

VECTOR GROUP LTD

Form 8-K

July 24, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 8-K**

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

Date of Report (Date of earliest event reported): **July 20, 2006**

**VECTOR GROUP LTD.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

**1-5759**

**65-0949535**

(State or Other  
Jurisdiction of  
Incorporation)

(Commission File  
Number)

(I.R.S. Employer  
Identification No.)

**100 S.E. Second Street, Miami, Florida**

**33131**

(Address of Principal Executive Offices)

(Zip Code)

**(305) 579-8000**

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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***Item 1.01. Entry into a Material Definitive Agreement***

In connection with the 1998 and 1999 transaction with Philip Morris Incorporated, in which a subsidiary of Liggett Group Inc., a subsidiary of our company Vector Group Ltd., contributed three of its premium cigarette brands to Trademarks LLC, a newly-formed limited liability company, we recognized in 1999 a pre-tax gain of \$294.1 million in our consolidated financial statements and established a deferred tax liability of \$103.1 million relating to the gain. In such transaction, Philip Morris acquired an option to purchase the remaining interest in Trademarks for a 90-day period commencing in December 2008, and we have an option to require Philip Morris to purchase the remaining interest for a 90-day period commencing in March 2010. It has been our position that, upon exercise of the options during either of the 90-day periods commencing in December 2008 or in March 2010, we would be required to pay tax in the amount of the deferred tax liability, which would be offset by the benefit of any net operating losses available to us at that time. In connection with an examination of our 1998 and 1999 federal income tax returns, the Internal Revenue Service issued to us in September 2003 a notice of proposed adjustment. The notice asserted that, for tax reporting purposes, the entire gain should have been recognized in 1998 and 1999 in the additional amounts of \$150 million and \$129.9 million, respectively, rather than upon the exercise of the options during either of the 90-day periods commencing in December 2008 or in March 2010.

On July 20, 2006, we entered into a settlement with the Internal Revenue Service with respect to the Philip Morris brand transaction. As part of the settlement, we agreed that \$87 million of our gain on the transaction would be recognized by us as income for tax purposes in 1999 and that the balance of the remaining gain (\$192 million) will be recognized by us as income in 2008 or 2009 upon exercise of the options. We anticipate paying approximately \$42 million, including interest, with respect to the gain recognized in 1999. As a result of the settlement, we will reduce during the third quarter of 2006 the excess portion of a previously established reserve in our consolidated financial statements for income taxes payable. We currently estimate the amount of such reduction to be approximately \$11.5 million.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

VECTOR GROUP LTD.

By: /s/ J. Bryant Kirkland III  
J. Bryant Kirkland III  
Vice President and Chief Financial  
Officer

Date: July 24, 2006