VECTOR GROUP LTD
Form 10-Q/A
November 22, 2006

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

FORM 10-Q/A
(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended March 31, 2006

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

Delaware	**1-5759**	**65-0949535**
(State or other jurisdiction of incorporation or organization)	Commission File Number	(I.R.S. Employer Identification No.)

100 S.E. Second Street
Miami, Florida 33131
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.
þ Yes o No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
o Large accelerated file þ Accelerated filer o Non-accelerated filer

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

At May 9, 2006, Vector Group Ltd. had 49,921,221 shares of common stock outstanding.

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Explanatory Note

This Amendment No. 1 on Form 10-Q/A to Vector Group Ltd. s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 is being filed to reflect the restatement of our consolidated financial statements as of March 31, 2006, initially filed with the Securities and Exchange Commission (SEC) on May 10, 2006 (the Original Filing). We have not amended and do not intend to amend our previously filed Annual Report on Form 10-K for 2004 and Quarterly Reports on Form 10-Q for periods ending prior to December 31, 2005. For this reason, the consolidated financial statements, reports of independent registered certified public accounting firm and related financial information for the affected periods contained in such reports filed prior to November 14, 2006 should no longer be relied upon. We have amended our Form 10-K/A for the year ended December 31, 2005, which was filed on November 22, 2006, and our Form 10-Q for the quarterly period ended June 30, 2006, which was filed on November 22, 2006.

The restatement adjustments corrected the previous amortization method used in calculating the debt discount amortization created by the embedded derivative and beneficial conversion feature associated with our 5% variable interest senior convertible notes due 2011 which were issued in the fourth quarter of 2004 and the first half of 2005. We previously amortized the debt discount on our 5% variable interest senior convertible notes due 2011 using an erroneous amortization method that did not result in a consistent yield on the convertible debt over the debt s term.

The aggregate net effect of the restatement was to increase stockholders equity by $4.142 million as of March 31, 2006, $3.422 million as of December 31, 2005 and $336,000 as of December 31, 2004. The restatement also increased net income by $720,000 ($0.01 per diluted common share) and $731,000 ($0.02 per diluted common share) for the three months ended March 31, 2006 and 2005, respectively.

Additionally, management has determined that a control deficiency existed related to the accuracy of the debt discount amortization. Specifically, we did not maintain effective controls to ensure that the amortization of the debt discount created by the embedded derivative and beneficial conversion feature resulted in a consistent yield on our 5% variable interest senior convertible notes due 2011 over the debt s term in accordance with generally accepted accounting principles through the application of the effective interest method. Accordingly, management has determined that this control deficiency constitutes a material weakness.

For the convenience of the reader, this March 31, 2006 Amendment No. 1 to Form 10-Q sets forth the original filing in its entirety, although we are only amending and restating certain information in Items 1, 2, 3, and 4 of the Original Filing. The information contained in this Form 10-Q/A has not been updated to reflect other events occurring after May 10, 2006, the date of the Original Filing, to modify or to update those disclosures affected by subsequent events including the 5% stock dividend which was paid on September 29, 2006 to stockholders of record on September 20, 2006. Information regarding subsequent periods is contained in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 filed with the SEC on November 14, 2006 and in other filings with the SEC. This filing should be read and considered in conjunction with such filings including our Amended Form 10-K/A for the year ended December 31, 2005 filed on November 22, 2006.

In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to include current dated certificates from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2, respectively.

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

	March 31, 2006 Restated (1)	December 31, 2005 Restated (1)
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 172,151	$ 181,059
Investment securities available for sale	30,583	18,507
Accounts receivable trade	16,503	12,714
Inventories	72,318	70,395
Deferred income taxes	25,396	26,179
Other current assets	10,272	10,245
Total current assets	327,223	319,099
Property, plant and equipment, net	61,348	62,523
Long-term investments, net	7,869	7,828
Investments in non-consolidated real estate businesses	19,623	17,391
Restricted assets	6,743	6,743
Deferred income taxes	66,644	69,988
Intangible asset	107,511	107,511
Other assets	12,451	12,469
Total assets	$ 609,412	$ 603,552
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current liabilities:		
Current portion of notes payable and long-term debt	$ 22,503	$ 9,313
Accounts payable	9,552	15,394
Accrued promotional expenses	15,924	18,317
Accrued taxes payable, net	31,766	32,392
Settlement accruals	27,118	22,505
Deferred income taxes	6,640	3,891
Accrued interest	3,699	5,770
Other accrued liabilities	11,898	20,518
Total current liabilities	129,100	128,100
Notes payable, long-term debt and other obligations, less current portion	238,324	238,242
Fair value of derivatives embedded within convertible debt	38,147	39,371
Non-current employee benefits	18,425	17,235

Deferred income taxes	153,381	145,892
Other liabilities	5,652	5,646
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $1.00 per share, authorized 10,000,000 shares		
Common stock, par value $0.10 per share, authorized 100,000,000 shares, issued 53,505,062 and 53,417,525 shares and outstanding 49,917,970 and 49,849,735 shares	4,992	4,985
Additional paid-in capital	102,105	133,325
Unearned compensation		(11,681)
Accumulated deficit	(60,620)	(70,633)
Accumulated other comprehensive loss	(3,403)	(10,610)
Less: 3,587,092 and 3,567,790 shares of common stock in treasury, at cost	(16,691)	(16,320)
Total stockholders equity	26,383	29,066
Total liabilities and stockholders equity	$ 609,412	$ 603,552

(1) See Notes 1(i) and 2.

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

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

	Three Months Ended	
	March 31, 2006 Restated (1)	March 31, 2005 Restated (1)
Revenues*	$ 117,704	$ 104,173
Expenses:		
Cost of goods sold*	73,341	58,998
Operating, selling, administrative and general expenses	24,136	26,527
Operating income	20,227	18,648
Other income (expenses):		
Interest and dividend income	1,781	710
Interest expense	(8,277)	(6,342)
Change in fair value of derivatives embedded within convertible debt	1,224	828
(Loss) gain on investments, net	(30)	1,430
Gain from conversion of LTS notes		9,461
Equity in loss on operations of LTS		(299)
Equity income (loss) from non-consolidated real estate businesses	3,735	(306)
Other, net	46	(1)
Income from continuing operations before provision for income taxes and minority interests	18,706	24,129
Income tax expense	8,693	12,920
Minority interests		(2,016)
Income from continuing operations	10,013	9,193
Discontinued operations:		
Income from discontinued operations, net of minority interest and taxes		82
Gain on disposal of discontinued operations, net of minority interest and taxes		2,952
Income from discontinued operations		3,034
Net income	$ 10,013	$ 12,227

Per basic common share:				
Income from continuing operations	$	0.19	$	0.21
Income from discontinued operations	$		$	0.07
Net income applicable to common shares	$	0.19	$	0.28
Per diluted common share:				
Income from continuing operations	$	0.18	$	0.20
Income from discontinued operations	$		$	0.07
Net income applicable to common shares	$	0.18	$	0.27
Cash distributions declared per share	$	0.40	$	0.38

* Revenues and Cost of goods sold include excise taxes of $40,118 and $33,432 for the three months ended March 31, 2006 and 2005, respectively.

(1) See Note 1(i)

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Loss	Total Revised[1]
Balance, December 31, 2005, restated [1]	49,849,735	$ 4,985	$ 133,325	$ (70,633)	$ (11,681)	$ (16,320)	$ (10,610)	$ 29,066
Net income, restated				10,013				10,013
Forward contract adjustments, net of taxes							69	69
Unrealized gain on investment securities, net of taxes							7,138	7,138
Total other comprehensive income								7,207
Total comprehensive income, restated								17,220
Reclassifications in accordance with SFAS No. 123(R)			(11,681)		11,681			
Distributions on common stock			(21,541)					(21,541)
Exercise of options, net of 19,302 shares delivered to pay exercise price	68,235	7	918			(371)		554
Amortization of deferred compensation			1,084					1,084
Balance, March 31, 2006, restated	49,917,970	$ 4,992	$ 102,105	$ (60,620)	$	$ (16,691)	$ (3,403)	$ 26,383

(1) See Notes 1(i) and 2.

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

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

	Three Months Ended	
	March 31, 2006 Revised [1]	March, 31, 2005 Revised [1]
Net cash provided by operating activities	$ 1,622	$ 7,044
Cash flows from investing activities:		
Proceeds from sale or maturity of investment securities		5,420
Purchase of investment securities	(73)	(2,724)
Proceeds from sale or liquidation of long-term investments	25	
Purchase of long-term investments	(64)	(46)
Purchase of LTS stock		(1,500)
Issuance of note receivable		(1,750)
Capital expenditures	(1,446)	(968)
Discontinued operations		66,912
Net cash (used in) provided by investing activities	(1,558)	65,344
Cash flows from financing activities:		
Proceeds from debt	78	14,959
Repayments of debt	(1,648)	(1,434)
Deferred financing charges	(200)	(678)
Borrowings under revolver	130,788	91,615
Repayments on revolver	(117,003)	(91,268)
Distributions on common stock	(21,541)	(16,735)
Proceeds from exercise of Vector options and warrants	554	779
Other, net		92
Discontinued operations		(39,213)
Net cash used in financing activities	(8,972)	(41,883)
Net (decrease) increase in cash and cash equivalents	(8,908)	30,505
Cash and cash equivalents, beginning of period	181,059	110,004
Cash and cash equivalents, end of period	$ 172,151	$ 140,509

[1] See Notes 1(a) and 1(i).

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

VECTOR GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The consolidated financial statements of Vector Group Ltd. (the Company or Vector) include the accounts of VGR Holding LLC (VGR Holding), Liggett Group LLC (Liggett), Vector Tobacco Inc. (Vector Tobacco), Liggett Vector Brands Inc. (Liggett Vector Brands), New Valley LLC (New Valley) and other less significant subsidiaries. The Company owned all of the limited liability company interests of New Valley at March 31, 2006 and owned 55.1% of the common shares of its corporate predecessor, New Valley Corporation, at March 31, 2005. All significant intercompany balances and transactions have been eliminated.

Liggett is engaged in the manufacture and sale of cigarettes in the United States. Vector Tobacco is engaged in the development and marketing of low nicotine and nicotine-free cigarette products and the development of reduced risk cigarette products. New Valley is engaged in the real estate business and is seeking to acquire additional operating companies and real estate properties.

As discussed in Note 14, New Valley s real estate leasing operations, sold in February 2005, are presented as discontinued operations for the three months ended March 31, 2005. The 2005 interim condensed consolidated statement of cash flows has been revised to separately disclose the operating, investing and financing portions of the cash flows attributable to discontinued operations. These amounts had previously been reported on a combined basis as a separate caption outside operating, financing and investing activities.

The interim consolidated financial statements of the Company are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to state fairly the Company s consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2005, as filed with the Securities and Exchange Commission. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

(b) Estimates and Assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Significant estimates subject to material changes in the near term include restructuring and impairment charges, inventory valuation, deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans, embedded derivative liability, the tobacco quota buy-out, settlement accruals and litigation and defense costs. Actual results could differ from those estimates.

(c) Earnings Per Share:

Information concerning the Company s common stock has been adjusted to give effect to the 5% stock dividend paid to Company stockholders on September 29, 2005. The dividend was

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VECTOR GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts) (Continued)
Unaudited

recorded at par value of $210 in 2005 since stockholders equity was in a deficit position. In connection with the 5% stock dividend, the Company increased the number of outstanding stock options by 5% and reduced the exercise prices accordingly. All per share amounts have been presented as if the stock dividend had occurred on January 1, 2005.

In March 2004, the FASB s Emerging Issue Task Force (EITF) reached a final consensus on Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement 128 , which established standards regarding the computation of earnings per share (EPS) by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company. Earnings available to common stockholders for the period are reduced by the contingent interest and the non-cash interest expense associated with the beneficial conversion feature and embedded derivative related to the Company s convertible notes issued in 2004 and 2005. These notes, which are a participating security due to the contingent interest feature, had no impact on EPS for the three months ended March 31, 2006 and 2005, as the dividends on the common stock into which the notes are convertible increased interest expense and reduced earnings available to common stockholders so there were no unallocated earnings under EITF Issue No. 03-6.

As discussed in Note 10, the Company has stock option awards which provide for common stock dividend equivalents at the same rate as paid on the common stock with respect to the shares underlying the unexercised portion of the options. These outstanding options represent participating securities under EITF Issue No. 03-6. Because the Company accounted for the dividend equivalent rights on these options as additional compensation cost in accordance with APB Opinion No. 25, these participating securities had no impact on the calculation of basic EPS in periods ending prior to January 1, 2006. Effective with the adoption of SFAS No. 123(R) on January 1, 2006, the Company recognizes payments of the dividend equivalent rights ($1,578 for the three months ended March 31, 2006) on these options as reductions in additional paid-in capital on the Company s consolidated balance sheet. As a result, in its calculation of basic EPS for the three months ended March 31, 2006, the Company has adjusted its net income for the effect of these participating securities as follows:

Net income	$ 10,013
Income attributable to participating securities	(733)
Net income available to common stockholders	$ 9,280

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of shares outstanding. Diluted EPS includes the dilutive effect of stock options, unvested restricted stock grants and covertible debt. Basic and diluted EPS were calculated using the following shares for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31,	
	2006	2005
Weighted-average shares for basic EPS	49,220,398	43,883,341
Plus incremental shares related to stock options and warrants	1,474,234	1,849,284
Plus incremental shares related to convertible securities		5,659,057
Weighted-average shares for diluted EPS	50,694,632	51,391,682

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VECTOR GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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For the three months ended March 31, 2006 and 2005, the Company had 218,255 and 711,795 stock options, respectively, and 628,780 and 0 shares of non-vested restricted stock, respectively, that were not included in the computation of diluted EPS because the options, exercise price and the per share expense associated with the non-vested restricted stock were greater than the average market price of the common stock during the respective periods. For the three months ended March 31, 2006, 3,944,329 of stock options with dividend equivalent rights were not included in the computation of diluted EPS. The two issues of the Company s convertible debt were anti-dilutive for the three months ended March 31, 2006 and the Company s 5% Variable Interest Senior Convertible Notes due 2011 were anti-dilutive for the three months ended March 31, 2005 and were not included in the computation of diluted EPS for the aforementioned respective periods. As a result of the dilutive nature of the Company s 6.25% Convertible Subordinated Notes due 2008 for the three months ended March 31, 2005, the Company has adjusted its net income for the effect of these convertible securities for purposes of calculating diluted EPS as follows:

Net income	$ 12,227
Expense attributable to 6.25% Convertible Subordinated Notes due 2008	1,442
Net income for diluted EPS	$ 13,669

(d) Share-Based Payments

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment using the modified prospective method with guidance provided by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Under the modified prospective method, the share-based compensation cost recognized beginning January 1, 2006 includes compensation cost for (i) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value originally estimated in accordance with the provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and (ii) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation cost under SFAS No. 123(R) is recognized ratably using the straight-line attribution method over the expected vesting period. In addition, pursuant to SFAS No. 123(R), the Company is required to estimate the amount of expected forfeitures when calculating the compensation costs, instead of accounting for forfeitures as incurred, which was the Company s previous method. As of January 1, 2006, the cumulative effect of adopting the estimated forfeiture method was not significant. Prior periods are not restated under this transition method (see Note 10).

(e) Comprehensive Income:

Other comprehensive income is a component of stockholders equity and includes such items as the unrealized gains and losses on investment securities available for sale, forward foreign contracts, minimum pension liability adjustments and, prior to December 9, 2005, the Company s proportionate interest in New Valley s capital transactions. Total comprehensive income was $17,220 for the three months ended March 31, 2006 and $12,210 for the three months ended March 31, 2005.

(f) Financial Instruments:

As required by SFAS No. 133, derivatives embedded within the Company s convertible debt are recognized on the Company s balance sheet and are stated at estimated fair value as determined by an independent third party at each reporting period. Changes in the fair value of the embedded derivatives are reflected quarterly as an adjustment to interest expense.

The Company uses forward foreign exchange contracts to mitigate its exposure to changes in exchange rates relating to purchases of equipment from third parties. The primary currency to which the Company is exposed is the euro. A substantial portion of the Company s foreign

VECTOR GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts) (Continued)
Unaudited

exchange contracts is effective as hedges. The fair value of forward foreign exchange contracts