VECTOR GROUP LTD
Form S-3
December 21, 2004

As filed with the Securities and Exchange Commission on December 21, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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. [ ]

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. [X]

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. [ ]

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. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SECURITY	AGGR
$81,875,000 5% Variable Interest Senior Convertible Notes due November 15, 2011.....	$81,875,000 (1)	100% (2)	$81
Common Stock, $.10 par value..................	4,183,700 (3)	--	

(1) Represents the aggregate principal amount of the notes initially issued by the Registrant plus the aggregate principal amount of the notes issuable upon exercise of additional investment rights by the holders of the notes.

(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 4,183,700 shares of common stock issuable upon conversion of the notes at the conversion price of $19.57 per share of common stock, which includes 836,740 shares of common stock issuable upon conversion of the notes issuable upon exercise of additional investment rights by the holders of the notes. 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 notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

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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SUBJECT TO COMPLETION, DATED DECEMBER 21, 2004

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.

$81,875,000

[VECTOR LOGO]

VECTOR GROUP LTD.

5% VARIABLE INTEREST SENIOR CONVERTIBLE NOTES DUE NOVEMBER 15, 2011
AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTES

This prospectus relates to the resale of up to 4,183,700 of our shares of common stock by certain selling securityholders. The shares that may be resold pursuant to this prospectus include 3,346,960 shares of common stock issuable upon conversion of $65,500,000 aggregate principal amount of our convertible notes and 836,740 shares issuable upon conversion of $16,375,000 aggregate principal amount of additional convertible notes reserved for issuance upon the exercise of outstanding additional investment rights (together, the "notes").

We issued the notes offered by this prospectus in a private placement in November 2004. This prospectus will be used by selling securityholders to resell their notes and the common stock issuable upon conversion of their notes. We will not receive any proceeds from this offering.

The notes are convertible by securityholders prior to maturity (unless previously redeemed or repurchased pursuant to their terms) into common stock at a conversion rate of 51.0986 shares per each $1,000 principal amount of notes, subject to adjustment if certain events occur. This is equivalent to an initial conversion price of $19.57 per share. We will pay interest on the notes on each February 15, May 15, August 15, and November 15 of each year the notes are outstanding, beginning on February 15, 2005. The notes accrue interest at a rate of 5% per year, with an additional amount of interest payable on the notes 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 notes are convertible on such record date (together, the "Total Interest"). Notwithstanding the foregoing, however, during the period from November 18, 2004 to and including November 15, 2006, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 6 3/4% per year.

The notes will mature on November 15, 2011, unless earlier converted, redeemed or repurchased. We must redeem 12.5% of the total aggregate principal

amount of the notes outstanding on November 15, 2009. In addition to such redemption amount, we will also redeem on November 15, 2009 and on each interest accrual period thereafter an additional amount, if any, of the notes necessary to prevent the notes from being treated as an "Applicable High Yield Discount Obligation" under the Internal Revenue Code. The holders of the notes will have the option on November 15, 2009 to require us to repurchase some or all of their remaining notes. The redemption price for such redemptions will equal 100% of the principal amount of the notes plus accrued and unpaid interest thereafter, if any. The notes are our unsecured and unsubordinated obligations and rank on a parity in right of payment with all of our existing and future indebtedness to the extent described herein. The notes will effectively rank junior to any future secured indebtedness we may incur and junior to liabilities of our subsidiaries.

In the event of a fundamental change, as described in this prospectus, the holders of the notes may require us to repurchase any notes 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 notes who require us to repurchase their notes in connection with such repurchase event.

Our common stock is traded on the New York Stock Exchange under the symbol "VGR". On ___________ ___, 2005, 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 [14].

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 _________ __, 2005

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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 Securities and Exchange Commission ("SEC"). You can inspect and copy all of this information at the Public Reference Room maintained by the SEC at its principal office at 450 Fifth Street, N.W., Judiciary Plaza, 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 electronically with the SEC. The address of this web site is: http://www.sec.gov.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933 with respect to the notes and 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 facility or website.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus information we have filed with the SEC. This means that we can disclose important information by referring you to those documents containing the other information. The information incorporated by reference is considered to be a part of this prospectus. Information that we file later with the SEC will automatically update and supercede this information. We incorporate by reference the documents listed below and any filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and before the termination of this offering:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the SEC on March 15, 2004;

- Our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2004, filed with the SEC on May 10, 2004, for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004 and for the

quarter ended September 30, 2004, filed with the SEC on November 9, 2004; and

- Our Current Reports on Form 8-K, filed with the SEC on April 19, 2004, June 7, 2004, July 14, 2004, October 6, 2004, November 17, 2004, November 23, 2004 and December 21, 2004.

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 through us or the SEC. Documents incorporated by reference are available from us without charge. You may obtain documents

incorporated by reference in this prospectus by sending a request in writing to the following address or by telephone:

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.

PROSPECTUS SUMMARY

This summary highlights some information from this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read the entire prospectus carefully, including the "Risk Factors" section and the financial statements and the notes to those statements incorporated by reference into this prospectus. As used in this prospectus, the terms "Vector", "we", "our" and "us" and similar terms refer to Vector Group Ltd. and all of our consolidated subsidiaries, including VGR Holding Inc., Liggett Group Inc., Vector Tobacco Ltd., Liggett Vector Brands Inc. and New Valley Corporation, except with respect to the section entitled "Description of Notes" and where it is clear that these terms mean only Vector Group Ltd.

VECTOR GROUP

We are a holding company for a number of businesses. We are engaged principally in:

- the manufacture and sale of cigarettes in the United States

through our subsidiary Liggett Group Inc., and

- the development and marketing of the low nicotine and nicotine-free QUEST cigarette products and the development of reduced risk cigarette products through our subsidiary Vector Tobacco Inc.

Our majority-owned subsidiary, New Valley Corporation, is currently engaged in the real estate business and is seeking to acquire additional operating companies and real estate properties. New Valley owns 50% of Douglas Elliman Realty, LLC, which operates the largest residential brokerage company in the New York metropolitan area.

We are controlled by Bennett S. LeBow, our Chairman and the Chairman of New Valley, who beneficially owns approximately 34.9% of our common stock.

Liggett

Liggett is the successor to the Liggett & Myers Tobacco Company, which was founded in 1873. Liggett, which is currently the fifth largest manufacturer of cigarettes in the United States in terms of unit sales (as of the closing of the combination of RJR Tobacco and Brown & Williamson's United States tobacco businesses in July 2004), shipped approximately 9.8 billion cigarettes during 2003. Liggett believes, based on published industry sources, that this accounted for 2.4% of the total cigarettes shipped in the United States during 2003.

Liggett has a history of introducing innovative products to improve its competitive position in the discount cigarette segment, which Liggett's management believes has been the primary growth segment for the industry for over a decade. In 1980, Liggett was the first major domestic cigarette manufacturer to successfully introduce discount cigarettes as an alternative to premium priced cigarettes. In 1989, Liggett established a new price point within the discount market segment by introducing PYRAMID, a branded discount product which, at that time, sold for less than most other discount cigarettes. In 1999, Liggett introduced LIGGETT SELECT, one of the fastest growing brands in the deep discount category. LIGGETT SELECT is now the largest seller in Liggett's family of brands, comprising 55.5% of Liggett's unit volume in the first nine months of 2004, and 50.9% in the 2003 calendar year, 42.1% in 2002 and

31.4% in 2001. These product introductions allowed Liggett to increase its market share through greater penetration of the discount segment. Liggett believes, based on published industry sources, that Liggett's discount cigarette shipments represented 7.3% of this market segment for 2003.

In April 2002, we acquired the stock of The Medallion Company, Inc. for a total purchase price of $110 million. Medallion, a discount cigarette manufacturer, is a participating manufacturer under the Master Settlement Agreement (described below). Medallion has no payment obligations under the Master Settlement Agreement unless its market share exceeds approximately 0.28% of total cigarettes sold in the United States (which amounted to approximately 1.1 billion units in 2003). Following the purchase of the Medallion stock, Vector Tobacco merged into Medallion and Medallion changed its name to Vector Tobacco Inc. For purposes of this prospectus, references to the Liggett segment encompass the manufacture and sale of conventional cigarettes and include the former operations of Medallion (which operations are held for legal purposes as part of Vector Tobacco).

Liggett has also taken a unique approach to the litigation proceedings against U.S. cigarette manufacturers concerning the harmful effects of cigarette

consumption. Beginning in 1996, Liggett settled, independently of its four major competitors, the tobacco litigation brought by various state attorneys general against it and the other major cigarette manufacturers.

Liggett believes that it has gained a sustainable cost advantage over its competitors through these settlement initiatives. Under the Master Settlement Agreement reached in November 1998 with 46 state attorneys general, the three largest cigarette manufacturers must make settlement payments to the 46 states based on how many cigarettes are sold annually. Liggett, however, is not required to make any payments unless its market share exceeds approximately 1.65% of the U.S. cigarette market. Additionally, Vector Tobacco, the legal successor by merger to Medallion, likewise has no payment obligation unless its market share exceeds approximately 0.28% of the U.S. market.

Vector Tobacco

Vector Tobacco is engaged in the development and marketing of the low nicotine and nicotine-free QUEST cigarette products and the development of reduced risk cigarette products.

QUEST. In January 2003, Vector Tobacco introduced QUEST, its brand of low nicotine and nicotine-free cigarette products. The product is currently available in eight states, and sales of cigarettes in those eight states account for approximately 30% of all cigarette sales in the United States. QUEST is designed for adult smokers who are interested in reducing their levels of nicotine intake and is available in both menthol and nonmenthol styles. Each style offers three different packagings, with decreasing amounts of nicotine - QUEST 1, 2 and 3. QUEST 1, the low nicotine variety, contains 0.6 milligrams of nicotine. QUEST 2, the extra-low nicotine variety, contains 0.3 milligrams of nicotine. QUEST 3, the nicotine-free variety, contains only trace levels of nicotine - no more than 0.05 milligrams of nicotine per cigarette. QUEST cigarettes utilize a proprietary process that enables the production of nicotine-free tobacco that tastes and smokes like tobacco in conventional cigarettes. All six QUEST varieties are sold in box style packs and are priced comparably to other premium brands. We continue to support the brand by point-of-purchase awareness campaigns and other store-related promotions.

The premium segment of the tobacco industry is currently experiencing intense competitive activity, with increased discounting of premium brands at all levels of retail. Given these marketplace conditions, and the results that we have seen to date with QUEST, we determined during the second quarter of 2004 to postpone indefinitely the national launch of QUEST. Vector Tobacco continues to explore potential opportunities to expand the market for the brand on a more limited basis. Any determination as to future expansion of the market presence of the QUEST brand will be based on the

ongoing and projected demand for the product, market conditions in the premium segment and the prevailing regulatory environment, including any restrictions on the advertising of the product.

In October 2003, we announced that Jed E. Rose, Ph.D., Director of Duke University Medical Center's Nicotine Research Program and co-inventor of the nicotine patch, had conducted a study at Duke University Medical Center to provide preliminary evaluation of the use of the QUEST technology as a smoking cessation aid. In the preliminary study on QUEST, 33% of QUEST 3 smokers were able to achieve four-week continuous abstinence, a standard threshold for smoking cessation. We believe these results show promise for the QUEST technology as a smoking cessation aid. We have asked the Food and Drug Administration to supply us with guidance as to the additional research and

regulatory filings necessary to market QUEST as a smoking cessation product. We believe that obtaining the Food and Drug Administration's approval to market QUEST as a smoking cessation product will be an important factor in the long-term commercial success of the QUEST brand. No assurance can be given that such approval can be obtained or as to the timing of any such approval if received.

OMNI. In November 2001, Vector Tobacco launched nationwide its OMNI brand, which was the first reduced carcinogen cigarette that smokes, tastes and burns like other premium cigarettes. In comparison to comparable styles of the leading U.S. cigarette brand, OMNI cigarettes produced significantly lower levels of many of the recognized carcinogens and toxins that the medical community has identified as major contributors to lung cancer and other diseases in smokers. Acceptance of OMNI was limited, and the product is not currently being distributed. 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 as to the human effects of OMNI's reduction of carcinogens 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.

New Valley

We currently own 58.2% of New Valley (NASDAQ: NVAL), which is engaged in the following businesses:

- New Valley Realty Division, and

- 50% ownership of Douglas Elliman Realty, LLC

New Valley Realty Division. Through its Realty Division, New Valley is engaged in the real estate business and owns two commercial office buildings in Princeton, New Jersey and a 50% interest in the Sheraton Keauhou Bay Resort & Spa in Kailua-Kona, Hawaii, which is reopening in the fourth quarter of 2004 after a major renovation. New Valley also seeks to acquire additional operating companies and real estate properties.

Douglas Elliman Realty. New Valley owns 50% of Douglas Elliman Realty, LLC, which operates the largest residential brokerage company in the New York metropolitan area through its two subsidiaries, Douglas Elliman, LLC and Prudential Douglas Elliman Real Estate. Together, the two brokerage companies have 54 offices with more than 2,500 real estate brokers in the metropolitan New York area. The companies achieved combined sales of approximately $6.8 billion of real estate for the year ended December 31, 2003. In 2003, Douglas Elliman Realty was ranked as the ninth largest residential brokerage company in the United States based on closed sales volume by the Real Trends broker survey.

Douglas Elliman, LLC was founded in 1911 and has grown to be one of Manhattan's leading residential brokers by specializing in the highest end of the sales and rental marketplaces. It has 14 offices in New York City, more than 1,000 real estate brokers and sales volume of approximately $4 billion of real estate for the year ended December 31, 2003.

Prudential Douglas Elliman Real Estate is headquartered in Huntington, New York and is the largest residential brokerage company on Long Island with 40 offices. During 2003, Prudential Douglas Elliman Real Estate closed

approximately 6,955 transactions, representing sales volume of approximately $2.8 billion of real estate. Prudential Douglas Elliman Real Estate serves approximately 250 communities from Manhattan to Montauk.

STRATEGY

Our strategy is to maximize shareholder value by increasing the profitability of our subsidiaries in the following ways:

Liggett

- Capitalize upon Liggett's cost advantage in the U.S. cigarette market due to the favorable treatment that it receives under settlement agreements with the state attorney generals and the Master Settlement Agreement,

- Focus marketing efforts on the discount segment, continue to build volume and margin in core discount brands (LIGGETT SELECT and EVE) and utilize core brand equity to selectively build distribution,

- Continue product development to provide the best quality products relative to other discount products in the marketplace,

- Increase efficiency by developing and adopting an organizational structure to maximize profit potential,

- Expand the portfolio of private and control label partner brands utilizing flexible promotional strategies,

- Bring niche-driven brands to the market in the future, and

- Pursue strategic acquisitions of smaller tobacco manufacturers.

Vector Tobacco

- Take a measured approach to expanding the market presence of the QUEST brand through additional marketing and promotional campaigns,

- Continue to pursue the QUEST technology as a smoking cessation aid, and

- Continue to conduct appropriate studies as to the effects on humans of OMNI's reduction of carcinogens and review the marketing and positioning of the OMNI brand in order to formulate a strategy for its long-term success.

New Valley

- Continue to grow Douglas Elliman operations by utilizing its strong brand name recognition and pursuing strategic and financial opportunities,

- Continue to leverage our expertise as direct investors by actively pursuing real estate

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investments in the United States and abroad which we believe will generate above-market returns,

- Acquire operating companies through mergers, asset purchases, stock acquisitions or other means, and

- Invest New Valley's excess funds opportunistically in situations that we believe can maximize shareholder value.

We were incorporated in the State of Delaware on September 7, 1999. The mailing address of our principal executive offices is 100 S.E. Second Street, Miami, Florida 33131. Our telephone number at that address is (305) 579-8000. Our website address is www.vectorgroupltd.com. Our website and the information contained in our website are not incorporated into this prospectus or the registration statement of which it forms a part.

RECENT DEVELOPMENTS

Liggett Vector Brands Restructuring. On October 6, 2004, we announced a plan to restructure the operations of Liggett Vector Brands Inc., our sales, marketing and distribution agent for our Liggett and Vector Tobacco subsidiaries. Liggett Vector Brands is realigning its sales force and adjusting its business model to more efficiently serve its chain and independent accounts nationwide. In connection with the restructuring, we have eliminated approximately 330 full-time positions and 135 part-time positions, effective December 15, 2004.

As a result of these actions, we currently expect to realize annual cost savings of approximately $30 million beginning in 2005. We will recognize pre-tax restructuring charges currently estimated to total approximately $12.06 million, of which approximately $4.43 million has been recognized in the third quarter of 2004 and approximately $7.63 million will be recognized in the fourth quarter of 2004. Approximately $5.88 million of the charges relate to employee severance and benefit costs and approximately $6.18 million relate to contract termination and other associated costs. Approximately $2.5 million of these charges represent non-cash items. Additionally, in the fourth quarter of 2004, we will incur other charges for various compensation and related payments to employees which are related to the restructuring. We expect these additional charges to total approximately $1.8 million and they will be included in operating, selling, administrative and general expenses.

Tobacco Quota Elimination. In October 2004, federal legislation was enacted which will eliminate the federal tobacco quota system and price support system. 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 be responsible for 96.3% of the assessment, which will be allocated based on relative unit volume of domestic cigarette shipments. The three largest manufacturers will be entitled to a credit of a portion of the assessment payable by them against certain of their MSA obligations. We currently estimate that Liggett's assessment will be approximately $25 million for the first year of the program, which began October 1, 2004. The ultimate impact of this legislation cannot be determined, but there is a risk that smaller manufacturers, such as Liggett and Vector Tobacco, will be disproportionately affected by the legislation and that this legislation could have a material adverse effect on us.

Effective October 22, 2004, Liggett increased the list price of all its brands by $.65 per carton. The increase was taken due to the recently passed federal tobacco buyout legislation.

THE OFFERING

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

Issuer................................	Vector Group Ltd.
Securities Offered....................	$81,875,000 in principal amount of 5% Variable Inte Notes due 2011. This prospectus also relates to the our common stock issuable upon conversion of the no of the notes issuable upon exercise of additional i holders.
Maturity..............................	November 15, 2011
Interest..............................	Annual Rate: 5%, with an additional amount of inter interest payment date based on the amount of cash d share on our common stock during the prior three-mo the record date for such interest payment multiplie shares of our common stock into which the notes are record date (together, the "Total Interest"). Notw foregoing, however, during the period from November including November 15, 2006, the interest payable o date shall be the higher of (i) the Total Interest year. Payment Frequency: Every quarter on February 15, Ma November 15 First Payment: February 15, 2005
Conversion Rights.....................	The notes are convertible, at the holders' option a the date of issuance until the maturity date, unles or repurchased as described below, into our common conversion price of $19.57 per share of common stoc adjustment. The initial conversion ratio is 51.0986 per $1,000 principal amount of notes. The conversio adjustment for various events.
Mandatory Redemption..................	We must redeem 12.5% of the total aggregate princip outstanding on November 15, 2009. We will also rede and on each interest accrual period thereafter an a any, of the notes necessary to prevent the notes fr "Applicable High Yield Discount Obligation" under t Code. The holders of the notes will have the option to require us to repurchase some or all of their re redemption price for such redemptions will equal 10 amount of the notes plus accrued and unpaid interes

Repurchase at Option of the Holders Upon a Fundamental Change.............	If a fundamental change (as defined in "Description Repurchase of Notes at Option of the Holders Upon a occurs, subject to certain conditions and restricti required to repurchase the notes, at the option of 100% of their principal amount, plus accrued and un

	plus, under certain circumstances, the "make-whole this prospectus in cash and/or common stock to hold require us to repurchase their notes in connection event.
Ranking................................	The notes are our unsecured and unsubordinated obli parity in right of payment with all of our existing unsubordinated indebtedness. The notes will effecti future secured indebtedness we may incur and junior subsidiaries. As of September 30, 2004, after appli of the offering of the notes, these notes would hav junior to approximately $116.6 million of indebtedn subsidiaries.
Use of Proceeds........................	We will not receive any of the proceeds from the sa securityholders of the notes or the underlying comm this prospectus.
Events of Default......................	The following are events of default under the inden - we fail to deliver within 30 days the require common stock upon conversion, - we fail for 30 days to reserve shares of comm conversion, - we fail to pay interest or registration defau and that failure continues for 5 days, - we fail to pay the principal and any premium - we fail to perform any other covenant in the and that failure continues for 60 days after trustee or the holders of a least 25% in the amount of the outstanding notes, - we fail to pay when due the principal of any borrowed by us or any of our subsidiaries in if the indebtedness is not discharged and suc 30 days or more, or, if such indebtedness has such acceleration is not annulled, within 30 notice to us by the trustee of the holders of aggregate principal amount of the outstanding - final unsatisfied judgments not covered by in excess of $10 million, at any one time, are r any significant subsidiary and not stayed, bo within 60 days, and - certain events of bankruptcy, insolvency or r respect to us or any of our significant subsi the indenture.

	See "Description of Notes - Events of Default and R
Registration Rights....................	This prospectus is part of a registration statement

registration rights agreement we entered into with
listed therein. If we fail to comply with certain o
the registration rights agreement, we will pay liqu
notes. See "Description of the Notes - Registration

Trading Market........................	The notes issued in the initial private placement a in the PORTAL system. However, notes sold using thi longer be eligible for trading in the PORTAL system list the notes on any other national securities exc quotation system. Our common stock trades on the Ne under the symbol "VGR".
Risk Factors..........................	Investment in the notes and the underlying common s degree of risk. Therefore, you should carefully con in this prospectus and in particular the matters se Factors" section.

RISK FACTORS

Before you invest in our securities, 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 prospectus, 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 COMPANY

WE AND OUR SUBSIDIARIES HAVE A SUBSTANTIAL AMOUNT OF INDEBTEDNESS.

We and our subsidiaries have significant indebtedness and debt service obligations. At September 30, 2004, we and our subsidiaries had total outstanding indebtedness of $308 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 subsidiary, VGR Holding Inc. In addition to our own cash resources, our ability to pay interest on our convertible notes and to pay dividends on our common stock depends on the ability of VGR Holding 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, and New Valley, in which we indirectly hold an approximately 58.2% interest, 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 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.

As the controlling stockholder of New Valley, we must deal fairly with New Valley, which may limit our ability to enter into transactions with New Valley that result in the receipt of cash from New Valley and to influence New Valley's dividend policy. In addition, since we indirectly own only approximately 58.2% of the common shares of New Valley, a significant portion of any cash and other assets distributed by New Valley will be received by persons other than us and our subsidiaries.

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 the notes and our common stock.

OUR LIQUIDITY COULD BE ADVERSELY AFFECTED IF TAXING AUTHORITIES PREVAIL IN THEIR ASSERTION THAT WE INCURRED A TAX OBLIGATION IN 1998 AND 1999 IN CONNECTION WITH THE PHILIP MORRIS BRAND TRANSACTION.

In connection with the 1998 and 1999 transaction with Philip Morris Incorporated, in which a subsidiary of Liggett 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. Upon exercise of the options during either of the 90-day periods commencing in December 2008 or in March 2010, we will be required to pay tax in the amount of the deferred tax liability, which will be offset by the benefit of any deferred tax assets, including 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 asserts that, for tax reporting purposes, the entire gain should have been recognized in 1998 and in 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. If the Internal Revenue Service were to ultimately prevail with the proposed adjustment, it would result in the potential acceleration of tax payments of approximately $120 million, including interest, net of tax benefits, through September 30, 2004. These amounts have been previously recognized in our consolidated financial statements as tax liabilities. In addition, we have filed a protest with the Appeals Division of the Internal Revenue Service. Although no payment is due with respect to these matters during the appeal process, interest is accruing on the disputed amounts.

There is a risk that the taxing authorities will ultimately prevail in their assertion that we incurred a tax obligation prior to the exercise dates of these options and we will be required to make such tax payments prior to 2009 or 2010. If that were to occur and any necessary financing were not available to us, our liquidity could be materially adversely affected, which in turn would

materially adversely affect our ability to meet payment obligations under the notes and the value of our common stock.

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 84.9% of the United States cigarette market during 2003. 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 62.3% of the premium segment and 46.7% of the total domestic market during 2003. During 2003, Liggett's share of the premium cigarette segment was 0.2%, and its share of the total domestic cigarette market was 2.4%. Philip Morris and RJR Tobacco, 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. The other cigarette manufacturers historically have brought 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 Inc. This transaction will further consolidate the dominance of the domestic cigarette market

by Philip Morris and the newly created Reynolds American, who will have a combined market share of approximately 76%. 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 would harm us and the value of the notes and 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. Approximately 94.6% of Liggett's unit sales in 2003, and all of Liggett's unit volume in the first nine months of 2004, were 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 four 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 7.3% in 2003 from 6.7% in 2002 and 6.5% in 2001, Management Science Associates data indicate that the discount market share of these other smaller manufacturers and importers increased to 37.8% in 2003 from 33.5% in 2002 and 26.9% in 2001 due to their increased competitive discounting. 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 the notes and 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 the first nine months of 2004, Liggett's unit sales and market share declined compared to the same period in 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 2003 and 2002 was 2.4%, compared with 2.1% for 2001. Liggett's share of the premium segment was 0.2% in 2003 and 0.3% in 2002 and 2001, and its share of the discount segment during 2003 was 7.3%, up from 6.7% in 2002 and 6.5% for 2001. 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 the notes and 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 4.1% during 2003. According to Management Science Associates data, domestic industry-wide shipments decreased by 1.4% in 2002 compared to 2001. Liggett's management believes 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 the notes and 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, 2004, there were approximately 384 individual suits, 28 purported class actions and 18 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 has been filed by the United States federal government seeking disgorgement of approximately $289 billion from various cigarette manufacturers, including Liggett. Trial of the case began on September 21, 2004. In addition to these cases, in 2000, an action against cigarette manufacturers involving approximately 1,000 named individual plaintiffs was consolidated 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. Approximately 38 purported class action complaints have been filed against the cigarette manufacturers for alleged 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.

There are six individual actions where Liggett is the only defendant, with one of these cases currently scheduled for trial in January 2005 and one in early 2005. In April 2004, in one of these cases, a jury in a Florida state court action awarded compensatory damages of $0.5 million against Liggett. In addition, plaintiff's counsel is seeking legal fees of $0.8 million. Liggett has appealed the verdict.

In May 2003, a Florida intermediate appellate court overturned a $790 million punitive damages award against Liggett and decertified the Engle smoking and health class action. In May 2004, the Florida Supreme Court agreed to review the case. Oral argument was held on November 3, 2004. If the intermediate appellate court's ruling is not upheld on further appeal, it will 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 class in the Engle case, 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 June 2002, the jury in an individual case brought under the third phase of the Engle case awarded $37.5 million (subsequently reduced by the court to $25.1 million) of compensatory damages against Liggett and two other defendants and found Liggett 50% responsible for the damages. The verdict, which is subject to the outcome of the Engle appeal, has been overturned as a result of the appellate court's ruling discussed above. 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 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 restrictive regulatory actions from various federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. 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 the notes and our common stock.

LIGGETT HAS SIGNIFICANT SALES TO A SINGLE CUSTOMER.

During 2003, 16.6% of Liggett's total revenues, 17.7% of Liggett's revenues in the discount segment and 15.6% of our consolidated revenues were generated by sales to Liggett's largest customer. Liggett's contract with this customer currently extends through June 30, 2005. 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 will eliminate the federal tobacco quota system and price support system. 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 be responsible for 96.3% of the assessment, which will be allocated based on relative unit volume of domestic cigarette shipments. The three largest manufacturers will be entitled to a credit of a portion of the assessment payable by them against certain of their MSA obligations. We currently estimate that Liggett's assessment will be approximately $25 million for the first year of the program which began October 1, 2004. The ultimate impact of this legislation cannot be determined, but there is a risk that smaller 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. Proposed further tax increases in various jurisdictions are currently under consideration or pending. In 2003, 15 states and the District of Columbia enacted increases in excise taxes. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and several states have pending legislation proposing further state excise tax increases. In 2004, ten states have increased the excise tax rate so far and several other states are likely to impose additional taxes on cigarettes. 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 the notes and 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. During 2003, OMNI

sales activity was minimal as 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 as to the human effects of OMNI's reduction of carcinogens 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 due to the use of genetically modified tobacco or other product modifications.

Recoverability of costs of inventory. At September 30, 2004, approximately $2.8 million of our 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 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 reduced carcinogen and low nicotine and nicotine-free cigarette products 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

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Tobacco has engaged in discussions in an effort to resolve these concerns and Vector Tobacco has recently agreed to suspend all print advertising for its QUEST brand while discussions are pending. 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 carcinogen and low nicotine and nicotine-free cigarette products and the use of genetically modified tobacco. A system of regulation by agencies such as the Food and Drug Administration, the Federal Trade Commission and the United States Department of Agriculture may be established. In addition, a group of public health organizations submitted a petition to the Food and Drug Administration, 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 also has expressed interest in the regulation of tobacco products made by tobacco manufacturers, including Vector Tobacco, which bear reduced carcinogen claims. The ultimate outcome of any of the foregoing cannot be predicted, but any of the foregoing could have a material adverse impact on Vector Tobacco's business, operating results and prospects.

Necessity of obtaining Food and Drug Administration approval to market QUEST as a smoking cessation product. In October 2003, we announced that Jed E. Rose, Ph.D., Director of Duke University Medical Center's Nicotine Research Program and co-inventor of the nicotine patch, had conducted a study at Duke University Medical Center to provide preliminary evaluation of the use of the QUEST technology as a smoking cessation aid. We have asked the Food and Drug Administration to supply us with guidance as to the additional research and regulatory filings necessary to market QUEST as a smoking cessation product. We believe that obtaining the Food and Drug Administration's approval to market QUEST as a smoking cessation product will be an important factor in the long-term commercial success of the QUEST brand. No assurance can be given that such approval can be obtained or as to the timing of any such approval if received.

Competition from other cigarette manufacturers with greater resources. The cigarette industry is highly competitive. 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 and may introduce such a product during 2004. RJR has stated that in 2003 it began a phased expansion into a select number of retail chain outlets of a cigarette product that primarily heats rather than burns tobacco, which it claims reduces the toxicity of its smoke. In 2002, Brown & Williamson Tobacco Corporation announced it was test marketing a new cigarette with reduced levels of many toxins which it may introduce on a national basis. There is a substantial likelihood that other major tobacco companies will continue to introduce new products that are designed to compete directly with Vector Tobacco's reduced carcinogen and low nicotine and nicotine-free products.

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 other jurisdictions, 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 if infringement would otherwise occur, both in the United States and in foreign countries.

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 necessary patents currently exist or are issued to other companies that contain competitive or conflicting claims, 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 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, Vice President of Public Health, Dr. Robert Bereman, Vice President of Chemical Research, or Dr. Mark A. Conkling, Vice President of Genetic Research, 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 October 2004, we announced a plan to restructure the operations of Liggett Vector Brands, effective December 15, 2004. We may consider various additional opportunities to 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 two significant investments, Douglas Elliman Realty, LLC and the Sheraton Keauhou Bay Resort & Spa (reopening in the fourth quarter 2004) where it holds only a 50% interest. 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 plans to 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 its investment in Douglas Elliman Realty, LLC New Valley is subject to the risks and uncertainties endemic to the residential brokerage

business. Both Douglas Elliman and Prudential 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. Prudential Douglas Elliman's franchiser also has the right to terminate Douglas Elliman's and Prudential Douglas Elliman'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 agreements and a failure to promptly pay amounts due under the franchise agreements. A termination of Douglas Elliman's or Prudential Douglas Elliman's franchise agreement could adversely affect New Valley's investment in Douglas Elliman Realty, LLC.

Interest rates in the United States are currently near 40-year lows. 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 current 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 New Valley's investment in that company.

NEW VALLEY'S POTENTIAL INVESTMENTS ARE UNIDENTIFIED AND MAY NOT SUCCEED.

New Valley currently holds 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, New Valley may lack relevant management experience in the areas in which New Valley may invest. There is a risk that New Valley 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.

FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND STOCK PRICE.

We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our stock price.

RISKS RELATING TO THE OFFERING

THE NOTES WILL BE UNSECURED AND ARE EFFECTIVELY SUBORDINATED TO INDEBTEDNESS AND OTHER LIABILITIES OF OUR SUBSIDIARIES.

The notes 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 notes 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 notes. Further, the notes 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 permits us to incur indebtedness and permits our subsidiaries to incur senior or other debt or 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 notes. 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 notes, even in the case of an event of default under the notes.

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 notes in the event of a highly leveraged transaction, reorganization, restructuring, merger, spin-off or similar transaction that may adversely affect holders of the notes except to the extent described under "Description of Notes - Repurchase of Notes at 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 NOTES 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 notes may require us to purchase all or a portion of their notes for cash upon the occurrence of specific circumstances involving the events described under "Description of Notes -- Repurchase of Notes at Option of the Holders Upon a Fundamental Change" and "Description of Notes -- 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 notes tendered by holders thereof. In addition, our ability to repurchase notes 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 notes would constitute an event of default under the indenture.

THE MAKE-WHOLE PREMIUM PAYABLE ON NOTES CONVERTED OR REPURCHASED IN CONNECTION WITH THE OCCURRENCE OF A FUNDAMENTAL CHANGE MAY NOT ADEQUATELY COMPENSATE YOU FOR THE LOST OPTION VALUE OF THE NOTES AS A RESULT OF SUCH FUNDAMENTAL CHANGE.

If a fundamental change occurs, we will in certain circumstances pay a make-whole premium on notes 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 per share of our common stock in the fundamental change as described below under "Description of the Notes -- Repurchase of Notes at Option of the Holders Upon a Fundamental Change." While the make-whole premium is designed to compensate holders of notes for the lost option time value of their notes 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 notes 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 notes, there will be no make-whole premium.

NO PUBLIC TRADING MARKET FOR THE NOTES EXISTS.

Prior to the initial private placement, there was no public market for these notes. The notes issued in the initial private placement are eligible for trading in the PORTAL system. However, the notes resold using this prospectus will no longer trade in the PORTAL system. We do not intend to list the notes on any national securities exchange or automated quotation system. If any of the notes are traded after they are initially issued, they may trade at a discount from their initial offering price. The trading price of the notes may depend on prevailing interest rates, the market for similar securities and other factors, including economic conditions and our financial condition, performance and prospects.

WE HAVE MANY POTENTIALLY DILUTIVE SECURITIES OUTSTANDING.

At September 30, 2004, we had outstanding options granted to employees to purchase approximately 9,122,859 shares of our common stock, at prices ranging from $3.73 to $37.60 per share, of which options for 8,510,523 shares are exercisable during 2004. We also have outstanding two series of convertible notes maturing in July 2008 and November 2011, respectively, which are currently convertible into 8,720,034 shares of our common stock (9,556,773 shares of common stock if the rights to purchase additional notes are exercised in full). 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.

OUR STOCK PRICE MAY BE VOLATILE.

The trading price of our common stock has ranged between $13.86 and $17.38 per share over the past 52 weeks. The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

- the depth and liquidity of the trading market for our common stock,
- quarterly variations in its actual or anticipated operating results,
- changes in investors' and analysts' perceptions of the business and legal risks facing us and the tobacco industry,
- changes in estimates of its earnings by investors and analysts, and
- announcements or activities by its competitors.

FORWARD-LOOKING STATEMENTS

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,
- 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 words or phrases or their negatives.

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

- general economic and market conditions and any changes therein, due to acts of war and terrorism or otherwise,
- governmental regulations and policies,
- effects of industry competition,
- 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,
- uncertainty related to litigation, and
- risks inherent in our new product development initiatives.

Further information on risks and uncertainties specific to our business include the risk factors discussed above under "Risk Factors" and in "Management's Discussion and Analysis of Financial Condition and 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. We disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this prospectus to reflect any changes in our expectations or any change in events, conditions or circumstances on which any statement is based.

USE OF PROCEEDS

The selling securityholders will receive all of the proceeds from the sale of the notes and common stock issuable upon conversion of the notes. We will not receive any proceeds from the sale by any selling securityholder of the notes or the shares of common stock issuable upon conversion of the notes 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 $63 million from our sale of the notes to the initial purchasers, after deducting the estimated offering expenses payable by us. We used the proceeds of the offering to redeem at par all of the remaining $63 million principal amount of the 10% Senior Secured Notes due March 31, 2006 issued by the Company's subsidiary, VGR Holding Inc.

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 ENDED
	1999	2000	2001	2002	2003	2003
Ratio of earnings to fixed charges (1)	6.4x	8.8x	2.2x	-	-	-

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(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 and for the nine months ended September 30, 2003 and 2004, earnings were insufficient to cover fixed charges as evidenced by a less than one-to-one coverage ratio as shown above. Additional earnings of approximately $47.2 million and $18.3 million were necessary for the years ended December 31, 2002 and 2003, respectively, and $26.3 million and $5.8 million for the nine months ended September 30, 2003 and 2004, respectively, to provide a one-to-one coverage for us.

DESCRIPTION OF THE NOTES

Set forth below is a summary of certain provisions of the notes and the registration rights agreement. The notes were issued pursuant to an indenture, dated as of November 18, 2004, between us and Wells Fargo Bank, N.A., as trustee. The following summary of the notes, the indenture and the registration

rights agreement does not purport to be complete and is subject to and is qualified by reference to all of the provisions of the indenture, including the definitions of certain terms used in the indenture. Copies of the indenture and the registration rights agreement may be obtained from us upon request. As used in this section, references to "us", "we", "our" or the "Company" refer to Vector Group Ltd., exclusive of its subsidiaries. Whenever particular provisions or defined terms of the indenture (or the form of note which is a part thereof) or the registration rights agreement are referred to in this summary, such provisions or defined terms are incorporated by reference as a part of the statements made and such statements are qualified in their entirety by such reference.

GENERAL

We issued the notes having a principal amount of $65,500,000 in a private transaction on November 18, 2004, with the initial buyers having an option to buy up to an additional $16,375,000 of principal amount of notes on or before March 18, 2005. The notes are our general unsecured obligations and constitute "senior indebtedness" of the Company, ranking pari passu with all other unsubordinated indebtedness of the Company. The notes have been issued only in fully registered form, without coupons, in denominations of $1,000 and integral multiples thereof.

The notes will mature on November 15, 2011, unless earlier repurchased by us at a holders' option upon an event of default under the notes as described under " -- Events of Default and Remedies" or upon our fundamental change as described under " -- Repurchase of Notes at Option of the Holders Upon a Fundamental Change" or redeemed at a holder's option as described under " -- Mandatory Redemption and Redemption at the Option of the Holders" or converted at a holder's option as described under " -- Conversion Rights". In addition, at least 12.5% of the aggregate principal amount of the notes outstanding will be subject to mandatory redemption on November 15, 2009 as described under " -- Mandatory Redemption and Redemption at the Option of the Holders". Interest on the notes will accrue at the rate of 5% per annum and will be payable in arrears quarterly on February 15, May 15, August 15 and November 15, commencing on February 15, 2005, to the noteholders of record on the immediately preceding February 1, May 1, August 1 and November 1 (the "Record Date"). On each interest payment date, an additional amount in interest on the notes shall also be payable in an amount equal to the product of (i) the number of shares of common stock into which such notes were convertible on the Record Date and (ii) the total cash dividends and cash distributions we paid per share of common stock during the three-month period ending on such Record Date (together, the "Total Interest"). Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Notwithstanding the foregoing, however, during the period from November 18, 2004 to and including November 15, 2006, the interest payable on each interest payment date shall be the higher of (i) the Total Interest and (ii) 6 3/4% per annum.

Payment of interest will be made by check mailed to each holder at such holder's address as set forth upon our registry books or, upon the written request of a holder of in excess of $2 million principal amount of notes, by wire transfer. No service charge will be made for any registration of transfer or conversion of notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Until otherwise designated by us, our office or agency will be the corporate trust office of the trustee presently located at Sixth & Marquette, N9303-120, Minneapolis, MN 55479; Attn: Corporate Trust Services.

The indenture does not contain any financial covenants or any restrictions on our payment of dividends, our issuance or repurchase of our securities or our incurrence of indebtedness, including senior indebtedness. The indenture contains no covenants or other provisions to afford the holders protection in the event of a highly leveraged transaction or a change of control of us, except to the limited extent described under " -- Repurchase of Notes at Option of Holders Upon a Fundamental Change".

CONVERSION RIGHTS

The holders will have the right to convert any portion of the principal amount of the notes at any time prior to the close of business on the maturity date of the notes, unless previously redeemed or repurchased. The conversion price for the notes is $19.57 per share, which is equal to a conversion rate per share of approximately 51.0986 shares per $1,000 principal amount of the notes, subject to adjustment as described below. The holders may convert his or her notes in part so long as the part converted is $1,000 or an integral multiple of $1,000. Except as set forth immediately below, his or her right to convert notes 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 notes subject to the redemption will expire at the close of business on the applicable redemption date. If the notes are converted on an interest payment date, the interest due on the interest payment date will be paid to the holders whose notes are being redeemed or converted on that date and such holders will not be required to repay that amount. The effect of this clause 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 notes 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 date on the principal amount of notes the holders are converting; 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 notes 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 the holders converted. We will not issue any fractional shares of common stock upon conversion. If the issuance 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 notes within 3 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 the holders of shares of common stock that such holders anticipated receiving from us upon the conversion (a "Buy-In"), then we shall, within 3 business days after such holders' request and in the holders' discretion, either

(i) 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 common stock) shall terminate, or (ii) 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, times (B) the closing price of the common stock on the conversion date.

We will not effect any conversion of notes, and no holders shall have the right to convert any portion of their notes, 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 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 the holders and its affiliates shall include the number of shares of common stock issuable upon conversion of the notes with respect to which the determination is being made, but shall exclude the number of shares of common stock which would be issuable upon (A) conversion of the remaining, nonconverted portion of the notes beneficially owned by the holders or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company 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, the conversion price will be subject to adjustment following the issuance of the notes upon certain events, including:

(a) any payment of dividends or 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),

(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 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 notes, 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 notes would have been entitled to receive had such notes 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 notes become convertible into the right to receive cash, or if the holders of the notes 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 increase in the conversion price. See "Certain 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 note, the holder must complete and manually sign the conversion notice on the back of the note specifying the principal amount of such note the holder seeks to convert and deliver the conversion notice, together with the note and any required interest payment, to the office of the conversion agent for the notes, 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 note. The note will be deemed to be converted on the date on which the holder has satisfied all of these requirements.

RANKING

The notes are our unsecured and unsubordinated indebtedness and rank pari passu with all other of our unsubordinated indebtedness. The notes will effectively rank 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 notes on terms no less favorable than those applicable to senior indebtedness which constitutes Designated Senior Indebtedness under the Indenture dated as of July 5, 2001 between the Company and U.S. Bank Trust National Association, as Trustee, (the "2001 Indenture") under which our 6 1/4% Convertible Subordinated Notes due 2008 are issued and outstanding.

The notes shall constitute "Senior Indebtedness", and we have designated the notes as "Designated Senior Indebtedness", in each case under the 2001 Indenture.

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 notes 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, 2004, we did not have any outstanding senior indebtedness and, after application of the proceeds of the offering of the notes, our subsidiaries would have had $116.6 million of indebtedness. 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 Notes at Option of the Holders Upon a Fundamental Change" and " -- Limitation on Merger, Sale or Consolidation".

MANDATORY REDEMPTION AND REDEMPTION AT THE OPTION OF THE HOLDERS

On November 15, 2009, 12.5% of the aggregate principal amount of the notes outstanding will be subject to mandatory redemption on a pro rata basis. In addition to such redemption amount, we will also redeem on November 15, 2009 and on each interest accrual period thereafter an additional amount, if any, of the notes necessary to prevent the notes 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. The holders of the notes will have the option on November 15, 2009 to require us to repurchase some or all of their remaining notes. The redemption price shall equal 100% of the principal amount of the notes being redeemed, together with accrued and unpaid interest and any registration default payments to, but excluding, the redemption date.

REDEMPTION AT OUR OPTION

We have no right to redeem the notes at our option at any time prior to the maturity date.

REPURCHASE OF NOTES AT 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 notes at a cash repurchase price equal to 100% of the principal amount of the notes, 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 notes if a fundamental change occurs before November 15, 2011 determined by reference upon the table provided in the indenture 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 notes held by such holder by delivering to us a repurchase notice, provided that the principal amount of the notes 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 notes 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 notes 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 notes, 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, immediat