbitrated with the states that have not joined the settlement.

"Gross" v. "Net" Calculations.

In October 2004, the independent auditor notified Vector Tobacco and all other 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. Vector Tobacco did not formally object to this change in methodology. However, due to the strength of Liggett’s challenge to this change in methodology, Vector Tobacco, through December 31, 2012, continued to accrue its MSA obligations on a “gross” basis.

Following an arbitration panels ruling in the dispute between Liggett and the states in February 2013, Vector Tobacco concluded that the probability of the MSA calculation reverting back to a “gross” basis is remote. As such, in 2014 Vector Tobacco accrued its MSA obligations on a “net” basis and will continue to do so in future years. In conjunction with this decision, as of December 31, 2013, Vector Tobacco reversed its previously held accrual of $3,075 related to this "gross vs. net" dispute, resulting in $3,075 increase in earnings for the year ended December 31, 2013.

The activity in the Company's accruals for tobacco litigation for the twelve months ended December 31, 2014 was as follows:

	Current Liabilities	Non-current Liabilities
	Payments due under Master Settlement Agreement	Non-current payments due under Master Settlement Agreement
Balance at January 1, 2014	$ 8,737	$ 1,905
Expenses	27,480	—
NPM settlement adjustment	—	(76)
Change in MSA obligations capitalized as inventory	319	—
Payments	(28,593)	—
Reclassification to non-current liabilities	23	(23)
Interest on withholding	—	—
Balance at December 31, 2014	$ 7,966	$ 1,806

The activity in the Company's accruals for tobacco litigation for the twelve months ended December 31, 2013 was as follows:

	Current Liabilities	Non-current Liabilities
	Payments due under Master Settlement Agreement	Non-current payments due under Master Settlement Agreement
Balance at January 1, 2013	$ 1,293	$ 5,802
Expenses	7,694	—
MSA settlements and arbitration rulings	74	
Change in MSA obligations capitalized as inventory	1,106	(3,790)
Payments	(1,537)	—
Reclassification to non-current liabilities	107	(107)
Interest on withholding	—	—
Balance at December 31, 2013	$ 8,737	$ 1,905

Other Matters

Vector Tobacco’s management is unaware of any material environmental conditions affecting its leased facilities. Vector Tobacco’s management believes that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, results of operations or competitive position of Vector Tobacco. Vector Tobacco’s management is also unaware of any other claims that would materially affect the Company’s financial position, results of operations or cash flows.

9. Related Party Transactions

Liggett Vector Brands coordinates and executes the sales, marketing and manufacturing efforts along with certain support functions for all of Vector’s tobacco operations. In conjunction with the duties performed at Liggett Vector Brands, a portion of sales, marketing, manufacturing, distribution, and administrative expenses have been allocated to the Company. During 2014, 2013 and 2012, Vector Tobacco expensed $4,000, $4,000 and $1,500, respectively, for services provided by Liggett Vector Brands. These expenses have been classified as operating, selling, administrative and general expenses.

In 2006, Vector Tobacco entered into an agreement with VGR to provide various management and administrative services to Vector Tobacco in consideration for an annual management fee. The charges for services under this agreement amounted to $500 for each of the years ending December 31, 2014, 2013 and 2012.

On January 1, 2011, Vector Tobacco entered into a manufacturing agreement with Liggett Group LLC, an affiliate under common ownership, that will terminate on December 31, 2015 with subsequent automatic renewal for successive one year terms unless terminated by either party. Pricing is set forth in the agreement based on previously determined standard costs and invoices are sent to Vector Tobacco on a weekly basis under the agreement. In 2014, 2013 and 2012, Vector Tobacco purchased approximately 1.5 billion, 1 billion and 0.8 billion cigarettes, respectively, from Liggett and paid $97,371, $62,062 and $52,298, respectively, which included profit of $1,962, $1,232 and $997, respectively, to Liggett.

Vector Tobacco incurred additional expenses of approximately $274, $234, and $225 in 2014, 2013 and 2012, respectively, for transactions with VGR and Vector, which primarily reflects reimbursement of amounts paid on behalf of Vector Tobacco.

On August 1, 2013 Vector Tobacco entered into an updated five-year revolving credit agreement with Zoom E-Cigs LLC ("Zoom"), a company affiliated through common ownership, to fund Zoom's initial working capital requirements and other general business expenses. The agreement allows for Zoom to borrow from Vector Tobacco up to a maximum of $20 million, bearing interest at a rate of Prime plus 1% per annum. As of December 31, 2014 and 2013, the amount receivable from Zoom under the credit agreement was $17,778 and $9,595, respectively. Vector Tobacco recognized $641 and $73 of interest income under the agreement in 2014 and 2013, respectively.

Related party net (payables)/receivables consisted of the following as of December 31:

	2014	2013
Current		
Due to Liggett	$ (3,053)	$ (3,135)
Due from Liggett Vector Brands	1,524	1,215
Total Current, net	(1,529)	(1,920)
Non-current		
Due from Zoom	$ 17,778	$ 9,595

Vector Tobacco Inc.
Schedule II — Valuation and Qualifying Accounts
(in thousands of dollars)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended December 31, 2014				
Allowance for:				
Doubtful accounts	$ 82	$ 1	$ 78	$ 5
Cash discounts	32	4,139	4,102	69
Deferred tax valuation allowance	6,172	—	1,239	4,933
Sales returns	130	654	354	430
Total	$ 6,416	$ 4,794	$ 5,773	$ 5,437
Year ended December 31, 2013				
Allowance for:				
Doubtful accounts	$ 4	$ 78	$ —	$ 82
Cash discounts	7	2,652	2,627	32
Deferred tax valuation allowance	11,281	—	5,109	6,172
Sales returns	67	161	98	130
Total	$ 11,359	$ 2,891	$ 7,834	$ 6,416
Year ended December 31, 2012				
Allowance for:				
Doubtful accounts	$ 4	$ —	$ —	$ 4
Cash discounts	13	2,059	2,065	7
Deferred tax valuation allowance	24,427	—	13,146	11,281
Sales returns	55	77	65	67
Total	$ 24,499	$ 2,136	$ 15,276	$ 11,359