

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

**FORM 10-Q**

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

**For The Quarterly Period Ended September 30, 2022**

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

**VECTOR GROUP LTD.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation  
incorporation or organization)

**1-5759**  
Commission File Number

**65-0949535**  
(I.R.S. Employer Identification No.)

**4400 Biscayne Boulevard  
Miami, Florida 33137  
305-579-8000**  
(Address, including zip code and telephone number, including area code,  
of the principal executive offices)

**Securities Registered Pursuant to 12(b) of the Act:**

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common stock, par value \$0.10 per share	VGR	New York Stock Exchange

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 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

At November 1, 2022, Vector Group Ltd. had 154,795,902 shares of common stock outstanding.

**VECTOR GROUP LTD.**

**FORM 10-Q**

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

	September 30, 2022	December 31, 2021
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 384,963	\$ 193,411
Investment securities at fair value	115,824	146,687
Accounts receivable - trade, net	27,141	16,067
Inventories	86,101	94,615
Income taxes receivable, net	2,776	10,948
Other current assets	9,079	10,075
Total current assets	625,884	471,803
Property, plant and equipment, net	40,145	36,883
Investments in real estate, net	—	9,098
Long-term investments (includes \$28,582 and \$32,089 at fair value)	44,394	53,073
Investments in real estate ventures	116,840	105,062
Operating lease right-of-use assets	8,477	10,972
Intangible assets	107,511	107,511
Other assets	106,032	76,685
Total assets	\$ 1,049,283	\$ 871,087
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY:</b>		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 51	\$ 79
Current payments due under the Master Settlement Agreement	214,260	11,886
Current operating lease liability	3,689	3,838
Other current liabilities	126,332	149,487
Total current liabilities	344,332	165,290
Notes payable, long-term debt and other obligations, less current portion	1,389,155	1,398,591
Non-current employee benefits	69,550	68,970
Deferred income taxes, net	32,411	34,768
Non-current operating lease liability	6,176	8,853
Payments due under the Master Settlement Agreement	11,116	13,224
Other liabilities	19,853	22,944
Total liabilities	1,872,593	1,712,640
Commitments and contingencies (Note 8)		
Stockholders' deficiency:		
Preferred stock, par value \$1 per share, 10,000,000 shares authorized	—	—
Common stock, par value \$0.1 per share, 250,000,000 shares authorized, 154,795,902 and 153,959,427 shares issued and outstanding	15,480	15,396
Additional paid-in capital	3,523	11,172
Accumulated deficit	(827,445)	(852,398)
Accumulated other comprehensive loss	(14,868)	(15,723)
Total Vector Group Ltd. stockholders' deficiency	(823,310)	(841,553)
Non-controlling interest	—	—
Total stockholders' deficiency	(823,310)	(841,553)
Total liabilities and stockholders' deficiency	\$ 1,049,283	\$ 871,087

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
<b>Revenues:</b>				
Tobacco*	\$ 377,995	\$ 297,942	\$ 1,061,355	\$ 895,901
Real estate	—	543	15,884	11,126
Total revenues	<u>377,995</u>	<u>298,485</u>	<u>1,077,239</u>	<u>907,027</u>
<b>Expenses:</b>				
Cost of sales:				
Tobacco*	267,023	186,398	743,749	556,574
Real estate	—	1,046	7,327	9,668
Total cost of sales	<u>267,023</u>	<u>187,444</u>	<u>751,076</u>	<u>566,242</u>
Operating, selling, administrative and general expenses	27,040	29,924	76,265	89,795
Litigation settlement and judgment expense	31	12	160	17
Net gains on sales of assets	—	(910)	—	(910)
Operating income	<u>83,901</u>	<u>82,015</u>	<u>249,738</u>	<u>251,883</u>
<b>Other income (expenses):</b>				
Interest expense	(27,598)	(28,226)	(83,420)	(85,019)
Gain (loss) on extinguishment of debt	412	—	412	(21,362)
Equity in (losses) earnings from investments	(619)	44	(5,172)	1,562
Equity in (losses) earnings from real estate ventures	(1,903)	(5,694)	(4,240)	12,505
Other, net	(804)	(1,451)	(5,043)	9,868
Income before provision for income taxes	53,389	46,688	152,275	169,437
Income tax expense	14,533	16,776	41,724	52,994
Income from continuing operations	38,856	29,912	110,551	116,443
Income from discontinued operations, net of income taxes	—	18,857	—	57,588
Net income	<u>\$ 38,856</u>	<u>\$ 48,769</u>	<u>\$ 110,551</u>	<u>\$ 174,031</u>
Net loss from continuing operations attributed to non-controlling interest	—	—	—	—
Net loss from discontinued operations attributed to non-controlling interest	—	120	—	120
Net loss attributed to non-controlling interest	—	120	—	120
Net income attributed to Vector Group Ltd. from continuing operations	38,856	29,912	110,551	116,443
Net income attributed to Vector Group Ltd. from discontinued operations	—	18,977	—	57,708
Net income attributed to Vector Group Ltd.	<u>\$ 38,856</u>	<u>\$ 48,889</u>	<u>\$ 110,551</u>	<u>\$ 174,151</u>
<b>Per basic common share:</b>				
Net income from continuing operations applicable to common shares	\$ 0.25	\$ 0.19	\$ 0.70	\$ 0.74
Net income from discontinued operations applicable to common shares	—	0.12	—	0.37
Net income applicable to common shares	<u>\$ 0.25</u>	<u>\$ 0.31</u>	<u>\$ 0.70</u>	<u>\$ 1.11</u>
<b>Per diluted common share:</b>				
Net income from continuing operations applicable to common shares	\$ 0.25	\$ 0.19	\$ 0.70	\$ 0.74
Net income from discontinued operations applicable to common shares	—	0.12	—	0.37
Net income applicable to common shares	<u>\$ 0.25</u>	<u>\$ 0.31</u>	<u>\$ 0.70</u>	<u>\$ 1.11</u>

\* Revenues and cost of sales include federal excise taxes of \$138,041, \$106,408, \$392,004, and \$322,857 for the three and nine months ended September 30, 2022 and 2021, respectively.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 38,856	\$ 48,769	\$ 110,551	\$ 174,031
Net unrealized gains (losses) on investment securities available for sale:				
Change in net unrealized losses	(948)	(111)	(2,841)	(415)
Net unrealized losses reclassified into net income	953	36	2,783	29
Net unrealized gains (losses) on investment securities available for sale	5	(75)	(58)	(386)
Net change in pension-related amounts:				
Amortization of loss	403	481	1,211	1,444
Net change in pension-related amounts	403	481	1,211	1,444
Other comprehensive income	408	406	1,153	1,058
Income tax effect on:				
Change in net unrealized losses on investment securities	245	30	733	112
Net unrealized losses reclassified into net income on investment securities	(246)	(10)	(718)	(8)
Pension-related amounts	(104)	(130)	(313)	(390)
Income tax provision on other comprehensive income	(105)	(110)	(298)	(286)
Other comprehensive income, net of tax	303	296	855	772
Comprehensive income	39,159	49,065	111,406	174,803
Comprehensive loss attributed to non-controlling interest	—	120	—	120
Comprehensive income attributed to Vector Group Ltd.	\$ 39,159	\$ 49,185	\$ 111,406	\$ 174,923

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

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

Vector Group Ltd. Stockholders' Deficiency							
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of July 1, 2022	154,896,129	\$ 15,490	\$ 3,066	\$ (834,297)	\$ (15,171)	\$ —	\$ (830,912)
Net income	—	—	—	38,856	—	—	38,856
Total other comprehensive income	—	—	—	—	303	—	303
Dividends on common stock (\$0.20 per share)	—	—	—	(31,739)	—	—	(31,739)
Withholding of shares as payment of payroll tax liabilities in connection with restricted stock vesting	(100,227)	(10)	(1,101)	—	—	—	(1,111)
Stock-based compensation	—	—	1,558	—	—	—	1,558
Other	—	—	—	(265)	—	—	(265)
Balance as of September 30, 2022	154,795,902	\$ 15,480	\$ 3,523	\$ (827,445)	\$ (14,868)	\$ —	\$ (823,310)

Vector Group Ltd. Stockholders' Deficiency							
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of July 1, 2021	154,156,100	\$ 15,416	\$ 5,048	\$ (591,911)	\$ (20,598)	\$ —	\$ (592,045)
Net income	—	—	—	48,889	—	(120)	48,769
Total other comprehensive income	—	—	—	—	296	—	296
Distributions and dividends on common stock (\$0.20 per share)	—	—	—	(31,572)	—	—	(31,572)
Restricted stock grant	—	—	—	—	—	—	—
Withholding of shares as payment of payroll tax liabilities in connection with restricted stock vesting	(196,673)	(20)	(2,935)	—	—	—	(2,955)
Stock-based compensation	—	—	2,375	—	—	—	2,375
Acquisition of Douglas Elliman Realty, LLC	—	—	—	—	—	500	500
Contributions from non-controlling interest	—	—	—	—	—	1,500	1,500
Balance as of September 30, 2021	153,959,427	\$ 15,396	\$ 4,488	\$ (574,594)	\$ (20,302)	\$ 1,880	\$ (573,132)

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

Vector Group Ltd. Stockholders' Deficiency

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of January 1, 2022	153,959,427	\$ 15,396	\$ 11,172	\$ (852,398)	\$ (15,723)	\$ —	\$ (841,553)
Net income	—	—	—	110,551	—	—	110,551
Total other comprehensive income	—	—	—	—	855	—	855
Dividends on common stock (\$0.60 per share)	—	—	—	(95,265)	—	—	(95,265)
Restricted stock grants	1,070,000	107	(107)	—	—	—	—
Withholding of shares as payment of payroll tax liabilities in connection with restricted stock vesting	(233,525)	(23)	(2,645)	—	—	—	(2,668)
Stock-based compensation	—	—	6,275	—	—	—	6,275
Reallocation of distribution of Douglas Elliman	—	—	(11,172)	11,172	—	—	—
Other	—	—	—	(1,505)	—	—	(1,505)
Balance as of September 30, 2022	154,795,902	\$ 15,480	\$ 3,523	\$ (827,445)	\$ (14,868)	\$ —	\$ (823,310)

Vector Group Ltd. Stockholders' Deficiency

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of January 1, 2021	153,324,629	\$ 15,332	\$ —	\$ (653,945)	\$ (21,074)	\$ —	\$ (659,687)
Net income	—	—	—	174,151	—	(120)	174,031
Total other comprehensive income	—	—	—	—	772	—	772
Dividends on common stock (\$0.60 per share)	—	—	—	(94,800)	—	—	(94,800)
Restricted stock grant	873,500	88	(88)	—	—	—	—
Withholding of shares as payment of payroll tax liabilities in connection with restricted stock vesting	(238,702)	(24)	(3,539)	—	—	—	(3,563)
Stock-based compensation	—	—	8,115	—	—	—	8,115
Acquisition of Douglas Elliman Realty, LLC	—	—	—	—	—	500	500
Contributions from non-controlling interest	—	—	—	—	—	1,500	1,500
Balance as of September 30, 2021	153,959,427	\$ 15,396	\$ 4,488	\$ (574,594)	\$ (20,302)	\$ 1,880	\$ (573,132)

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

**VECTOR GROUP LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Dollars in Thousands)**  
Unaudited

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 329,017	\$ 311,337
Cash flows from investing activities:		
Sale of investment securities	21,152	33,517
Maturities of investment securities	49,789	50,731
Purchase of investment securities	(48,828)	(99,287)
Proceeds from sale or liquidation of long-term investments	4,413	8,509
Purchase of long-term investments	(4,312)	(13,053)
Investments in real estate ventures	(19,644)	(15,912)
Distributions from investments in real estate ventures	3,791	11,879
Increase in cash surrender value of life insurance policies	(1,268)	(1,253)
Decrease (increase) in restricted assets	5	(5)
Proceeds from sale of fixed assets	—	17
Capital expenditures	(8,759)	(11,103)
Purchase of subsidiaries	—	(500)
Paydowns of investment securities	157	415
Net cash used in investing activities	(3,504)	(36,045)
Cash flows from financing activities:		
Proceeds from issuance of debt	—	875,000
Deferred financing costs	—	(20,109)
Repurchase and repayments of debt	(12,246)	(859,801)
Borrowings under revolving credit facility	67,451	7,778
Repayments on revolving credit facility	(67,453)	(7,778)
Dividends on common stock	(96,636)	(98,403)
Contributions from non-controlling interest	—	1,500
Other	(938)	(102)
Net cash used in financing activities	(109,822)	(101,915)
Net increase in cash, cash equivalents and restricted cash	215,691	173,377
Cash, cash equivalents and restricted cash, beginning of period	194,849	365,677
Cash, cash equivalents and restricted cash, end of period	\$ 410,540	\$ 539,054

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



**VECTOR GROUP LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of Presentation:

The condensed consolidated financial statements of Vector Group Ltd. (the “Company” or “Vector”) include the accounts of Liggett Group LLC (“Liggett”), Vector Tobacco LLC (“Vector Tobacco”), Liggett Vector Brands LLC (“Liggett Vector Brands”), New Valley LLC (“New Valley”) and other less significant subsidiaries. New Valley includes the accounts of 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. Liggett Vector Brands coordinates Liggett and Vector Tobacco’s sales and marketing efforts. Certain references to “Liggett” refer to the Company’s tobacco operations, including the business of Liggett and Vector Tobacco, unless otherwise specified. New Valley is engaged in the real estate business.

The unaudited, interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and, in management’s opinion, contain all adjustments, consisting only of normal recurring items, necessary for a fair statement of the results for the periods presented. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission (“SEC”). The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

(b) Distributions and Dividends on Common Stock:

The Company records distributions on its common stock as dividends in its condensed consolidated statements of stockholders’ deficiency to the extent of retained earnings and net income for the respective fiscal year. Any amounts exceeding retained earnings and net income are recorded as a reduction to additional paid-in capital to the extent paid-in-capital is available and then to accumulated deficit.

(c) Earnings Per Share (“EPS”):

Net income for purposes of determining basic and diluted EPS for discontinued operations and net income available to common stockholders was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net income from continuing operations	\$ 38,856	\$ 29,912	\$ 110,551	\$ 116,443
Net income from discontinued operations	—	18,977	—	57,708
Net income	38,856	48,889	110,551	174,151
Income from continuing operations attributable to participating securities	(1,180)	(1,226)	(3,405)	(4,644)
Net income applicable to common shares	<u>\$ 37,676</u>	<u>\$ 47,663</u>	<u>\$ 107,146</u>	<u>\$ 169,507</u>

Net income for purposes of determining basic and diluted EPS for continuing operations applicable to common shares was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net income from continuing operations	\$ 38,856	\$ 29,912	\$ 110,551	\$ 116,443
Income from continuing operations attributable to participating securities	(1,180)	(791)	(3,405)	(2,919)
Net income available to common stockholders	<u>\$ 37,676</u>	<u>\$ 29,121</u>	<u>\$ 107,146</u>	<u>\$ 113,524</u>

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

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

Net income for purposes of determining basic and diluted EPS for discontinued operations applicable to common shares was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income from discontinued operations	\$ —	\$ 18,977	\$ —	\$ 57,708
Income from discontinued operations attributable to participating securities	—	5	—	—
Net income available to common stockholders	<u>\$ —</u>	<u>\$ 18,982</u>	<u>\$ —</u>	<u>\$ 57,708</u>

Basic and diluted EPS for continuing and discontinued operations were calculated using the following common shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Weighted-average shares for basic EPS	152,859,378	152,535,244	152,716,470	152,357,669
Plus incremental shares related to stock options and non-vested restricted stock	50,802	34,376	156,452	132,411
Weighted-average shares for diluted EPS	<u>152,910,180</u>	<u>152,569,620</u>	<u>152,872,922</u>	<u>152,490,080</u>

It may not be possible to recalculate EPS attributable to common stockholders by adjusting EPS from continuing operations by EPS from discontinued operations as each amount is calculated independently.

The following stock options and non-vested restricted stock were outstanding during the three and nine months ended September 30, 2022 and 2021, but were not included in the computation of diluted EPS because the impact of the per share expense associated with the stock options and the restricted stock was greater than the average market price of the common shares during the respective periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Number of stock options	—	—	—	—
Weighted-average exercise price	\$ —	\$ —	\$ —	\$ —
Weighted-average shares of non-vested restricted stock	—	210,642	—	—
Weighted-average expense per share	\$ —	\$ 19.54	\$ —	\$ —

(d) Other, net:

Other, net consisted of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest and dividend income	\$ 2,406	\$ 488	\$ 3,791	\$ 1,479
Net (losses) gains recognized on investment securities	(3,127)	(1,697)	(10,296)	9,119
Net periodic benefit cost other than the service costs	(236)	(243)	(709)	(730)
Other income	153	1	2,171	—
Other, net	<u>\$ (804)</u>	<u>\$ (1,451)</u>	<u>\$ (5,043)</u>	<u>\$ 9,868</u>

**(Dollars in Thousands, Except Per Share Amounts)**  
**Unaudited**

(e) Other Assets:

Other assets consisted of:

	September 30, 2022	December 31, 2021
Restricted assets	\$ 25,690	\$ 1,551
Prepaid pension costs	45,429	44,585
Other assets	34,913	30,549
Total other assets	<u>\$ 106,032</u>	<u>\$ 76,685</u>

(f) Other Current Liabilities:

Other current liabilities consisted of:

	September 30, 2022	December 31, 2021
Accounts payable	\$ 5,473	\$ 9,443
Accrued promotional expenses	61,641	55,647
Accrued excise and payroll taxes payable, net	2,015	22,919
Accrued interest	32,104	30,676
Accrued salaries and benefits	7,106	13,982
Allowance for sales returns	7,265	6,669
Other current liabilities	10,728	10,151
Total other current liabilities	<u>\$ 126,332</u>	<u>\$ 149,487</u>

(g) Reconciliation of Cash, Cash Equivalents and Restricted Cash:

The components of “Cash, cash equivalents and restricted cash” in the condensed consolidated statements of cash flows were as follows:

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 384,963	\$ 193,411
Restricted cash and cash equivalents included in other assets	25,577	1,438
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 410,540</u>	<u>\$ 194,849</u>

(h) Related Party Transactions:

*Agreements with Douglas Elliman.* The Company received \$1,050 and \$3,150 under the Transition Services Agreement and \$352 and \$1,529 under the Aircraft Lease Agreement during the three and nine months ended September 30, 2022.

The Company has agreed to indemnify Douglas Elliman for certain tax matters under the Tax Disaffiliation Agreement. The Company paid Douglas Elliman \$581 as of September 30, 2022 and recorded Other expense of \$28 and \$581 in its condensed consolidated statements of operations for the three and nine months ended September 30, 2022 related to tax indemnification.

As of September 30, 2022 and December 31, 2021, the Company’s indemnification obligation of the contingent liability related to Douglas Elliman was valued at \$0 and \$2,646.

*Real estate venture investments.* Douglas Elliman has been engaged by the developers as the sole broker or the co-broker for several of the real estate development projects that New Valley owns an interest in through its real estate venture investments. Douglas Elliman had gross commissions from these projects of approximately \$115 and \$908 for the three months ended September 30, 2022 and 2021, respectively, and \$1,216 and \$7,493 for the nine months ended September 30, 2022 and 2021, respectively.

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

(i) New Accounting Pronouncements:

Accounting Standards Updates (“ASUs”) to be adopted in future periods:

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The ASU requires that an acquirer recognize and measure contract assets and contract liabilities in a business combination in accordance with Topic 606. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of the new guidance on its condensed consolidated financial statements.

SEC Proposed Rules

On March 21, 2022, the SEC proposed rule changes that would require registrants to provide certain climate-related information in their registration statements and annual reports. The proposed rules would require information about a registrant's climate-related risks that are reasonably likely to have a material impact on its business, results of operations, or financial condition. The required information about climate-related risks would also include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks. In addition, under the proposed rules, certain climate-related financial metrics would be required in a registrant's audited financial statements. The Company is currently evaluating the impact of the proposed rule changes.

**2. REVENUE RECOGNITION**

**Disaggregation of Revenue**

The Company disaggregates revenues by segment.

*Tobacco.* Tobacco segment revenues are not disaggregated because all revenues are generated from the discount segment of the U.S. cigarette industry.

*Real Estate.* Real Estate segment revenues are disaggregated in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<u>Real Estate Segment Revenues</u>				
Sales on facilities located on investments in real estate	\$ —	\$ 543	\$ 3,259	\$ 3,476
Revenues from investments in real estate	—	—	12,625	7,650
Total real estate revenues	<u>\$ —</u>	<u>\$ 543</u>	<u>\$ 15,884</u>	<u>\$ 11,126</u>

**(Dollars in Thousands, Except Per Share Amounts)**  
**Unaudited**

**3. DISCONTINUED OPERATIONS**

On December 29, 2021, the Company completed the distribution to its stockholders (including Vector common stock underlying outstanding stock options awards and restricted stock awards) of the common stock of Douglas Elliman Inc. (the “Distribution”).

There were no assets or liabilities of discontinued operations of Douglas Elliman as of September 30, 2022 or December 31, 2021.

The financial results of Douglas Elliman through the completion of the Distribution are presented as income from discontinued operations, net of income taxes on the Company’s condensed consolidated statements of operations. The following table presents financial results of Douglas Elliman for the periods prior to the completion of the Distribution:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
<b>Revenues:</b>				
Real estate	\$ —	\$ 354,161	\$ —	\$ 1,018,912
<b>Expenses:</b>				
Cost of sales	—	259,646	—	744,800
Operating, selling, administrative and general expenses	—	69,000	—	191,186
Operating income	—	25,515	—	82,926
<b>Other income (expenses):</b>				
Interest expense	—	(61)	—	(134)
Equity in earnings from real estate ventures	—	(175)	—	(100)
Other, net	—	481	—	(2,506)
Pretax income from discontinued operations	—	25,760	—	80,186
Income tax expense	—	6,903	—	22,598
Net income from discontinued operations	—	18,857	—	57,588
Net loss from discontinued operations attributed to non-controlling interest	—	120	—	120
Net income attributed to Douglas Elliman Inc.	\$ —	\$ 18,977	\$ —	\$ 57,708

The following table presents the information regarding certain components of cash flows from discontinued operations:

	Nine Months Ended September 30,	
	2022	2021
(Dollars in thousands)		
Depreciation and amortization	\$ —	\$ 6,408
Non-cash lease expense	—	13,833
Capital expenditures	—	(2,693)

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**4. INVENTORIES**

Inventories consisted of:

	September 30, 2022	December 31, 2021
Leaf tobacco	\$ 32,066	\$ 38,825
Other raw materials	9,658	7,560
Work-in-process	967	2,639
Finished goods	63,037	64,218
Inventories at current cost	105,728	113,242
LIFO adjustments	(19,627)	(18,627)
	<u>\$ 86,101</u>	<u>\$ 94,615</u>

All of the Company's inventories at September 30, 2022 and December 31, 2021 are reported under the LIFO method. The \$19,627 LIFO adjustment as of September 30, 2022 reduced the current cost of inventories by \$13,128 for Leaf tobacco, \$829 for Other raw materials, \$18 for Work-in-process and \$5,652 for Finished goods. The \$18,627 LIFO adjustment as of December 31, 2021 reduced the current cost of inventories by \$12,128 for Leaf tobacco, \$829 for Other raw materials, \$18 for Work-in-process and \$5,652 for Finished goods.

The amount of capitalized Master Settlement Agreement ("MSA") cost in "Finished goods" inventory was \$21,869 and \$20,450 at September 30, 2022 and December 31, 2021, respectively. Federal excise tax capitalized in inventory was \$26,418 and \$25,160 at September 30, 2022 and December 31, 2021, respectively.

At September 30, 2022, Liggett had tobacco purchase commitments of approximately \$18,280. Liggett has a single-source supply agreement for reduced ignition propensity cigarette paper through December 2025.

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**5. INVESTMENT SECURITIES**

Investment securities consisted of the following:

	September 30, 2022	December 31, 2021
Debt securities available for sale	\$ 80,585	\$ 103,906
Equity securities at fair value:		
Marketable equity securities	13,467	19,560
Mutual funds invested in debt securities	21,772	23,221
Long-term investment securities at fair value <sup>(1)</sup>	28,582	32,089
Total equity securities at fair value	63,821	74,870
Total investment securities at fair value	144,406	178,776
Less:		
Long-term investment securities at fair value <sup>(1)</sup>	28,582	32,089
Current investment securities at fair value	\$ 115,824	\$ 146,687
Long-term investment securities at fair value <sup>(1)</sup>	\$ 28,582	\$ 32,089
Equity-method investments	15,812	20,984
Total long-term investments	\$ 44,394	\$ 53,073
Equity securities at cost <sup>(2)</sup>	\$ 6,200	\$ 5,200

<sup>(1)</sup> These assets are measured at net asset value (“NAV”) as a practical expedient under ASC 820.

<sup>(2)</sup> These assets are without readily determinable fair values that do not qualify for the NAV practical expedient and are included in Other assets on the condensed consolidated balance sheets.

Net (losses) gains recognized on investment securities were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (losses) gains recognized on equity securities	\$ (2,174)	\$ (1,661)	\$ (7,513)	\$ 9,148
Net (losses) gains recognized on debt securities available for sale	—	(29)	6	36
Impairment expense	(953)	(7)	(2,789)	(65)
Net (losses) gains recognized on investment securities	\$ (3,127)	\$ (1,697)	\$ (10,296)	\$ 9,119

**(a) Debt Securities Available for Sale:**

The components of debt securities available for sale at September 30, 2022 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities	\$ 80,581	\$ 4	\$ —	\$ 80,585

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The table below summarizes the maturity dates of debt securities available for sale at September 30, 2022.

Investment Type:	Fair Value	Under 1 Year	1 Year up to 5 Years	More than 5 Ye
U.S. Government securities	\$ 1,572	\$ 1,572	\$ —	\$
Corporate securities	51,986	31,199	20,787	
U.S. mortgage-backed securities	27,027	3,151	23,876	
Total debt securities available for sale by maturity dates	<u>\$ 80,585</u>	<u>\$ 35,922</u>	<u>\$ 44,663</u>	<u>\$</u>

The components of debt securities available for sale at December 31, 2021 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities	<u>\$ 103,838</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 103,906</u>

There were no available-for-sale debt securities with continuous unrealized losses for less than 12 months and 12 months or greater at September 30, 2022 and December 31, 2021, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross realized gains on sales	\$ —	\$ 29	\$ 7	\$
Gross realized losses on sales	—	(58)	(1)	(
Net gains (losses) recognized on debt securities available for sale	<u>\$ —</u>	<u>\$ (29)</u>	<u>\$ 6</u>	<u>\$</u>
Impairment expense	\$ (953)	\$ (7)	\$ (2,789)	\$ (

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

**(b) Equity Securities at Fair Value:**

The following is a summary of unrealized and realized net losses and gains recognized in net income on equity securities at fair value during the three and nine months ended September 30, 2022 and 2021, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (losses) gains recognized on equity securities	\$ (2,174)	\$ (1,661)	\$ (7,513)	\$ 9,1
Less: Net (losses) gains recognized on equity securities sold	(16)	2,095	290	6,3
Net unrealized (losses) gains recognized on equity securities still held at the reporting date	<u>\$ (2,158)</u>	<u>\$ (3,756)</u>	<u>\$ (7,803)</u>	<u>\$ 2,8</u>

The Company's investments in mutual funds that invest in debt securities are classified as Level 1 under the fair value hierarchy disclosed in Note 10. Their fair values are based on quoted prices for identical assets in active markets or inputs that are based upon quoted prices for similar instruments in active markets. The Company has unfunded commitments of \$514 related to long-term investment securities at fair value as of September 30, 2022.



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**(Dollars in Thousands, Except Per Share Amounts)**  
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The Company received cash distributions of \$4,953 and \$8,509 related to its long-term investment securities at fair value for the nine months ended September 30, 2022 and 2021, respectively. Of the total \$4,953 distributions, the Company classified \$540 as operating cash inflows and \$4,413 as investing cash inflows for the nine months ended September 30, 2022, and the total \$8,509 distributions were classified as investing cash inflows for the nine months ended September 30, 2021.

***(c) Equity-Method Investments:***

Equity-method investments consisted of the following:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Mutual fund and hedge funds	\$ 15,812	\$ 20,984

At September 30, 2022, the Company's ownership percentages in the mutual fund and hedge funds accounted for under the equity method ranged from 6.30% to 38.34%. The Company's ownership percentage in these investments meets the threshold for equity-method accounting.

Equity in (losses) earnings from investments were:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Mutual fund and hedge funds	\$ (619)	\$ 44	\$ (5,172)	\$ 1,562

***(d) Equity Securities Without Readily Determinable Fair Values That Do Not Qualify for the NAV Practical Expedient***

Equity securities without readily determinable fair values that do not qualify for the NAV practical expedient consisted of investments in various limited liability companies at September 30, 2022 and December 31, 2021, respectively. The total carrying value of these investments was \$6,200 as of September 30, 2022 and \$5,200 as of December 31, 2021, and was included in "Other assets" on the condensed consolidated balance sheets. No impairment or other adjustments related to observable price changes in orderly transactions for identical or similar investments were identified for the three and nine months ended September 30, 2022 and 2021, respectively.

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**6. NEW VALLEY LLC**

*Investments in real estate ventures:*

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

	Range of Ownership <sup>(1)</sup>	September 30, 2022	December 31, 2021
<b>Condominium and Mixed Use Development:</b>			
New York City Standard Metropolitan Statistical Area (“SMSA”)	4.2% - 22.8%	\$ 18,594	\$ 22,654
All other U.S. areas	12.5% - 89.1%	69,759	57,485
		88,353	80,139
<b>Apartment Buildings:</b>			
All other U.S. areas	50.0%	9,976	11,900
		9,976	11,900
<b>Hotels:</b>			
New York City SMSA	0.4% - 12.3%	916	1,635
International	49.0%	1,826	1,522
		2,742	3,157
<b>Commercial:</b>			
New York City SMSA	49.0%	7,908	—
All other U.S. areas	1.6%	7,494	7,290
		15,402	7,290
Other:	15.0% - 49.0%	367	2,576
Investments in real estate ventures		\$ 116,840	\$ 105,062

<sup>(1)</sup> The Range of Ownership reflects New Valley’s estimated current ownership percentage. New Valley’s actual ownership percentage as well as the percentage of earnings and cash distributions may ultimately differ as a result of a number of factors including potential dilution, financing or admission of additional partners.

*Contributions:*

The components of New Valley’s contributions to its investments in real estate ventures were as follows:

	Nine Months Ended September 30,	
	2022	2021
<b>Condominium and Mixed Use Development:</b>		
New York City SMSA	\$ 498	\$ 396
All other U.S. areas	10,870	12,336
	11,368	12,732
<b>Hotels:</b>		
New York City SMSA	206	1,579
	206	1,579
<b>Commercial:</b>		
New York City SMSA	8,070	—
	8,070	—
Total contributions	\$ 19,644	\$ 14,311

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

**(Dollars in Thousands, Except Per Share Amounts)**  
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For ventures where New Valley previously held an investment, New Valley contributed its proportionate share of additional capital along with contributions by the other investment partners during the nine months ended September 30, 2022 and 2021. New Valley's direct investment percentage for these ventures did not significantly change.

*Distributions:*

The components of distributions received by New Valley from its investments in real estate ventures were as follows:

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Condominium and Mixed Use Development:</b>		
New York City SMSA	\$ 1,032	\$ 4,440
All other U.S. areas	—	13,594
	<u>1,032</u>	<u>18,034</u>
<b>Apartment Buildings:</b>		
All other U.S. areas	550	18,566
	<u>550</u>	<u>18,566</u>
<b>Commercial:</b>		
All other U.S. areas	736	503
	<u>736</u>	<u>503</u>
<b>Other</b>	4,459	—
<b>Total distributions</b>	<u>\$ 6,777</u>	<u>\$ 37,103</u>

Of the distributions received by New Valley from its investment in real estate ventures, \$2,986 and \$25,255 were from distributions of earnings for the nine months ended September 30, 2022 and 2021, respectively, and \$3,791 and \$11,848 were a return of capital for the nine months ended September 30, 2022 and 2021, respectively. Distributions from earnings are included in cash from operations in the condensed consolidated statements of cash flows, while distributions from return of capital are included in cash flows from investing activities in the condensed consolidated statements of cash flows.

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

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*Equity in Earnings (losses) from Real Estate Ventures:*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Condominium and Mixed Use Development:</b>				
New York City SMSA	\$ (1,652)	\$ (841)	\$ (3,823)	\$ (3,313)
All other U.S. areas	(490)	(6,128)	(1,451)	1,146
	(2,142)	(6,969)	(5,274)	(2,167)
<b>Apartment Buildings:</b>				
All other U.S. areas	(450)	999	(1,374)	18,566
	(450)	999	(1,374)	18,566
<b>Hotels:</b>				
New York City SMSA	(182)	(246)	(924)	(1,094)
International	609	310	304	(219)
	427	64	(620)	(1,313)
<b>Commercial:</b>				
New York City SMSA	(4)	—	(162)	(2,591)
All other U.S. areas	266	200	940	473
	262	200	778	(2,118)
<b>Other:</b>	—	12	2,250	(463)
Equity in (losses) earnings from real estate ventures	<u>\$ (1,903)</u>	<u>\$ (5,694)</u>	<u>\$ (4,240)</u>	<u>\$ 12,505</u>

*Investment in Real Estate Ventures Entered Into During the Nine Months Ended September 30, 2022:*

In June 2022, New Valley invested \$410 for an approximate 75% interest in Nash Square Upstream JV LLC. The joint venture plans to develop a mixed use development. The venture is a variable interest entity (“VIE”); 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 Nash Square Upstream JV LLC was \$422 at September 30, 2022.

New Valley invested \$4,000 during the nine months ended September 30, 2022 for an approximate 25% interest in BH NV Aventura LLC. The joint venture plans to develop a mixed use development. The venture is a VIE; 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 BH NV Aventura LLC was \$4,000 at September 30, 2022.

In August 2022, New Valley invested \$4,000 for an approximate 35% interest in BH NV NMB Venture LLC. The joint venture plans to develop a mixed use development. The venture is a VIE; 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 BH NV NMB Venture LLC was \$4,000 at September 30, 2022.

*VIE Consideration:*

The Company has determined that New Valley is the primary beneficiary of one real estate venture because it controls the activities that most significantly impact the economic performance of the real estate venture. Consequently, New Valley consolidates this VIE.

The carrying amount of the consolidated assets of the VIE was \$0 at both September 30, 2022 and December 31, 2021. Those assets are owned by the VIE, not the Company. The consolidated VIE had no recourse liabilities as of September 30, 2022 and December 31, 2021. A VIE's assets can only be used to settle the obligations of that VIE. The VIE is not a guarantor of the Company's senior notes and other debts payable.

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

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For the remaining investments in real estate ventures, New Valley determined that the entities were VIEs but New Valley was not the primary beneficiary. Therefore, New Valley’s investment in such real estate ventures has been accounted for under the equity method of accounting.

*Maximum Exposure to Loss:*

New Valley’s maximum exposure to loss from its investments in real estate ventures consisted of the net carrying value of the venture adjusted for any future capital commitments and/or guarantee arrangements. The maximum exposure to loss was as follows:

	<b>September 30, 2022</b>
<b>Condominium and Mixed Use Development:</b>	
New York City SMSA	\$ 18,594
All other U.S. areas	69,759
	88,353
<b>Apartment Buildings:</b>	
All other U.S. areas	9,976
	9,976
<b>Hotels:</b>	
New York City SMSA	916
International	1,826
	2,742
<b>Commercial:</b>	
New York City SMSA	7,908
All other U.S. areas	7,494
	15,402
<b>Other</b>	367
Total maximum exposure to loss	\$ 116,840

New Valley capitalized \$1,101 and \$3,152 of interest costs into the carrying value of its ventures whose projects were currently under development for the three and nine months ended September 30, 2022, respectively. New Valley capitalized \$614 and \$1,636 of interest costs into the carrying value of its ventures whose projects were currently under development for the three and nine months ended September 30, 2021, respectively.

***Investments in Real Estate, net:***

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

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Escena, net	\$ —	\$ 9,098
Investments in real estate, net	\$ —	\$ 9,098

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New Valley recorded operating income of \$0 and operating losses of \$530 for the three months ended September 30, 2022 and 2021, respectively, from Escena. New Valley recorded operating income of \$1,316 and operating losses of \$250 for the nine months ended September 30, 2022 and 2021, respectively, from Escena. Escena is a master planned community, golf course, and club house in Palm Springs, California. In April 2022, New Valley sold Escena and received approximately \$15,300 in net cash proceeds. The Company recognized the revenue in accordance with the scope of ASC Topic 606 since New Valley has no continuing investment or involvement. The sale was presented as revenue and the cost of the investment as cost of sales on the condensed consolidated statements of operations.

**7. NOTES PAYABLE, LONG-TERM DEBT AND OTHER OBLIGATIONS**

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

	September 30, 2022	December 31, 2021
Vector:		
5.75% Senior Secured Notes due 2029	\$ 875,000	\$ 875,000
10.5% Senior Notes due 2026, net of unamortized discount of \$2,323 and \$2,647	539,812	552,353
Liggett:		
Revolving credit agreement	22	24
Equipment loans	44	64
Other	—	32
Notes payable, long-term debt and other obligations	1,414,878	1,427,473
Less:		
Debt issuance costs	(25,672)	(28,803)
Total notes payable, long-term debt and other obligations	1,389,206	1,398,670
Less:		
Current maturities	(51)	(79)
Amount due after one year	\$ 1,389,155	\$ 1,398,591

5.75% Senior Secured Notes due 2029 — Vector:

As of September 30, 2022, the Company was in compliance with all debt covenants related to its 5.75% Senior Secured Notes due 2029.

6.125% Senior Secured Notes due 2025 — Vector:

On February 1, 2021, the 6.125% Senior Secured Notes due 2025 were redeemed in full and the Company recorded a loss on the extinguishment of debt of \$21,362 for the nine months ended September 30, 2021, including \$13,013 of premium and \$8,349 of other costs and non-cash interest expense related to the recognition of previously unamortized deferred finance costs.

10.5% Senior Notes due 2026 — Vector:

In September 2022, the Company repurchased in the market \$12,865 in aggregate principal amount of its 10.5% Senior Notes outstanding and recorded a gain of \$412 associated with the repurchase. The Senior Notes that were repurchased have been retired.

As of September 30, 2022, the Company was in compliance with all debt covenants related to its 10.5% Senior Notes due 2026.

Revolving Credit Agreement — Liggett:

As of September 30, 2022, there was a \$22 outstanding balance due under the Credit Agreement. Availability, as determined under the Credit Agreement, was approximately \$74,000 based on eligible collateral at September 30, 2022. As of September 30, 2022, Liggett, Maple, and Vector Tobacco were in compliance with all debt covenants under the Credit Agreement.

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

(Dollars in Thousands, Except Per Share Amounts)  
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Non-Cash Interest Expense — Vector:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Amortization of debt discount, net	\$ 111	\$ 99	\$ 324	\$ 290
Amortization of debt issuance costs	1,036	960	3,052	2,795
Gain on repurchase of 10.5% Senior Notes	(412)	—	(412)	—
Loss on extinguishment of 6.125% Senior Secured Notes	—	—	—	8,349
	<u>\$ 735</u>	<u>\$ 1,059</u>	<u>\$ 2,964</u>	<u>\$ 11,434</u>

Fair Value of Notes Payable and Long-Term Debt:

	September 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Notes	\$ 1,414,812	\$ 1,217,287	\$ 1,427,353	\$ 1,426,176
Liggett and other	66	66	120	124
Notes payable and long-term debt	<u>\$ 1,414,878</u>	<u>\$ 1,217,353</u>	<u>\$ 1,427,473</u>	<u>\$ 1,426,300</u>

Notes payable and long-term debt are carried on the condensed consolidated balance sheets at amortized cost. The fair value determinations disclosed above are classified as Level 2 under the fair value hierarchy disclosed in Note 10 if such liabilities were recorded on the condensed consolidated balance sheets 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. The Company used a derived price based upon quoted market prices and trade activity as of September 30, 2022 to determine the fair value of its publicly-traded notes and debentures. The carrying value of the revolving Credit Agreement is equal to fair value. The fair value of the equipment loans and other obligations was determined by calculating the present value of the required future cash flows. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimate presented herein is not necessarily indicative of the amount that could be realized in a current market exchange.

(Dollars in Thousands, Except Per Share Amounts)  
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8. CONTINGENCIES

Tobacco-Related Litigation:

*Overview.* Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. The cases have generally fallen into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs (“Individual Actions”); (ii) lawsuits by individuals requesting the benefit of the *Engle* ruling (“*Engle* progeny cases”); (iii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring, as well as cases alleging that use of the terms “lights” and/or “ultra lights” constitutes a deceptive and unfair trade practice, common law fraud or violation of federal law, purporting to be brought on behalf of a class of individual plaintiffs (“Class Actions”); and (iv) health care cost recovery actions brought by various foreign and domestic governmental plaintiffs and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits (“Health Care Cost Recovery Actions”). The future financial impact of the risks and expenses of litigation are not quantifiable. For the nine months ended September 30, 2022 and 2021, Liggett incurred tobacco product liability legal expenses and costs totaling \$6,035 and \$4,622 respectively. Legal defense costs are expensed as incurred.

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

*Bonds.* Although Liggett has been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts are on appeal, there remains a risk that such relief may not be obtainable in all cases. This risk has been reduced given that a majority of states now limit the dollar amount of bonds or require no bond at all. As of September 30, 2022, other than the bond regarding the Mississippi litigation (described below), there are no other litigation bonds posted.

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

*Accounting Policy.* The Company and its subsidiaries record provisions in their consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as discussed in this Note 8: (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 condensed consolidated financial statements for unfavorable outcomes, if any.

Although Liggett has generally been successful in managing the litigation filed against it, 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 has entered into settlement discussions in individual cases or groups of cases where Liggett has determined it was in its best interest to do so, and it may continue to do so in the future. 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.



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*Individual Actions*

As of September 30, 2022, there were 60 Individual Actions pending against Liggett, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. These cases do not include the remaining *Engle* progeny cases. The following table lists the number of Individual Actions by state:

<b>State</b>	<b>Number of Cases</b>
Florida	23
Illinois	17
Hawaii	7
Nevada	5
New Mexico	4
Louisiana	2
Massachusetts	1
South Carolina	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, statute of repose, equitable defenses such as “unclean hands” and lack of benefit, failure to state a claim and federal preemption.

*Engle Progeny Cases*

In May 1994, the *Engle* case was filed as a class action 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.” A trial was held and the jury returned a verdict adverse to the defendants (approximately \$145,000,000 in punitive damages, including \$790,000 against Liggett). Following an appeal to the Third District Court of Appeal, the Florida Supreme Court in July 2006 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 to file individual lawsuits. As a result, Liggett and the Company, and other cigarette manufacturers, were sued in thousands of *Engle* progeny cases in both federal and state courts in Florida.

*Cautionary Statement About Engle Progeny Cases.* Since 2009, judgments have been entered against Liggett and other cigarette manufacturers in *Engle* progeny cases. A number of the judgments were affirmed on appeal and satisfied by the defendants. Many were overturned on appeal. As of September 30, 2022, 25 *Engle* progeny cases, where Liggett was a defendant at trial, resulted in verdicts.

There have been 16 verdicts returned in favor of the plaintiffs and nine in favor of Liggett. In five of the cases, punitive damages were awarded against Liggett. Several of the adverse verdicts were overturned on appeal and new trials were ordered. In certain cases, the judgments were entered jointly and severally with other defendants and Liggett faces the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, under certain circumstances, Liggett may have to pay more than its proportionate share of any bonding or judgment related amounts. Except as discussed in this Note 8, management is unable to

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estimate the possible loss or range of loss from the remaining *Engle* progeny cases as there are currently multiple defendants in each case, except as discussed herein 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, 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 the amount of their demand for damages.

*Engle Progeny Settlements.*

In October 2013, the Company and Liggett entered into a settlement with approximately 4,900 *Engle* progeny plaintiffs and their counsel. Pursuant to the terms of the settlement, Liggett agreed to pay a total of approximately \$110,000, with \$61,600 paid in an initial lump sum and the balance to be paid in installments over 14 years starting in February 2015. The Company's future payments will be approximately \$3,600 per annum through 2028, including an annual cost of living increase that began in 2021. In exchange, the claims of these plaintiffs were dismissed with prejudice against the Company and Liggett.

Liggett subsequently entered into two separate settlement agreements with a total of 152 *Engle* progeny plaintiffs where Liggett paid a total of \$23,150. On an individual basis, Liggett settled an additional 210 *Engle* progeny cases for approximately \$8,240 in the aggregate. Two of those settlements occurred in the third quarter of 2022.

Notwithstanding the comprehensive nature of the *Engle* progeny settlements, 22 plaintiffs' claims remain pending in state court. Therefore, the Company and Liggett may still be subject to periodic adverse judgments which could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

*Judgments Paid in Engle Progeny Cases.*

As of September 30, 2022, Liggett paid in the aggregate \$40,111, including interest and attorneys' fees, to satisfy the judgments in the following *Engle* progeny cases: *Lukacs, Campbell, Douglas, Clay, Tullo, Ward, Rizzuto, Lambert, Buchanan* and *Santoro*.

*Liggett Only Cases*

There are currently two cases where Liggett is the sole defendant: *Cowart* is an Individual Action and *Forbing* is an *Engle* progeny case. It is possible that cases where Liggett is the only defendant could increase as a result of the remaining *Engle* progeny cases and newly filed Individual Actions.

*Upcoming Trials*

As of September 30, 2022, there were five Individual Actions (*Camacho, Geist, Grace, Martinez* and *Ricapor-Hall*) scheduled for trial through September 30, 2023, where Liggett is a named defendant. Trial dates are subject to change and additional cases could be set for trial during this time.

*Maryland Cases*

Liggett was a defendant in 16 multi-defendant personal injury cases in Maryland alleging claims arising from asbestos and tobacco exposure ("synergy cases"). In June 2017, after the Court of Appeals (Maryland's highest court) ruled that joinder of tobacco and asbestos cases may be possible in certain circumstances and then remanded the case, the trial court dismissed all synergy cases against the tobacco company defendants, including Liggett, without prejudice. At some point, Plaintiffs may seek appellate review or file new cases against the tobacco companies.

*Class Actions*

As of September 30, 2022, two actions were pending for which either a class had been certified or plaintiffs were seeking class certification where Liggett is a named defendant. Other cigarette manufacturers are also named in these two cases.

In November 1997, in *Young v. American Tobacco Co.*, a purported class action was brought on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, allege they were exposed to and suffered injury from secondhand smoke from cigarettes. The plaintiffs seek an unspecified amount of compensatory and punitive damages. The case has been stayed since March 2016 pending completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co.*

In February 1998, in *Parsons v. AC & S Inc.*, a purported class action was brought on behalf of plaintiff and all West Virginia residents who allegedly have claims arising from their exposure to cigarette smoke and asbestos fibers and seeks compensatory and punitive damages. The case has been stayed since December 2000 as a result of bankruptcy petitions filed by three co-defendants.

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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.

*Health Care Cost Recovery Actions*

As of September 30, 2022, one Health Care Cost Recovery Action was pending against Liggett where the plaintiff seeks to recover damages from Liggett and other cigarette manufacturers based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is dormant.

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 have asserted 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, among other things, an unspecified amount of health care costs paid and to be paid by the federal government for smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants. In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. The judgment was affirmed on appeal. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court's Final Judgment which ordered, among other things, 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.

*MSA and Other State Settlement Agreements*

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

In November 1998, Philip Morris, R.J. Reynolds and two other companies (the "Original Participating Manufacturers" or "OPMs") and Liggett and Vector Tobacco (together with any other tobacco product manufacturer that becomes a signatory, the "Subsequent Participating Manufacturers" or "SPMs") (the OPMs and SPMs are hereinafter referred to jointly as "PMs") 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.

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

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

The MSA restricts tobacco product advertising and marketing within the Settling States and otherwise restricts the activities of PMs. 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 PM 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 PMs from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; and prohibits PMs 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 PMs 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 PMs. 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, PMs are required to make annual payments of \$9,000,000 (subject to applicable adjustments, offsets and reductions including a “Non-Participating Manufacturers Adjustment” or “NPM Adjustment”). These annual payments are allocated based on unit volume of domestic cigarette shipments. The payment obligations under the MSA are the several, and not joint, obligations of each PM and are not the responsibility of any parent or affiliate of a PM.

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 approximately 5.4% of the total cigarettes sold in the United States in the first nine months of 2022. 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 30, 2021, Liggett and Vector Tobacco pre-paid \$169,500 of their approximate \$179,000 2021 MSA obligation, the balance of which was paid in April 2022, subject to applicable disputes or adjustments.

*Certain MSA Disputes*

*NPM Adjustment.* Liggett and Vector Tobacco contend that they are entitled to an NPM Adjustment for each year from 2003 through 2021. The NPM Adjustment is a potential adjustment to annual MSA payments, available when PMs suffer a market share loss to NPMs for a particular year and an economic consulting firm selected pursuant to the MSA determines (or the parties agree) that the MSA was a “significant factor contributing to” that loss. A Settling State that has “diligently enforced” its qualifying escrow statute in the year in question may be able to avoid its allocable share of the NPM Adjustment. For 2003 - 2021, Liggett and Vector Tobacco, as applicable, disputed that they owed the Settling States the NPM Adjustments as calculated by the independent auditor. As permitted by the MSA, Liggett and Vector Tobacco either paid subject to dispute, withheld payment, or paid into a disputed payment account, the amounts associated with these NPM Adjustments.

In June 2010, after the PMs prevailed in 48 of 49 motions to compel arbitration, the parties commenced the arbitration for the 2003 NPM Adjustment. That arbitration concluded in September 2013. It was followed by various challenges filed in state courts by states that did not prevail in the arbitration. Those challenges resulted in reductions, but not elimination of, the amounts awarded. Since then, the PMs have settled the NPM Adjustment dispute with 39 states representing approximately 80% of the MSA allocable share.

The 2004 NPM Adjustment arbitration commenced in 2016, with the arbitration panel eventually finding three states liable for the NPM Adjustment. Two of these states have since filed motions in applicable state courts and with the arbitration panels challenging these determinations and several issues remain to be resolved by the arbitration panels that will affect the

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final amount of the 2004 NPM Adjustment. The parties have selected an arbitration panel to address the NPM Adjustments for 2005 through 2007, and are engaged in discovery, with individual state hearings scheduled to start in March 2023.

As a result of the settlements described above, Liggett and Vector Tobacco reduced cost of sales for the nine months ended September 30, 2022 and 2021 by \$9,665 and \$5,932 respectively. Liggett and Vector Tobacco may be entitled to further adjustments. As of September 30, 2022, Liggett and Vector Tobacco had accrued approximately \$11,100 related to the disputed amounts withheld from the non-settling states for 2004 through 2010, which may be subject to payment, with interest, if Liggett and Vector Tobacco lose the disputes for those years. As of September 30, 2022, there remains approximately \$48,500 in the disputed payments account relating to Liggett and Vector Tobacco's 2011 through 2021 NPM Adjustment disputes with the non-settling states. If Liggett and Vector Tobacco lose the disputes for all or any of those years, pursuant to the MSA, no interest would be due on the amounts paid into the disputed payment account.

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

In 2003, as a result of a dispute with Minnesota regarding its settlement agreement, Liggett agreed to pay \$100 a year in any year cigarettes manufactured by Liggett are sold in that state. Further, the Attorneys General for Florida, Mississippi and Texas advised Liggett that they believed Liggett had failed to make payments under the respective settlement agreements with those states. In 2010, Liggett settled with Florida and agreed to pay \$1,200 and to make further annual payments of \$250 for a period of 21 years, starting in March 2011, with the payments from March 2022 forward being subject to an inflation adjustment.

*Mississippi Litigation.* In January 2016, the Attorney General for Mississippi filed a motion in Chancery Court in Jackson County, Mississippi to enforce the March 1996 settlement agreement among Liggett, Mississippi and other states (the "1996 Agreement") alleging that Liggett owes Mississippi at least \$27,000 in compensatory damages and interest. In April 2017, the Chancery Court ruled, over Liggett's objections, that the 1996 Agreement should be enforced as Mississippi claims and referred the matter first to arbitration and then to a Special Master for further proceedings to determine the amount of damages, if any, to be awarded. In April 2021, following confirmation of the final arbitration award, the parties stipulated that the unpaid principal (exclusive of interest) purportedly due from Liggett to Mississippi pursuant to the 1996 Agreement was approximately \$16,700, subject to Liggett's right to litigate and/or appeal the enforceability of the 1996 Agreement (and all issues other than the calculation of the principal amount allegedly due).

In September 2019, the Special Master held a hearing regarding Mississippi's claim for pre- and post-judgment interest. In August 2021, the Special Master issued a final report with proposed findings and recommendations that pre-judgment interest, in the amount of approximately \$18,800, is due from Liggett from April 2005 through August 3, 2021. In April 2022, the Mississippi Chancery Court affirmed the Special Master's findings and a final judgment was entered by the court on June 1, 2022. Additional interest amounts will accrue if the judgment is not overturned on appeal. Liggett continues to assert that the April 2017 Chancery Court order is in error because the most favored nations provision in the 1996 Agreement eliminated all of Liggett's payment obligations to Mississippi. Liggett appealed the final judgment and posted a bond of \$24,000 in June 2022.

Liggett may be required to make additional payments to Mississippi and/or Texas which could have a material adverse effect on 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 multiple *Engle* progeny cases and Individual Actions, several of which were affirmed on appeal and satisfied by Liggett. It is possible that other cases could be decided unfavorably against Liggett and that Liggett will be unsuccessful on appeal. Liggett may attempt to settle particular cases if it believes it is in its best interest to do so.

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

**(Dollars in Thousands, Except Per Share Amounts)**  
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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 Liggett may not be able to meet those requirements. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in this Note 8, 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 condensed 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 nine months ended September 30, 2022 was as follows:

	<i>Current Liabilities</i>			<i>Non-Current Liabilities</i>		
	<b>Payments due under Master Settlement Agreement</b>	<b>Litigation Accruals</b>	<b>Total</b>	<b>Payments due under Master Settlement Agreement</b>	<b>Litigation Accruals</b>	<b>Total</b>
Balance as of January 1, 2022	\$ 11,886	\$ 3,918	\$ 15,804	\$ 13,224	\$ 17,680	\$ 30,904
Expenses	210,714	160	210,874	—	—	—
NPM Settlement adjustment	(15)	—	(15)	(2,108)	—	(2,108)
Change in MSA obligations capitalized as inventory	1,419	—	1,419	—	—	—
Payments	(9,744)	(4,185)	(13,929)	—	—	—
Reclassification to/(from) non-current liabilities	—	3,566	3,566	—	(3,566)	(3,566)
Interest on withholding	—	358	358	—	1,582	1,582
Balance as of September 30, 2022	<u>\$ 214,260</u>	<u>\$ 3,817</u>	<u>\$ 218,077</u>	<u>\$ 11,116</u>	<u>\$ 15,696</u>	<u>\$ 26,812</u>

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

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

The activity in the Company's accruals for the MSA and tobacco litigation for the nine months ended September 30, 2021 was as follows:

	<i>Current Liabilities</i>			<i>Non-Current Liabilities</i>		
	Payments due under Master Settlement Agreement	Litigation Accruals	Total	Payments due under Master Settlement Agreement	Litigation Accruals	Total
Balance as of January 1, 2021	\$ 38,767	\$ 3,967	\$ 42,734	\$ 17,933	\$ 19,268	\$ 37,201
Expenses	122,916	17	122,933	—	—	—
Change in MSA obligations capitalized as inventory	645	—	645	—	—	—
Payments	(35,206)	(4,077)	(39,283)	—	—	—
Reclassification to/(from) non-current liabilities	4,709	3,351	8,060	(4,709)	(3,351)	(8,060)
Interest on withholding	—	382	382	—	1,301	1,301
Balance as of September 30, 2021	\$ 131,831	\$ 3,640	\$ 135,471	\$ 13,224	\$ 17,218	\$ 30,442

***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 impact on the capital expenditures, results of operations or competitive position of Liggett or Vector Tobacco.

Liggett and the Company have received three separate demands for indemnification from Altria Client Services, on behalf of Philip Morris, relating to lawsuits alleging smokers' use of L&M cigarettes. The indemnification demands are purportedly issued in connection with Eve Holdings' 1999 sale of certain trademarks to Philip Morris.

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

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**9. INCOME TAXES**

The Company's effective income tax rate is based on expected income, statutory rates, valuation allowances against deferred tax assets, and any tax planning opportunities available to the Company. For interim financial reporting, the Company estimates the annual effective income tax rate based on full year projections and applies the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. The Company refines annual estimates as new information becomes available. The Company's tax rate does not bear a relationship to statutory tax rates due to permanent differences, which are primarily related to nondeductible compensation and state taxes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Income before provision for income taxes	\$ 53,389	\$ 46,688	\$ 152,275	\$ 169,437
Income tax expense using estimated annual effective income tax rate	14,629	14,753	41,724	53,538
Changes in effective tax rates	(96)	2,567	—	—
Impact of discrete items, net	—	(544)	—	(544)
Income tax expense	<u>\$ 14,533</u>	<u>\$ 16,776</u>	<u>\$ 41,724</u>	<u>\$ 52,994</u>

There were no discrete items for the three and nine months ended September 30, 2022. The discrete items for the three and nine months ended September 30, 2021 related to income tax expense associated with stock-based compensation.

*Inflation Reduction Act*

On August 16, 2022, President Joseph R. Biden, Jr. signed the Inflation Reduction Act, which imposes an Alternative Minimum Tax of 15% on book income of corporations with an annual average adjusted financial statement net income, as defined, that is more than \$1,000,000 over a three-year period as well as, effective January 1, 2023, a 1% excise tax on the fair market value of stock repurchased, subject to certain exclusions, by publicly-traded corporations. The Company is currently evaluating the impact of the Inflation Reduction Act on its consolidated financial statements.



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

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**10. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

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

	Fair Value Measurements as of September 30, 2022			
	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 <sup>(1)</sup>	\$ 311,082	\$ 311,082	\$ —	\$ —
Commercial paper <sup>(1)</sup>	53,990	—	53,990	—
Certificates of deposit <sup>(2)</sup>	110	—	110	—
Money market funds securing legal bonds <sup>(2)</sup>	24,133	24,133	—	—
Investment securities at fair value				
Equity securities at fair value				
Marketable equity securities	13,467	13,467	—	—
Mutual funds invested in debt securities	21,772	21,772	—	—
Total equity securities at fair value	35,239	35,239	—	—
Debt securities available for sale				
U.S. government securities	1,572	—	1,572	—
Corporate securities	51,986	—	51,986	—
U.S. government and federal agency	27,027	—	27,027	—
Total debt securities available for sale	80,585	—	80,585	—
Total investment securities at fair value	115,824	35,239	80,585	—
Long-term investments				
Long-term investment securities at fair value <sup>(3)</sup>	28,582	—	—	—
Total	\$ 533,721	\$ 370,454	\$ 134,685	\$ —

(1) Amounts included in Cash and cash equivalents on the condensed consolidated balance sheets.

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

(3) In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy.

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

**(Dollars in Thousands, Except Per Share Amounts)**  
**Unaudited**

	Fair Value Measurements as of December 31, 2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds <sup>(1)</sup>	\$ 130,583	\$ 130,583	\$ —	\$ —
Commercial paper <sup>(1)</sup>	24,426		24,426	—
Certificates of deposit <sup>(2)</sup>	110		110	—
<b>Investment securities at fair value</b>				
<b>Equity securities at fair value</b>				
Marketable equity securities	19,560	19,560	—	—
Mutual funds invested in debt securities	23,221	23,221	—	—
<b>Total equity securities at fair value</b>	<b>42,781</b>	<b>42,781</b>	<b>—</b>	<b>—</b>
<b>Debt securities available for sale</b>				
U.S. government securities	6,481	—	6,481	—
Corporate securities	47,531	—	47,531	—
U.S. government and federal agency	19,572	—	19,572	—
Commercial paper	29,103	—	29,103	—
Foreign fixed-income securities	1,219	—	1,219	—
<b>Total debt securities available for sale</b>	<b>103,906</b>	<b>—</b>	<b>103,906</b>	<b>—</b>
<b>Total investment securities at fair value</b>	<b>146,687</b>	<b>42,781</b>	<b>103,906</b>	<b>—</b>
<b>Long-term investments</b>				
Long-term investment securities at fair value <sup>(3)</sup>	32,089	—	—	—
<b>Total</b>	<b>\$ 333,895</b>	<b>\$ 173,364</b>	<b>\$ 128,442</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Fair value of contingent liability	\$ 2,646	\$ —	\$ —	\$ 2,646
<b>Total</b>	<b>\$ 2,646</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,646</b>

(1) Amounts included in Cash and cash equivalents on the condensed consolidated balance sheets.

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

(3) In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy.

The fair value of the Level 2 certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is the rate offered by the financial institution. The fair value of investment securities at fair value included in Level 1 is based on quoted market prices from various stock exchanges. The Level 2 investment securities at fair value are based on quoted market prices of securities that are thinly traded, quoted prices for identical or similar assets in markets that are not active or inputs other than quoted prices such as interest rates and yield curves.

The long-term investments are based on NAV per share provided by the partnerships based on the indicated market value of the underlying assets or investment portfolio. In accordance with Subtopic 820-10, these investments are not classified under the fair value hierarchy disclosed above because they are measured at fair value using the NAV practical expedient.

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

**(Dollars in Thousands, Except Per Share Amounts)**  
**Unaudited**

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 September 30, 2022 and December 31, 2021, respectively, except for investments in real estate ventures that were impaired as of December 31, 2021.

The Company's investments in real estate ventures subject to nonrecurring fair value measurements are as follows:

	<b>Year Ended December 31, 2021</b>	<b>Fair Value Measurement Using:</b>			
		<b>Impairment Charge</b>	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>Assets:</b>					
Investments in real estate ventures	\$ 2,713	\$ —	\$ —	\$ —	\$ —

The Company estimated the fair value of its investments in real estate ventures using observable inputs such as market pricing based on recent events, however, significant judgment was required to select certain inputs from observed market data. The decline in the investments in real estate ventures was attributed to the decline in the projected sales prices and the duration of the estimated sell out of the respective real estate ventures. The \$2,713 of impairment charges were included in equity in losses from real estate ventures for the year ended December 31, 2021.

(Dollars in Thousands, Except Per Share Amounts)  
Unaudited

**11. SEGMENT INFORMATION**

The Company's business segments for the three and nine months ended September 30, 2022 and 2021 were Tobacco and Real Estate. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Financial information for the Company's operations before taxes for the three and nine months ended September 30, 2022 and 2021 were as follows:

	<b>Tobacco</b>	<b>Real Estate</b>	<b>Corporate and Other</b>	<b>Total</b>
<u>Three months ended September 30, 2022</u>				
Revenues	\$ 377,995	\$ —	\$ —	\$ 377,995
Operating income (loss)	88,107 <sup>(1)</sup>	(3)	(4,203)	83,901
Equity in losses from real estate ventures	—	(1,903)	—	(1,903)
Depreciation and amortization	1,474	—	313	1,787
<u>Three months ended September 30, 2021</u>				
Revenues	\$ 297,942	\$ 543	\$ —	\$ 298,485
Operating income (loss)	91,779 <sup>(2)</sup>	(814)	(8,950) <sup>(3)</sup>	82,015
Equity in losses from real estate ventures	—	(5,694)	—	(5,694)
Depreciation and amortization	1,550	61	262	1,873
<u>Nine months ended September 30, 2022</u>				
Revenues	\$ 1,061,355	\$ 15,884	\$ —	\$ 1,077,239
Operating income (loss)	254,078 <sup>(4)</sup>	7,839	(12,179)	249,738
Equity in losses from real estate ventures	—	(4,240)	—	(4,240)
Depreciation and amortization	4,426	66	938	5,430
Capital expenditures	8,720	1	38	8,759
<u>Nine months ended September 30, 2021</u>				
Revenues	\$ 895,901	\$ 11,126	\$ —	\$ 907,027
Operating income (loss)	276,557 <sup>(5)</sup>	(603)	(24,071) <sup>(6)</sup>	251,883
Equity in earnings from real estate ventures	—	12,505	—	12,505
Depreciation and amortization	5,007	187	727	5,921
Capital expenditures	4,817	—	3,593	8,410

<sup>(1)</sup> Operating income includes \$31 of litigation settlement and judgment expense.

<sup>(2)</sup> Operating income includes \$12 of litigation settlement and judgment expense.

<sup>(3)</sup> Operating loss includes transaction charges of \$3,426 related to the Distribution, and \$910 of gain on sale of assets.

<sup>(4)</sup> Operating income includes \$2,123 received from a litigation settlement associated with the MSA (which reduced cost of sales) and \$160 of litigation settlement and judgment expense.

<sup>(5)</sup> Operating income includes \$2,722 received from a litigation settlement associated with the MSA (which reduced cost of sales) and \$17 of litigation settlement and judgment expense.

<sup>(6)</sup> Operating loss includes transaction charges of \$3,426 related to the Distribution, and \$910 of gain on sale of assets.

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

(Dollars in Thousands, Except Per Share Amounts)

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

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

Please read this discussion along with our MD&A and audited financial statements as of and for the year ended December 31, 2021 and Notes thereto, included in our 2021 Annual Report on Form 10-K, and our Condensed Consolidated Financial Statements and related Notes as of and for the quarterly period and nine months ended September 30, 2022 and 2021.

### Basis of Presentation

The Condensed Consolidated Financial Statements included in this Form 10-Q present the financial position of Vector Group Ltd., a Delaware corporation, as of September 30, 2022 and December 31, 2021 and the results of our operations for the three and nine months ended September 30, 2022 and 2021 giving effect to the distribution of Douglas Elliman Inc. (the "Distribution") with the historical financial results of Douglas Elliman reflected as discontinued operations. The cash flows and comprehensive income related to Douglas Elliman have not been segregated and are included in the Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Comprehensive Income, respectively, for all periods presented. Unless otherwise indicated, the information in the Notes to the Condensed Consolidated Financial Statements refer only to Vector Group's continuing operations and do not include discussion of balances or activity of Douglas Elliman.

The financial results of Douglas Elliman through the date of the Distribution are presented as income from discontinued operations, net of income taxes on our condensed consolidated statements of operations and are not included in our results from continuing operations discussed below. See Note 3 in our condensed consolidated financial statements.

### Overview

We are a holding company and are engaged principally in two business segments:

- Tobacco: the manufacture and sale of discount cigarettes in the United States through our Liggett Group LLC and Vector Tobacco LLC subsidiaries, and
- Real Estate: the real estate investment business through our subsidiary, New Valley LLC, which (i) has interests in numerous real estate projects across the United States and (ii) is seeking to acquire or invest in additional real estate properties or projects.

Our tobacco subsidiaries' cigarettes are produced in 100 combinations of length, style and packaging. Liggett's current brand portfolio includes:

- *Montego*
- *Eagle 20's*
- *Pyramid*
- *Grand Prix, Liggett Select, Eve, USA* and various Partner Brands and private label brands.

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

cigarettes. The second segment of competition is comprised of a group of smaller manufacturers and importers, most of which sell deep discount cigarettes.

## Recent Developments

*Montego.* From August 2020 to February 2022, Liggett expanded the distribution of its *Montego* deep discount brand nationally. *Montego* became Liggett's largest brand by volume during the second quarter of 2022. Prior to August 2020, *Montego* was sold in select targeted markets in four states. *Montego*'s unit volume represented approximately 50% of total unit volume sales for the three months ended September 30, 2022 compared to approximately 17% of total unit volume sales for the three months ended September 30, 2021 and approximately 44% for the nine months ended September 30, 2022 compared to approximately 13% for the nine months ended September 30, 2021.

*Menthol and Flavorings.* On May 4, 2022, FDA published a proposed rule to prohibit menthol as a characterizing flavor in cigarettes. For the twelve months ended September 30, 2022, approximately 20% of our cigarette unit sales were menthol flavored. We cannot predict how a tobacco product standard or a restriction on the sale and distribution of tobacco products with menthol, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

*Nicotine.* On June 21, 2022, the FDA indicated it plans to publish a proposed rule in May 2023 that establishes a tobacco product standard reducing the level of nicotine in cigarettes to non-addictive levels. Under the Tobacco Control Act ("TCA"), FDA may adopt a tobacco product standard for nicotine if the agency concludes that such a standard is appropriate for the protection of the public health. FDA may refer the proposed regulation to the Tobacco Products Scientific Advisory Committee ("TPSAC") for a report and recommendation. FDA may consider a wide range of issues prior to the promulgation of a final rule, including the technical achievability of compliance with the proposed product standard. The rulemaking process could take many months or years and once a final rule is published it ordinarily would not be expected to take effect until at least one year after the date of publication. We cannot predict how a tobacco product standard reducing nicotine, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

*Repurchase of 10.5% Senior Notes due 2026.* In September 2022, we repurchased in the market \$12,865 in aggregate principal amount of our 10.5% Senior Notes outstanding and recorded a gain of \$412 associated with the repurchase. The Senior Notes that were repurchased have been retired.

## Recent Developments in Tobacco-Related Litigation

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

*Mississippi Litigation.* In January 2016, the Attorney General for Mississippi filed a motion in Chancery Court in Jackson County, Mississippi to enforce the March 1996 settlement agreement among Liggett, Mississippi and other states (the "1996 Agreement") alleging that Liggett owes Mississippi at least \$27,000 in compensatory damages and interest. In April 2017, the Chancery Court ruled, over Liggett's objections, that the 1996 Agreement should be enforced as Mississippi claims and referred the matter first to arbitration and then to a Special Master for further proceedings to determine the amount of damages, if any, to be awarded. In April 2021, following confirmation of the final arbitration award, the parties stipulated that the unpaid principal (exclusive of interest) purportedly due from Liggett to Mississippi pursuant to the 1996 Agreement was approximately \$16,700, subject to Liggett's right to litigate and/or appeal the enforceability of the 1996 Agreement (and all issues other than the calculation of the principal amount allegedly due).

In September 2019, the Special Master held a hearing regarding Mississippi's claim for pre- and post-judgment interest. In August 2021, the Special Master issued a final report with proposed findings and recommendations that pre-judgment interest, in the amount of approximately \$18,800, is due from Liggett from April 2005 through August 3, 2021. In April 2022, the Mississippi Chancery Court affirmed the Special Master's findings and a final judgment was entered by the court on June 1, 2022. Additional interest amounts will accrue if the judgment is not overturned on appeal. Liggett continues to assert that the April 2017 Chancery Court order is in error because the most favored nations provision in the 1996 Agreement eliminated all of

Liggett's payment obligations to Mississippi. Liggett appealed the final judgment and posted a \$24,000 bond in June 2022. We cannot predict the outcome of this matter but if the judgment is not overturned on appeal, it could have a material adverse effect on our consolidated financial position.

See "Legislation and Regulation" in Item 2 of the MD&A for further information on litigation.

## Results of Operations

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

For purposes of this discussion and other consolidated financial reporting, our business segments for the three and nine months ended September 30, 2022 and 2021 were Tobacco and Real Estate. The Tobacco segment consisted of the manufacture and sale of cigarettes. The Real Estate segment includes our investment in New Valley, which includes investments in real estate and investments in real estate ventures.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Revenues:</b>				
Tobacco	\$ 377,995	\$ 297,942	\$ 1,061,355	\$ 895,901
Real estate	—	543	15,884	11,126
Total revenues	<u>\$ 377,995</u>	<u>\$ 298,485</u>	<u>\$ 1,077,239</u>	<u>\$ 907,027</u>
<b>Operating income (loss):</b>				
Tobacco	\$ 88,107 <sup>(1)</sup>	\$ 91,779 <sup>(2)</sup>	\$ 254,078 <sup>(3)</sup>	\$ 276,557 <sup>(4)</sup>
Real estate	(3)	(814)	7,839	(603)
Corporate and Other	(4,203)	(8,950) <sup>(5)</sup>	(12,179)	(24,071) <sup>(6)</sup>
Total operating income	<u>\$ 83,901</u>	<u>\$ 82,015</u>	<u>\$ 249,738</u>	<u>\$ 251,883</u>

<sup>(1)</sup> Operating income includes \$31 of litigation settlement and judgment expense.

<sup>(2)</sup> Operating income includes \$12 of litigation settlement and judgment expense.

<sup>(3)</sup> Operating income includes \$2,123 received from a litigation settlement associated with the MSA (which reduced cost of sales) and \$160 of litigation settlement and judgment expense.

<sup>(4)</sup> Operating income includes \$2,722 received from a litigation settlement associated with the MSA (which reduced cost of sales) and \$17 of litigation settlement and judgment expense.

<sup>(5)</sup> Operating loss includes transaction charges of \$3,426 related to the Distribution, and \$910 of gain on sale of assets.

<sup>(6)</sup> Operating loss includes transaction charges of \$3,426 related to the Distribution, and \$910 of gain on sale of assets.

## Pricing actions

Since January 1, 2021, Liggett has taken the following pricing actions.

	Amount per pack	Brand			
		Montego	Eagle 20's	Pyramid	Liggett Select, Eve and Grand Prix
January 25, 2021 <sup>(1)</sup>	\$ 0.14	—	P	P	P
June 28, 2021 <sup>(1)</sup>	0.14	—	P	P	P
September 27, 2021 <sup>(1)</sup>	0.15	—	P	P	P
January 31, 2022 <sup>(1)</sup>	0.10	P	—	—	—
January 31, 2022 <sup>(1)</sup>	0.15	—	P	P	P
April 29, 2022 <sup>(1)</sup>	0.16	—	P	P	P
May 1, 2022 <sup>(2)</sup>	0.10	P	—	—	—
July 29, 2022 <sup>(1)</sup>	0.16	P	P	P	P
October 28, 2022 <sup>(1)</sup>	0.16	—	P	P	P
October 28, 2022 <sup>(1)</sup>	0.10	P	—	—	—

<sup>(1)</sup> List price increase

<sup>(2)</sup> Promotional spending reduction

### Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

**Revenues.** Total revenues were \$377,995 for the three months ended September 30, 2022 compared to \$298,485 for the three months ended September 30, 2021. The \$79,510 (26.6%) increase in revenues was primarily due to an \$80,053 increase in Tobacco revenues offset by a \$543 decline in Real Estate revenues.

**Cost of sales.** Total cost of sales was \$267,023 for the three months ended September 30, 2022 compared to \$187,444 for the three months ended September 30, 2021. The \$79,579 (42.5%) increase in cost of sales was primarily due to an \$80,625 increase in Tobacco cost of sales. This was offset by a \$1,046 decline in Real Estate cost of sales.

**Expenses.** Operating expenses were \$27,071 for the three months ended September 30, 2022 compared to \$29,026 for the same period last year. The \$1,955 (6.7%) decline in operating expenses was primarily due to a \$4,747 decline in Corporate and Other expenses and a \$308 decline in Real Estate expenses. This was offset by a \$3,100 increase in Tobacco expenses.

**Operating income.** Operating income was \$83,901 for the three months ended September 30, 2022 compared to \$82,015 for the same period last year. The \$1,886 (2.3%) increase in operating income was due to a \$4,747 decline in Corporate and Other operating loss and a \$811 decline in Real Estate operating loss. This was offset by a \$3,672 decline in Tobacco operating income.

**Other expenses.** Other expenses were \$30,512 and \$35,327 for the three months ended September 30, 2022 and 2021, respectively. For the three months ended September 30, 2022, other expenses primarily consisted of interest expense of \$27,598, equity in losses from real estate ventures of \$1,903, other expenses of \$804, and equity in losses from investments of \$619. This was offset by a gain of \$412 recognized on the repurchase of the 10.5% Senior Notes. For the three months ended September 30, 2021, other expenses primarily consisted of interest expense of \$28,226, equity in losses from real estate ventures of \$5,694, and other, net of \$1,451. This was offset by equity in earnings from investments of \$44.

**Income before provision for income taxes.** Income before income taxes was \$53,389 and \$46,688 for the three months ended September 30, 2022 and 2021, respectively.

**Income tax expense.** Income tax expense was \$14,533 and \$16,776 for the three months ended September 30, 2022 and 2021, respectively. Our provision for income taxes in interim periods is based on expected income, statutory rates, nontaxable differences, valuation allowances against deferred tax assets, and any tax planning opportunities available to us. For interim financial reporting, we estimate the annual effective income tax rate based on full year projections and apply the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. We refine annual estimates as new information becomes available.



## **Tobacco.**

**Tobacco revenues.** All of our Tobacco sales were in the discount category in 2022 and 2021. For the three months ended September 30, 2022, Tobacco revenues were \$377,995 compared to \$297,942 for the three months ended September 30, 2021. Revenues increased by \$80,053 (26.9%) due primarily to a 30.1% (636 million units) increase in sales volume, partially offset by a decline in the average selling price of our brands for the three months ended September 30, 2022 due to changes in sales mix, which occurred primarily as a result of the volume increase in our deep discount brand, *Montego*, and the volume decline of our other brands, which are priced in the traditional discount category.

For the three months ended September 30, 2022, our strategy for *Montego* was based on volume growth, while our strategy for *Eagle 20's* and *Pyramid* was based on income growth. Because *Montego* was in the volume growth phase, it became Liggett's largest brand by volume during the second quarter of 2022 and its volume has increased to approximately 50% of Liggett's total unit sales for the three months ended September 30, 2022 from approximately 17% for the three months ended September 30, 2021. As a result of the growth in *Montego's* volume and price increases that began in the fourth quarter of 2018, *Eagle 20's* is now Liggett's second-largest brand and its percentage of Liggett's total unit sales has declined to approximately 33% for the three months ended September 30, 2022 from approximately 56% for the three months ended September 30, 2021. *Pyramid*, Liggett's third-largest brand, also declined to approximately 12% of Liggett's total unit sales for the three months ended September 30, 2022 from approximately 19% for the three months ended September 30, 2021.

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

	<b>Three Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Manufacturing overhead, raw materials and labor	\$ 41,128	\$ 29,866
Customer shipping and handling	2,276	1,815
Federal excise taxes, net	138,041	106,408
FDA expense	8,013	6,314
MSA expense, net of market share exemption	77,565	41,995
Total cost of sales	<u>\$ 267,023</u>	<u>\$ 186,398</u>

The Tobacco segment's MSA expense is the most volume-sensitive component (on a per-unit basis) of its cost of sales because, under the terms of the MSA, the Tobacco segment has no payment obligations except to the extent that its U.S. Cigarette market share exceeds 1.93%. We estimate MSA expense based on total domestic taxable cigarette shipments in the United States, our taxable shipments and inflation. Based on assumptions discussed below, we estimated our MSA expense increased to \$0.57 per pack for the three months ended September 30, 2022 from our estimate of \$0.40 per pack from the three months ended September 30, 2021. (We estimated our MSA expense was \$0.40 per pack for the year ended December 31, 2021.)

Our MSA expense is impacted by total domestic taxable shipments in the United States. As of September 30, 2022, we estimate taxable shipments in the U.S. will decline by 9% in 2022 compared to our estimate as of September 30, 2021 of a decline of 7% in 2021. (The actual change in 2021 taxable shipments was a decline of 6.1%.) We estimate our 2022 projected annual MSA expense changes by approximately \$1,900 for each 1% change in U.S. shipment volumes.

Inflationary pressures also impact Liggett's MSA expense, which is subject to an annual inflation adjustment. The inflation adjustment is the greater of the U.S. CPI rate or 3%. As of September 30, 2022, Liggett's management assumed an inflation adjustment to MSA expense of 9.0% compared to an assumption of 4.8% as of September 30, 2021. (The actual inflation adjustment to the MSA in 2021 was 7.0%.) Our annual MSA expense increases by approximately \$2,500 for each 1% increase in inflation more than 3%.

In addition to the MSA expense, we could experience inflationary impacts from manufacturing costs. The largest component of Liggett's manufacturing costs is leaf tobacco and other raw materials. In recent years, due to declining prices of leaf tobacco as well as efficiencies gained from technological innovation in Liggett's factory, Liggett's raw material costs have been relatively flat and, therefore, prior to 2021, Liggett's cost of sales had not been impacted by inflation. During the three months ended September 30, 2022, Liggett experienced an approximate 5.4% inflation increase in leaf tobacco and raw materials (on a per-unit basis) compared to 1.0% during the three months ended September 30, 2021. Further, when including labor costs, manufacturing overhead and shipping costs with leaf tobacco and raw materials, Liggett experienced a 5.3% increase in production costs (on a per-unit basis) during the three months ended September 30, 2022, compared to an increase in total production costs of 4.8% during the three months ended September 30, 2021.

Tobacco gross profit was \$110,972 for the three months ended September 30, 2022 compared to \$111,544 for the three months ended September 30, 2021, a decline of \$572 (0.5%). The decline in gross profit for the three months ended September 30, 2022 was primarily attributable to declines in net pricing (due to the growth of the *Montego* brand) and higher per unit MSA expense and was predominantly offset by a 30.1% increase in unit sales and increased pricing across all brands. As a percentage of revenue (excluding Federal Excise Taxes), Tobacco gross profit margin declined from 58.2% in the 2021 period to 46.2% in the 2022 period primarily due to the growth of the *Montego* brand.

**Tobacco expenses.** Tobacco operating, selling, general and administrative expenses, excluding settlements and judgments, were \$22,834 and \$19,753 for the three months ended September 30, 2022 and 2021, respectively. The increase of \$3,081 was primarily due to the timing of compensation expense accruals and increased marketing expenses and professional fee expenses. Total tobacco product liability legal expenses, including settlements and judgments, were \$2,712 and \$1,555 for the three months ended September 30, 2022 and 2021, respectively.

**Tobacco operating income.** Tobacco operating income was \$88,107 for the three months ended September 30, 2022 compared to \$91,779 for the three months ended September 30, 2021. The decline of \$3,672 (4.0%) was primarily attributable to lower gross profit and increased operating, selling, general and administrative expenses.

### **Real Estate.**

**Real Estate revenues.** Real Estate revenues were \$0 and \$543 for the three months ended September 30, 2022 and 2021, respectively. In April 2022, New Valley sold Escena.

Real Estate revenues and cost of sales for the three months ended September 30, 2022 and 2021, respectively, were as follows:

	Three Months Ended September 30,	
	2022	2021
<b>Real Estate Revenues:</b>		
Sales on facilities located on investments in real estate	\$ —	\$ 543
Revenues from investments in real estate	—	—
Total real estate revenues	<u>\$ —</u>	<u>\$ 543</u>
<b>Real Estate Cost of Sales:</b>		
Cost of sales from investments in real estate	\$ —	\$ 28
Cost of sales on facilities located on investments in real estate	—	1,018
Total real estate cost of sales	<u>\$ —</u>	<u>\$ 1,046</u>
Operating, selling, administrative and general expenses	\$ 3	\$ 311
Operating loss	<u>\$ (3)</u>	<u>\$ (814)</u>

### ***Corporate and Other.***

***Corporate and Other operating loss.*** The operating loss at the Corporate and Other segment was \$4,203 for the three months ended September 30, 2022 compared to \$8,950 for the same period in 2021. The decline in the 2022 period was primarily due to the absence of transaction charges of \$3,426 related to the Distribution of Douglas Elliman, which occurred in December 2021.

### ***Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021***

***Revenues.*** Total revenues were \$1,077,239 for the nine months ended September 30, 2022 compared to \$907,027 for the nine months ended September 30, 2021. The \$170,212 (18.8%) increase in revenues was primarily due to a \$165,454 increase in Tobacco revenues related to increased unit volume and a \$4,758 increase in Real Estate revenues.

***Cost of sales.*** Total cost of sales was \$751,076 for the nine months ended September 30, 2022 compared to \$566,242 for the nine months ended September 30, 2021. The \$184,834 (32.6%) increase in cost of sales was primarily due to a \$187,175 increase in Tobacco cost of sales primarily related to increased sales volume, offset by a \$2,341 decline in Real Estate cost of sales.

***Expenses.*** Operating expenses were \$76,425 for the nine months ended September 30, 2022 compared to \$88,902 for the same period last year. The \$12,477 (14.0%) decline was due to an \$11,892 decline in Corporate and Other expense and a \$1,343 decline in Real Estate expenses for the nine months ended September 30, 2022. This was offset by a \$758 increase in Tobacco expenses.

***Operating income.*** Operating income was \$249,738 for the nine months ended September 30, 2022 compared to operating income of \$251,883 for the same period last year as a result of a decline in Tobacco operating income of \$22,479 due primarily to declines in net pricing (due to the growth of the *Montego* brand) and higher per unit MSA expense. This was offset by an increase in Real Estate operating income of \$8,442, which was associated with the sale of Escena, and a decline in Corporate and Other operating loss of \$11,892.

***Other expenses.*** Other expenses were \$97,463 for the nine months ended September 30, 2022 compared to other expenses of \$82,446 for the nine months ended September 30, 2021. For the nine months ended September 30, 2022, other expenses primarily consisted of interest expense of \$83,420, equity in losses from investments of \$5,172, other expenses of \$5,043, and equity in losses from real estate ventures of \$4,240. This was offset by a gain of \$412 recognized on the repurchase of the 10.5% Senior Notes. For the nine months ended September 30, 2021, other expenses primarily consisted of interest expense of \$85,019 and loss on extinguishment of debt of \$21,362. This was offset by other income of \$9,868, equity in earnings from real estate ventures \$12,505 and equity in earnings from investments of \$1,562.

***Income before provision for income taxes.*** Income before income taxes was \$152,275 and \$169,437 for the nine months ended September 30, 2022 and 2021, respectively.

***Income tax expense.*** Income tax expense was \$41,724 for the nine months ended September 30, 2022 compared to income tax expense of \$52,994 for the nine months ended September 30, 2021. Our provision for income taxes in interim periods is based on expected income, statutory rates, nontaxable differences, valuation allowances against deferred tax assets, and any tax planning opportunities available to us. For interim financial reporting, we estimate the annual effective income tax rate based on full year projections and apply the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. We refine annual estimates as new information becomes available.

## **Tobacco.**

**Tobacco revenues.** All of our Tobacco sales were in the discount category in 2022 and 2021. For the nine months ended September 30, 2022, Tobacco revenues were \$1,061,355 compared to \$895,901 for the nine months ended September 30, 2021. Revenues increased by \$165,454 (18.5%) due primarily to a 21.5% (1,381 million units) increase in unit sales volume, partially offset by a decline in the average selling price of our brands due to changes in sales mix, which occurred primarily as a result of the volume increase in our deep discount brand, *Montego*, and the volume decline in our other brands which are priced in the traditional discount category.

For the nine months ended September 30, 2022, our strategy for *Montego* was based on volume growth, while our strategy for *Eagle 20's* and *Pyramid* was based on income growth. Because *Montego* was in the volume growth phase, it became Liggett's largest brand by volume during the nine months ended September 30, 2022 and its volume has increased to approximately 44% of Liggett's total unit sales for the nine months ended September 30, 2022 from approximately 13% for the nine months ended September 30, 2021. As a result of the growth in *Montego's* volume and price increases that began in the fourth quarter of 2018, *Eagle 20's* is now Liggett's second largest brand and its percentage of Liggett's total unit sales has declined to approximately 37% for the nine months ended September 30, 2022 from approximately 59% for the nine months ended September 30, 2021. *Pyramid*, Liggett's third-largest brand, also declined to approximately 14% of Liggett's total unit sales for the nine months ended September 30, 2022 from approximately 20% for the nine months ended September 30, 2021.

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

	Nine Months Ended September 30,	
	2022	2021
Manufacturing overhead, raw materials and labor	\$ 114,320	\$ 90,404
Customer shipping and handling	6,573	5,116
Federal excise taxes, net	392,004	322,857
FDA expense	22,261	18,008
MSA expense, net of market share exemption	208,591 <sup>(1)</sup>	120,189 <sup>(2)</sup>
Total cost of sales	<u>\$ 743,749</u>	<u>\$ 556,574</u>

<sup>(1)</sup>Includes \$2,123 received from a litigation settlement associated with the MSA expense (which reduced cost of sales).

<sup>(2)</sup>Includes \$2,722 received from a litigation settlement associated with the MSA expense (which reduced cost of sales).

The Tobacco segment's MSA expense is the most volume-sensitive component (on a per-unit basis) of its cost of sales because, under the terms of the MSA, the Tobacco segment has no payment obligations except to the extent that its U.S. Cigarette market share exceeds 1.93%. We estimate MSA expense based on total domestic taxable cigarette shipments in the United States, our taxable shipments and inflation. Based on assumptions discussed below, we estimated our MSA expense increased to \$0.54 per pack for the nine months ended September 30, 2022 from our estimate of \$0.38 per pack from the nine months ended September 30, 2021. (We estimated our MSA expense was \$0.40 per pack for the year ended December 31, 2021.)

Our MSA expense is impacted by total domestic taxable cigarette shipments in the United States. As of September 30, 2022, we estimate taxable shipments in the U.S. will decline by 9.0% in 2022 compared to our estimate as of September 30, 2021 of a decline of 7.0% in 2021. (The actual change in 2021 taxable shipments was a decline of 6.1%.) We estimate our 2022 projected annual MSA expense changes by approximately \$1,900 for each 1% change in U.S. shipment volumes.

Inflationary pressures also impact Liggett's MSA expense, which is subject to an annual inflation adjustment. The inflation adjustment is the greater of the U.S. CPI rate or 3%. As of September 30, 2022, Liggett's management assumed an inflation adjustment to MSA expense of 9.0% compared to an assumption of 4.8% as of September 30, 2021. (The actual inflation adjustment to the MSA in 2021 was 7.0%.) Our annual MSA expense increases by approximately \$2,500 for each 1% increase in inflation more than 3%.

In addition to the MSA expense, we could experience inflationary impacts from manufacturing costs. The largest component of Liggett's manufacturing costs is leaf tobacco and other raw materials. In recent years, due to declining prices of leaf tobacco as well as efficiencies gained from technological innovation in Liggett's factory, Liggett's raw material costs have been relatively flat and, therefore, prior to 2021, Liggett's cost of sales had not been significantly impacted by inflation. During the nine months ended September 30, 2022, Liggett experienced a 4.5% increase in leaf tobacco and raw materials (on a per-unit basis) compared to 1.2% during the nine months ended September 30, 2021. Further, when including labor costs, manufacturing overhead and shipping costs with leaf tobacco and raw materials, Liggett experienced a 4.1% increase in production costs (on a per-unit basis) during the nine months ended September 30, 2022, compared to a 2.3% increase in production costs during the nine months ended September 30, 2021.

Tobacco gross profit was \$317,606 for the nine months ended September 30, 2022 compared to \$339,327 for the nine months ended September 30, 2021, a decline of \$21,721 (6.4%). This decline in gross profit for the nine months ended September 30, 2022 was primarily attributable to declines in net pricing (due to the growth of the *Montego* brand) and higher per unit MSA expense and was partially offset by a 21.5% increase in unit sales and increased pricing across all brands. As a percentage of revenue (excluding Federal Excise Taxes), Tobacco gross profit margin declined from 59.2% in the 2021 period to 47.4% in the 2022 period primarily due to the growth of the *Montego* brand.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses, excluding settlements and judgments, were \$63,368 for the nine months ended September 30, 2022 compared to \$62,753 for the nine months ended September 30, 2021. The increase of \$615 was primarily due to higher professional fees and expenses. Tobacco product liability legal expenses, including settlements and judgments, were \$6,035 and \$4,622 for the nine months ended September 30, 2022 and 2021, respectively.

Tobacco operating income. Tobacco operating income was \$254,078 for the nine months ended September 30, 2022 compared to \$276,557 for the nine months ended September 30, 2021. The decline of \$22,479 (8.1%) was attributable to lower gross profit and increased operating, selling, general and administrative expenses.

#### **Real Estate.**

Real Estate revenues. Real Estate revenues were \$15,884 and \$11,126 for the nine months ended September 30, 2022 and 2021, respectively. Real Estate revenues increased by \$4,758. In April 2022, New Valley sold Escena and recognized \$12,600 in revenues.

Real Estate revenues, cost of sales, expenses and operating income for the nine months ended September 30, 2022 and 2021, respectively, were as follows:

	Nine Months Ended September 30,	
	2022	2021
<u>Real Estate Revenues:</u>		
Sales on facilities located on investments in real estate	\$ 3,259	\$ 3,476
Revenues from investments in real estate	12,625	7,650
Total real estate revenues	<u>\$ 15,884</u>	<u>\$ 11,126</u>
<u>Real Estate Cost of Sales:</u>		
Cost of sales from investments in real estate	\$ 5,891	\$ 6,772
Cost of sales on facilities located on investments in real estate	1,436	2,896
Total real estate cost of sales	<u>\$ 7,327</u>	<u>\$ 9,668</u>
Operating, selling, administrative and general expenses	\$ 718	\$ 2,061
Operating income (loss)	<u>\$ 7,839</u>	<u>\$ (603)</u>

***Corporate and Other.***

*Corporate and Other loss.* The operating loss at the Corporate and Other segment was \$12,179 for the nine months ended September 30, 2022 compared to \$24,071 for the same period in 2021. The decline in the 2022 period was due in part to the absence of transaction charges of \$3,426 related to the Distribution of Douglas Elliman, which occurred in December 2021.

## Summary of Real Estate Investments

We own and seek to acquire investment interests in various domestic and international real estate projects through debt and equity investments. Our real estate investments primarily include the following projects as of September 30, 2022:

(Dollars in Thousands. Area and Unit Information in Ones)													
	Location	Date of Initial Investment	Percentage Owned (1)	Net Cash Invested (Returned)	Cumulative Earnings (Losses)	Carrying Value as of September 30, 2022	Future Capital Commitments from New Valley (2)	Projected Residential and/or Hotel Area	Projected Commercial Space	Projected Number of Residential Units and/or Hotel Rooms	Actual/Projected Construction Start Date	Projected Construction End Date	
Escena, net (liquidated April 2022)	Master planned community, golf course, and club house in Palm Springs, CA	March 2008	100 %	\$ (17,516)	\$ 17,516	\$ —	\$ —	450 Acres		667 R Lots 450 H	N/A	N/A	
Investments in real estate, net				\$ (17,516)	\$ 17,516	\$ —	\$ —						
Investments in real estate ventures:													
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	9.5 %	\$ 7,285	\$ (4,414)	\$ 2,871	\$ —	330,000 SF	1,700 SF	157 R 190 H	September 2014	Completed	
87 Park (8701 Collins Avenue)	Miami Beach, FL	December 2013	23.1 %	(6,485)	6,485	—	—	160,000 SF	TBD	70 R	October 2015	Completed	
125 Greenwich Street	Financial District, Manhattan, NY	August 2014	13.4 %	7,992	(7,992)	—	—	306,000 SF	16,000 SF	273 R	March 2015	TBD	
West Hollywood Edition (9040 Sunset Boulevard)	West Hollywood, CA	October 2014	48.5 %	17,188	(17,188)	—	—	210,000 SF	—	20 R 190 H	May 2015	Completed	
Monad Terrace (1300 West Ave)	Miami Beach, FL	May 2015	19.6 %	7,635	(7,635)	—	—	160,000 SF	—	59 R	May 2016	Completed	
Takanasee (805 Ocean Ave)	Long Branch, NJ	December 2015	22.8 %	5,456	(5,456)	—	—	63,000 SF	—	13 R	June 2017	TBD	
Dime (209 Havemeyer St)	Brooklyn, NY	November 2017	16.5 %	9,145	(7,329)	1,816	—	100,000 SF	150,000 SF	177 R	May 2017	Completed	
Meatpacking Plaza (44 Ninth Ave)	Meatpacking District, Manhattan, NY	April 2019	16.9 %	10,692	(3,047)	7,645	—	8,741 SF	76,919 SF	15 R	July 2021	September 2023	
Five Park (500 Alton Road)	Miami Beach, FL	September 2019	38.9 %	18,098	1,151	19,249	—	472,000 SF	15,000 SF	238 R	April 2020	September 2024	
9 DeKalb Avenue	Brooklyn, NY	April 2019	4.2 %	5,000	1,263	6,263	—	450,000 SF	120,000 SF	540 R	March 2019	September 2023	
Natura	Miami, FL	December 2019	77.8 %	7,626	5,291	12,917	—	460,000 SF	—	460 R	December 2019	February 2023	
Ritz-Carlton Villas (4701 Meridian Avenue)	Miami Beach, FL	December 2020	50.0 %	4,109	(197)	3,912	—	58,000 SF	—	15 R	October 2020	February 2023	
2000 N. Atlantic Ave.	Daytona Beach, FL	November 2021	75.0 %	2,069	92	2,161	—	TBD	—	—	TBD	TBD	
Society Nashville (915 Division St)	Nashville, TN	November 2021	89.1 %	21,500	1,597	23,097	—	335,000 SF	8,000 SF	502 R	July 2022	April 2025	
3621 Collins Ave <sup>(3)</sup>	Miami Beach, FL	March 2022	2.5 %	1,000	—	1,000	—	TBD	—	—	TBD	TBD	
Alchemy Nash Square	Raleigh, NC	June 2022	75.0 %	410	12	422	—	TBD	—	—	TBD	TBD	
Aventura View (2999 NE 191st St)	Aventura, FL	June 2022	12.5 %	4,000	—	4,000	—	TBD	105,000 SF	—	N/A	N/A	
2261 NE 164th St	North Miami Beach, FL	August 2022	35.0 %	4,000	—	4,000	—	TBD	—	—	TBD	TBD	
Condominium and Mixed Use Development				\$ 126,720	\$ (37,367)	\$ 89,353	\$ —						
Riverchase Landing	Hoover, AL	October 2021	50.0 %	\$ 11,350	\$ (1,374)	\$ 9,976	\$ —	746,000 SF	N/A	468 R	N/A	N/A	
Apartment Buildings				\$ 11,350	\$ (1,374)	\$ 9,976	\$ —						
Park Lane Hotel (36 Central Park South)	Central Park South, Manhattan, NY	November 2013	1.0 %	\$ 8,682	\$ (8,094)	\$ 588	\$ —	446,000 SF	—	628 H	N/A	N/A	
215 Chrystie Street	Lower East Side, Manhattan, NY	December 2012	12.3 %	(1,328)	1,328	—	—	246,000 SF	—	367 H	June 2014	Completed	
Coral Beach and Tennis Club	Coral Beach, Bermuda	December 2013	49.0 %	6,048	(4,222)	1,826	—	52 Acres	—	101 H	N/A	N/A	
Parker New York (119 W 56th St)	Midtown, Manhattan, NY	July 2019	0.4 %	1,000	(672)	328	—	470,000 SF	—	587 H 99 R	May 2020	April 2023	
Hotels				\$ 14,402	\$ (11,660)	\$ 2,742	\$ —						
The Plaza at Harmon Meadow	Secaucus, NJ	March 2015	49.0 %	\$ 12,270	\$ (4,362)	\$ 7,908	\$ —	—	219,000 SF	—	N/A	N/A	
Wynn Las Vegas Retail	Las Vegas, NV	December 2016	1.6 %	3,426	4,068	7,494	—	—	160,000 SF	—	N/A	N/A	
Commercial				\$ 15,696	\$ (294)	\$ 15,402	\$ —						
Witkoff GP Partners <sup>(4)</sup>	Multiple	March 2017	15.0 %	\$ 9,986	\$ (9,619)	\$ 367	\$ —	N/A	N/A	N/A	N/A	N/A	
1 QPS Tower (23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4 %	(16,141)	16,141	—	—	N/A	N/A	N/A	March 2014	Completed	
Witkoff EB-5 Capital Partners	Multiple	September 2018	49.0 %	(1,041)	1,041	—	—	N/A	N/A	N/A	N/A	N/A	
Diverse Real Estate Portfolio				\$ (7,196)	\$ 7,563	\$ 367	\$ —						
Investments in real estate ventures				\$ 160,972	\$ (43,132)	\$ 117,840	\$ —						
Total Carrying Value				\$ 143,456	\$ (25,616)	\$ 117,840	\$ —						

(1) The Percentage Owned reflects our estimated current ownership percentage. Our actual ownership percentage as well as the percentage of earnings and cash distributions may ultimately differ as a result of a number of factors including potential dilution, financing or admission of additional partners.

(2) This column only represents capital commitments required under the various joint venture agreements. However, many of the operating agreements provide for the operating partner to call capital. If a joint venture partner, such as New Valley, declines to fund the capital call, then the partner's ownership percentage could either be diluted or, in some situations, the character of a funding member's contribution would be converted from a capital contribution to a member loan.

(3) The 3621 Collins Ave venture is measured at cost, less impairment, following the guidance under ASC 821. The investment is included in Other Assets on the condensed consolidated balance sheets.

(4) The Witkoff GP Partners venture includes a \$367 investment in 500 Broadway, a Condominium and Mixed Use Development in Santa Monica, CA.

N/A - Not applicable      SF - Square feet      H - Hotel rooms      TBD -To be determined      R - Residential Units      R Lots - Residential lots

New Valley capitalizes net interest expense into the carrying value of its ventures whose projects were under development. Net capitalized interest costs included in Carrying Value as of September 30, 2022 were \$11,749. This amount is included in the "Cumulative Earnings (Losses)" column in the table above. During the nine months ended September 30, 2022, New Valley capitalized \$3,152 of interest costs and utilized (reversed) \$60 of previously capitalized interest in connection with the recognition of equity in (losses) earnings, gains and liquidations from various ventures.



## Liquidity and Capital Resources

Cash, cash equivalents and restricted cash increased by \$215,691 and \$173,377 for the nine months ended September 30, 2022 and 2021, respectively.

Cash provided by operations was \$329,017 and \$311,337 for the nine months ended September 30, 2022 and 2021, respectively. The increase in cash provided from operations related primarily to increased obligations due under the MSA (due to increased unit volumes as a result of the growth of *Montego*) and lower payments made under the MSA for the nine months ended September 30, 2022 as well as the absence, in 2022, of premiums paid during the nine months ended September 30, 2021 to retire our 6.125% Senior Secured Notes due 2025. The amounts were offset by absence of cash from operations from Douglas Elliman for the nine months ended September 30, 2022 as a result of the Distribution. In June 2022, Liggett appealed the final judgment related to the Mississippi litigation and posted a bond of \$24,000. The amount of the bond has been included as a component of restricted cash at September 30, 2022, and, therefore, has not been included as a reduction in cash provided by operations in our condensed consolidated financial statement of cash flows for the nine months ended September 30, 2022.

Cash used in investing activities was \$3,504 and \$36,045 for the nine months ended September 30, 2022 and 2021, respectively. In the first nine months of 2022, cash used in investing activities was for the purchase of investment securities of \$48,828, investments in real estate ventures of \$19,644, capital expenditures of \$8,759, purchase of long-term investments of \$4,312, and an increase in cash surrender value of life insurance policies of \$1,268. This was offset by maturities of investment securities of \$49,789, the sale of investment securities of \$21,152, proceeds from the sale or liquidation of long-term investments of \$4,413, distributions from investments in real estate ventures of \$3,791, paydowns of investment securities of \$157 and a decrease in restricted assets of \$5. In the first nine months of 2021, cash used in investing activities was for the purchase of investment securities of \$99,287, investments in real estate ventures of \$15,912, capital expenditures of \$11,103, an increase in cash surrender value of life insurance policies of \$1,253, purchase of long-term investments of \$13,053, purchase of subsidiaries of \$500 and an increase in restricted assets of \$5. This was offset by maturities of investment securities of \$50,731, the sale of investment securities of \$33,517, distributions from investments in real estate ventures of \$11,879, proceeds from the sale or liquidation of long-term investments of \$8,509, paydowns of investment securities of \$415 and proceeds from sale of fixed assets of \$17. Liggett has entered into purchase commitments of approximately \$14,000 related to factory modernization throughout 2022 and 2023 and has funded approximately \$4,500 of these capital commitments as of September 30, 2022. The remaining \$9,500 of capital expenditures will be incremental to Liggett's recurring capital expenditure program.

Cash used in financing activities was \$109,822 and \$101,915 for the nine months ended September 30, 2022 and 2021, respectively. In the first nine months of 2022, cash was used for the dividends on common stock of \$96,636, repurchase and repayments of debt of \$12,246, other of \$938 and net repayments of debt under the revolver of \$2. Repurchases and repayments of debt for the nine months ended September 30, 2022 included our repurchase in the market of \$12,865 in aggregate principal amount of our 10.5% Senior Notes due 2026 at a price of \$12,222 plus accrued interest. The Senior Notes that were repurchased have been retired. In the first nine months of 2021, cash was used in financing activities for repayments of debt of \$859,801, which consisted primarily of the retirement of our 6.125% Senior Secured Notes due 2025 of \$850,000, dividends and distributions on common stock of \$98,403 and other of \$102. This was offset by the net impact of the refinancing of our Senior Secured Notes and contributions from a non-controlling interest of Douglas Elliman of \$1,500. The refinancing consisted of proceeds of \$875,000 from the issuance of our 5.75% Senior Secured Notes due 2029 offset by deferred financing costs of \$20,109.

We use dividends from our tobacco and real estate subsidiaries, as well as cash and cash equivalents maintained at the corporate level, to fund our significant liquidity commitments at the corporate level (not including our tobacco and real estate operations). These liquidity commitments include cash interest expense of approximately \$107,200, dividends on our outstanding common shares of approximately \$126,700, which is based on an assumed quarterly cash dividend of \$0.20 per share and other corporate expenses and income taxes.

As of September 30, 2022, we had cash and cash equivalents of \$384,963 (including \$174,386 of cash at Liggett), investment securities and long-term investments, which were carried at \$160,218 (see Note 5 to condensed consolidated financial statements). As of September 30, 2022, our investments in real estate ventures were carried at \$116,840.

*Limitation of interest expense deductible for income taxes.* Since 2018, the amount of interest expense that is deductible in the computation of income tax liability has been limited to a percentage of adjusted taxable income, as defined by applicable law. In 2019 and 2020, the amount of deductible interest expense was limited to 50% of taxable income before interest, depreciation and amortization and, in 2021, the amount was limited to 30% of taxable income before interest, depreciation and amortization. In 2022, the amount is limited to 30% of taxable income before interest. However, interest expense allocable to a designated excepted trade or business is not subject to limitation. One such excepted trade or business is any electing real property trade or business, for which portions of our real estate businesses may qualify. If any interest expense is disallowed, we are permitted to carry forward the disallowed interest expense indefinitely. As a result of interest expense that is allocated to

our real estate businesses (from the holding company) not being subject to the limitation, all of our interest expense to date has been tax deductible; however, after the Distribution, the allocation of interest expense to our real estate business is expected to decline. Without the benefit of such an excepted trade or business, a portion of our interest expense in future years may not be deductible, which may increase the after-tax cost of any new debt financings as well as the refinancing of our existing debt.

*Tobacco Litigation.* As of September 30, 2022, 16 verdicts were entered in *Engle* progeny cases against Liggett. Several of these verdicts have been affirmed on appeal and have been satisfied by Liggett. Liggett has paid \$40,111, including interest and attorney's fees, to satisfy the final judgments entered against it. It is possible that additional cases could be decided unfavorably.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlements of more than 5,200 cases, 22 plaintiffs' claims remain outstanding. Therefore, we and Liggett may still be subject to periodic adverse judgments that could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

In June 2022, Liggett appealed the final judgment related to the Mississippi litigation and posted a bond of \$24,000. Liggett may be required to make additional payments to Mississippi which could have a material adverse effect on the Company's consolidated financial position. The potential exposures for unpaid principal and pre-judgment interest were approximately \$16,700 and \$22,100 (as of September 2022), respectively. See *Recent Developments in Tobacco-Related Litigation*.

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 Indebtedness.*

*6.125% Senior Secured Notes.* On February 1, 2021, the 6.125% Senior Secured Notes due 2025 were redeemed in full and we recorded a loss on the extinguishment of debt of \$21,362 for the nine months ended September 30, 2021, including \$13,013 of premium and \$8,349 of other costs and non-cash interest expense related to the recognition of previously unamortized deferred finance costs.

*5.75% Senior Secured Notes due 2029.* On January 28, 2021, we completed the sale of \$875,000 in aggregate principal amount of our 5.75% Senior Secured Notes due 2029 ("5.75% Senior Secured Notes") to qualified institutional buyers and non-U.S. persons in a private offering pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended, (the "Securities Act") contained in Rule 144A and Regulation S thereunder. The aggregate net cash proceeds from the sale of the 5.75% Senior Secured Notes were approximately \$855,500 after deducting the initial purchaser's discount and estimated expenses and fees in connection with the offering. We used the net cash proceeds from the 5.75% Senior Secured Notes offering, together with cash on hand, to redeem all of our outstanding 6.125% Senior Secured Notes due 2025, including accrued interest and premium thereon, on January 28, 2021.

The 5.75% Senior Secured Notes pay interest on a semi-annual basis at a rate of 5.75% per year and mature on the earlier of February 1, 2029 and the date that is 91 days before the final stated maturity date of our 10.5% Senior Notes due 2026 ("10.5% Senior Notes") if such 10.5% Senior Notes have not been repurchased and cancelled or refinanced by such date. Prior to February 1, 2024, we may redeem some or all of the 5.75% Senior Secured Notes at any time at a make-whole redemption price. On or after February 1, 2024, we may redeem some or all of the 5.75% Senior Secured Notes at a premium that will decline over time, plus accrued and unpaid interest, if any, to the redemption date. In addition, any time prior to February 1, 2024, we may redeem up to 40% of the aggregate outstanding amount of the 5.75% Senior Secured Notes with the net proceeds of certain equity offerings at 105.75% of the aggregate principal amount of the 5.75% Senior Secured Notes, plus accrued and unpaid interest, if any, to the redemption date, if at least 60% of the aggregate principal amount of the 5.75% Senior Secured Notes originally issued remains outstanding after such redemption, and the redemption occurs within 90 days of the closing of such equity offering. In the event of a change of control, as defined in the indenture governing the 5.75% Senior Secured Notes (the "2029 Indenture"), each holder of the 5.75% Senior Secured Notes may require us to repurchase some or all of our 5.75% Senior Secured Notes at a repurchase price equal to 101% of their aggregate principal amount plus accrued and unpaid interest, if any, to the date of purchase. If we sell certain assets and do not apply the proceeds as required pursuant to the 2029 Indenture, we must offer to repurchase the 5.75% Senior Secured Notes at the prices listed in the 2029 Indenture.

The 5.75% Senior Secured Notes are fully and unconditionally guaranteed, subject to certain customary automatic release provisions, on a joint and several basis by all of our wholly-owned domestic subsidiaries that are engaged in the conduct of our cigarette businesses, which subsidiaries, as of the issuance date of the 5.75% Senior Secured Notes, were also guarantors under our outstanding 10.5% Senior Notes. The 5.75% Senior Secured Notes are not guaranteed by New Valley LLC, or any of our subsidiaries engaged in our real estate business conducted through our subsidiary, New Valley LLC. The guarantees provided by certain of the guarantors are secured by first priority or second priority security interests in certain collateral of such guarantors pursuant to security and pledge agreements, subject to certain permitted liens and exceptions as further described in

the 2029 Indenture and the security documents relating thereto. Vector Group Ltd. does not provide any security for the 5.75% Senior Secured Notes.

The 2029 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 2029 Indenture, for the most recently ended four full quarters is less than \$75,000. The 2029 Indenture also restricts the incurrence of debt if our Leverage Ratio and our Secured Leverage Ratio, each as defined in the 2029 Indenture, exceed 3.0 to 1.0 and 1.5 to 1.0, respectively. Our Leverage Ratio is defined in the 2029 Indenture as the ratio of our and our guaranteeing subsidiaries’ total debt less the fair market value of our cash, investment securities and long-term investments to Consolidated EBITDA, as defined in the 2029 Indenture. Our Secured Leverage Ratio is defined in the 2029 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 test and the extent to which we would have satisfied these requirements had the 2029 Indenture been in effect as of September 30, 2022.

Covenant	Indenture Requirement	September 30, 2022
Consolidated EBITDA, as defined	\$75,000	\$372,480
Leverage ratio, as defined	<3.0 to 1	2.27 to 1
Secured leverage ratio, as defined	<1.5 to 1	0.84 to 1

As of September 30, 2022, we were in compliance with all debt covenants related to the 2029 Indenture.

*10.5% Senior Notes due 2026.* In 2018 and 2019, we sold \$325,000 and \$230,000, respectively, in aggregate principal amount of our 10.5% Senior Notes to qualified institutional buyers and non-U.S. persons pursuant to the exemptions from the registration requirements of the Securities Act contained in Rule 144A and Regulation S thereunder. The 10.5% Senior Notes were fully and unconditionally guaranteed subject to certain customary automatic release provisions on a joint and several basis by all of our wholly-owned domestic subsidiaries that are engaged in the conduct of our cigarette businesses.

The 10.5% Senior Notes pay interest on a semi-annual basis at a rate of 10.5% per year and mature on November 1, 2026. We may presently redeem such bonds at price of 102.625%, as of November 1, 2022, and 100% on November 1, 2023. In addition, in the event of a change of control, as defined in the indenture governing the 10.5% Senior Notes (the “2026 Indenture”), each holder of the 10.5% Senior Notes may require us to make an offer to repurchase some or all of our 10.5% Senior Notes at a repurchase price equal to 101% of their aggregate principal amount plus accrued and unpaid interest, if any, to the date of purchase. If we sell certain assets and do not apply the proceeds as required pursuant to the 2026 Indenture, we must offer to repurchase the 10.5% Senior Notes at the prices listed in the 2026 Indenture.

The indenture governing our 10.5% Senior Notes contains covenants that restrict the payment of dividends and certain other distributions subject to certain exceptions, including exceptions for (1) dividends and other distributions in an amount up to 50% of our consolidated net income, plus certain specified proceeds received by us, if no event of default has occurred, and we are in compliance with a Fixed Charge Coverage Ratio (as defined in the indenture to our 10.5% Senior Notes) of at least 2.0 to 1.0, and (2) dividends and other distributions in an unlimited amount, if no event of default has occurred and we are in compliance with a Net Leverage Ratio (as defined in the indenture to our 10.5% Senior Notes) no greater than 4.0 to 1.0. As a result, absent an event of default, we can pay dividends if the Net Leverage ratio is below 4.0 to 1.0, regardless of the value of the Fixed Charge Coverage Ratio at the time. The indenture to our 10.5% Senior Notes also restricts our ability to incur debt if our Fixed Charge Coverage Ratio is less than 2.0 to 1.0, and restricts our ability to secure debt to the extent doing so would cause our Secured Leverage Ratio (as defined in the indenture to our 10.5% Senior Notes) to exceed 3.75 to 1.0, unless our 10.5% Senior Notes are secured on an equal and ratable basis. Our Fixed Charge Coverage Ratio is defined in the indenture to our 10.5% Senior Notes as the ratio of our Consolidated EBITDA to our Fixed Charges (each as defined in the indenture to our 10.5% Senior Notes). Our Net Leverage Ratio is defined in the indenture as the ratio of our and our guaranteeing subsidiaries’ total debt less our cash, cash equivalents, and the fair market value of our investment securities, long-term investments, investments in real estate, net, and investments in real estate ventures, to Consolidated EBITDA, as defined in the indenture to our 10.5% Senior Notes. Our Secured Leverage Ratio is defined in the indenture to our 10.5% Senior Notes as the ratio of our and our guaranteeing subsidiaries’ total secured debt, to Consolidated EBITDA, as defined in the indenture to our 10.5% Senior Notes.

The following table summarizes the requirements of these financial test and the extent to which we satisfied these requirements as of September 30, 2022.

Covenant	Indenture Requirement	September 30, 2022
Consolidated EBITDA, as defined	N/A	\$336,038
Fixed charge coverage ratio, as defined	>2.0 to 1	3.14 to 1
Net leverage ratio, as defined	<4.0 to 1	2.17 to 1
Secured leverage ratio, as defined	<3.75 to 1	2.55 to 1

As of September 30, 2022, we were in compliance with all of the debt covenants related to the 2026 Indenture.

In September 2022, we repurchased in the market \$12,865 in aggregate principal amount of our 10.5% Senior Notes and have retired the Senior Notes that were repurchased.

*Guarantor Summarized Financial Information.* Vector Group Ltd. (the “Issuer”) and its wholly-owned domestic subsidiaries that are engaged in the conduct of its cigarette business (the “Subsidiary Guarantors”) have filed a shelf registration statement for the offering of debt and equity securities on a delayed or continuous basis and we are including this condensed consolidating financial information in connection therewith. Any such debt securities may be issued by us and guaranteed by our Subsidiary Guarantors. New Valley and any of its subsidiaries (the “Nonguarantor Subsidiaries”) will not guarantee any such debt securities. Both the Subsidiary Guarantors and the Nonguarantor Subsidiaries are wholly-owned by the Issuer. The Condensed Consolidating Balance Sheet as of September 30, 2022 and the related Condensed Consolidating Statements of Operations for the nine months ended September 30, 2022 of the Issuer, Subsidiary Guarantors and Nonguarantor Subsidiaries are set forth in Exhibit 99.2.

Presented herein are the Summarized Combined Balance Sheets as of September 30, 2022 and December 31, 2021 and the related Summarized Combined Statements of Operations for the nine months ended September 30, 2022 for the Issuer and the Subsidiary Guarantors (collectively, the “Obligor Group”). The summarized combined financial information is presented after the elimination of: (i) intercompany transactions and balances among the Obligor Group, and (ii) equity in earnings from and investments in the Nonguarantor Subsidiaries.

*Summarized Combined Balance Sheets:*

	September 30, 2022	December 31, 2021
<b>Assets:</b>		
Current assets	\$ 661,604	\$ 487,797
Noncurrent assets	293,666	274,292
Intercompany receivables from Nonguarantor Subsidiaries	2,427	1,832
<b>Liabilities:</b>		
Current liabilities	380,692	194,097
Noncurrent liabilities	1,514,554	1,536,792

*Summarized Combined Statements of Operations:*

	Nine Months Ended September 30,	
	2022	2021
Revenues	\$ 1,061,355	\$ 895,901
Cost of sales	743,749	556,574
Operating income	242,301	252,671
Net income	105,755	107,201

*Liggett Credit Facility.* As of September 30, 2022, there was \$22 outstanding balance under the Credit Agreement. Availability as determined under the Credit Agreement was approximately \$74,000 based on eligible collateral at September 30, 2022. At September 30, 2022, Liggett was in compliance with all covenants under the Credit Agreement; Liggett's EBITDA, as defined, were \$346,680 for the last twelve months ended September 30, 2022.

*Anticipated Liquidity Obligations.* We and our subsidiaries have significant indebtedness and debt service obligations. As of September 30, 2022, we and our subsidiaries had total outstanding indebtedness of approximately \$1,417,200. Of this amount, \$875,000 comprised the outstanding amount under our 5.75% Senior Secured Notes due 2029, and \$542,135 comprised the outstanding amount under our 10.5% Senior Notes due 2026. 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 had cash and cash equivalents of approximately \$385,000, investment securities at fair value of approximately \$115,800, long-term investments with an estimated value of approximately \$44,400, and availability under Liggett's credit facility of approximately \$74,000 at September 30, 2022. We currently anticipate that these amounts, as well as expected cash flows from our operations, proceeds from public and/or private debt and equity financing to the extent available, management fees and other payments from subsidiaries should be sufficient to meet our liquidity needs over the next 12 months.

We continue to evaluate our capital structure and current market conditions related to our capital structure. In September 2022, we repurchased in the market \$12,865 in aggregate principal amount of our Senior Notes due 2026 for \$12,222 plus accrued interest. The Senior Notes that were repurchased have been retired. Depending on market conditions, we may utilize our cash, investment securities and long-term investments to repurchase additional amounts of our 10.5% Senior Notes due 2026 in open-market purchases or privately negotiated transactions.

Furthermore, we may access the capital markets to refinance our 10.5% Senior Notes due 2026. As of November 1, 2022, we can presently redeem such bonds at price of 102.625% and the redemption price declines to 100% on November 1, 2023. There can be no assurance that we would be able to continue to issue debt at a lower interest rate than our historical borrowing levels in the future and, in the event we pursue any capital markets activities, our ability to complete any debt or equity offering would be subject to market conditions.

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.

## **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 September 30, 2022, there was an outstanding balance of \$22 on the Liggett Credit Facility which also has variable interest rates. As of September 30, 2022, we had no interest rate caps or swaps. Based on a hypothetical 100 basis point increase or decline in interest rates (1%), our annual interest expense could increase or decline by approximately \$0.

We held debt securities available for sale totaling \$80,585 as of September 30, 2022. See Note 5 to our condensed consolidated financial statements. Adverse market conditions could have a significant impact on the value of these investments.

On a quarterly basis, we evaluate our debt securities available for sale and equity securities without readily determinable fair values that do not qualify for the NAV practical expedient 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. The impairment indicators that are taken into consideration as part of our analysis include (a) a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee, (b) a significant adverse change in the regulatory, economic, or technological environment of the investee, (c) a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates, and (d) factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

## **Equity Security Price Risk**

As of September 30, 2022, we held various investments in equity securities with a total fair value of \$63,821, of which \$35,239 represents equity securities at fair value and \$28,582 represents long-term investment securities at fair value. The latter

securities represent long-term investments in various investment partnerships. These investments are illiquid and their ultimate realization is subject to the performance of the underlying entities. See Note 5 to our condensed consolidated financial statements, respectively, for more details on equity securities at fair value and long-term investment securities at fair value. The impact to our condensed consolidated statements of operations related to equity securities fluctuates based on changes in their fair value.

We record changes in the fair value of equity securities in net income. To the extent that we continue to hold equity securities, our operating results may fluctuate significantly. Based on our equity securities held as of September 30, 2022, a hypothetical decrease of 10% in the price of these equity securities would reduce the fair value of the investments and, accordingly, our net income by approximately \$6,382.

### **New Accounting Pronouncements**

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

### **Legislation and Regulation**

There are no material changes from the Legislation and Regulation section set forth in *Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations,"* of our Annual Report on Form 10-K for the year ended December 31, 2021, except as set forth below:

#### *Menthol and Flavorings*

On May 4, 2022, FDA published a proposed rule to prohibit menthol as a characterizing flavor in cigarettes. For the twelve months ended September 30, 2022, approximately 20% of our cigarette unit sales were menthol flavored. We cannot predict how a tobacco product standard or a restriction on the sale and distribution of tobacco products with menthol, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

#### *Nicotine*

On June 21, 2022, the FDA indicated it plans to publish a proposed rule in May 2023 that establishes a tobacco product standard reducing the level of nicotine in cigarettes to non-addictive levels. Under the TCA, FDA may adopt a tobacco product standard for nicotine if the agency concludes that such a standard is appropriate for the protection of the public health. FDA may refer the proposed regulation to the TPSAC for a report and recommendation. FDA may consider a wide range of issues prior to the promulgation of a final rule, including the technical achievability of compliance with the proposed product standard. The rulemaking process could take many months or years and once a final rule is published it ordinarily would not be expected to take effect until at least one year after the date of publication. We cannot predict how a tobacco product standard reducing nicotine, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

### **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,
- competition,
- legislation and regulations,
- cash flows,

- operating performance,
- litigation, 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”, “continue”, “could”, “estimate”, “expect”, “intend”, “may be”, “objective”, “opportunistically”, “plan”, “potential”, “predict”, “project”, “prospects”, “seek” or “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, including due to macroeconomic conditions, acts of war and terrorism or otherwise,
- governmental regulations and policies, including rules to regulate or restrict menthol flavoring or nicotine content of cigarettes,
- adverse changes in global, national, regional and local economic and market conditions, including those related to pandemics and health crises,
- impact of legislation on our results of operations and product costs, i.e. the impact of federal legislation providing for regulation of tobacco products by FDA,
- impact of substantial increases in federal, state and local excise taxes,
- uncertainty related to product liability and other tobacco-related litigations including the *Engle* progeny cases pending in Florida and other individual and class action cases where certain plaintiffs have alleged compensatory and punitive damage amounts ranging into the hundreds of million and even billions of dollars,
- potential additional payment obligations for us under the MSA and other settlement agreements with the states;
- significant changes or disruptions to our supply or distribution chains or in the price, availability or quality of tobacco, other raw materials or component parts,
- potential dilution to our holders of or common stock as a result of issuances of additional shares of common stock to fund our financial obligations and other financing activities,
- effects of industry competition,
- impact of business combinations, including acquisitions and divestitures, both internally for us and externally in the tobacco industry,
- the impacts of the Inflation Reduction Act of 2022 and the Tax Cuts and Jobs Act of 2017, including the deductibility of interest expense and the impact of the markets on our Real Estate segment,
- the impacts of future income tax legislation in the U.S., including the impact of the markets on our Real Estate segment,
- failure to properly use and protect customer and employee information and data,
- the tax-free treatment of the Distribution,
- the failure of us or Douglas Elliman to satisfy our respective obligations under the Transition Services Agreement or other agreements entered into in connection with the Distribution,
- failure to properly use and protect client and employee information and data, and
- the effect of a material breach of security or other performance issues of any of our or our vendors’ systems.

Further information on the risks and uncertainties to our business include the risk factors discussed above in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and under Item 1A, “*Risk Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission.

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective.

#### **Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting that occurred during the third quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings

Reference is made to Note 8, incorporated herein by reference, to our condensed consolidated financial statements included elsewhere in this report which contains a general description of certain legal proceedings to which our company, or its subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending smoking-related legal proceedings to which Liggett or us is a party. A copy of Exhibit 99.1 will be furnished without charge upon written request to us at our principal executive offices, 4400 Biscayne Boulevard, 10th Floor, Miami, Florida 33137, Attn. Investor Relations.

#### Item 1A. Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2021, except as set forth below:

##### ***FDA Regulation under the Family Smoking Prevention and Tobacco Control Act may adversely affect our sales and operating profit.***

In June 2009, the Family Smoking Prevention and Tobacco Control Act (the “TCA”) became law. The TCA 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. For a more complete discussion of the TCA, see *Item 1. Business. Legislation and Regulation*.

On May 4, 2022, FDA published a proposed rule to prohibit menthol as a characterizing flavor in cigarettes. For the last twelve months ended September 30, 2022, approximately 20% of our cigarette unit sales were menthol flavored. We cannot predict how a tobacco product standard or a restriction on the sale and distribution of tobacco products with menthol, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

On June 21, 2022, the FDA indicated it plans to publish a proposed rule in May 2023 that establishes a tobacco product standard reducing the level of nicotine in cigarettes to non-addictive levels. See *Item 1. Business. Legislation and Regulation*. At this time, we cannot predict the specific regulations FDA will enact, the timeframe for such regulations, or the effect of such regulations. The rulemaking process could take years and once a final rule is issued it typically does not take effect for at least one year. We cannot predict how a tobacco product standard reducing nicotine, if ultimately issued by FDA, would impact product sales, whether it would have a material adverse effect on Liggett or Vector Tobacco, or whether it would impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

In April 2018, FDA announced a change in its process for reviewing “provisional” substantial equivalence applications. See *Item 1. Business. Legislation and Regulation* for additional information on the substantial equivalence process. Vector Tobacco received a letter from FDA in April 2018 advising that FDA does not intend to conduct further review of Vector Tobacco’s remaining applications, with certain “conditions” (as described under *Item 1. Business. Legislation and Regulation*). Liggett received a letter from FDA in May 2018 advising that FDA does not intend to conduct further review for certain applications, also with certain “conditions” (as described under *Item 1. Business. Legislation and Regulation*). FDA has not indicated whether the applications relating to Liggett’s other products, not covered by that May 2018 letter, would proceed through FDA review. We cannot predict whether FDA will deem Liggett’s outstanding applications to be sufficient to support determinations of substantial equivalence for the products covered by these substantial equivalence reports. It is possible that FDA could determine that some, or all, of these products are “not substantially equivalent” to a preexisting tobacco product, as the agency has already done for 20 of Liggett’s applications. NSE orders for other cigarette styles may require us to stop the sale of the applicable cigarettes and other cigarette styles and could have a material adverse effect on us.

On March 18, 2020, FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. This rule requires each cigarette package and advertisement to bear one of eleven textual warning statements accompanied by a corresponding graphic image covering 50% of the area of the front and rear panels of cigarette packages and at least 20% of the area at the top of cigarette advertisements. The rule establishes marketing requirements that include the random and equal display and distribution of the required warnings for cigarette packages and quarterly rotation of the required

warnings for cigarette advertisements. The final rule provided for an effective date of June 18, 2021, 15 months after issuance of the final rule. On April 3, 2020, Liggett, along with other tobacco companies, commenced an action against the FDA in the United States District Court, District of Texas (Tyler Division) challenging the legality of the graphic warning final rule. On August 10, 2022, the court granted a motion to postpone the effective date of the final rule to October 6, 2023.

We cannot predict whether the court will further postpone the effective date and/or determine that some or all of the proposed textual and/or graphic warnings, or proposed prominence of the warnings, violate the First Amendment, Administrative Procedure Act, or other legal requirements, or what the impact of such a court ruling would have on the compliance timeline or requirements imposed on industry.

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

**Our tobacco business faces multiple risks in today's economic environment. These risks have the potential to significantly affect our business operations as well as our profitability.**

International trade disruptions, shipping container availability, climate change, inflation, geopolitical instability, government regulations and man-made disasters could affect the cost, availability and supply of our tobacco, raw materials as well as component parts for our equipment.

Overall economic conditions including but not limited to inflation, labor shortages and supply chain disruptions in the aftermath of and on-going Covid-19 pandemic, all present significant challenges and obstacles to overcome to enable our operations to continue uninterrupted. Our tobacco business also operates a single manufacturing facility which could affect our ability to produce and distribute our products, if there was a major disruption.

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

No equity securities of ours which were not registered under the Securities Act have been issued or sold by us during the three months ended September 30, 2022.

**Issuer Purchase of Equity Securities**

Our purchases of our common stock during the three months ended September 30, 2022 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2022	100,227	\$ 10.43 <sup>(1)</sup>	—	—
August 1 to August 31, 2022	—	—	—	—
September 1 to September 30, 2022	—	—	—	—
Total	100,227	\$ 10.43	—	—

<sup>(1)</sup> Represents withholdings of shares as payment of payroll tax liabilities incident to the vesting of certain employees' shares of restricted stock. The shares purchased were immediately canceled.

Item 6. Exhibits:

- [\\*22.1](#) List of Subsidiary Guarantors (incorporated by reference to Exhibit 22.1 of Vector's Form 10-K for the year ended December 31, 2021).
- [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](#) Certifications of Chief Executive Officer and 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](#) Certain Legal Proceedings.
- [99.2](#) Condensed Consolidating Financial Statements of Vector Group Ltd.
- 101.INS** XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH** Inline XBRL Taxonomy Extension Schema
- 101.CAL** Inline XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF** Inline XBRL Taxonomy Extension Definition Linkbase
- 101.LAB** Inline XBRL Taxonomy Extension Label Linkbase
- 101.PRE** Inline XBRL Taxonomy Extension Presentation Linkbase
- 104** Cover Page Interactive Data File (the cover page tabs are embedded within the Inline XBRL document).

\* Incorporated by reference

## SIGNATURE

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

**VECTOR GROUP LTD.**  
**(Registrant)**

By: /s/ J. Bryant Kirkland III

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

Date: November 2, 2022

**RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Howard M. Lorber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2022

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

**RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, J. Bryant Kirkland III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2022

/s/ J. Bryant Kirkland III

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

**SECTION 1350 CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard M. Lorber, as 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 as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 2, 2022

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Bryant Kirkland III, as 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 as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 2, 2022

/s/ J. Bryant Kirkland III

J. Bryant Kirkland III

Senior Vice President, Treasurer and Chief Financial Officer

**I. INDIVIDUAL CASES****A. Engle Progeny Cases.**

Pursuant to the Florida Supreme Court's ruling in *Engle v. Liggett Group Inc.*, which decertified the *Engle* class on a prospective basis, former class members had until January 2008 to file individual lawsuits. Lawsuits by individuals requesting the benefit of the *Engle* ruling are referred to as the "*Engle* progeny" cases. Liggett has resolved the claims of all but 22 *Engle* progeny plaintiffs. For more information on the *Engle* case and on the settlement, see "Note 8. Contingencies."

**(i) Engle Progeny Cases with trial dates through September 30, 2023.**

None.

**(ii) Post-Trial Engle Progeny Cases.**

None.

**B. Other Individual Cases.****Florida**

Bennett, et al. v. Philip Morris USA Inc., et al., Case No. 20-30196, Circuit Court of the 7<sup>th</sup> Judicial Circuit, Volusia County (case filed 02/27/2020). One individual suing on behalf of the estate and survivors of a deceased smoker. Vector Group is a named defendant but, not Liggett. The case is set for trial during the trial period starting 10/30/2023.

Cowart v. Liggett Group Inc., et al., Case No. 98-01483-CA, Circuit Court of the 4<sup>th</sup> Judicial Circuit, Duval County (case filed 03/16/1998). One individual suing. Liggett is the only remaining defendant in this case. The case is dormant.

Cravens v. Philip Morris USA Inc., et al., Case No. 19-CA-002944, Circuit Court of the 2<sup>nd</sup> Judicial Circuit, Leon County (case filed 12/30/2019). One individual suing.

Cunningham v. R.J. Reynolds Tobacco Company, et al., Case No. 17-CA-000293, Circuit Court of the 19<sup>th</sup> Judicial Circuit, St. Lucie County (case filed 02/20/2017). One individual suing on behalf of the estate and survivors of a deceased smoker.

DaSilva, et al. v. Philip Morris USA Inc., et al., Case No. 17-CA-022955, Circuit Court of the 17<sup>th</sup> Judicial Circuit, Broward County (case filed 12/19/2017). One individual suing on behalf of the estate and survivors of a deceased smoker.

Garcia v. Philip Morris USA Inc., et al., Case No. 2022-012884-CA-01, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 07/13/2022). One individual suing.

Koedam v. Philip Morris USA Inc., et al., Case No. 19-CA-002970, Circuit Court of the 2<sup>nd</sup> Judicial Circuit, Leon County (case filed 01/03/2020). One individual suing.

Lane, et al. v. Philip Morris USA Inc., et al., Case No. 17-011591, Circuit Court of the 17<sup>th</sup> Judicial Circuit, Broward County (case filed 06/16/2017). Two individuals suing.



Mathews v. R.J. Reynolds Tobacco Company, et al., Case No. 16-21-CA-005136, Circuit Court of the 4<sup>th</sup> Judicial Circuit, Duval County (case filed 10/01/2021). One individual suing. Both Liggett and Vector are named defendants.

McMakin v. R.J. Reynolds Tobacco Company, et al., Case No. 20-30329, Circuit Court of the 7<sup>th</sup> Judicial Circuit, Volusia County, (case filed 03/30/2020). One individual suing on behalf of the estate and survivors of two deceased smokers. Vector Group is a named defendant, but not Liggett. The case is set for trial during the trial period starting 10/30/2023.

Mier v. Philip Morris USA Inc., et al., Case No. 2022 11094 CIDL, Circuit Court of the 7<sup>th</sup> Judicial Circuit, Volusia County (case filed 07/12/2022). One individual suing. Vector is a named defendant, not Liggett. The case is set for trial during the trial period starting 10/30/2023.

Moon v. Philip Morris USA Inc., et al., Case No. 19-CA-002941, Circuit Court of the 2<sup>nd</sup> Judicial Circuit, Leon County (case filed 12/30/2019). One individual suing.

O'Bourke v. Philip Morris USA Inc., et al., Case No. 2022-011114-CA-01, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 06/16/2022). One individual suing on behalf of the estate and survivors of a deceased smoker.

Perez-Gell v. Philip Morris USA Inc., et al., Case No. 19-016287, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 05/30/2019). One individual suing on behalf of the estate and survivors of a deceased smoker.

Santana v. Philip Morris USA Inc., et al., Case No. 19-37329, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 01/03/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Schnitzer v. Philip Morris USA Inc., et al., Case No. 18-026537, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 08/06/2018). One individual suing on behalf of the estate and survivors of a deceased smoker.

Schoene v. R.J. Reynolds Tobacco Company, et al., Case No. 21-004689, Circuit Court of the 17<sup>th</sup> Judicial Circuit, Broward County (case filed 03/05/2021). One individual suing.

Siders v. Philip Morris USA Inc., et al., Case No. 19-CA-002942, Circuit Court of the 2<sup>nd</sup> Judicial Circuit, Leon County (case filed 12/30/2019). One individual suing.

Smith v. Philip Morris USA Inc., et al., Case No. 20-008481, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 04/16/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Taylor v. Philip Morris USA Inc., et al., Case No. 19-CA-255, Circuit Court of the 2<sup>nd</sup> Judicial Circuit, Wakulla County (case filed 12/18/2019). One individual suing.

Voglio v. R.J. Reynolds Tobacco Company, et al., Case No. 18-CA-000640, Circuit Court of the 19<sup>th</sup> Judicial Circuit, Martin County (case filed 08/29/2018). One individual suing on behalf of the estate and survivors of a deceased smoker.

Watson, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 20-CA-009690-O, Circuit Court of the 9<sup>th</sup> Judicial Circuit, Orange County (case filed 09/25/2020). Two individuals suing.

Whitehurst v. Philip Morris USA Inc., et al., Case No. 19-016282, Circuit Court of the 11<sup>th</sup> Judicial Circuit, Miami-Dade County (case filed 05/30/2019). One individual suing on behalf of the estate and survivors of a deceased smoker.

## **Hawaii**

Carvalho v. Philip Morris USA Inc., et al., Case No. 3CCV-22-0000072, Circuit Court, 3<sup>rd</sup> Circuit (case filed 09/02/2022). One individual suing.

Dutro v. Philip Morris USA Inc., et al., Case No. 1CCV-22-0000411, Circuit Court, 1<sup>st</sup> Circuit, Hawaii, (case filed 04/11/2022). One individual suing.

Kanuha v. Philip Morris USA Inc., et al., Case No. 1CCV-22-0000832, Circuit Court, 1<sup>st</sup> Circuit, Hawaii, (case filed 07/25/2022) One individual suing.

Manious, et al. v. Philip Morris USA Inc., et al., Case No. 3CCV-22-0000072, Circuit Court, 3<sup>rd</sup> Circuit (case filed 03/15/2022). Two individuals suing.

Ricapor-Hall v. Philip Morris USA Inc., et al., Case No. 1CCV-21-0000334, Circuit Court, 1<sup>st</sup> Circuit (case filed 03/16/2021). One individual suing. The case is set for trial during the trial period starting 07/17/2023.

Roach v. Philip Morris USA Inc., et al., Case No. 3CCV-22-0000071, Circuit Court, 3<sup>rd</sup> Circuit (case filed 03/15/2022). One individual suing. The case is set for trial during the trial period starting 11/14/2023.

Silva v. Philip Morris USA Inc., et al., Case No. 3CCV-22-0000271, Circuit Court, 3<sup>rd</sup> Circuit (case filed 09/07/2022). One individual suing.

## **Illinois**

Akers, et al. v. Philip Morris USA Inc., et al., Case No. 2019-L-011779, Circuit Court of Cook County, Illinois (case filed 10/24/2019). One individual suing on behalf of the estate and survivors of a deceased smoker.

Brown, et al. v. Philip Morris USA Inc., et al., Case No. 2021-L-008025, Circuit Court of Cook County, Illinois (case filed 08/09/2021). Two individuals suing.

Bukowski, et al. v. Philip Morris USA, Inc., et al., Case No. 2019-L-010529, Circuit Court of Cook County, Illinois (case filed 09/24/2019). One individual suing on behalf of the estate and survivors of a deceased smoker.

Cain v. Philip Morris USA, Inc., et al., Case No. 2021-L-008850, Circuit Court of Cook County, Illinois (case filed 09/02/2021). One individual suing.

Cielsa v. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-005195, Circuit Court of Cook County, Illinois (case filed 05/20/2021). One individual suing.

Collins v. Philip Morris USA Inc., et al., Case No. 2022-L-000578, Circuit Court of Cook County, Illinois (case filed 01/19/2022). One individual suing.

Demir v. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-004375, Circuit Court of Cook County, Illinois (case filed 04/28/2021). One individual suing.

Gerace, et al. v. Philip Morris USA Inc., et al., Case 2022-L-003599, Circuit Court of Cook County, Illinois (case filed 04/19/2022). Two individuals suing.

Gorski v. Philip Morris USA, Inc., et al., Case No. 2021-L-008024, Circuit Court of Cook County, Illinois (case filed 08/12/2021). One individual suing.

Jones v. Philip Morris USA Inc., et al., Case No. 2020-L-00482, Circuit Court of Cook County, Illinois (case filed 05/04/2020). One individual suing.

McBride vs. Fischbach, LLC, et al., Case No. 2022-L-000489, St. Clair County, Illinois (case filed 06/15/2022). One individual suing.

Montgomery v. Philip Morris USA Inc., et al., Case No. 2021-L-010256, Circuit Court of Cook County, Illinois (case filed 10/19/2021). One individual suing.

Morton v. Philip Morris USA Inc., et al., Case No. 2022-L-006350, Circuit Court of Cook County, Illinois (case filed 07/15/2022). One individual suing.

Porter v. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-003418, Circuit Court of Cook County, Illinois (case filed 03/31/2021). One individual suing.

Prescott v. Philip Morris USA Inc., et al., Case No. 2022-L-007414, Circuit Court of Cook County, Illinois (case filed 08/16/2022). One individual suing on behalf of the estate and survivors of a deceased smoker.

Smith v. Philip Morris USA Inc., et al., Case No. 2022-L-007415, Circuit Court of Cook County, Illinois (case filed 08/16/2022). One individual suing on behalf of the estate and survivors of a deceased smoker.

Stone v. Philip Morris USA Inc., et al., Case No. 2020-L-008635, Circuit Court of Cook County, Illinois (case filed 08/17/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

### **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 05/27/1997). 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 22<sup>nd</sup> Judicial District Court, St. Tammany Parish (case filed 06/10/2003). Five individuals suing. There has been no recent activity in this case.

### **Massachusetts**

Sandler, E. v. Philip Morris USA, Inc., et al. Case 1:22-CV-10379, United States District Court, District of Massachusetts (case filed 03/10/2022). One individual suing.

### **Nevada**

Camacho, et al. v. Philip Morris USA Inc., et al., Case No. A-19-807650C, District Court, Clark County, Nevada, (case filed 12/30/2019). Two individuals suing. The case is set for trial during the trial period starting 04/17/2023.

Geist v. Philip Morris USA Inc., et al., Case No. A-19-807653C, District Court, Clark County, Nevada, (case filed 12/30/2019). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 06/13/2023.

Rowan v. Philip Morris USA Inc., et al., Case No. A-20-811091C, District Court, Clark County, Nevada, (case filed 02/25/2020). One individual suing as personal representative of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 04/01/2024.

Speed v. Philip Morris USA Inc., et al., Case No. A-20-819040-C, District Court, Clark County, Nevada, (case filed 08/04/2020). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 01/02/2024.

Tully, et al. v. Philip Morris USA Inc., et al., Case No. A-19-807657C, District Court, Clark County, Nevada, (case filed 12/30/2019). Two individuals suing. The case is set for trial during the trial period starting 10/09/2023.

### **New Mexico**

Grace v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01689, 1<sup>st</sup> Judicial District, Santa Fe County, New Mexico (case filed 08/05/2020). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 06/20/2023.

Lopez, H. v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01686, 1<sup>st</sup> Judicial District, Santa Fe County, New Mexico (case filed 08/04/2020). One individual suing on behalf of the estate and survivors of two deceased smokers. The case is set for trial during the trial period starting 12/04/2023.

Lopez, T. v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01688, 1<sup>st</sup> Judicial District, Santa Fe County, New Mexico (case filed 08/05/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Martinez, et al. v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01691, 1<sup>st</sup> Judicial District, Santa Fe County, New Mexico (case filed 08/05/2020). Two individuals suing. The case is set for trial during the trial period starting 05/30/2023.

### **South Carolina**

Reed v. RJ Reynolds Tobacco Company, et al., Case No. 8:22-cv-01029-TMC-JDA, U.S. District Court for the District of South Carolina, South Carolina (case filed 03/31/2022). One individual suing.

## **II. CLASS ACTION CASES**

Parsons, et al. v. A C & S Inc., et al., Case No. 00-C-7000, First Judicial Circuit, West Virginia, Ohio County (case filed 02/09/1998). This purported class action is brought on behalf of plaintiff and all West Virginia residents who allegedly have claims arising from their exposure to cigarette smoke and asbestos fibers and seeks compensatory and punitive damages. The case has been stayed since December 2000 as a result of bankruptcy petitions filed by three co-defendants.

Young, et al. v. American Brands Inc., et al., Case No. 97-19984cv, Civil District Court, Louisiana, Orleans Parish (case filed 11/12/1997). This purported class action is brought on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, were exposed to and suffered injury from secondhand smoke from cigarettes. The plaintiffs seek an unspecified amount of compensatory and punitive damages. The case has been stayed since March 2016 pending the completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co.*

### **III. HEALTH CARE COST RECOVERY ACTIONS**

Crow Creek Sioux Tribe v. The American Tobacco Company, et al., Case No. cv-97-09-082, Tribal Court of the Crow Creek Sioux Tribe, South Dakota (case filed 09/26/1997). 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.

**Vector Group Ltd.**  
**Condensed Consolidating Financial Statements**  
**September 30, 2022**  
(in thousands of dollars)

Presented herein are Condensed Consolidating Balance Sheet as of September 30, 2022 and the related Condensed Consolidating Statements of Operations for the nine months ended September 30, 2022 of Vector Group Ltd. (Parent/Issuer), the guarantor subsidiaries (Subsidiary Guarantors) and the subsidiaries that are not guarantors (Subsidiary Non-Guarantors).

**CONDENSED CONSOLIDATING BALANCE SHEETS**

	September 30, 2022				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
<b>ASSETS:</b>					
Current assets:					
Cash and cash equivalents	\$ 209,993	\$ 174,386	\$ 584	\$ —	\$ 384,963
Investment securities at fair value	115,824	—	—	—	115,824
Accounts receivable - trade, net	—	27,141	—	—	27,141
Intercompany receivables	2,427	—	—	(2,427)	—
Inventories	—	86,101	—	—	86,101
Income taxes receivable, net	39,080	—	3,181	(39,485)	2,776
Other current assets	1,006	8,073	—	—	9,079
Total current assets	368,330	295,701	3,765	(41,912)	625,884
Property, plant and equipment, net	365	29,887	9,893	—	40,145
Long-term investment securities	44,394	—	—	—	44,394
Investments in real estate ventures	—	—	116,840	—	116,840
Operating lease right-of-use assets	3,658	4,819	—	—	8,477
Investments in consolidated subsidiaries	236,106	—	—	(236,106)	—
Intangible assets	—	107,511	—	—	107,511
Other assets	16,811	86,221	3,000	—	106,032
Total assets	\$ 669,664	\$ 524,139	\$ 133,498	\$ (278,018)	\$ 1,049,283
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY:</b>					
Current liabilities:					
Current portion of notes payable and long-term debt	\$ —	\$ 51	\$ —	\$ —	\$ 51
Intercompany payables	—	448	1,979	(2,427)	—
Income taxes payable, net	—	39,485	—	(39,485)	—
Current payments due under the Master Settlement Agreement	—	214,260	—	—	214,260
Current operating lease liability	1,728	1,961	—	—	3,689
Other current liabilities	39,546	86,394	392	—	126,332
Total current liabilities	41,274	342,599	2,371	(41,912)	344,332
Notes payable, long-term debt and other obligations, less current portion	1,389,140	15	—	—	1,389,155
Non-current employee benefits	61,454	8,096	—	—	69,550
Deferred income taxes, net	(5,565)	24,640	13,336	—	32,411
Non-current operating lease liability	2,887	3,289	—	—	6,176
Other liabilities, including litigation accruals and payments due under the Master Settlement Agreement	3,784	26,814	371	—	30,969
Total liabilities	1,492,974	405,453	16,078	(41,912)	1,872,593
Commitments and contingencies					
Total stockholders' (deficiency) equity	(823,310)	118,686	117,420	(236,106)	(823,310)
Total liabilities and stockholders' deficiency	\$ 669,664	\$ 524,139	\$ 133,498	\$ (278,018)	\$ 1,049,283

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Nine Months Ended September 30, 2022				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
Revenues	\$ —	\$ 1,061,355	\$ 16,657	\$ (773)	\$ 1,077,239
Expenses:					
Cost of sales	—	743,749	7,327	—	751,076
Operating, selling, administrative and general expenses	21,898	53,247	1,893	(773)	76,265
Litigation settlement and judgment expense	—	160	—	—	160
Management fee expense	—	10,126	—	(10,126)	—
Operating (loss) income	(21,898)	254,073	7,437	10,126	249,738
Other income (expenses):					
Interest expense	(81,459)	(1,961)	—	—	(83,420)
Gain on extinguishment of debt	412	—	—	—	412
Equity in losses from real estate ventures	—	—	(4,240)	—	(4,240)
Equity in losses from investments	(5,172)	—	—	—	(5,172)
Equity in earnings (losses) in consolidated subsidiaries	195,491	—	—	(195,491)	—
Management fee income	10,126	—	—	(10,126)	—
Other, net	(9,759)	4,797	2,565	(2,646)	(5,043)
Income before provision for income taxes	87,741	256,909	5,762	(198,137)	152,275
Income tax benefit (expense)	22,810	(63,568)	(966)	—	(41,724)
Net income	\$ 110,551	\$ 193,341	\$ 4,796	\$ (198,137)	\$ 110,551
Comprehensive income	\$ 111,405	\$ 193,399	\$ 4,796	\$ (198,195)	\$ 111,405