

VECTOR GROUP LTD
Form 10-Q
August 03, 2015

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

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2015

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes o No

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

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

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

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

At July 29, 2015, Vector Group Ltd. had 116,830,619 shares of common stock outstanding.

VECTOR GROUP LTD.

FORM 10-Q

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Vector Group Ltd. Condensed Consolidated Financial Statements (Unaudited):	
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and June 30, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and June 30, 2014</u>	<u>4</u>
<u>Condensed Consolidated Statement of Stockholders' (Deficiency) Equity for the six months ended June 30, 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and June 30, 2014</u>	
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>58</u>
<u>Item 4. Controls and Procedures</u>	<u>58</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>60</u>
<u>Item 1A. Risk Factors</u>	<u>60</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>62</u>
<u>Item 6. Exhibits</u>	<u>63</u>
<u>SIGNATURE</u>	<u>64</u>

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

	June 30, 2015	December 31, 2014
ASSETS:		
Current assets:		
Cash and cash equivalents	\$238,323	\$326,365
Investment securities available for sale	342,577	346,043
Accounts receivable - trade, net	18,022	23,328
Inventories	98,576	90,323
Income taxes receivable, net	—	3,282
Restricted assets	2,324	2,595
Other current assets	45,236	36,718
Total current assets	745,058	828,654
Property, plant and equipment, net	79,448	84,112
Real estate held for sale, net	23,043	10,643
Long-term investments	46,219	40,292
Investments in real estate ventures	199,026	163,460
Restricted assets	20,220	12,013
Goodwill and other intangible assets, net	267,000	269,972
Prepaid pension costs	26,635	25,032
Other assets	56,194	58,893
Total assets	\$1,462,843	\$1,493,071
LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY:		
Current liabilities:		
Current portion of notes payable and long-term debt	\$6,074	\$52,640
Current portion of fair value of derivatives embedded within convertible debt	—	884
Current payments due under the Master Settlement Agreement	62,626	26,322
Current portion of employee benefits	931	931
Income taxes payable, net	3,723	1,743
Litigation accruals	3,477	3,149
Deferred income taxes, net	28,322	28,479
Other current liabilities	125,523	126,755
Total current liabilities	230,676	240,903
Notes payable, long-term debt and other obligations, less current portion	872,999	860,711
Fair value of derivatives embedded within convertible debt	156,783	168,502
Non-current employee benefits	49,705	49,314
Deferred income taxes, net	98,180	94,510
Payments due under the Master Settlement Agreement	25,809	25,809
Litigation accruals	23,444	25,700
Other liabilities	6,913	5,570
Total liabilities	1,464,509	1,471,019
Commitments and contingencies (Note 7)		
Stockholders' (deficiency) equity:		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized	—	—
Common stock, par value \$0.10 per share, 250,000,000 and 250,000,000 shares authorized, 120,975,866 and 118,646,261 shares issued and 116,830,619 and 114,501,014 shares outstanding	11,683	11,450

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Additional paid-in capital	—	—
Accumulated deficit	(115,570) (90,160)
Accumulated other comprehensive income	33,758	34,540
Less: 4,145,247 and 4,145,247 shares of common stock in treasury, at cost	(12,857	) (12,857)
Total Vector Group Ltd. stockholders' deficiency	(82,986	) (57,027)
Non-controlling interest	81,320	79,079
Total stockholders' (deficiency) equity	(1,666	) 22,052
Total liabilities and stockholders' (deficiency) equity	\$ 1,462,843	\$ 1,493,071

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

2

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts)

Unaudited

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Tobacco*	\$254,890	\$250,556	\$482,975	\$483,948
Real estate	161,022	153,488	293,278	261,532
E-Cigarettes	261	2,569	680	8,369
Total revenues	416,173	406,613	776,933	753,849
Expenses:				
Cost of sales:				
Tobacco*	174,867	179,773	331,897	347,939
Real estate	103,870	97,763	188,228	165,087
E-Cigarettes	467	1,746	1,097	5,293
Total cost of sales	279,204	279,282	521,222	518,319
Operating, selling, administrative and general expenses	79,679	67,023	153,623	131,000
Litigation settlement and judgment expense	1,250	—	2,093	1,500
Operating income	56,040	60,308	99,995	103,030
Other income (expenses):				
Interest expense	(31,761)	(44,183)	(63,507)	(79,636)
Change in fair value of derivatives embedded within convertible debt	5,256	1,970	11,716	320
Acceleration of interest expense related to debt conversion	—	(439)	—	(4,118)
Equity income (loss) from real estate ventures	1,856	(1,808)	2,194	(256)
Equity (loss) income on long-term investments	(1,657)	(273)	(1,694)	633
(Loss) gain on sale of investment securities available for sale	(190)	(18)	12,839	(71)
Other, net	1,525	3,575	3,421	5,701
Income before provision for income taxes	31,069	19,132	64,964	25,603
Income tax expense	11,364	6,101	24,043	9,043
Net income	19,705	13,031	40,921	16,560
Net income attributed to non-controlling interest	(1,837)	(5,106)	(2,097)	(6,055)
Net income attributed to Vector Group Ltd.	\$17,868	\$7,925	\$38,824	\$10,505
Per basic common share:				
Net income applicable to common shares attributed to Vector Group Ltd.	\$0.15	\$0.08	\$0.34	\$0.10
Per diluted common share:				

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Net income applicable to common shares attributed to Vector Group Ltd.	\$0.15	\$0.08	\$0.34	\$0.10
Cash distributions and dividends declared per share	\$0.40	\$0.38	\$0.80	\$0.76

* Revenues and cost of sales include excise taxes of \$108,912, \$109,695, \$206,271 and \$212,108, respectively.

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

3

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

	Three Months Ended		Six Months Ended	
	June 30,	2014	June 30,	2014
	2015		2015	
Net income	\$ 19,705	\$ 13,031	\$ 40,921	\$ 16,560
Net unrealized (losses) gains on investment securities available for sale:				
Change in net unrealized (losses) gains	(9,623	) (2,886	) 6,517	3,108
Net unrealized losses (gains) reclassified into net income	190	18	(12,839	) 71
Net unrealized (losses) gains on investment securities available for sale	(9,433	) (2,868	) (6,322	) 3,179
Net unrealized gains on long-term investments accounted for under the equity method:				
Change in net unrealized gains	1,176	5,282	1,190	8,614
Net unrealized losses reclassified into net income	1,624	—	1,624	—
Net unrealized gains on long-term investments accounted for under the equity method	2,800	5,282	2,814	