VECTOR GROUP LTD
Form S-3/A
December 15, 2006

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As filed with the Securities and Exchange Commission on December 15, 2006
Registration No. 333-137093

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2 to
FORM S-3
REGISTRATION STATEMENT
Under
The Securities Act of 1933

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

Delaware	**65-0949535**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

100 S.E. Second Street
Miami, Florida 33131
(305) 579-8000
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Richard J. Lampen
Executive Vice President
Vector Group Ltd.
100 S.E. Second Street
Miami, Florida 33131
(305) 579-8000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Mark J. Mihanovic, Esq.
McDermott Will & Emery LLP
2049 Century Park East, 34th Floor
Los Angeles, California 90067
(310) 277-4110

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Security**	**Aggregate Offering Price**	**Amount of Registration Fee**
$110,000,000 3 7/8% Variable Interest Senior Convertible Debentures due June 15, 2026	$110,000,000[1]	100%[2]	$110,000,000[1]	$11,770[5]
Common Stock, $.10 par value	5,371,094[3]			[4]

(1) Represents the aggregate principal amount of the debentures issued by the Registrant.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 and exclusive of accrued interest and distributions, if any.

(3) Represents 5,371,094 shares of

common stock issuable upon conversion of the debentures at the conversion price of $20.48 per share of common stock. Pursuant to Rule 416 under the Securities Act, such number of shares of common stock registered hereby shall include an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.

(4) Pursuant to Rule 457(i), no additional filing fee is payable with respect to the shares of common stock issuable upon conversion of the debentures because no additional consideration will be received in connection with the exercise of the conversion privilege.

(5) Previously paid on September 1, 2006.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The holders may not sell these securities until the registration statement relating to these securities that has been filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated December 15, 2006
$110,000,000
3 7/8% Variable Interest Senior Convertible Debentures due June 15, 2026
and the common stock issuable upon conversion of the Debentures

This prospectus relates to the resale of up to 5,371,094 of our shares of common stock by certain selling securityholders. The shares that may be resold pursuant to this prospectus include 5,371,094 shares of common stock issuable upon conversion of $110,000,000 aggregate principal amount of our convertible debentures (the debentures).

We issued the debentures offered by this prospectus in a private placement in June 2006. This prospectus will be used by selling securityholders to resell their debentures and the common stock issuable upon conversion of their debentures. We will not receive any proceeds from this offering.

The debentures are convertible by securityholders prior to maturity (unless previously redeemed or repurchased pursuant to their terms) into common stock at a conversion rate of 48.828 shares per each $1,000 principal amount of debentures, subject to adjustment if certain events occur. This is equivalent to a conversion price of $20.48 per share. We will pay interest on the debentures on each March 15, June 15, September 15, and December 15 of each year the debentures are outstanding, beginning on September 15, 2006. The debentures accrue interest at a rate of 3 7/8% per year, with an additional amount of interest payable on the debentures on each interest payment date based on the amount of cash dividends actually paid by us per share on our common stock during the prior three-month period ending on the record date for such interest payment multiplied by the number of shares of our common stock into which the debentures are convertible on such record date (together, the Total Interest). Notwithstanding the foregoing, however, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 5 3/4% per year.

The debentures will mature on June 15, 2026, unless earlier converted, redeemed or repurchased. We may not redeem any debentures before June 15, 2012. Beginning on June 15, 2012, we may redeem the debentures at any time or from time to time, in whole or in part. We will give not less than 30 nor more than 60 days notice to the debenture holders of any redemption. Upon any redemption, we will pay a redemption price equal to 100% of the principal amount of the debentures to be redeemed, plus accrued and unpaid interest, and registration default payments, if any, up to, but excluding, the redemption date.

We must redeem 10% of the total aggregate principal amount of the debentures outstanding on June 15, 2011. In addition to such redemption amount, we will also redeem on June 15, 2011 and at the end of each interest accrual period thereafter, such amounts on a pro-rata basis, if any, of the debentures necessary to prevent the debentures from being treated as an Applicable High Yield Discount Obligation under the Internal Revenue Code.

The holders of the debentures may require us to repurchase all or any portion of their debentures for cash on June 15, 2012, June 15, 2016 and June 15, 2021, at a repurchase price equal to 100% of their principal amount plus accrued and unpaid interest, and registration default payments, if any, up to but excluding the repurchase date. See Description of Debentures Mandatory Redemption and Repurchase at the Option of the Holders.

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In the event of a fundamental change, as described in this prospectus, the holders of the debentures may require us to repurchase any debentures held by them. In addition to the repurchase price, we will pay the make-whole premium described in this prospectus in cash and/or common stock to holders of debentures who require us to repurchase their debentures in connection with such repurchase event.

Our common stock is traded on the New York Stock Exchange under the symbol VGR . On December , 2006, the closing price of our common stock on the New York Stock Exchange was $ ___ per share.

The securities offered by this prospectus involve a high degree of risk. See Risk Factors beginning on page 13.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated December __, 2006

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (SEC) using a shelf registration process. Under this shelf process, the selling stockholders may from time to time sell the shares of Vector Group Ltd. common stock described in this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the selling stockholders have not, authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where it is lawful to do so. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained or incorporated by reference in this prospectus or any accompanying prospectus supplement is correct as of any time subsequent to the date of such information.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and file reports, proxy statements and other information with the SEC. You can read and copy all of this information at the Public Reference Room maintained by the SEC at its principal office at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site that contains reports, proxy statements and other information regarding issuers, like us, that file such material electronically with the SEC. The address of this web site is: http://www.sec.gov. You also can inspect such reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Our common stock is listed on the New York Stock Exchange.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933, as amended (the Securities Act), with respect to the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement. We have omitted parts of the registration statement as permitted by the rules and regulations of the SEC. Statements contained in or incorporated by reference into this prospectus as to the contents of any contract or other document are not necessarily complete. You should refer to a copy of each contract or document filed as an exhibit to the registration statement or incorporated by reference into this prospectus for complete information. Copies of the registration statement, including exhibits and information incorporated by reference into this prospectus, may be inspected without charge at the SEC s Public Reference Room or website.

INCORPORATED DOCUMENTS

The SEC allows us to incorporate by reference into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC.

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The information incorporated is considered part of this prospectus, except for any information that is superseded by information that is included in this document or in a later filed document.

This prospectus incorporates by reference the documents listed below and any filings made by us with the SEC pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934 between the date of this prospectus and the termination of this offering. Any report, document or portion thereof that is furnished to, but not filed with, the SEC is not incorporated by reference.

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the SEC on March 17, 2006 (as amended by Form 10-K/A, filed with the SEC on November 24, 2006);

Our Quarterly Reports on Form 10-Q for the quarter ended September 30, 2006, filed with the SEC on November 14, 2006; for the quarter ended March 31, 2006, filed with the SEC on May 10, 2006 (as amended by Form 10-Q/A, filed with the SEC on November 22, 2006); and for the quarter ended June 30, 2006, filed with the SEC on August 9, 2006 (as amended by Form 10-Q/A, filed with the SEC on November 22, 2006);

Our Current Reports on Form 8-K, filed with the SEC on January 3, 2006, January 27, 2006, February 6, 2006, March 6, 2006, April 3, 2006, June 8, 2006, June 27, 2006, June 30, 2006, July 13, 2006 (as amended by Form 8-K/A, filed with the SEC on November 27, 2006), July 17, 2006, July 24, 2006, October 19, 2006 (as amended by Form 8-K/A, filed with the SEC on November 27, 2006), November 13, 2006, and November 22, 2006, (On June 27, 2006, we filed with the SEC a Current Report on Form 8-K, which contained revised items 6, 7 and 8 of our amended Annual Report on Form 10-K, where appropriate, to reflect the retrospective application of a new accounting standard that we were required to adopt as of January 1, 2006. All of the preceding references in this paragraph to our amended Annual Report on Form 10-K are intended to refer to such amended Form 10-K, as so revised by the Form 8-K. Please see the Form 8-K for a detailed discussion of the policy change. The Form 8-K filed on June 27, 2006 was amended by Form 8-K/A, filed with the SEC on November 28, 2006.); and

The description of our common stock set forth in our prospectus dated June 3, 2005 filed on Form 424B3 on June 3, 2005.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superceded for purposes of this prospectus to the extent that a statement contained herein or in any other document subsequently filed which is also incorporated by reference herein modifies or supercedes such statement. Any such statement so modified or superceded shall not be deemed, except as so modified, to constitute a part of this prospectus.

You can obtain any of the documents incorporated by reference in this prospectus from us without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference in the document. You can obtain documents incorporated by reference by requesting them from us, either orally or in writing. Requests for such documents should be directed to:

Vector Group Ltd.
Attention: Investor Relations
100 S.E. Second Street
32nd Floor
Miami, Florida 33131
(305) 579-8000

You should rely only on the information provided or incorporated by reference in this prospectus or a prospectus supplement or amendment. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume the information in this prospectus or a prospectus supplement or amendment is accurate as of any date other than the date on the front of the documents.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, this prospectus 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;
- new legislation;
- cash flows;
- operating performance;
- litigation;
- impairment charges and cost savings associated with restructurings of our tobacco operations; and
- related industry developments (including trends affecting our business, financial condition and results of operations).

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

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

- general economic and market conditions and any changes therein, due to acts of war and terrorism or otherwise;
- governmental regulation and policies;
- effects of industry competition;
- impact of business combinations, including acquisitions and divestitures, both internally for us and externally in the tobacco industry;
- impact of restructurings on our tobacco business and our ability to achieve any increases in profitability estimated to occur as a result of these restructurings;
- impact of new legislation on our competitors payment obligations, results of operations and product costs, i.e., the impact of recent federal legislation eliminating the federal tobacco quota system;
- uncertainty related to litigation and potential additional payment obligations for us under the Master Settlement Agreement and other settlement agreements with the states; and
- risks inherent in our new product development initiatives.

Further information on risks and uncertainties specific to our business include the risk factors discussed in Risk Factors and in Management s Discussion and Analysis of Financial Condition and

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Results of Operations incorporated by reference into this prospectus.

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.

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THE OFFERING

The following is a brief summary of some of the terms of the debentures offered for resale in this prospectus. For a more complete description of the terms of the debentures, see the Description of Debentures section in this prospectus.

Issuer	Vector Group Ltd.
Securities Offered	$110,000,000 in aggregate principal amount of 3 7/8% Variable Interest Senior Convertible Debentures due 2026. This prospectus also relates to shares of our common stock issuable upon conversion of the debentures.
Maturity	June 15, 2026.
Interest	Annual Rate: 3 7/8%, with an additional amount of interest payable on each interest payment date based on the amount of cash dividends per share paid by us on our common stock during the prior three-month period ending on the record date for such interest payment multiplied by the total number of shares of our common stock into which the debentures are convertible on such record date (together, the Total Interest). Notwithstanding the foregoing, however, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 5 3/4% per year. Payment Frequency: Every quarter on March 15, June 15, September 15 and December 15. First Payment: September 15, 2006.
Optional Redemption	We may not redeem any debentures before June 15, 2012. Beginning on June 15, 2012, we may redeem some or all of the debentures at any time or from time to time. We will give not less than 30 nor more than 60 days notice of any redemption. Upon any redemption, we will pay a redemption price equal to 100% of the principal amount of the debentures to be redeemed, plus accrued and unpaid interest, and registration default payments, if any, up to, but excluding, the redemption date.
Conversion Rights	The debentures are convertible at the holders option at any time following the date of issuance until the maturity date, unless previously redeemed or repurchased pursuant to their terms, into our common stock at a conversion price of $20.48 per share of common stock, subject to adjustment for various events. The conversion ratio is 48.828 shares of common stock per $1,000 principal amount of debentures.
Mandatory Redemption	We must redeem 10.0% of the total aggregate principal amount of the debentures outstanding on June 15, 2011. We will also redeem on June 15, 2011 and at the end of

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	each interest accrual period thereafter, such amounts on a pro-rata basis, if any, of the debentures necessary to prevent the debentures from being treated as an Applicable High Yield Discount Obligation within the meaning of section 163(i)(l) of the Internal Revenue Code of 1986, as amended. You may require us to repurchase all or any portion of your debentures for cash on June 15, 2012, June 15, 2016 and June 15, 2021, at a repurchase price equal to 100% of their principal amount plus accrued and unpaid interest, and registration default payments, if any, up to but excluding the repurchase date. See Description of Debentures Mandatory Redemption and Repurchase at the Option of the Holders.
Repurchase at Option of the Holders Upon a Fundamental Change	If a fundamental change (as defined in Description of Debentures Repurchase of Debentures at the Option of the Holders Upon a Fundamental Change) occurs, subject to certain conditions and restrictions, we will be required to repurchase the debentures, at the option of the holders thereof, at 100% of their principal amount, plus accrued and unpaid interest, if any, plus, under certain circumstances, the make-whole premium described in this prospectus in cash and/or common stock to holders of debentures who require us to repurchase their debentures in connection with such repurchase event.
Ranking	The debentures are our senior unsecured obligations and rank on a parity in right of payment with all of our existing and future senior unsecured indebtedness. The debentures will effectively rank junior to any future secured indebtedness we may incur and junior to liabilities of our subsidiaries. As of September 30, 2006, these debentures would have been effectively junior to approximately $75.6 million of indebtedness of our subsidiaries.
Use of Proceeds	We will not receive any of the proceeds from the resale by the selling securityholders of the debentures or the common stock issuable upon conversion of the debentures.
Events of Default	The following will be events of default under the indenture governing the debentures: we fail to deliver within 30 business days the required number of shares of common stock issuable upon conversion, we fail for 30 business days to reserve shares of common stock issuable upon conversion, we fail to pay interest or registration default payments when due and that failure continues for five days, we fail to pay the principal and any premium on the debentures when due,

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	we fail to perform any other covenant in the indenture or the debentures and that failure continues for 60 days after notice to us by the trustee or the holders of a least 25% in aggregate principal amount of the outstanding debentures, subject to certain exceptions, we fail to pay when due the principal of, or interest on, any indebtedness for money borrowed by us or any of our subsidiaries in excess of $10.0 million if such indebtedness has been accelerated and such acceleration is not annulled within 30 days after written notice to us by the trustee or the holders of at least 25% in the aggregate principal amount of the outstanding debentures, final unsatisfied judgments not covered by insurance aggregating in excess of $10.0 million, at any one time, are rendered against us or any significant subsidiary and are not stayed, bonded or discharged within 60 days, and certain events of bankruptcy, insolvency or reorganization with respect to us or any of our significant subsidiaries specified in the indenture. See Description of Debentures Events of Default and Remedies.
Registration Rights	Pursuant to a registration rights agreement, we have filed with the SEC a shelf registration statement, of which this prospectus is a part, with respect to the debentures and the common stock issuable upon conversion of the debentures. See Description of Debentures Registration Rights.
Trading Market	The debentures are a new issue of securities with no established trading market. We do not intend to list the debentures on any securities exchange or automated quotation system. We expect the debentures to be eligible for trading in the PORTAL Market of the NASD, Inc. Our common stock trades on the New York Stock Exchange under the symbol VGR .
Certain United States Federal Income Tax Consequences	We and each holder of the debentures agree in the indenture, for United States federal income tax purposes, to treat the debentures as contingent payment debt instruments and to be bound by our application of the

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U.S. Treasury regulations that govern contingent payment debt instruments, including our determination that the rate at which interest will be deemed to accrue for United States federal income tax purposes will be 10.75% compounded quarter-annually, which is the rate comparable to the rate at which we would borrow on a non-contingent, non-convertible borrowing with terms and conditions otherwise comparable to the debentures. Accordingly, each holder will be required to accrue interest on a constant yield to maturity basis at that rate (subject to certain adjustments), with the result that a U.S. holder (as defined below under Certain United States Federal Income Tax Consequences) may recognize taxable income significantly in excess of cash received while the debentures are outstanding. In addition, a U.S. holder will recognize ordinary income upon a sale, exchange, conversion, redemption or repurchase of the debenture at a gain. In computing such gain, the amount realized by a U.S. holder will include, in the case of a conversion, the amount of cash and the fair market value of shares received. However, the proper United States federal income tax treatment of a holder of a debenture is uncertain in various respects. If the agreed upon treatment was successfully challenged by the Internal Revenue Service, it might be determined that, among other differences, a holder should have accrued interest income at a lower rate, should not have recognized income or gain upon the conversion, and should not have recognized ordinary income upon a taxable disposition of its debentures. See Certain United States Federal Income Tax Consequences.

We intend to take the position that payments of contingent interest to non-U.S. holders will not be exempt from the 30% U.S. withholding tax and, therefore, we intend to withhold on such payments of contingent interest at a rate of 30% unless such holder is eligible for a reduced rate or an exemption under an applicable U.S. income tax treaty or such interest is effectively connected with the holder s conduct of a U.S. trade or business. Payments of noncontingent interest and cash or common stock delivered upon the conversion, redemption, or retirement of a debenture will generally not be subject to such withholding if certain conditions are satisfied by the holder, as explained in detail below under Certain United States Federal Income Tax Consequences.

HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE TAX TREATMENT OF THE DEBENTURES AND WHETHER A PURCHASE OF THE DEBENTURES IS ADVISABLE IN LIGHT OF THE TAX TREATMENT OF THE DEBENTURES AND THE INVESTOR S PARTICULAR TAX SITUATION.

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Risk Factors	Investment in the debentures and the underlying common stock involves a high degree of risk. Therefore, you should carefully consider all information in this prospectus and in particular the matters set forth in the Risk Factors section beginning on page 13.

The Common Stock

This prospectus covers, and the registration statement of which it is a part registers, 5,371,094 shares of our common stock, par value $0.10. As of December 14, 2006, we had approximately 56,891,600 shares of our common stock outstanding. Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders.

Our common stock is listed on the NYSE under the symbol VGR .

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RISK FACTORS

Before you invest in the debentures, you should be aware that we are subject to various risks, including the ones listed below, the occurrence of any of which could materially adversely affect our business, financial condition and results of operations. You should carefully consider these risk factors, as well as the other information included or incorporated by reference in this Offering Circular, in evaluating an investment in our securities. Although the risks identified below represent those we believe are the most significant risks at the present time, additional risks of which we are currently unaware or that we currently deem immaterial could also materially impair our business operations.

Risks Relating to Our Business

We and our subsidiaries have a substantial amount of indebtedness.

We and our subsidiaries have significant indebtedness and debt service obligations. At September 30, 2006, we and our subsidiaries had total outstanding indebtedness (including embedded derivative liability and beneficial conversion feature related to convertible notes) of $255.2 million. In addition, subject to the terms of any future agreements, we and our subsidiaries will be able to incur additional indebtedness in the future. There is a risk that we will not be able to generate sufficient funds to repay our debt. If we cannot service our fixed charges, it would have a material adverse effect on our business and results of operations.

We are a holding company and depend on cash payments from our subsidiaries, which are subject to contractual and other restrictions, in order to service our debt and to pay dividends on our common stock.

We are a holding company and have no operations of our own. We hold our interests in our various businesses through our wholly-owned subsidiaries, VGR Holding and New Valley. In addition to our own cash resources, our ability to pay interest on our convertible debentures and to pay dividends on our common stock depends on the ability of VGR Holding and New Valley to make cash available to us. VGR Holding s ability to pay dividends to us depends primarily on the ability of Liggett, its wholly-owned subsidiary, to generate cash and make it available to VGR Holding. Liggett s revolving credit agreement permits Liggett to pay cash dividends to VGR Holding only if Liggett s borrowing availability exceeds $5.0 million for the 30 days prior to payment of the dividend and immediately after giving effect to the dividend, and so long as no event of default has occurred under the agreement, including Liggett s compliance with the covenants in the credit facility, including an adjusted net worth and working capital requirement.

Our receipt of cash payments, as dividends or otherwise, from our subsidiaries is an important source of our liquidity and capital resources. If we do not have sufficient cash resources of our own and do not receive payments from our subsidiaries in an amount sufficient to repay our debts and to pay dividends on our common stock, we must obtain additional funds from other sources. There is a risk that we will not be able to obtain additional funds at all or on terms acceptable to us. Our inability to service these obligations and to continue to pay dividends on our common stock would significantly harm us and the value of our common stock.

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Liggett faces intense competition in the domestic tobacco industry.

Liggett is considerably smaller and has fewer resources than its major competitors and, as a result, has a more limited ability to respond to market developments. Management Science Associates data indicate that the three largest cigarette manufacturers controlled approximately 86.1% of the United States cigarette market during 2005. Philip Morris is the largest and most profitable manufacturer in the market, and its profits are derived principally from its sale of premium cigarettes. Philip Morris had approximately 62.7% of the premium segment and 48.7% of the total domestic market during 2005. During 2005, all of Liggett s sales were in the discount segment, and its share of the total domestic cigarette market was 2.2%. Philip Morris and RJR Tobacco (which is now part of Reynolds American), the two largest cigarette manufacturers, have historically, because of their dominant market share, been able to determine cigarette prices for the various pricing tiers within the industry. Market pressures have historically caused the other cigarette manufacturers to bring their prices into line with the levels established by these two major manufacturers.

In July 2004, RJR Tobacco and Brown & Williamson, the second and third largest cigarette manufacturers, completed the combination of their United States tobacco businesses to create Reynolds American. This transaction has further consolidated the dominance of the domestic cigarette market by Philip Morris and Reynolds American, who had a combined market share of approximately 76.9% at December 31, 2005. This concentration of United States market share could make it more difficult for Liggett and Vector Tobacco to compete for shelf space in retail outlets and could impact price competition in the market, either of which could have a material adverse affect on their sales volume, operating income and cash flows, which in turn could negatively affect the value of our common stock.

Liggett s business is highly dependent on the discount cigarette segment.

Liggett depends more on sales in the discount cigarette segment of the market, relative to the full-price premium segment, than its major competitors. All of Liggett s unit volume in 2005 and 2004 was generated in the discount segment. The discount segment is highly competitive, with consumers having less brand loyalty and placing greater emphasis on price. While the three major manufacturers all compete with Liggett in the discount segment of the market, the strongest competition for market share has recently come from a group of small manufacturers and importers, most of which sell low quality, deep discount cigarettes. While Liggett s share of the discount market increased to 7.5% in 2005 from 7.4% in 2004 and 7.3% in 2003, Management Science Associates data indicate that the discount market share of these other smaller manufacturers and importers was approximately 38.0% in 2005, 39.4% in 2004 and 37.8% in 2003. If pricing in the discount market continues to be impacted by these smaller manufacturers and importers, margins in Liggett s only current market segment could be negatively affected, which in turn could negatively affect the value of our common stock.

Liggett s market share is susceptible to decline.

In years prior to 2000, Liggett suffered a substantial decline in unit sales and associated market share. Liggett s unit sales and market share increased during each of 2000, 2001 and 2002, and its market share increased in 2003 while its unit sales declined. During 2004 and 2005, Liggett s unit sales and market share declined compared to the prior year. This earlier market share erosion resulted in part from Liggett s highly leveraged capital structure that existed until December 1998 and its limited ability to match other competitors wholesale and retail trade programs, obtain retail shelf space for its products and advertise its brands. The decline in recent years also resulted from adverse developments in the tobacco industry, intense competition and changes in consumer preferences. According to Management Science Associates data, Liggett s overall domestic market share during 2005 was 2.2% compared to 2.3% during 2004 and 2.4% during 2003. Liggett s share of the premium segment was 0.2% in 2003, and its share of

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the discount segment during 2005 was 7.5%, up from 7.4% in 2004 and 7.3% in 2003. If Liggett s market share continues to decline, Liggett s sales volume, operating income and cash flows could be materially adversely affected, which in turn could negatively affect the value of our common stock.

The domestic cigarette industry has experienced declining unit sales in recent periods.

Industry-wide shipments of cigarettes in the United States have been generally declining for a number of years, with published industry sources estimating that domestic industry-wide shipments decreased by approximately 3.4% during 2005. According to Management Science Associates data, domestic industry-wide shipments decreased by 1.7% in 2004 compared to 2003. We believe that industry-wide shipments of cigarettes in the United States will generally continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking, and a wide variety of federal, state and local laws limiting smoking in restaurants, bars and other public places, as well as federal and state excise tax increases and settlement-related expenses which have contributed to high cigarette price levels in recent years. If this decline in industry-wide shipments continues and Liggett is unable to capture market share from its competitors, or if the industry as a whole is unable to offset the decline in unit sales with price increases, Liggett s sales volume, operating income and cash flows could be materially adversely affected, which in turn could negatively affect the value of our common stock.

Litigation and regulation will continue to harm the tobacco industry.

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. As of September 30, 2006, there were approximately 142 individual suits, 11 purported class actions and nine governmental and other third-party payor health care reimbursement actions pending in the United States in which Liggett was a named defendant. A civil lawsuit was filed by the United States federal government seeking disgorgement of approximately $289 billion from various cigarette manufacturers, including Liggett. A federal appellate court ruled in February 2005 that disgorgement is not an available remedy in the case. Trial of the case concluded in June 2005. In June 2005, the government sought to restructure its potential remedies and filed a proposed Final Judgment and Order requesting: (1) $14 billion for a cessation and counter marketing program; (2) so-called corrective statements ; (3) disclosures; and (4) enjoined activities. In August 2006, the trial court entered a Final Judgment and Remedial Order against each of the cigarette manufacturing defendants, except Liggett. The Final Judgment, among other things, ordered the following relief against the non-Liggett defendants:

the defendants are enjoined from committing any act of racketeering concerning the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States;

the defendants are enjoined from making any material false, misleading, or deceptive statement or representation concerning cigarettes that persuades people to purchase cigarettes;

the defendants are permanently enjoined from utilizing lights , low tar , ultra lights , mild , or natural descr or conveying any other express or implied health messages in connection with the marketing or sale of cigarettes as of January 1, 2007;

the defendants must make corrective statements on their websites, and in television and print media advertisements, and certain defendants must affix corrective statements as inserts to cigarette packaging and point of sale materials, concerning:

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(i) the adverse health effects of smoking;

(ii) the addictiveness of smoking and nicotine;

(iii) the lack of any significant health benefit from smoking lights , low tar , ultra l lights , mild or natural cigarettes;

(iv) the manipulation of cigarette design and composition to ensure optimum nicotine delivery; and

(v) the adverse health effects of exposure to secondhand smoke;

the defendants must maintain internet document websites until 2016 with access to smoking and health related documents;

the defendants must disclose all disaggregated marketing data to the government in the same form and on the same schedule as they provide such information to the Federal Trade Commission (FTC);

the defendants are not permitted to sell or otherwise transfer any of their cigarette brands, product formulas or businesses to any person or entity for domestic use without a court order, and unless the acquiring person or entity will be bound by the terms of the Final Judgment; and

the defendants must pay the appropriate costs of the government in prosecuting the action, in an amount to be determined by the trial court.

No monetary damages were awarded other than the government s costs. The U.S. Court of Appeals for the District of Columbia has stayed the Final Judgement pending appeal. It is unclear what impact, if any, the Final Judgment will have on the cigarette industry as a whole. While Liggett was excluded from the Final Judgment, to the extent that it leads to a decline in industry-wide shipments of cigarettes in the United States, Liggett s sales volume, operating income and cash flows could be materially adversely affected, which in turn could negatively affect the value of our common stock.

In one of the other cases pending against Liggett, in 2000, an action against cigarette manufacturers involving approximately 975 named individual plaintiffs was consolidated for trial on some common issues before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. In January 2002, the court severed Liggett from the trial of the consolidated action. Two purported class actions have been certified in state court in Kansas and New Mexico alleging antitrust violations. As new cases are commenced, the costs associated with defending these cases and the risks relating to the inherent unpredictability of litigation continue to increase.

Class action suits have been filed in a number of states against individual cigarette manufacturers, alleging, among other things, that the use of the terms light and ultralight constitutes unfair and deceptive trade practices. One such suit (*Schwab v. Philip Morris, et al.*), pending in federal court in New York against the cigarette manufacturers, seeks to create a nationwide class of light cigarette smokers and includes Liggett as a defendant. The action asserts claims under the Racketeer Influenced and Corrupt Organizations Act (RICO). The proposed class is seeking as much as $200 billion in damages, which could be trebled under RICO. In November 2005, the court ruled that if the class is certified, the plaintiffs would be permitted to calculate damages on an aggregate basis and use fluid recovery theories to allocate them among class members. Fluid recovery would permit potential damages to be paid out in ways other than merely giving cash directly to plaintiffs, such as establishing a pool of money that could be used for public purposes.

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On September 25, 2006, the court granted plaintiffs motion for class certification. On November 20, 2006, the United States Court of Appeals for the Second Circuit issued a formal stay of the case, pending appeal.

There are currently four individual smoking-related actions pending where Liggett is the only tobacco company defendant. In April 2004, in one of these cases, a jury in a Florida state court action awarded compensatory damages of $0.54 million against Liggett. In addition, plaintiff s counsel was awarded legal fees of $0.75 million. Liggett has appealed both the verdict and the award of legal fees. In March 2005, in another case in Florida state court in which Liggett is the only defendant, the court granted Liggett s motion for summary judgment. In June 2006, a Florida intermediate appellate court reversed the trial court s decision and remanded the case for further proceedings. Trial has been scheduled in Missouri state court for May 2007 in another case.

In May 2003, a Florida intermediate appellate court overturned a $790.0 million punitive damages award against Liggett and decertified the *Engle* smoking and health class action. In July 2006, the Florida Supreme Court affirmed in part and reversed in part the May 2003 intermediate appellate court decision. Although the Florida Supreme Court affirmed the decision to decertify the class and the order vacating the punitive damages award, the court upheld certain of the trial court s Phase I determinations (including that: (i) smoking causes lung cancer, among other diseases; (ii) nicotine in cigarettes is addictive; (iii) defendants placed cigarettes on the market that were defective and unreasonably dangerous; (iv) the defendants concealed material information; (v) the defendants agreed to misrepresent information relating to the health effects of cigarettes with the intention that the public would rely on this information to its detriment; (vi) all defendants sold or supplied cigarettes that were defective; and (vii) all defendants were negligent) and allowed plaintiffs to proceed to trial on individual liability issues and compensatory and punitive damage issues, provided they commence their individual lawsuits within one year from the court s mandate. The defendant tobacco companies have moved for reconsideration and/or clarification of the decision. If the Florida Supreme Court s decision is allowed to stand, it could result in the filing of a large number of individual personal injury cases in Florida which could have a material adverse effect on us. In November 2000, Liggett filed the $3.45 million bond required under the bonding statute enacted in 2000 by the Florida legislature which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. In May 2001, Liggett reached an agreement with the *Engle* class, which provided assurance to Liggett that the stay of execution, in effect under the Florida bonding statute, would not be lifted or limited at any point until completion of all appeals, including to the United States Supreme Court. As required by the agreement, Liggett paid $6.27 million into an escrow account to be held for the benefit of the *Engle* class, and released, along with Liggett s existing $3.45 million statutory bond, to the court for the benefit of the class upon completion of the appeals process, regardless of the outcome of the appeal. In light of the Florida Supreme Court s July 2006 decision decertifying the *Engle* class, entitlement to the escrowed monies will have to be determined by the court. In June 2002, the jury in *Lukacs v. RJ Reynolds Tobacco Company*, an individual case brought under the third phase of the *Engle* case, awarded $37.5 million (subsequently reduced by the court to $24.86 million) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. Entry of the final judgment in *Lukacs*, along with the plaintiff s motion to tax costs and attorneys fees, was stayed pending appellate review of the *Engle* final judgment. Liggett may be required to bond the amount of the judgment against it to perfect its appeal. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the *Engle* case. Liggett may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so. We cannot predict the cash requirements related to any future settlements and

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judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met.

In recent years, there have been a number of proposed restrictive regulatory actions from various federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration (the FDA). There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. We are not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any smoking-related litigation, which in turn could negatively affect the value of our common stock.

Liggett may have additional payment obligations under the Master Settlement Agreement and its other settlement agreements with the states.

In October 2004, Liggett was notified that all participating manufacturers payment obligations under the Master Settlement Agreement, dating from the agreement s execution in late 1998, were recalculated utilizing net unit amounts, rather than gross unit amounts (which have been utilized since 1999). The change in the method of calculation could, among other things, require additional payments by Liggett under the Master Settlement Agreement of approximately $12.3 million for the periods 2001 through 2005, and require Liggett to pay an additional amount of approximately $2.8 million in 2006 and in future periods by lowering Liggett s market share exemption under the Master Settlement Agreement. Liggett has objected to this retroactive change and has disputed the change in methodology. No amounts have been accrued in our consolidated financial statements for any potential liability relating to the gross versus net dispute.

On March 30, 2005, the Independent Auditor under the Master Settlement Agreement calculated $28.7 million in Master Settlement Agreement payments for Liggett s 2004 sales. On April 15, 2005, Liggett paid $11.7 million of this amount and, in accordance with its rights under the Master Settlement Agreement, disputed the balance of $17.0 million. Of the disputed amount, Liggett paid $9.3 million into the disputed payments account under the Master Settlement Agreement and withheld from payment $7.7 million. The $9.3 million, which has since been released to the settling states although Liggett continues to dispute that this money is owed, represents the amount claimed by Liggett as an adjustment to its 2003 payment obligation under the Master Settlement Agreement for market share loss to non-participating manufacturers, which is known as the NPM Adjustment. The $7.7 million withheld from payment represents $5.3 million claimed as an adjustment to Liggett s 2004 Master Settlement Agreement obligation for the NPM Adjustment and $2.4 million relating to the retroactive change, discussed above, to the method for computing payment obligations under the Master Settlement Agreement which Liggett contends, among other things, is not in accordance with the Master Settlement Agreement. Liggett withheld approximately $1.6 million from its payment due under the Master Settlement Agreement on April 15, 2006 which Liggett claims as the NPM Adjustment to its 2005 payment obligation and $2.6 million relating to the gross vs. net dispute discussed above. The following amounts have not been accrued in our consolidated financial statements as they relate to Liggett s and Vector Tobacco s claim for an NPM Adjustment: $6.5 million for 2003, $3.8 million for 2004 and approximately $0.8 million for 2005.

In 2004, the Attorneys General for each of Florida, Mississippi and Texas advised Liggett that they believed that Liggett has failed to make all required payments under the respective settlement agreements with these states for the period 1998 through 2003 and that additional payments may be due

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for 2004 and subsequent years. Liggett believes these allegations are without merit, based, among other things, on the language of the most favored nation provisions of the settlement agreements. In December 2004, the State of Florida offered to settle all amounts allegedly owed by Liggett for the period through 2003 for the sum of $13.5 million. In March 2005, the State of Florida reaffirmed its December 2004 offer to settle and provided Liggett with a 60 day notice to cure the alleged defaults. Liggett has recently offered Florida $2.5 million in a lump sum to settle all alleged obligations through December 31, 2006 and $100,000 per year thereafter, to resolve all alleged future obligations under the settlement agreement. There can be no assurance that a settlement will be reached. In November 2004, the State of Mississippi offered to settle all amounts allegedly owed by Liggett for the period through 2003 for the sum of $6.5 million. In April 2005, the State of Mississippi reaffirmed its November 2004 offer to settle and provided Liggett with a 60 day notice to cure the alleged defaults. No specific monetary demand has been made by the State of Texas. Liggett has met with representatives of Mississippi and Texas to discuss the issues relating to the alleged defaults, although no resolution has been reached.

Except for $2.0 million accrued for the year ended December 31, 2005 and an additional $500,000 accrued during the third quarter of 2006, in connection with the foregoing matters, no other amounts have been accrued in our consolidated financial statements for any additional amounts that may be payable by Liggett under the settlement agreements with Florida, Mississippi and Texas. There can be no assurance that Liggett will prevail in any of these matters and that Liggett will not be required to make additional material payments, which payments could materially adversely affect our consolidated financial position, results of operations or cash flows and the value of our common stock.

Liggett has significant sales to a single customer.

During 2005, 11.9% of Liggett s total revenues and 11.7% of our consolidated revenues were generated by sales to Liggett s largest customer. Liggett s contract with this customer currently extends through March 31, 2009. If this customer discontinues its relationship with Liggett or experiences financial difficulties, Liggett s results of operations could be materially adversely affected.

Liggett may be adversely affected by recent legislation to eliminate the federal tobacco quota system.

In October 2004, federal legislation was enacted which eliminated the federal tobacco quota system and price support system through an industry funded buyout of tobacco growers and quota holders. Pursuant to the legislation, manufacturers of tobacco products will be assessed $10.1 billion over a ten-year period to compensate tobacco growers and quota holders for the elimination of their quota rights. Cigarette manufacturers will initially be responsible for 96.3% of the assessment (subject to adjustment in the future), which will be allocated based on relative unit volume of domestic cigarette shipments. Management currently estimates that Liggett s and Vector Tobacco s assessment will be approximately $22.0 million for the second year of the program which began January 1, 2006. The relative cost of the legislation to each of the three largest cigarette manufacturers will likely be less than the cost to smaller manufacturers, including Liggett and Vector Tobacco, because one effect of the legislation is that the three largest manufacturers will no longer be obligated to make certain contractual payments, commonly known as Phase II payments, they agreed in 1999 to make to tobacco-producing states. The ultimate impact of this legislation cannot be determined, but there is a risk that smaller

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manufacturers, such as Liggett and Vector Tobacco, will be disproportionately affected by the legislation, which could have a material adverse effect on us.

Excise tax increases adversely affect cigarette sales.

Cigarettes are subject to substantial and increasing federal, state and local excise taxes. The federal excise tax on cigarettes is currently $0.39 per pack. State and local sales and excise taxes vary considerably and, when combined with the current federal excise tax, may currently exceed $4.00 per pack. In 2005, nine states enacted increases in excise taxes, and five states, in 2006, have enacted increases in excise taxes. Further increases from other states are expected. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and various states and other jurisdictions have currently under consideration or pending legislation proposing further state excise tax increases. We believe that increases in excise and similar taxes have had an adverse impact on sales of cigarettes. Further substantial federal or state excise tax increases could accelerate the trend away from smoking and could have a material adverse effect on Liggett s sales and profitability, which in turn could negatively affect the value of our common stock.

Vector Tobacco is subject to risks inherent in new product development initiatives.

We have made, and plan to continue to make, significant investments in Vector Tobacco s development projects in the tobacco industry. Vector Tobacco is in the business of developing and marketing the low nicotine and nicotine-free QUEST cigarette products and developing reduced risk cigarette products. These initiatives are subject to high levels of risk, uncertainties and contingencies, including the challenges inherent in new product development. There is a risk that continued investments in Vector Tobacco will harm our results of operations, liquidity or cash flow.

The substantial risks facing Vector Tobacco include:

Risks of market acceptance of new products. In November 2001, Vector Tobacco launched nationwide its reduced carcinogen OMNI cigarettes. During 2002, acceptance of OMNI in the marketplace was limited, with revenues of only approximately $5.1 million on sales of 70.7 million units. Since 2003, Vector Tobacco has not been actively marketing the OMNI product, and the product is not currently in distribution. Vector Tobacco was unable to achieve the anticipated breadth of distribution and sales of the OMNI product due, in part, to the lack of success of its advertising and marketing efforts in differentiating OMNI from other conventional cigarettes with consumers through the reduced carcinogen message. Over the next several years, our in-house research program, together with third-party collaborators, plans to conduct appropriate studies relating OMNI s reduction of carcinogens to reduced risk in smokers and, based on these studies, we will review the marketing and positioning of the OMNI brand in order to formulate a strategy for its long-term success. OMNI has not been a commercially successful product to date, and there is a risk that we will be unable to take action to significantly increase the level of OMNI sales in the future.

Vector Tobacco introduced its low nicotine and nicotine-free QUEST cigarettes in an initial seven-state market in January 2003 and in Arizona in January 2004. During the second quarter of 2004, based on an analysis of the market data obtained since the introduction of the QUEST product, we determined to postpone indefinitely the national launch of QUEST. A national launch of the QUEST brands would require the expenditure of substantial additional sums for advertising and sales promotion, with no assurance of consumer acceptance. Low nicotine and nicotine-free cigarettes may not ultimately be accepted by adult smokers and also may not prove to be commercially successful products. Adult smokers may decide not to purchase cigarettes made with low nicotine and nicotine-free tobaccos due to taste or other preferences or other product modifications.

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Recoverability of costs of inventory. At September 30, 2006, approximately $1.0 million of our leaf inventory was associated with Vector Tobacco s QUEST product. We estimate an inventory reserve for excess quantities and obsolete items, taking into account future demand and market conditions. During the second quarter of 2004, we recognized a non-cash charge of $37.0 million to adjust the carrying value of excess leaf tobacco inventory for the QUEST product, based on estimates of future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Third party allegations that Vector Tobacco products are unlawful or bear deceptive or unsubstantiated product claims. Vector Tobacco is engaged in the development and marketing of low nicotine and nicotine-free cigarettes and the development of reduced risk cigarette products. With respect to OMNI, which is not currently being distributed by Vector Tobacco, reductions in carcinogens have not yet been proven to result in a safer cigarette. Like other cigarettes, the OMNI and QUEST products also produce tar, carbon monoxide, other harmful by-products, and, in the case of OMNI, increased levels of nitric oxide and formaldehyde. There are currently no specific governmental standards or parameters for these products and product claims. There is a risk that federal or state regulators may object to Vector Tobacco s low nicotine and nicotine-free cigarette products and reduced risk cigarette products it may develop as unlawful or allege they bear deceptive or unsubstantiated product claims, and seek the removal of the products from the marketplace, or significant changes to advertising. Various concerns regarding Vector Tobacco s advertising practices have been expressed to Vector Tobacco by certain state attorneys general. Vector Tobacco has previously engaged in discussions in an effort to resolve these concerns and Vector Tobacco has, in the interim, suspended all print advertising for its QUEST brand. If Vector Tobacco is unable to advertise its QUEST brand, it could have a material adverse effect on sales of QUEST. Allegations by federal or state regulators, public health organizations and other tobacco manufacturers that Vector Tobacco s products are unlawful, or that its public statements or advertising contain misleading or unsubstantiated health claims or product comparisons, may result in litigation or governmental proceedings. Vector Tobacco s defense against such claims could require it to incur substantial expense and to divert significant efforts of its scientific and marketing personnel. An adverse determination in a judicial proceeding or by a regulatory agency could have a material and adverse impact on Vector Tobacco s business, operating results and prospects.

Potential extensive government regulation. Vector Tobacco s business may become subject to extensive additional domestic and international government regulation. Various proposals have been made for federal, state and international legislation to regulate cigarette manufacturers generally, and reduced constituent cigarettes specifically. It is possible that laws and regulations may be adopted covering matters such as the manufacture, sale, distribution and labeling of tobacco products as well as any health claims associated with reduced risk and low nicotine and nicotine-free cigarette products and the use of genetically modified tobacco. A system of regulation by agencies such as the FDA, the FTC and the United States Department of Agriculture may be established. In addition, a group of public health organizations submitted a petition to the FDA, alleging that the marketing of the OMNI product is subject to regulation by the FDA under existing law. Vector Tobacco has filed a response in opposition to the petition. The FTC has expressed interest in the regulation of tobacco products made by tobacco manufacturers, including Vector Tobacco, which bear reduced carcinogen claims. The outcome of any of the foregoing cannot be predicted, but any of the foregoing could have a material adverse effect on Vector Tobacco s business, operating results and prospects.

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Competition from other cigarette manufacturers with greater resources. Vector Tobacco s competitors generally have substantially greater resources than Vector Tobacco has, including financial, marketing and personnel resources. Other major tobacco companies have stated that they are working on reduced risk cigarette products and have made publicly available at this time only limited additional information concerning their activities. Philip Morris has announced it is developing products that potentially reduce smokers exposure to harmful compounds in cigarette smoke. RJR Tobacco has disclosed that a primary focus for its research and development activity is the development of potentially reduced exposure products, which may ultimately be recognized as products that present reduced risks to health. RJR Tobacco has stated that it continues to sell in limited distribution throughout the country a brand of cigarettes that primarily heats rather than burns tobacco, which it claims reduces the toxicity of its smoke. There is a substantial likelihood that other major tobacco companies will continue to introduce new products that are designed to compete directly with the low nicotine, nicotine-free and reduced risk products that Vector Tobacco currently markets or may develop.

Potential disputes concerning intellectual property. Vector Tobacco s ability to commercially exploit its proprietary technology for its reduced carcinogen and low nicotine and nicotine-free products depends in large part on its ability to obtain and defend issued patents, to obtain further patent protection for its existing technology in the United States and abroad, and to operate without infringing on the patents and proprietary rights of others both in the United States and abroad. Additionally, it must be able to obtain appropriate licenses to patents or proprietary rights held by third parties, or issued to third parties, if infringement would otherwise occur, both in the United States and abroad.

Intellectual property rights, including Vector Tobacco s patents (owned or licensed), involve complex legal and factual issues. Any conflicts resulting from third party patent applications and granted patents could significantly limit Vector Tobacco s ability to obtain meaningful patent protection or to commercialize its technology. If patents currently exist or are issued to other companies that contain claims which encompass Vector Tobacco s products or the processes used by Vector Tobacco to manufacture or develop its products, Vector Tobacco may be required to obtain licenses to use these patents or to develop or obtain alternative technology. Licensing agreements, if required, may not be available on acceptable terms or at all. If licenses are not obtained, Vector Tobacco could be delayed in, or prevented from, pursuing the further development or marketing of its new cigarette products. Any alternative technology, if feasible, could take several years to develop.

Litigation which could result in substantial cost also may be necessary to enforce any patents to which Vector Tobacco has rights, or to determine the scope, validity and unenforceability of other parties proprietary rights which may affect Vector Tobacco s rights. Vector Tobacco also may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of

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an invention or in opposition proceedings in foreign counties or jurisdictions, which could result in substantial costs. There is a risk that its licensed patents would be held invalid by a court or administrative body or that an alleged infringer would not be found to be infringing. The mere uncertainty resulting from the institution and continuation of any technology-related litigation or any interference or opposition proceedings could have a material and adverse effect on Vector Tobacco s business, operating results and prospects.

Vector Tobacco may also rely on unpatented trade secrets and know-how to maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with employees, consultants, suppliers and others. There is a risk that these agreements will be breached or terminated, that Vector Tobacco will not have adequate remedies for any breach, or that its trade secrets will otherwise become known or be independently discovered by competitors.

Dependence on key scientific personnel. Vector Tobacco s business depends on the continued services of key scientific personnel for its continued development and growth. The loss of Dr. Anthony Albino, Vector Tobacco s Senior Vice President of Public Health Affairs, could have a serious negative impact upon Vector Tobacco s business, operating results and prospects.

Ability to raise capital and manage growth of business. If Vector Tobacco succeeds in introducing to market and increasing consumer acceptance for its new cigarette products, Vector Tobacco will be required to obtain significant amounts of additional capital and manage substantial volume from its customers. There is a risk that adequate amounts of additional capital will not be available to Vector Tobacco to fund the growth of its business. To accommodate growth and compete effectively, Vector Tobacco will also be required to attract, integrate, motivate and retain additional highly skilled sales, technical and other employees. Vector Tobacco will face competition for these people. Its ability to manage volume also will depend on its ability to scale up its tobacco processing, production and distribution operations. There is a risk that it will not succeed in scaling its processing, production and distribution operations and that its personnel, systems, procedures and controls will not be adequate to support its future operations.

Potential delays in obtaining tobacco, other raw materials and any technology needed to produce products. Vector Tobacco is dependent on third parties to produce tobacco and other raw materials that Vector Tobacco requires to manufacture its products. In addition, the growing of new tobacco and new seeds is subject to adverse weather conditions. Vector Tobacco may also need to obtain licenses to technology subject to patents or proprietary rights of third parties to produce its products. The failure by such third parties to supply Vector Tobacco with tobacco, other raw materials and technology on commercially reasonable terms, or at all, in the absence of readily available alternative sources, would have a serious negative impact on Vector Tobacco s business, operating results and prospects. There is also a risk that interruptions in the supply of these materials and technology may occur in the future. Any interruption in their supply could have a serious negative impact on Vector Tobacco.

The actual costs and savings associated with restructurings of our tobacco business may differ materially from amounts we estimate.

In recent years, we have undertaken a number of initiatives to streamline the cost structure of our tobacco business and improve operating efficiency and long-term earnings. For example, during 2002, the sales, marketing and support functions of our Liggett and Vector Tobacco subsidiaries were combined. Effective year-end 2003, we closed Vector Tobacco s Timberlake, North Carolina manufacturing facility and moved all production to Liggett s facility in Mebane, North Carolina. In April 2004, we eliminated a number of positions in our tobacco operations and subleased excess office space. In December 2004, we restructured the operations of Liggett Vector Brands. We may consider various additional opportunities to

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further improve efficiencies and reduce costs. These prior and current initiatives have involved material restructuring and impairment charges, and any future actions taken are likely to involve material charges as well. These restructuring charges are based on our best estimate at the time of restructuring. The status of the restructuring activities is reviewed on a quarterly basis and any adjustments to the reserve, which could differ materially from previous estimates, are recorded as an adjustment to operating income. Although we may estimate that substantial cost savings will be associated with these restructuring actions, there is a risk that these actions could have a serious negative impact on our tobacco business and that any estimated increases in profitability cannot be achieved.

New Valley is subject to risks relating to the industries in which it operates.

Risks of real estate ventures. New Valley has three significant investments, Douglas Elliman Realty, LLC, the Sheraton Keauhou Bay Resort & Spa (which reopened in the fourth quarter 2004) and the St. Regis Hotel in Washington, D. C. (since August 2005), in each of which it holds only a 50% interest. In addition, New Valley has a 21% interest in a condominium hotel project in Islamorada, Florida. New Valley must seek approval from other parties for important actions regarding these joint ventures. Since these other parties interests may differ from those of New Valley, a deadlock could arise that might impair the ability of the ventures to function. Such a deadlock could significantly harm the ventures.

New Valley may pursue a variety of real estate development projects. Development projects are subject to special risks including potential increase in costs, changes in market demand, inability to meet deadlines which may delay the timely completion of projects, reliance on contractors who may be unable to perform and the need to obtain various governmental and third party consents.

Risks relating to the residential brokerage business. Through New Valley s investment in Douglas Elliman Realty, LLC, we are subject to the risks and uncertainties endemic to the residential brokerage business. Both Douglas Elliman and Prudential Douglas Elliman Real Estate operate as franchisees of The Prudential Real Estate Affiliates, Inc. Prudential Douglas Elliman operates each of its offices under its franchiser s brand name, but generally does not own any of the brand names under which it operates. The franchiser has significant rights over the use of the franchised service marks and the conduct of the two brokerage companies business. The franchise agreements require the companies to:

- coordinate with the franchiser on significant matters relating to their operations, including the opening and closing of offices;
- make substantial royalty payments to the franchiser and contribute significant amounts to national advertising funds maintained by the franchiser;
- indemnify the franchiser against losses arising out of the operations of their business under the franchise agreements; and
- maintain standards and comply with guidelines relating to their operations which are applicable to all franchisees of the franchiser s real estate franchise system.

The franchiser has the right to terminate Douglas Elliman s and Prudential Douglas Elliman Real Estate s franchises, upon the occurrence of certain events, including a bankruptcy or insolvency event, a change in control, a transfer of rights under the franchise agreement and a failure to promptly pay amounts due under the franchise agreements. A termination of Douglas Elliman s or Prudential Douglas Elliman Real Estate s franchise agreement could adversely affect our investment in Douglas Elliman Realty.

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The franchise agreements grant Douglas Elliman and Prudential Douglas Elliman Real Estate exclusive franchises in New York for the counties of Nassau and Suffolk on Long Island and for Manhattan, Brooklyn and Queens, subject to various exceptions and to meeting specified annual revenue thresholds. If the two companies fail to achieve these levels of revenues for two consecutive years or otherwise materially breach the franchise agreements, the franchisor would have the right to terminate their exclusivity rights. A loss of these rights could have a material adverse on Douglas Elliman Realty.

Interest rates in the United States have been at historically low levels in recent years. The low interest rate environment in recent years has significantly contributed to high levels of existing home sales and residential prices and has positively impacted Douglas Elliman Realty s operating results. However, the residential real estate market tends to be cyclical and typically is affected by changes in the general economic conditions that are beyond Douglas Elliman Realty s control. Any of the following could have a material adverse effect on Douglas Elliman Realty s residential business by causing a general decline in the number of home sales and/or prices, which in turn, could adversely affect its revenues and profitability:

periods of economic slowdown or recession,

a change in the low interest rate environment resulting in rising interest rates,

decreasing home ownership rates, or

declining demand for real estate.

All of Douglas Elliman Realty s current operations are located in the New York metropolitan area. Local and regional economic conditions in this market could differ materially from prevailing conditions in other parts of the country. A downturn in the residential real estate market or economic conditions in that region could have a material adverse effect on Douglas Elliman Realty and our investment in that company.

Potential new investments we may make are unidentified and may not succeed.

We currently hold a significant amount of marketable securities and cash not committed to any specific investments. This subjects a security holder to increased risk and uncertainty because a security holder will not be able to evaluate how this cash will be invested and the economic merits of particular investments. There may be substantial delay in locating suitable investment opportunities. In addition, we may lack relevant management experience in the areas in which we may invest. There is a risk that we will fail in targeting, consummating or effectively integrating or managing any of these investments.

We depend on our key personnel.

We depend on the efforts of our executive officers and other key personnel. While we believe that we could find replacements for these key personnel, the loss of their services could have a significant adverse effect on our operations.

We have identified a material weakness in our internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As discussed in Note 2 to our consolidated financial statements in our Form 10-K/A for the year ended December 31, 2005, we have restated our consolidated financial statements for prior periods for each of the years ended December 31, 2004 and 2005. The restatement corrected an error in the computation of the debt discount amortization created by the embedded derivative and the beneficial conversion feature associated with our 5% variable interest senior convertible notes due 2011 issued in the fourth quarter of 2004 and the first half of 2005. The restatement adjustments affected our previously reported interest expense, the related income tax effect, and extraordinary items, as well as our previously reported other assets, long-term debt, additional paid-in capital and

accumulated deficit balances.

We have considered the implications of the restatement over our internal control over financial reporting and have determined we did not maintain effective controls over the accuracy of our debt discount amortization. Specifically, we did not maintain effective controls to ensure that the amortization of our 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. This control deficiency resulted in the restatement of our annual consolidated financial statements for the years ended December 31, 2004 and 2005, all interim periods in 2005, the first two interim periods of 2006 and audit adjustments to the third interim period of 2006. In addition, this control deficiency could result in misstatement of our debt, other assets and interest expense that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

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Risks Relating to the Debentures and Our Common Stock

The debentures will be unsecured and are effectively subordinated to indebtedness and other liabilities of our subsidiaries.

The debentures are general, unsecured obligations, *pari passu* in right of payment to all of our existing and future senior debt except for any secured indebtedness. Holders of any secured indebtedness would have claims that are superior to your claims as a holder of the debentures to the extent of the value of the assets securing such other indebtedness. If we become insolvent, file for bankruptcy, reorganize our business or close down, the assets which serve as collateral for any secured indebtedness would be available to satisfy the obligations under the secured indebtedness before any payments were to be made on the debentures. Further, the debentures are effectively subordinated to all existing and future liabilities (including trade payables and liabilities to judgment creditors) of our subsidiaries. In the event of a bankruptcy, liquidation or dissolution of one of our subsidiaries, the subsidiary may not have sufficient assets to make payments to us following payment by the subsidiary of its liabilities. The indenture governing the debentures permits us and our subsidiaries to incur indebtedness and other liabilities.

In addition to our own cash resources, we will rely on cash payments from our subsidiaries to fund our obligations, including payments on the debentures. Liggett s revolving credit agreement contains significant restrictions on its ability to make distributions to us. This agreement and other future debt agreements may not permit our subsidiaries to distribute enough cash to us to allow us to make all payments required on the debentures, even in the case of an event of default under the debentures.

The indenture does not contain financial covenants and does not restrict the incurrence of debt by us or our subsidiaries and, as a result, our subsidiaries can incur additional indebtedness or enter into other agreements that restrict the payment of dividends to us.

The indenture does not contain any financial covenants or restrictions prohibiting the incurrence of indebtedness, including additional senior indebtedness, by us or the incurrence of any indebtedness by our subsidiaries. The indenture also does not prohibit our subsidiaries from entering into agreements that restrict the subsidiaries ability to pay dividends or make other cash distributions to us. In addition, the indenture does not restrict the payment of dividends or the issuance or repurchase of securities by us. The indenture does not contain any covenants or other provisions to afford protection to holders of the debentures in the event of a highly leveraged transaction, reorganization, restructuring, merger, spin-off

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or similar transaction that may adversely affect holders of the debentures except to the extent described under Description of Debentures Repurchase of Debentures at the Option of the Holders Upon a Fundamental Change. The term fundamental change is limited to certain specified transactions and may not include other events that may involve an actual change of control.

Our ability to purchase the debentures with cash at your option and our ability to satisfy our obligations upon a fundamental change or an event of default may be limited.

Holders of debentures may require us to purchase all or a portion of their debentures for cash upon the occurrence of specific circumstances involving the events described under Description of Debentures Repurchase of Debentures at the Option of the Holders Upon a Fundamental Change and Description of Debentures Events of Default and Remedies. We cannot assure you that, if required, we would have sufficient cash or other financial resources at that time or would be able to arrange sufficient financing necessary to pay the purchase price for all debentures tendered by holders thereof. In addition, our ability to repurchase debentures in the event of a fundamental change or an event of default may be prohibited or limited by law, by regulatory authorities, by the other agreements related to our indebtedness and by indebtedness and agreements that we or our subsidiaries may enter into from time to time, which may replace, supplement or amend our existing or future indebtedness. Our failure to repurchase tendered debentures would constitute an event of default under the indenture.

The make-whole premium payable on debentures converted or repurchased in connection with the occurrence of a fundamental change may not adequately compensate you for the lost option value of the debentures as a result of such fundamental change.

If a fundamental change occurs, we will, in certain circumstances, pay a make-whole premium on debentures converted or repurchased in connection with such fundamental change. The amount of the make-whole premium will be determined based on the date on which the fundamental change becomes effective and the price paid per share of our common stock in the transaction constituting the fundamental change as described below under Description of Debentures Repurchase of Debentures at the Option of the Holders Upon a Fundamental Change. While the make-whole premium is designed to compensate holders of debentures for the lost option time value of their debentures as a result of such fundamental change, such make-whole premium is only an approximation of such lost value and may not adequately compensate holders of debentures for such loss. In addition, if the price paid per share of our common stock in the fundamental change is less than the common stock price at the date of issuance of the debentures, there will be no make-whole premium.

Some significant corporate transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the debentures.

Upon the occurrence of a fundamental change, which includes specified change of control events, we will be required to offer to repurchase all outstanding debentures. See Description of Debentures Repurchase of Debentures at the Option of the Holders Upon a Fundamental Change. The fundamental change provisions, however, will not require us to offer to repurchase the debentures in the event of some significant corporate transactions. For example, various transactions, such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us, would not constitute a change of control and, therefore, would not constitute a fundamental change because they do not involve a change in voting power or beneficial ownership of the type described in the definition of fundamental change. Accordingly, debenture holders may not have the right to require us to repurchase their debentures in the event of a significant transaction that could increase the amount of our indebtedness, adversely affect our capital structure or any credit ratings or otherwise adversely affect the holders of debentures.

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In addition, a fundamental change includes a sale of all or substantially all of our properties and assets. Although there is limited law interpreting the phrase substantially all, there is no precise established definition of the phrase under the laws of New York, which govern the indenture and the debentures. Accordingly, your ability to require us to repurchase debentures as a result of a sale of less than all of our properties and assets may be uncertain.

There is no prior public market for the debentures, so if an active trading market does not develop for the debentures you may not be able to resell them.

The debentures and the common stock issuable upon conversion of the debentures have not been registered under the Securities Act or under any state securities laws. Until the resale of the debentures and the common stock issuable upon conversion of the debentures has been registered, they may not be transferred or resold except in a transaction exempt from or not subject to the registration requirements of the Securities Act and applicable state securities laws. Although we are required to register the resale by the holders of the debentures and the common stock into which the debentures are convertible within a certain period of time, such registration may not be available to holders at all times.

Prior to this offering, there was no public market for the debentures and we cannot assure you that an active trading market will ever develop for the debentures. Although we have applied for listing of the debentures for trading in the PORTAL Market, we do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures on any automated dealer quotation system. The Initial Purchaser has informed us that it currently intends to make a market in the debentures after this offering is completed. However, the Initial Purchaser may cease its market making at any time. The lack of a trading market could adversely affect your ability to sell the debentures and the price at which you may be able to sell the debentures. The liquidity of the trading market, if any, and future trading prices of the debentures will depend on many factors, including, among other things, the market price of our common stock, our ability to complete the registration of the debentures and the shares of common stock issuable upon conversion of the debentures, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the debentures will be subject to disruptions which may have a negative effect on the holders of the debentures, regardless of our operating results, financial performance or prospects.

The price of our common stock, and therefore of the debentures, may fluctuate significantly, and this may make it difficult for you to resell the debentures or the shares of our common stock issuable upon conversion of the debentures when you want or at prices you find attractive.

As of December 14, 2006, the trading price of our common stock has ranged between $14.47 and $19.22 per share over the past 52 weeks. We expect that the market price of our common stock will continue to fluctuate. In addition, because the debentures are convertible into our common stock, the market price of the debentures is expected to be significantly affected by the market price of our common stock. This may result in greater volatility in the trading value of the debentures than would be expected for nonconvertible debt securities.

The market price of our common stock may fluctuate in response to numerous factors, many of which are beyond our control. These factors include the following:

- actual or anticipated fluctuations in our operating results;

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changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

the operating and stock performance of our competitors;

announcements by us or our competitors of new products or services or significant contract, acquisitions, strategic partnerships, joint ventures or capital commitments;

the initiation or outcome of litigation;

changes in interest rates;

general economic, market and political conditions;

additions or departures of key personnel; and

future sales of our equity or convertible securities.

We cannot predict the extent, if any, to which future sales of shares of common stock or the availability of shares of common stock for future sale, including sales of our common stock in short sale transactions by purchasers of the debentures, may depress the trading price of our common stock or the value of the debentures.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our common stock, regardless of our operating performance. Furthermore, stockholders may initiate securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management. These factors, among others, could significantly depress the trading price of the debentures and the price of our common stock issued upon conversion of the debentures.

The conversion rate of the debentures may be adjusted for certain dilutive events.

The conversion rate of the debentures is subject to adjustment for certain events, including but not limited to the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions or combinations of our common stock, distributions of capital stock, indebtedness or assets, and certain tender or exchange offers as described under Description of Debentures Conversion Rights. If we engage in any of these types of transactions, the value of our common stock into which your debentures are convertible may be diluted.

Before conversion, holders of the debentures will not be entitled to any stockholder rights, but will be subject to all changes affecting our shares.

If you hold debentures, you will not be entitled to any rights with respect to shares of our common stock, including rights to receive dividends or distributions. However, the common stock you receive upon conversion of your debentures will be subject to all changes affecting our common stock. Except for limited cases under the adjustments to the conversion price, you will be entitled only to rights that we may grant with respect to shares of our common stock if and when we deliver shares to you upon your election to convert your debentures into shares.

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Our debentures may not be rated or may receive a lower rating than investors anticipate, which could cause a decline in the trading volume and market price of the debentures and our common stock.

We do not intend to seek a rating on the debentures, and we believe it is unlikely the debentures will be rated. If, however, one or more rating agencies rates the debentures and assigns a rating lower than the rating expected by investors, or reduces any rating in the future, the trading volume and market price of the debentures and our common stock may be adversely affected.

You are urged to consider the United States federal income tax consequences of owning the debentures and the shares of common stock issuable upon conversion of the debentures.

We and each holder of a debenture agree in the indenture governing the debentures to treat the debentures as indebtedness that is subject to U.S. Treasury regulations governing contingent payment debt instruments. Under the contingent payment debt regulations, a holder will be required to include amounts in income, as original issue discount, in advance of cash such holder receives on a debenture, and to accrue interest on a constant yield to maturity basis at a rate comparable to the rate at which we would borrow in a noncontingent, nonconvertible borrowing, even though the debenture will have a significantly lower stated rate of interest. A holder may recognize taxable income significantly in excess of cash received while the debentures are outstanding. In addition, under the indenture, a holder will recognize ordinary income, if any, upon a sale, exchange, conversion, redemption or repurchase of the debentures at a gain. In computing such gain, the amount realized by a holder will include, in the case of a conversion, the amount of cash and the fair market value of shares received. With respect to non-U.S. holders, we intend to withhold on such payments of contingent interest at a rate of 30% unless such non-U.S. holder is eligible for a reduced rate or an exemption under an applicable U.S. income tax treaty or such interest is effectively connected with the non-U.S. holder s conduct of a U.S. trade or business. **Holders are urged to consult their own tax advisors as to the United States federal, state and other tax consequences of acquiring, owning and disposing of the debentures and the shares of common stock issuable upon conversion of the debentures. For more information, see Certain United States Federal Income Tax Consequences.**

We have many potentially dilutive securities outstanding.

At September 30, 2006, we had outstanding options granted to employees to purchase approximately 9,108,376 shares of our common stock, at prices ranging from $6.60 to $34.10 per share, of which options for 8,744,315 shares were exercisable at September 30, 2006. We also have outstanding convertible notes and debentures maturing in November 2011 and June 2026, which are currently convertible into 11,727,002 shares of our common stock. The issuance of these shares will cause dilution which may adversely affect the market price of our common stock. The availability for sale of significant quantities of our common stock could adversely affect the prevailing market price of the stock.

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USE OF PROCEEDS

The selling securityholders will receive all of the proceeds from the sale of the debentures and common stock issuable upon conversion of the debentures. We will not receive any proceeds from the sale by any selling securityholder of the debentures or the shares of common stock issuable upon conversion of the debentures offered by the selling securityholders under this prospectus, but we have agreed to pay the expenses of preparing this prospectus and the related registration statement.

We received net proceeds of approximately $104.5 million from our sale of the debentures to the initial purchasers, after deducting the estimated offering expenses payable by us. We used the proceeds of the offering to redeem our 6¼% Convertible Subordinated Notes due 2008 on August 14, 2006 and for general corporate purposes.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
					Actual / Pro Forma		
Ratio of earnings to fixed charges, as restated[1],[2]	2.59x			1.02x	3.84x / 3.29x	3.49x	2.17x

(1) For purposes of computing the ratio of earnings to fixed charges, earnings include pre-tax income (loss) from continuing operations and fixed charges (excluding capitalized interest) and amortization of capitalized interest. Earnings are also adjusted to exclude equity in gain or loss of affiliates. Fixed charges consist of interest expense, capitalized interest (including amounts charged to

income and capitalized during the period), a portion of rental expense (deemed by us to be representative of the interest factor of rental payments), amortization of debt issuance costs and amortization of debt discount costs. For the years ended December 31, 2002 and 2003, earnings were insufficient to cover fixed charges as evidenced by a less than one-to-one coverage ratio. Additional earnings of approximately $37.7 million and $16.4 million were necessary for the years ended December 31, 2002 and 2003, respectively.

(2) Amounts previously reported have been restated to correct an error in the computation of the debt discount

amortization created by the embedded derivative and the beneficial conversion feature associated with our 5% variable interest senior convertible notes due 2011 issued in the fourth quarter of 2004 and first half of 2005. The restatement adjustments affected our previously reported interest expense and the related income tax effect. The effects of the restatement are reflected in our consolidated financial statements and accompanying notes incorporated by reference in this prospectus. See Note 2 Restatement of Financial Results and Note 23 Restated Financial Information to our Form 10-K/A for the year ended December 31, 2005, which was filed on November 24, 2006. The ratio

of earnings to fixed charges for the years ended December 31, 2004 and 2005 and the pro-forma amounts for the year ended December 31, 2005 previously presented were 1.00x, 3.24x and 2.82x, respectively. The ratio of earnings to fixed charges previously reported for the years ended December 31, 2001, 2002 and 2003 did not change as a result of the restatement.

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DESCRIPTION OF DEBENTURES

We issued the debentures under an indenture between us and Wells Fargo Bank, N.A., as trustee. The terms of the debentures will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the debentures, the indenture and the registration rights agreement. It does not restate the debentures, the indenture or the registration rights agreement in their entirety. We urge you to read the debentures, the indenture and the registration rights agreement because they, and not this description, define your rights as holders of the debentures. Copies of the indenture and the registration rights agreement are available as set forth below under Additional Information.

As used in this section, the references to us, we, our or the Company refer only to Vector Group Ltd. and not any of its subsidiaries.

The registered holder of a debenture will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

General

The debentures are our senior unsecured obligations and rank equally with all of our existing and future senior unsecured indebtedness. However, the debentures are structurally subordinated to liabilities of our subsidiaries. The debentures are convertible into our common stock at the option of the holder as described below under Conversion Rights.

We issued $110,000,000 in aggregate principal amount of debentures in a private transaction on July 12, 2006. The debentures will mature on June 15, 2026.

We will not be subject to any financial covenants under the indenture. In addition, we will not be restricted under the indenture from paying dividends, issuing or repurchasing our securities or incurring indebtedness, including senior indebtedness.

You will not be afforded protection in the event of a highly leveraged transaction, or a change in ownership of us under the indenture, except to the extent described below under Repurchase of Debentures at Option of Holders Upon a Fundamental Change. In addition, we may be required to repurchase debentures as set forth under Events of Defaults and Remedies. We may redeem the debentures at our option in whole or in part on or after June 15, 2012 as described below under Optional Redemption. Furthermore, the debentures may be redeemed at the option of the holder as described below under Mandatory Redemption and Redemption at the Option of the Holders. In addition, on June 15, 2011, 10.0% of the aggregate principal amount of the debentures outstanding as of such date will be subject to mandatory redemption on a pro rata basis as described below under Mandatory Redemption and Repurchase at the Option of the Holders.

The debentures bear interest at the annual rate of 3 7/8% per annum (the *Fixed Interest*) payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on September 15, 2006, to record holders at the close of business on the preceding March 1, June 1, September 1 and December 1 (the *Record Date*). On each interest payment date, an additional amount of interest shall also be payable on the debentures in an amount equal to the product of (1) the total number of shares of common stock into which such debentures may be convertible on the applicable Record Date (without regard to any limitation on conversion) and (2) the total amount of cash dividends

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and cash distributions per share that we paid on our outstanding common stock during the three-month period ending on such Record Date (the *Dividend Interest*, together with the Fixed Interest, the *Total Interest*). The Total Interest on the debentures accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. Notwithstanding the foregoing, however, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 5 3/4% per year.

We will pay interest either by check mailed to your address as it appears in the register of holders or, at our option, by wire transfer in immediately available funds. Payments made to The Depositary Trust Company, New York, New York, which we refer to as DTC, or its nominee will be made by wire transfer of immediately available funds to the account of DTC or its nominee.

Holders are not required to pay a service charge for registration of transfer or conversion of their debentures. We may, however, require holders to pay any tax or other governmental charge payable in connection with the transfer. We are not required to exchange or register the transfer of:

any debentures or portion of debentures surrendered for conversion, or

any debentures or portion of debentures surrendered for redemption or repurchase by us and not withdrawn.

Until otherwise designated by us, the corporate trust office of the trustee responsible for the administration of the debentures and the trustee s obligations under the debentures is located at Sixth & Marquette, N9303-120, Minneapolis, MN 55479; Attn: Corporate Trust Services.

Conversion Rights

The holders have the right to convert any portion of the principal amount of the debentures at any time prior to the close of business on the maturity date of the debentures, unless the debentures have been previously redeemed or repurchased. The conversion price for the debentures is $20.48 per share, which is equal to a conversion rate per share of approximately 48.828 shares per $1,000 principal amount of the debentures, subject to adjustment as described below. The holders may convert debentures in part so long as the part converted is $1,000 or an integral multiple of $1,000. Except as set forth immediately below, a holder s right to convert debentures called for redemption or delivered for repurchase and not withdrawn will terminate at the close of business on the business day immediately prior to the redemption date or repurchase date, unless we subsequently fail to pay the applicable redemption price or repurchase price.

If a redemption date occurs on an interest payment date, conversion rights with respect to the debentures subject to the redemption will expire at the close of business on the applicable redemption date. If the debentures are converted on an interest payment date, the interest due on the interest payment date will be paid to the holders whose debentures are being redeemed or converted on that date and such holders will not be required to repay that amount. The effect of this is to ensure that in the event of a redemption or conversion on an interest payment date we will be required to pay, and the redeeming or converting holders will be entitled to receive and keep the economic value of, the interest payment due on that date.

Holders converting any debentures or portions thereof will be entitled to receive any accrued and unpaid interest on the principal amount being converted as of the conversion date to the extent provided for below. If the conversion date occurs between the close of business on the Record Date and the opening of business on the immediately following interest payment date, we will pay the holders in cash, on such interest payment date, an amount equal to the accrued and unpaid interest through the conversion

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date on the principal amount of debentures the holders have elected to convert; *provided*, *however*, if we pay the holders on such interest payment date an amount equal to the interest otherwise payable to the holders as if the holders had not converted any debentures or portion thereof prior to such interest payment date, the holders will promptly pay to us an amount equal to the difference between (1) such interest payment received and (2) the amount of accrued and unpaid interest through the conversion date for the principal amount of debentures so converted. We will not issue any fractional shares of common stock upon conversion of debentures. If the issuance of common stock upon conversion of debentures would result in the issuance of a fraction of a share of common stock, we will round such fraction of a share of common stock up to the nearest whole share.

If we fail to issue and deliver or caused to be delivered to the holders, or such holders nominee or nominees, such number of shares of common stock to which the holders are entitled upon conversion of any debentures within three trading days after the delivery by such holders of a notice of conversion, and if on or after such third trading day such holders purchase (in an open market transaction or otherwise) shares of common stock to deliver in satisfaction of a sale by such holders of shares of common stock that such holders anticipated receiving from us upon the conversion of debentures (a *Buy-In*), then we shall, within three business days after such holders request and in the holders discretion, either (1) pay cash to such holders in an amount equal to the holders total purchase price (including brokerage commissions, if any) for the shares of common stock so purchased (the *Buy-In Price*), at which point our obligation to deliver such certificate (and to issue such underlying common stock) shall terminate, or (2) promptly honor our obligation to deliver to the holders a certificate or certificates representing such common stock and pay cash to the holders in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of common stock and (B) the closing price of the common stock on the conversion date.

We will not effect any conversion of debentures, and no holders shall have the right to convert any portion of their debentures, to the extent that after giving effect to such conversion (including any make-whole premium), such holders (together with such holders affiliates) would beneficially own in excess of 4.99% of the total number of shares of our common stock outstanding immediately after giving effect to such conversion (the *Conversion Limitation*), subject to certain exceptions. For purposes of the foregoing sentence, the number of shares of common stock beneficially owned by a holder and its affiliates shall include the number of shares of common stock issuable upon conversion of the debentures with respect to which the determination is being made, but shall exclude the number of shares of common stock which would be issuable upon (1) conversion of the remaining, nonconverted portion of the debentures beneficially owned by such holder or any of its affiliates and (2) exercise or conversion of the unexercised or nonconverted portion of any of our other securities subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the holders or any of their affiliates.

Except as provided below, following the issuance of the debentures the conversion price will be subject to adjustment upon certain events, including:

(a) any payment of dividends or other distribution on our common stock in shares of common stock, or subdivision or combination of our outstanding common stock into a greater or smaller number of shares,

(b) any issuance to all or substantially all holders of our common stock of rights, options or warrants entitling them to subscribe for or purchase our common stock at less than the then current market price of our common stock (determined in accordance with the indenture),

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(c) any distribution to all or substantially all holders of our common stock of shares of capital stock (other than common stock), evidences of indebtedness or other non-cash assets (including securities, but excluding the portion of any dividends or distributions paid in cash, or those dividends, rights, options, warrants and distributions referred to in clauses (a) and (b) above or distributions in connection with our liquidation, dissolution or winding up and excluding distributions pursuant to a rights plan), and

(d) any purchase of shares of our common stock by us or any of our subsidiaries by means of a tender offer.

In any case in which these provisions require that an adjustment be made to the conversion price, in lieu of the adjustment, we may, at our option, distribute to holders of debentures, concurrently with the distribution to the holders of our common stock, such shares of our common stock, rights, options, warrants, any shares of our capital stock (other than common stock), evidences of indebtedness or other non-cash assets (or the fair market value, as reasonably determined by our Board of Directors, of the foregoing in cash) that such holders of debentures would have been entitled to receive had such debentures been converted immediately prior to the record date relating to the event that would have caused such adjustment (without regard to the Conversion Limitation).

No adjustment need be made for any issuance of common stock pursuant to a plan of ours for reinvestment of dividends or interest, or to the extent the debentures become convertible into the right to receive cash, or if the holders of the debentures may participate in the transaction that would otherwise give rise to an adjustment described above, or for issuances of cash dividends or distributions which the holders are entitled to receive as interest, or as provided above.

From time to time and to the extent permitted by law, we may reduce the conversion price by any amount for any period, if the period is at least 20 days and if the decrease is irrevocable during the period, if the Board of Directors has made a determination that such reduction would be in our best interests or the Board of Directors deems it advisable to avoid or diminish any income tax to holders of common stock resulting from any dividend or distribution or similar event, and we provide the holders with 15 days prior notice of any decrease in the conversion price. See Certain United States Federal Income Tax Consequences.

Certain holders may, in some circumstances, be deemed to have received a distribution or dividend subject to United States federal income tax as a result of an adjustment or the nonoccurrence of an adjustment to the conversion price.

Conversion Procedure

To convert a debenture, the holder must complete and manually sign the conversion notice on the back of the note specifying the principal amount of such debenture the holder seeks to convert and deliver the conversion notice, together with the debenture and any required interest payment, to the office of the conversion agent for the debentures, which will initially be the office of the trustee. In addition, the holder must furnish any appropriate endorsements and transfer documents required by the conversion agent and pay any tax or duty payable as a result of any transfer involving the issuance or delivery of the shares of common stock in a name other than that of the registered holder of the debenture. The debenture will be deemed to be converted on the date on which the holder has satisfied all of these requirements.

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Ranking

The debentures are our senior unsecured indebtedness and rank *pari passu* with all other of our senior unsecured indebtedness. The debentures rank effectively junior, however, to any future secured indebtedness we may incur and junior to liabilities of our subsidiaries. We will not incur or issue any subordinated indebtedness unless such indebtedness is unsecured and subordinated to the debentures.

We conduct our operations through our subsidiaries. Accordingly, our ability to meet our cash obligations in the future in part will be dependent upon the ability of our subsidiaries to make cash distributions to us.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the debentures or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions.

As of September 30, 2006, we had $221.9 million principal amount of outstanding senior indebtedness and our subsidiaries had $75.6 million of indebtedness outstanding. The indenture does not restrict our or our subsidiaries incurrence of senior indebtedness or other indebtedness or our ability to transfer assets or business operations to our subsidiaries, subject to the provisions described under Repurchase of Debentures at Option of the Holders Upon a Fundamental Change and Limitation on Merger, Sale or Consolidation.

Optional Redemption

We may not redeem the debentures prior to June 15, 2012. On or after June 15, 2012, we may redeem the debentures at any time or from time to time in whole or in part.

Upon any redemption, we will pay a redemption price equal to 100% of the principal amount of debentures being redeemed, plus accrued and unpaid interest, and registration default payments, if any, up to, but excluding the redemption date, unless the redemption date falls after a record date and on or prior to the corresponding interest payment date. In that case, we will pay the full amount of accrued and unpaid interest, including registration default payments, if any, due on such interest payment date to the holder of record at the close of business on the corresponding record date. We are required to give notice of redemption by mail to holders not more than 60 but not less than 30 days prior to the redemption date. If less than all of the outstanding debentures are to be redeemed, the trustee will select the debentures to be redeemed in principal amount of $1,000 or integral multiples of $1,000 on a pro rata basis, by lot or by any other means determined by the trustee unless otherwise required by law or applicable stock exchange requirements. If a portion of your debentures is selected for partial redemption and you convert a portion of your debentures, the converted portion will be deemed, to the extent practicable, to be of the portion selected for redemption.

We may not redeem the debentures if we have failed to pay any interest or registration default payments, if any, on the debentures and such failure to pay is continuing. We will notify the holders if we redeem the debentures.

For a discussion of the tax treatment to a holder of the debentures upon optional redemption by us, see Certain United States Federal Income Tax Consequences Consequences to U.S. Holders Sale, Exchange, Conversion or Redemption of Debentures and Certain United States Federal Income Tax

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Consequences Consequences to Non-U.S. Holders Sale, Exchange or Redemption of the Debentures or Common Stock and the Notice Pursuant to IRS Circular 230.

Mandatory Redemption and Repurchase at the Option of the Holders

On June 15, 2011, 10% of the aggregate principal amount of the debentures outstanding as of such date will be subject to mandatory redemption on a pro rata basis. In addition to such redemption amount, we will also redeem on June 15, 2011 and at the end of each interest accrual period thereafter, such amounts on a pro-rata basis, if any, of the debentures necessary to prevent the debentures from being treated as an Applicable High Yield Discount Obligation within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended.

In addition, you have the right to require us to repurchase all or any portion of your debentures for cash on June 15, 2012, June 15, 2016 and June 15, 2021. We will be required to repurchase any outstanding debentures for which you deliver a written repurchase notice to the paying agent, which will initially be the trustee. This notice must be delivered during the period beginning at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business on the repurchase date. A holder may withdraw its repurchase notice at any time prior to close of business on the repurchase date. If a repurchase notice is given and withdrawn during that period, we will not be obligated to repurchase the debentures listed in the notice. Our repurchase obligation will be subject to certain additional conditions.

The repurchase price payable for a debenture will be equal to 100% of the principal amount to be repurchased plus accrued and unpaid interest, including registration default payments, if any, to, but excluding, the repurchase date; *provided*, *however*, that if a repurchase date falls after a record date and on or prior to the corresponding interest payment date, we will pay the full amount of accrued and unpaid interest payment, and registration default payments, if any, on such interest payment date to the holder of record at the close of business on the corresponding record date.

We must give notice of an upcoming repurchase date to all debenture holders not less than 20 business days prior to the repurchase date at their addresses shown in the register of the registrar. We will also give notice to beneficial owners as required by applicable law. This notice will state, among other things, the repurchase price and the procedures that holders must follow to require us to repurchase their debentures.

The repurchase notice from the holder must state:

if certificated debentures have been issued, the debenture certificate numbers (or, if your debentures are not certificated, your repurchase notice must comply with appropriate DTC procedures);

the portion of the principal amount of debentures to be repurchased, which must be in $1,000 multiples; and

that the debentures are to be repurchased by us pursuant to the applicable provisions of the indenture.

You may withdraw any written repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the repurchase date. The withdrawal notice must state:

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the principal amount of the withdrawn debentures;

if certificated debentures have been issued, the certificate numbers of the withdrawn debentures (or, if your debentures are not certificated, your withdrawal notice must comply with appropriate DTC procedures); and

the principal amount, if any, that remains subject to the repurchase notice.

Payment of the repurchase price for a debenture for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the debenture, together with necessary endorsements, to the paying agent at its corporate trust office in Minneapolis, Minnesota, or any other office of the paying agent, at any time after delivery of the repurchase notice. Payment of the repurchase price for the debenture will be made promptly following the later of the business day immediately following the repurchase date and the time of book-entry transfer or delivery of the debenture. If the paying agent holds money sufficient to pay the repurchase price of the debenture on the business day immediately following the repurchase date, then on and after such date:

the debenture will cease to be outstanding;

interest and registration default payments, if any, will cease to accrue; and

all other rights of the holder will terminate, other than the right to receive the repurchase price upon delivery of the debenture.

This will be the case whether or not book-entry transfer of the debenture has been made or the debenture has been delivered to the paying agent. No debentures may be repurchased by us at the option of holders on June 15, 2012, June 15, 2016 or June 15, 2021 if the principal amount of the debenture has been accelerated, and such acceleration has not been rescinded, on or prior to such date.

Our ability to repurchase your debentures for cash as described above will be subject to any limitations we may have in existing and future credit agreements or other indebtedness. See Risk Factors Our ability to purchase the debentures with cash at your option and our ability to satisfy our obligations upon a fundamental change or event may be limited. and Description of Certain Other Indebtedness. If you elect to require us to repurchase your debentures at a time when we are prohibited from repurchasing them, we could seek the consent of our lenders to repurchase the debentures or we could attempt to refinance their debt. If we do not obtain consent or refinance their debt, we would not be permitted to repurchase the debentures. Our failure to repurchase tendered debentures would constitute an event of default under the indenture.

The Exchange Act requires the dissemination of certain information to security holders and that an issuer follow certain procedures if an issuer tender offer occurs, which may apply if the repurchase rights summarized above become available to holders of the debentures. In connection with any offer to require us to repurchase debentures as summarized above we will, to the extent applicable:

comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act that may then be applicable; and

file a Schedule TO or any other required schedule or form under the Exchange Act.

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We may, to the extent permitted by applicable law and the agreements governing our other indebtedness, at any time repurchase the debentures in the open market or by tender offer at any price or by private agreement. Any debenture so repurchased by us may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any debentures surrendered to the trustee may not be reissued or resold and will be cancelled promptly.

Repurchase of Debentures at the Option of the Holders Upon a Fundamental Change

In the event of a fundamental change, as defined below, we are required to make an offer to purchase all of the debentures at a cash repurchase price equal to 100% of the principal amount of the debentures, together with accrued and unpaid interest and registration default payments, if any, to, but excluding, the date of repurchase. Additionally, we will be required to pay a make-whole premium on the repurchased debentures if a fundamental change occurs before June 15, 2012, in an amount to be determined by reference to the table described below under Make-Whole Premium and based on the date the fundamental change becomes effective and the stock price, or a linear interpolation thereof as described below under Make-Whole Premium. Each holder may accept the repurchase offer with respect to all or a portion of the debentures held by such holder by delivering to us a repurchase notice (a r*epurchase notice*), *provided* that the principal amount of the debentures the holder requires us to repurchase must be $1,000 or an integral multiple thereof. We will make the repurchase offer within 15 business days following a fundamental change and it will remain open for 10 business days following its commencement. Upon expiration of the repurchase offer period, we shall purchase all debentures validly tendered in response to the repurchase offer.

A *fundamental change* means any transaction or event resulting in either a change of control event or a termination of trading of our common stock.

A *termination of trading* shall occur if our common stock (or other securities into which the debentures are then convertible) is neither listed for trading on a U.S. national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States.

Except as provided below, a *change of control* means the occurrence, after the original issue date of the debentures, of one or more of the following events:

(1) any sale, transfer, lease, conveyance or other disposition (in one transaction or a series of related transactions) of all or substantially all of our property or assets to any person or group of related persons (other than to any of our wholly owned subsidiaries) as defined in Sections 13(d) and 14(d) of the Exchange Act, including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, other than any sale, transfer, lease, conveyance or other disposition in which (x) persons who, directly or indirectly, are beneficial owners (as defined in Rule 13d-3 under the Exchange Act) of our voting stock immediately prior to such transaction, beneficially own, directly or indirectly, immediately after such transaction at least a majority of the total voting power of the outstanding voting stock of the corporation or entity purchasing such properties or assets in such sale, lease, conveyance or other disposition and (y) persons who, directly or indirectly, are beneficial owners of our voting stock immediately prior to such transaction, beneficially own, directly or indirectly, immediately after such transaction shares of common stock of the corporation or entity purchasing such properties or assets in such sale, lease, conveyance or other disposition in a proportion that does not, on the whole, materially differ from such ownership immediately prior to the transaction,

(2) the approval by the holders of our capital stock of any plan or proposal for liquidation or dissolution,

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(3) if any person or group (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) (other than Bennett S. LeBow or his immediate family, any beneficiary of the estate of Bennett S. LeBow or his immediate family or any trust or partnership controlled by any of the foregoing (the LeBow Persons)) is or shall become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by our issued and outstanding voting stock,

(4) if at any time Bennett S. LeBow and/or any LeBow Person is or shall become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) either individually or collectively, directly or indirectly, of 65% of the aggregate ordinary voting power represented by our issued and outstanding voting stock, or

(5) we consolidate with, or merge with or into, another person or any person consolidates with, or merges with or into, us, other than any consolidation or merger in which (x) persons who, directly or indirectly, are beneficial owners (as defined in Rule 13d-3 under the Exchange Act) of our voting stock immediately prior to such transaction, beneficially own, directly or indirectly, immediately after such transaction at least a majority of the total voting power of the outstanding voting stock of the continuing or surviving corporation or entity and (y) persons who, directly or indirectly, are beneficial owners of our voting stock immediately prior to such transaction beneficially own, directly or indirectly, immediately after such transaction shares of common stock of the continuing or surviving corporation or entity in a proportion that does not, on the whole, materially differ from such ownership immediately prior to the transaction.

Notwithstanding the foregoing, a merger or consolidation shall not be deemed to constitute a change of control if (1) at least 90% of the consideration (excluding cash payments for fractional shares or pursuant to statutory appraisal rights) in such merger or consolidation consists of shares of capital stock that are, or immediately after the transaction or event will be, traded on a national securities exchange in the United States or quoted on the New York Stock Exchange, the Nasdaq National Market or The Nasdaq SmallCap Market (or which shall be so traded or quoted when issued or exchanged in connection with such merger or consolidation) (these securities being referred to as *publicly traded securities*) and (2) as a result of such merger or consolidation the debentures become convertible into such publicly traded securities, excluding cash payments for fractional shares.

The definition of change of control includes a phrase relating to the sale, transfer, lease, conveyance or other disposition of all or substantially all of our assets. The term all or substantially all as used in the definition of change of control has not been interpreted under New York law (which is the governing law of the indenture) to represent a specific quantitative test. Accordingly, our obligation to make the repurchase offer upon a fundamental change, and the ability of the holders to require us to make and consummate such an offer, as a result of a sale, transfer, lease, conveyance or other disposition of less than all of our assets may be uncertain.

On or before the repurchase date, we will:

accept for payment debentures or portions thereof properly tendered pursuant to the repurchase offer,

deposit with the paying agent cash sufficient to pay the repurchase price, together with accrued and unpaid interest, if any, and registration default payments, if any, to but excluding the date of repurchase of all debentures so tendered, and

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deliver to the trustee the debentures so accepted, together with an officers certificate listing the debentures or portions thereof being purchased by us.

The paying agent will promptly mail to the holders of debentures so accepted for payment an amount equal to the repurchase price, together with accrued and unpaid interest, if any, and registration default payments, if any, to but excluding the date of repurchase of all debentures so tendered, and the trustee will promptly authenticate and mail or deliver to such holders a new debenture or debentures equal in principal amount to any unpurchased portion of the debentures validly tendered in the repurchase offer.

We will promptly mail or deliver any debentures not accepted for payment to their holders. We will announce publicly the results of the repurchase offer on or as soon as practicable after the repurchase date.

The fundamental change purchase feature of the debentures also may make more difficult or discourage a takeover of us and, thus, the removal of incumbent management.

The provisions of the indenture relating to a fundamental change may not afford the holders protection in the event of a highly leveraged transaction, reorganization, restructuring, merger, spin-off or similar transaction that may adversely affect the holders, if such transaction does not constitute a fundamental change under the indenture. Moreover, certain events with respect to us which may involve an actual change of control of us may not constitute a fundamental change for purposes of the indenture. If a repurchase offer is made, we may not have available funds sufficient to pay the repurchase price for all of the debentures that might be validly tendered by holders seeking to accept the repurchase offer. Our failure to make or consummate the repurchase offer or pay the repurchase price when due would give the trustee and the holders the rights described under Events of Default and Remedies.

At any time following the occurrence of a fundamental change and the delivery of a repurchase notice by a holder and before the close of business on the business day immediately preceding the date of repurchase, a holder may withdraw his or her repurchase notice and the paying agent will promptly return to such holder the debentures with respect to which a repurchase notice has been withdrawn.

To the extent applicable, we will comply with the provisions of Rule 13e-4 and 14e-1 or any other tender offer rules under the Exchange Act and any other securities laws, and will file a Schedule 13e-4 or any other schedule if required under such rules, in connection with any offer by us to repurchase debentures at the option of the holders upon a fundamental change.

Make-Whole Premium

The make-whole premium shall be determined by reference to the table below (the *Make-Whole Premium Table*) and is based on the date that the applicable fundamental change becomes effective (the *Effective Date*) and the stock price. The *Stock Price* means the price paid per share of our common stock in the transaction constituting the applicable fundamental change, determined as follows: (i) if holders of common stock receive only cash in the fundamental change, the Stock Price shall be the cash amount paid per share of our common stock; or (ii) in all other circumstances, the Stock Price shall be the arithmetic average of the closing prices per share of our common stock on the ten trading days prior to, but not including, the Effective Date.

The following table shows what the make-whole premium would be for the various stock prices and Effective Dates set forth below, expressed as a percentage of the principal amount of the debentures.

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MAKE-WHOLE PREMIUM TABLE
(% OF PRINCIPAL AMOUNT)

	Effective Date						
Stock Price	**6/27/06**	**6/15/07**	**6/15/08**	**6/15/09**	**6/15/10**	**6/15/11**	**6/15/12**
$15.49	2.41%	0.55%	0.00%	0.00%	0.00%	0.00%	0.00%
$17.04	8.37%	6.16%	3.73%	1.20%	0.00%	0.00%	0.00%
$18.58	14.61%	12.14%	9.36%	6.33%	3.08%	0.00%	0.00%
$20.13	21.10%	18.43%	15.38%	11.98%	8.18%	3.71%	0.00%
$20.48	22.41%	19.70%	16.60%	13.14%	9.26%	4.64%	0.00%
$21.68	21.91%	19.06%	15.81%	12.15%	7.98%	2.92%	0.00%
$23.23	21.16%	18.20%	14.80%	10.96%	6.56%	1.21%	0.00%
$24.78	20.51%	17.48%	13.98%	10.02%	5.48%	0.04%	0.00%
$26.32	19.96%	16.87%	13.30%	9.27%	4.65%	0.00%	0.00%
$27.88	19.48%	16.34%	12.72%	8.64%	4.01%	0.00%	0.00%
$29.42	19.04%	15.87%	12.22%	8.11%	3.48%	0.00%	0.00%
$30.97	18.64%	15.45%	11.78%	7.67%	3.06%	0.00%	0.00%
$38.71	17.04%	13.79%	10.09%	6.00%	1.48%	0.00%	0.00%
$46.46	15.65%	12.42%	8.75%	4.68%	0.22%	0.00%	0.00%
$54.20	14.38%	11.16%	7.49%	3.44%	0.00%	0.00%	0.00%
$61.94	13.14%	9.92%	6.26%	2.22%	0.00%	0.00%	0.00%

The exact Stock Price and repurchase dates may not be as set forth in the Make-Whole Premium Table, in which case:

If the Stock Price is between two stock price amounts listed on the Make-Whole Premium Table or the Effective Date is between two dates listed on the Make-Whole Premium Table, the make-whole premium shall be determined by linear interpolation between the amounts set forth in the Make-Whole Premium Table for the higher and lower stock price amounts and the two dates, as applicable, based on a 365-day or 366-day year, as applicable,

If the Stock Price on the Effective Date exceeds $61.94 per share (subject to certain adjustment), (the *Stock Price Cap*), the amount of the make-whole premium will be equal to the make-whole premium as if the Stock Price were $61.94 (subject to certain adjustment), and

If the Stock Price on the Effective Date is less than or equal to $15.49 per share (subject to certain adjustment), (the *Stock Price Threshold*), no make-whole premium will be paid. The Stock Prices set forth in the first column are subject to adjustment.

We may pay the make-whole premium in shares of common stock (other than cash paid in lieu of fractional shares), in cash, in the same form of consideration into which shares of common stock have been converted in connection with the applicable fundamental change or in any combination of the foregoing. Notwithstanding the foregoing, our right to pay the make-whole premium for the debentures, in whole or in part, in shares of our common stock is subject to various provisions, including, but not limited to:

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our providing timely written notice of our election to pay all or part of the make-whole premium in shares of our common stock,

our common stock to be issued as payment for the make-whole premium being approved for listing on a U.S. national securities exchange or the Nasdaq National Market, the Nasdaq SmallCap Market or any similar system of automated dissemination of quotations of securities,

there being sufficient authorized but unissued (or issued but not outstanding) shares of our common stock to issue such shares of our common stock in connection with the make-whole premium, and such shares of common stock will upon issue, be duly and validly issued and fully paid and nonassessable and free of any preemptive or similar rights, and

the receipt by the trustee of an (1) officers certificate stating that the terms of the issuance of the shares of common stock are in conformity with the indenture, (2) an opinion of counsel to the effect that the shares of common stock to be issued by us as payment for the make-whole premium in respect of the debentures have been duly authorized and, when issued and delivered pursuant to the terms of the indenture in connection with the payment of such make-whole premium will be validly issued, fully paid and non-assessable and (3) an officer s certificate, stating that the conditions to the issuance of the shares of our common stock have been sa