
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 27, 2006

Vector Group Ltd.

(Exact name of registrant as specified in its charter)

Delaware

(State of other jurisdiction
of incorporation)

1-5759

(Commission
File Number)

65-0949535

(IRS Employer
Identification No.)

100 S.E. Second Street, Miami, Florida
(Address of principal executive offices)

33131
(Zip Code)

(305) 579-8000

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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TABLE OF CONTENTS

[Item 1.01 Entry into a Material Definitive Agreement](#)

[Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers](#)

[Item 9.01 Financial Statements and Exhibits](#)

[SIGNATURES](#)

[Employment Agreement/Howard M. Lorber](#)

[Amended Employment Agreement/Bennett S. LeBow](#)

[Employment Agreement/ Richard J. Lampen](#)

[Amended Employment Agreement/Marc N. Bell](#)

[Employment Agreement/J. Bryant Kirkland III](#)

[Vector Supplemental Retirement Plan](#)

[Vector Senior Executive Annual Bonus Plan](#)

Item 1.01 Entry into a Material Definitive Agreement

Lorber Agreement

On January 27, 2006, Vector Group Ltd. (the “Company”) and Howard M. Lorber, the President and Chief Executive Officer of the Company, entered into an Amended and Restated Employment Agreement (the “Amended Lorber Agreement”). The Amended Lorber Agreement replaces Mr. Lorber’s current employment agreements with the Company and with New Valley Corporation (“New Valley”), the Company’s former majority-owned subsidiary which the Company acquired the remaining shares of in December 2005. The Amended Lorber Agreement has an initial term of three years effective as of January 1, 2006, with an automatic one-year extension on each anniversary of the effective date unless notice of non-extension is given by either party within 60 days before this date. As of January 1, 2006, Mr. Lorber’s annual base salary was \$2,581,286. Mr. Lorber’s salary is subject to an annual cost-of-living adjustment. In addition, the Company’s board must periodically review his base salary and may increase but not decrease it from time to time in its sole discretion. Mr. Lorber will be entitled to receive a target bonus of 100% of his base salary under the Company’s Senior Executive Annual Bonus Plan (discussed below). During the period of his employment, Mr. Lorber will be entitled to various benefits, including a Company-provided car and driver, a \$7,500 per month allowance for lodging and related business expenses, two club memberships and dues, and use of corporate aircraft in accordance with the Company’s Corporate Aircraft Policy. Following termination of his employment by the Company without cause (as defined in the Amended Lorber Agreement), termination of his employment by him for good reason (as defined in the Amended Lorber Agreement) or upon death or disability, he (or his beneficiary in the case of death) would continue to receive for a period of 36 months following the termination date his base salary and the bonus amount earned by him for the prior year (with such bonus amount limited to 100% of base salary). In addition, all of Mr. Lorber’s outstanding equity awards would be vested with any stock options granted after January 27, 2006 remaining exercisable for no less than two years or the remainder of the original term if shorter. Following termination of his employment within two years of a change-of-control, he would receive a lump sum payment equal to 2.99 times the sum of his then current base salary and the bonus amount earned by him for the prior year (with such bonus amount limited to 100% of base salary). In addition, Mr. Lorber is indemnified against excise taxes that are imposed on change-of-control payments under Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”). In the event of a termination of his employment under the circumstances where he is entitled to the severance payments discussed above, Mr. Lorber will also be credited with an additional 36 months of service under the Company’s Supplemental Retirement Plan (discussed below).

LeBow Agreement

On January 27, 2006, the Company and Bennett S. LeBow, the Executive Chairman of the Company, entered into a letter agreement (the “LeBow Amendment”) amending Mr. LeBow’s Amended and Restatement Employment Agreement, dated as of September 27, 2005. The amendment is designed, among other things, to clarify the operation of that agreement under the “deferred compensation” provisions of Section 409A of the Code and to modify the

definition of change-of-control to be consistent with the definition of change-of-control in the Amended Lorber Agreement.

Other Executive Agreements

On January 27, 2006, the Company entered into Employment Agreements (the “Other Executive Agreements”) with Richard J. Lampen, the Company’s Executive Vice President, Marc N. Bell, the Company’s Vice President and General Counsel, and J. Bryant Kirkland III, the Company’s Vice President and, effective April 1, 2006, Chief Financial Officer. The Other Executive Agreements replace current employment agreements with the Company or New Valley. The Other Executive Agreements have an initial term of two years effective as of January 1, 2006, with an automatic one-year extension on each anniversary of the effective date unless notice of non-extension is given by either party within 60 days before this date. As of January 1, 2006, the annual base salaries provided for in the Other Executive Agreements were \$750,000 for Mr. Lampen, \$375,000 for Mr. Bell, and \$250,000 (\$300,000 effective April 1, 2006) for Mr. Kirkland. In addition, the Company’s board must periodically review these base salaries and may increase but not decrease them from time to time in its sole discretion. These executives will be entitled to receive a target bonus of 33.3% for Mr. Lampen, and 25% for Messrs. Bell and Kirkland, of their base salaries under the Company’s Senior Executive Annual Bonus Plan. Following termination of their employment by the Company without cause (as defined in the Other Executive Agreements), termination of their employment by the executives for good reason (as defined in the Other Executive Agreements) or upon death or disability, they (or their beneficiaries in the case of death) would continue to receive for a period of 24 months following the termination date their base salary and the bonus amount earned by them for the prior year (with such bonus amount limited to 33.3% of base salary for Mr. Lampen and 25% of base salary for Messrs. Bell and Kirkland).

Supplement Retirement Plan

On January 27, 2006, the Company amended and restated its Supplemental Retirement Plan (the “Amended SERP”), effective January 1, 2005. The amendments to the plan are intended, among other things, to cause the plan to meet the applicable requirements of Section 409A of the Code.

The Amended SERP is a plan pursuant to which the Company will pay supplemental retirement benefits to certain key employees, including executive officers of the Company. The Amended SERP is intended to be unfunded for tax purposes, and payments under the Amended

Table of Contents

SERP will be made out of the general assets of the Company. Under the Amended SERP, the benefit payable to a participant at his normal retirement date is a lump sum amount which is the actuarial equivalent of a predetermined annual retirement benefit set by the Company's board of directors. Normal retirement date is defined as the January 1 following the attainment by the participant of the later of age 60 or the completion of eight years of employment following January 1, 2002 with the Company or a subsidiary, except that, under the terms of Mr. LeBow's September 27, 2005 Amended and Restated Employment Agreement, his normal retirement date was accelerated by one year to December 30, 2008. The following sets forth for each of the indicated key employees his annual retirement benefit, the lump sum equivalent thereof and his normal retirement date: Bennett S. LeBow — \$2,524,163; \$19,970,925; December 30, 2008; Howard M. Lorber — \$1,051,875; \$10,855,666; January 1, 2010; Richard J. Lampen — \$250,000; \$2,625,275; January 1, 2014; Marc N. Bell — \$200,000; \$2,100,220; January 1, 2021; J. Bryant Kirkland III — \$202,500; \$2,126,473; January 1, 2026; and Ronald J. Bernstein — \$438,750; \$4,607,358; January 1, 2014. In the case of a participant who becomes disabled prior to his normal retirement date or whose service is terminated without cause, the participant's benefit consists of a pro-rata portion of the full projected retirement benefit to which he would have been entitled had he remained employed through his normal retirement date, as actuarially discounted back to the date of payment. A participant who dies while working for the Company or a subsidiary (and before becoming disabled or attaining his normal retirement date) will be paid an actuarially discounted equivalent of his projected retirement benefit; conversely, a participant who retires beyond his normal retirement date will receive an actuarially increased equivalent of his projected retirement benefit.

Bonus Plan

On January 27, 2006, the Company adopted the Senior Executive Annual Bonus Plan (the "Bonus Plan"), subject to approval of the Bonus Plan at the Company's 2006 annual stockholders meeting. Stockholder approval is required to ensure that annual incentive awards paid to senior executives under the Bonus Plan will be fully tax deductible as performance-based compensation, as defined by the regulations under Section 162(m) of the Code.

Under Section 162(m) of the Code, the amount which the Company may deduct on its tax returns for compensation paid or accrued with respect to certain "covered employees" (generally the chief executive officer and the four highest paid executive officers other than the chief executive officer) in any taxable year is generally limited to \$1 million per individual. However, compensation that qualifies as "qualified performance-based compensation" is not subject to the \$1 million deduction limit. In order for compensation to qualify as "qualified performance-based compensation" for this purpose, it must meet certain conditions, one of which is that the material terms of the performance goals under which the compensation is to be paid must be disclosed to and approved by stockholders. Payment of any awards pursuant to the Bonus Plan is contingent on stockholder approval of the Bonus Plan. If such approval is not obtained, no award will be paid under this Bonus Plan.

The persons who are eligible to be selected to participate in the Bonus Plan are employees of the Company and its subsidiaries who are executive officers of the Company. Under the Bonus Plan, a committee designated by the Board and consisting exclusively of

Table of Contents

“outside directors” within the meaning of Section 162(m) of the Code (the “Bonus Plan Committee”) selects participants in the Bonus Plan, determines the amount of their award opportunities, selects the performance criteria and the performance goals for each year, and administers and interprets the Bonus Plan. The Company’s Compensation Committee will serve as the Bonus Plan Committee. An eligible employee may (but need not) be selected to participate in the Bonus Plan each year.

No later than 90 days after the commencement of each year (or by such other deadline as may apply under Code Section 162(m)(4)(C) or the Treasury Regulations thereunder), the Bonus Plan Committee will select the persons who will participate in the Bonus Plan in such year and establish in writing the performance goals for that year as well as the method for computing the amount of compensation which each such participant will be paid if such goals are attained in whole or in part. Such method will be stated in terms of an objective formula or standard that precludes discretion to increase the amount that will be due upon attainment of the goals. The Bonus Plan Committee retains discretion under the Bonus Plan to reduce an award at any time before it is paid. The maximum amount of compensation that may be paid under the Bonus Plan to any participant for any year is equal to \$5 million.

Under the Bonus Plan, the performance goals for any year may be based on any of the following criteria, either alone or in any combination, and on either a consolidated or business unit or divisional level, and may include or exclude discontinued operations, acquisition expenses and restructuring expenses, as the Bonus Plan Committee may in each case determine: (a) net earnings (either before or after interest, taxes, depreciation and amortization), (b) economic value-added (as determined by the Bonus Plan Committee), (c) sales or revenue, (d) net income (either before or after taxes), (e) operating earnings, (f) cash flow (including, but not limited to, operating cash flow and free cash flow), (g) cash flow return on capital, (h) return on net assets, (i) return on stockholders’ equity, (j) cash dividends and/or other distributions, (k) return on assets, (l) return on capital, (m) stockholder returns, (n) return on sales, (o) gross or net profit margin, (p) productivity, (q) expense, (r) margins, (s) operating efficiency, (t) customer satisfaction, (u) working capital, (v) debt, (w) debt reduction, (x) earnings per share, (y) price per share of stock, (z) market share, (aa) completion of acquisitions, (bb) business expansion, (cc) product diversification, (dd) new or expanded market penetration and (ee) other non-financial operating and management performance objectives. Performance goals may be absolute or relative and may be expressed in terms of a progression within a specified range. The foregoing terms shall have any reasonable definitions that the Bonus Plan Committee may specify, which may include or exclude any or all of the following items, as the Bonus Plan Committee may specify: extraordinary, unusual or non-recurring items, effects of changes in tax law, accounting principles or such laws or provisions affecting reported assets; effects of currency fluctuations; effects of financing activities (e.g., effect on earnings per share of issuing convertible debt securities); expenses of restructuring, productivity initiatives or new business initiatives; impairment of tangible or intangible assets; litigation or claim judgments or settlements; non-operating items; acquisition expenses; and effects of asset sales or divestitures. Any of the foregoing criteria may apply to a participant’s award opportunity for any year in its entirety or to any designated portion of the award opportunity, as the Bonus Plan Committee may specify.

Table of Contents

Awards may be paid under the Bonus Plan for any year only if and to the extent the awards are earned on account of the attainment of the performance goals applicable to such year and the participant is continuously employed by the Company throughout such year. The only exceptions to the continued employment requirement are if employment terminates by reason of death, disability or retirement (as determined by the Bonus Plan Committee) during a year, in which case a prorated award may be paid after the close of the year if the applicable performance goals are met. If a participant's employment terminates for any reason other than death, disability or retirement during a year, any award for such year will be forfeited.

All payments pursuant to the Bonus Plan are to be made in cash, only after the Bonus Plan Committee certifies that the performance goals for the year have been satisfied. Subject to shareholder approval, the Bonus Plan is in effect for the fiscal year commencing January 1, 2006 and will continue in effect for subsequent years unless and until terminated by the Bonus Plan Committee in accordance with the provisions of the Bonus Plan. The Board may terminate the Bonus Plan without stockholder approval at any time.

The summary of the foregoing agreements is qualified in its entirety by reference to the text of the Amended Lorber Agreement, the LeBow Amendment, the Other Executive Agreements, the Amended SERP and the Bonus Plan, which are included as exhibits hereto and incorporated herein by reference.

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On January 27, 2006, J. Bryant Kirkland III, 40, was named Chief Financial Officer of the Company, effective April 1, 2006. Mr. Kirkland will succeed Joselynn D. Van Siclen, 65, who will retire from the Company during the first half of 2006. Mr. Kirkland has served as a Vice President of the Company since January 2001 and served as New Valley's Vice President and Chief Financial Officer from January 1998 to December 2005. He has served since November 1994 in various financial capacities with the Company and New Valley. Mr. Kirkland has served as Vice President and Chief Financial Officer of CDSI Holdings Inc. since January 1998 and as a director of CDSI Holdings Inc. since November 1998.

[Table of Contents](#)

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

- 10.1 Employment Agreement, dated as of January 27, 2006, between Vector and Howard M. Lorber.
- 10.2 Amendment, dated as of January 27, 2006, to Amended and Restated Employment Agreement between Vector and Bennett S. LeBow.
- 10.3 Employment Agreement, dated as of January 27, 2006, between Vector and Richard J. Lampen.
- 10.4 Amended and Restated Employment Agreement, dated as of January 27, 2006, between Vector and Marc N. Bell.
- 10.5 Employment Agreement, dated as of January 27, 2006, between Vector and J. Bryant Kirkland III.
- 10.6 Vector Supplemental Retirement Plan (as amended and restated January 27, 2006).
- 10.7 Vector Senior Executive Annual Bonus Plan.

SIGNATURES

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

VECTOR GROUP LTD.

By: /s/ Richard J. Lampen _____
Richard J. Lampen
Executive Vice President

Date: January 27, 2006

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT dated as of January 27, 2006, by and between Vector Group Ltd., a Delaware corporation (together with its successors and assigns, the "Company"), and Howard M. Lorber (the "Executive").

WITNESSETH

A. WHEREAS, the Executive has served as President and Chief Operating Officer of the Company pursuant to an Employment Agreement dated as of January 17, 2001 (the "Prior Employment Agreement");

B. WHEREAS, the Board of Directors of the Company (the "Board") has elected the Executive to serve as the President and Chief Executive Officer of the Company effective January 1, 2006; and

C. WHEREAS, the Company and the Executive desire to amend and restate the Prior Employment Agreement, effective as of January 1, 2006 (as so amended and restated, this "Agreement"), to provide for the continued employment of the Executive by the Company for the period and upon the terms and conditions set forth herein;

D. NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Company and the Executive hereby agree as follows:

1. Employment and Term.

(a) Effective January 1, 2006, the Company agrees to employ the Executive, and the Executive accepts employment by the Company, as its President and Chief Executive Officer upon the terms and conditions set forth herein.

(b) Subject to Sections 1(c) and (d) and the provisions for termination hereinafter provided in Section 6, the term of the Executive's employment hereunder shall be from January 1, 2006 (the "Effective Date") through and including the day immediately preceding the third anniversary of the Effective Date (the "Initial Period").

(c) On the first anniversary of the Effective Date and on each subsequent anniversary of such date (each a "Renewal Date"), the term of this Agreement shall automatically be extended by one additional calendar year (the "Extension Period") unless either party shall have provided notice to the other within the sixty-day period prior to a Renewal Date that such party does not desire to extend the term of this Agreement, in which case no further extension of the term of this Agreement shall occur pursuant hereto but all previous extensions of the term shall continue to be given full force and effect.

(d) For purposes of this Agreement, subject to the provisions for termination hereinafter provided in Section 6, the term "Employment Period" means the Initial Period, if the term of this Agreement has not been extended pursuant to Section 1(c); otherwise, the period beginning on the Effective Date and ending with the last day of the most recently arising Extension Period. Notwithstanding the foregoing, the Employment Period shall terminate on the applicable date set forth in Section 6 and shall not include any Severance Period (as hereinafter defined).

2. Duties.

(a) Throughout the Employment Period, the Executive shall be the President and Chief Executive Officer of the Company, reporting directly to the Board, and shall have all duties and authorities as customarily exercised by an individual serving in such positions in a company the nature and size of the Company. The Executive shall at all times comply with

all written Company policies applicable to him. During the Employment Period, the Company shall also nominate the Executive for re-election as a member of the Board.

(b) Throughout the Employment Period, the Executive shall devote substantially all his working hours to performing his services to the Company hereunder, and shall use his reasonable best efforts to perform his duties under this Agreement fully, diligently and faithfully, and shall use his reasonable best efforts to promote the interests of the Company and its subsidiaries and affiliates.

(c) Anything herein to the contrary notwithstanding, nothing shall preclude the Executive from (i) serving on the boards of directors of a reasonable number of other business entities, trade associations and/or charitable organizations, (ii) engaging in charitable activities and community affairs, (iii) managing his personal and/or family investments and affairs, and (iv) engaging in any other activities approved by the Board; provided, however, that such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2(b).

3. Compensation.

As compensation for his services to be performed hereunder and for his acceptance of the responsibilities described herein, the Company agrees to pay the Executive, and the Executive agrees to accept, the following compensation and other benefits:

(a) **Base Salary.** During the Employment Period, the Company shall pay the Executive a salary (the "Base Salary") at the rate of \$2,581,286 per annum, payable in equal installments at such payment intervals as are the usual custom of the Company, but not less often than monthly. The Base Salary shall be increased, as of January 1 of each year commencing January 1, 2007, by a cost-of-living adjustment determined by reference to the

Consumer Price Index, All Urban Consumers for New York Northern New Jersey, All Items (1982 1984 = 100) (the "Index"), or, if publication of the Index is terminated, any substantially equivalent successor thereto. In addition to the foregoing, the Board shall periodically review such Base Salary and may increase (but not decrease) it from time to time, in its sole discretion. After any increase, "Base Salary" as used in this Agreement shall mean the increased amount.

(b) **Annual Incentive Compensation.** Subject to the approval of the Company's Senior Executive Annual Bonus Plan (together with any amendments thereto, the "Plan") by the Company's shareholders at the Company's 2006 annual shareholders' meeting, during the Employment Period, the Executive shall be entitled to participate in the Plan, including any successor thereto, commencing with the calendar year ending December 31, 2006, and be eligible to receive an annual bonus ("Bonus Amount") based on a target bonus opportunity of 100% of Base Salary. Bonus payments shall be subject to compliance with performance goals determined by the Compensation Committee of the Board in accordance with the Plan, which performance goals shall be consistent with the Executive's positions as the President and Chief Executive Officer of the Company.

(c) **Long-Term Incentive Plans.** During the Employment Period, the Executive shall be entitled to participate in the long-term incentive plans of the Company, including, but not limited to, the Company's Amended and Restated 1999 Long-Term Incentive Plan (together with any amendments thereto, the "LTIP"), on a basis consistent with the Executive's positions as the President and Chief Executive Officer of the Company.

(d) **Benefit Plans.** During the Employment Period and as otherwise provided herein in Section 6, the Executive shall be entitled to participate in any and all employee welfare and health benefit plans (including, but not limited to, life insurance, health

and medical, dental and disability plans) and other employee benefit plans, including but not limited to qualified pension plans and the SERP (as defined in Section 9 hereof), established by the Company from time to time for the general and overall benefit of the senior executives of the Company on a basis no less favorable than the basis on which any other senior executive participates (other than the Executive Chairman with respect to the SERP); provided that nothing herein contained shall be construed as requiring the Company to establish or continue any particular benefit plan in discharge of its obligations hereunder.

(e) **Deferred Compensation.** Notwithstanding any other provision of this Employment Agreement, during the Employment Period, the Executive shall have the right to request to defer the receipt of any portion of his Base Salary or Bonus Amount by any arrangement that does not result in the imposition of any additional tax under Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations, rulings and other guidance published thereunder by the Internal Revenue Service (the "Code"), and the Company shall reasonably cooperate with the Executive to grant such request, provided that the granting of such request does not represent inequitable treatment as concerns other senior employees or executives (in the Company's sole judgment) and does not impose additional costs on the Company other than insignificant administrative costs.

4. Vacation and Other Benefits.

During the Employment Period, the Executive shall be entitled to not less than five (5) weeks of paid vacation each year of his employment hereunder, as well as to such other employment benefits extended or provided to executives of comparable status, including, but not limited to, payment or reimbursement of all reasonable expenses incurred by the Executive in the performance of his responsibilities and the promotion of the Company's

businesses. In all events, during the Employment Period, the Executive shall be entitled to first-class air travel and lodging, a Company-provided car and driver, a \$7,500 per month allowance for lodging and related business expenses, cellular phone charges, club memberships and dues at 2 clubs, and travel expenses of the Executive's spouse when accompanying him on business related trips. The Executive shall submit to the Company periodic statements of all expenses so incurred. Subject to such audits as the Company may deem necessary, the Company shall reimburse the Executive the full amount of any such expenses advanced by him promptly in the ordinary course. During the Employment Period, the Executive shall have access to the use of corporate aircraft in accordance with the Company's Corporate Aircraft Policy in effect from time to time.

5. Executive Covenants.

Provided that the Company is not in material default to the Executive on any of its obligations under this Agreement, the Executive agrees as follows:

(a) Except with the consent of or as directed by the Board or otherwise in the ordinary course of the business of the Company or any subsidiary, affiliate or investee in which the Company holds, directly or indirectly, more than a 20% equity interest (a "Significant Investee"), the Executive shall keep confidential and not divulge to any other person, during the Employment Period or thereafter, any business secrets and other confidential information regarding the Company, its subsidiaries, its affiliates and/or its Significant Investees, except for information which is or becomes publicly available or known within the relevant trade or industry other than as a result of disclosure by the Executive in violation of this Section 5(a). Anything herein to the contrary notwithstanding, the provisions of this Section 5(a) shall not apply (i) when disclosure is required by law or by any court, arbitrator, mediator or

administrative or legislative body (including any committee thereof) with apparent jurisdiction to order the Executive to disclose or make accessible any information, (ii) when disclosure is necessary to resolve an issue raised in good faith in any litigation, arbitration or mediation involving this Agreement or any other agreement between the Executive and the Company or any of its subsidiaries, affiliates or Significant Investees, including, but not limited to, the enforcement of such agreements or (iii) when disclosure is required in connection with the Executive's cooperation pursuant to Section 5(f).

(b) All papers, books and records of every kind and description relating to the business and affairs of the Company, its subsidiaries, affiliates or Significant Investees, whether or not prepared by the Executive are the exclusive property of the Company, and the Executive shall surrender them to the Company, at any time upon request by the General Counsel of the Company, during or after the Employment Period. Anything to the contrary notwithstanding, the Executive shall be entitled to retain (i) papers and other materials of a personal nature, including, but not limited to, photographs, correspondence, personal diaries, calendars and Rolodexes, personal files and phone books, (ii) information showing his compensation or relating to reimbursement of expenses, (iii) information that he reasonably believes may be needed for tax purposes and (iv) copies of plans, programs and agreements relating to his employment, or if applicable, his termination of employment, with the Company or any of its subsidiaries or affiliates.

(c) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, participate as a director, officer, employee, agent, representative, stockholder, or partner, or have any direct or indirect financial interest as a

creditor, in any business which directly or indirectly competes with a business in which the Company, a subsidiary, affiliate or Significant Investee (collectively, the "Restricted Group") is engaged both for some period during the Employment Period and on the day the Executive's employment is terminated hereunder ("Competitive Business"); provided, however, that this Section 5(c) shall not restrict the Executive from holding up to 5% of the publicly traded securities of any entity which so competes with the Company. Anything to the contrary notwithstanding, this Section 5(c) shall not prohibit the Executive from (i) serving on the board of directors of any entity on which he was serving prior to his termination date and (ii) providing services to a subsidiary, division or affiliate of a Competitive Business if such subsidiary, division or affiliate is not itself engaged in a Competitive Business and the Executive does not provide services to or with respect to the Competitive Business.

(d) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, either for his own account or for any person, firm or company (i) solicit any customer of the Company, its subsidiaries or affiliates (other than with respect to products and services not provided by any member of the Restricted Group on the date the Executive's employment is terminated), or (ii) solicit or endeavor to cause any employee of any member of the Restricted Group to leave such employment or induce or attempt to induce any such employee to breach any written employment agreement with the Company, its subsidiaries or affiliates, provided the Executive knows (or reasonably should have known) about the provisions of such agreement.

(e) Without limiting any other provision of this Agreement, the Executive hereby agrees to act in a manner consistent with, and to use his reasonable best efforts

to cause the Company, its subsidiaries and its affiliates, as appropriate, to comply with, any obligations known to the Executive and imposed on the Company, its subsidiaries or affiliates, by law, rule, regulation, ordinance, order, decree, instrument, agreement, understanding or other restriction of any kind.

(f) The Executive hereby agrees to provide reasonable cooperation to the Company, its subsidiaries and affiliates during the Employment Period and, subject to his other personal and business commitments, any Severance Period in any litigation between the Company, its subsidiaries or affiliates, and third parties.

(g) The parties agree that the Company shall, in addition to other remedies provided by law, have the right and remedy to have the provisions of this Section 5 specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any breach or threatened breach by the Executive of the provisions of this Section 5 will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company. Nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages from the Executive.

6. Termination of Employment Period and Severance.

(a) **Termination by the Company without Cause.** Except as provided in Section 6(d), if for any reason the Company wishes to terminate the Employment Period and the Executive's employment hereunder (including by not extending the term of this Agreement pursuant to Section 1(c)), (i) the Company shall give notice (the "Termination Notice") to the Executive stating such intention, (ii) the Employment Period shall terminate on the date set forth in the Termination Notice (the "Termination Date"), and (iii) a severance period

shall commence upon such Termination Date for a period of thirty-six months (such period, the “Severance Period”). During the Severance Period, the Executive shall continue to receive the Base Salary under Section 3(a), shall be entitled to an annual cash bonus pursuant to Section 3(b) (which annual cash bonus shall be the bonus paid the Executive for the performance period immediately prior to the year in which the Termination Notice is given but not greater than 100% of Base Salary) and the Executive and his eligible dependents shall continue to receive the welfare benefits under Section 3(d) (including any benefits under the Company’s long-term disability and life insurance plans) of this Agreement as if the Employment Period continued throughout the Severance Period; provided that if such plans or programs do not permit the Executive and/or his eligible dependents continued participation, the Company shall pay the Executive, quarterly, an amount which after-tax will keep him in the same economic position as if he and/or his eligible dependents had continued in such plans and/or programs. In addition, the Executive shall be entitled to (x) accelerated vesting upon the Termination Date of all outstanding equity awards, with all outstanding stock options or stock appreciation rights granted to the Executive on or after the date of this Agreement remaining exercisable for no less than two years or the remainder of the original term, if shorter, (y) payment of any earned but unpaid amounts, including bonuses for performance periods that ended prior to the Termination Date and any unreimbursed business expenses, with such payment made in accordance with Company practices in effect on the date of his termination of employment and (z) any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **Death.** If the Executive dies during the Employment Period, the Employment Period shall automatically terminate and the Severance Period described in Section

6(a) hereof shall immediately commence. The Executive's designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall be entitled to the rights, benefits and other entitlements as set forth in Section 6(a) as if the Executive's employment had been terminated by the Company without Cause, including, without limitation, the payments and benefit continuation during the Severance Period as set forth in Section 6(a), provided that if any benefit plan or program does not permit the Executive's eligible dependents to continue to participate in such plan or program, the Company shall pay the Executive's eligible dependents, quarterly, an amount which after-tax will keep them in the same economic position as if they had continued in such plans and/or programs. If the Executive dies during any Severance Period during which he is entitled to benefits pursuant to Section 6, his designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall continue to receive the compensation that the Executive would have otherwise received during the remainder of the Severance Period and his designated beneficiary(ies) shall be entitled to continue to participate in the Company's medical plans during the remainder of the Severance Period.

(c) **Disability.** If the Executive is deemed to have a Disability (as hereinafter defined) during the Employment Period, the Company shall be entitled to terminate the Executive's employment upon 30 days notice to the Executive. In the event of such termination, the Executive shall be released from his duties under Section 2, and the Employment Period shall end and the Severance Period described in Section 6(a) hereof shall immediately commence upon the expiration of such 30-day notice period. The Executive's rights, benefits and other entitlements during such Severance Period shall be as set forth in Section 6(a) as if his employment had been terminated by the Company without Cause, and the Executive shall be entitled to all such compensation and benefits during the Severance Period

without any offset or reduction except by such amounts, if any, as are paid to the Executive in lieu of compensation for services under any applicable disability or other similar insurance policies of the Company (or by the Company under any self insurance plan). For purposes of this Employment Agreement, "Disability" shall mean mental or physical impairment or incapacity rendering the Executive substantially unable to perform his duties under this Agreement for more than 180 days out of any 360-day period during the Employment Period. A determination of Disability shall be made by the Board in its reasonable discretion after obtaining the advice of a medical doctor mutually selected by the Company and the Executive. If the parties cannot agree upon a medical doctor, each party shall select a medical doctor and the two doctors shall select a third who shall be the approved medical doctor for this purpose.

(d) **Termination by the Company for Cause.** The Company, by notice to the Executive, shall have the right to terminate the Employment Period and the Executive's employment hereunder in the event of any of the following (any of which shall constitute "Cause" for purposes of this Agreement):

(i) the Executive having been convicted of or entered a plea of nolo contendere with respect to a criminal offense constituting a felony;

(ii) the Executive having committed in the performance of his duties under this Agreement one or more acts or omissions constituting fraud, dishonesty, or willful injury to the Company which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iii) the Executive having committed one or more acts constituting gross neglect or willful misconduct which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iv) the Executive having exposed the Company to criminal liability substantially and knowingly caused by the Executive which results in a material adverse effect on the business, financial condition or results of operations of the Company; or

(v) the Executive having failed, after written warning from the Board specifying in reasonable detail the breach(es) complained of, to substantially perform his duties under this Agreement (excluding, however, any failure to meet any performance targets or to raise capital or any failure as a result of an approved absence or any mental or physical impairment that could reasonably be expected to result in a Disability).

For purposes of the foregoing, no act or failure to act on the part of the Executive shall be considered “willful” or “knowingly” unless it is done, or omitted to be done, by the Executive without reasonable belief that the Executive’s action or omission was in the best interests of the Company. Any act or failure to act that is expressly authorized by the Board pursuant to a resolution duly adopted by the Board, or pursuant to the written advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Executive in the best interests of the Company. Notwithstanding the foregoing, termination by the Company for Cause under clauses (ii) through (v) shall not be effective until and unless each of the following provisions shall have been complied with: (a) notice of intention to terminate for Cause (a “Preliminary Cause Notice”), the giving of which shall have been authorized by a vote of a majority of the members of the Board then in office, which shall include a written statement of the particular acts or circumstances which are the basis for the termination for Cause and shall set forth a reasonable period (not less than thirty days) to cure (the “Cure Period”), shall have been given to the Executive by the Board within ninety days after the Company first learns of the act, failure or event constituting Cause; (b) the Executive shall not have cured the acts or

circumstances complained of within the Cure Period; (c) the Board shall have called an in person meeting of the Board, at which termination of the Executive is an agenda item, and shall have provided the Executive with not less than twenty days' notice thereof (which meeting shall be held after the end of the Cure Period); (d) the Executive shall have been afforded the opportunity, accompanied by counsel, to provide written materials to the members of the Board in advance of such meeting and, if he so desires, to personally address the members of the Board at such meeting; and (e) the Board shall have provided within three business days after such meeting, a written notice of termination for cause, stating that, based upon the evidence it has received and reviewed, and specifying in reasonable detail the acts and circumstances complained of, it has voted by a vote of at least a majority of all of the members of the Board then in office to terminate the Executive for Cause (such a notice, a "Cause Termination Notice"), which such notice shall be effective on the day of receipt thereof by the Executive.

Any termination of employment under this Section 6(d) shall not be followed by a Severance Period and shall be without damages or liability to the Company for compensation and other benefits which otherwise would have accrued to the Executive hereunder after the date of termination, but any unpaid compensation, benefits and reimbursements accrued through the date of such termination, including Base Salary and any unpaid bonus amount, shall be paid to the Executive at the times normally paid by the Company and the Executive shall be entitled to any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(e) **Voluntary Termination by the Executive.** In the event of the voluntary termination of employment by the Executive, the terms of the last paragraph of Section

6(d) shall apply; provided, however, if (A) such voluntary termination occurs as a result of (and, except for a material diminution of the Executive's duties and responsibilities that does not involve the failure to elect or re-elect the Executive as President and Chief Executive Officer of the Company and as a member of the Board or the removal of the Executive from any such position), the Executive has given the Company notice of such event within 120 days of the Executive learning of such event): (i) a material diminution of the Executive's duties and responsibilities provided in Section 2, including, without limitation, the failure to elect or re-elect the Executive as President and Chief Executive Officer of the Company and as a member of the Board or the removal of the Executive from any such position, (ii) a reduction of the Executive's Base Salary or target bonus opportunity as a percentage of Base Salary or any other material breach of any material provision of this Agreement by the Company, (iii) relocation of the Executive's office from the New York City or Miami metropolitan areas, (iv) the change in the Executive's reporting relationship from direct reporting to the Board or (v) the failure of a successor to all or substantially all of the Company's business and/or assets to promptly assume and continue the Company's obligations under this Agreement, whether contractually or as a matter of law, within 15 days of such transaction and (B) the Executive gives the Company sixty days' prior notice of his intent to voluntarily terminate his employment for any (or all) of the reasons set forth in Section 6(e)(A)(i), (ii), (iii), (iv) or (v) (which if the 120-day notice period set forth in clause (A) is applicable, such notice can be given at any time within such 120-day notice period) and the Company shall not have cured such breach within such 60-day period, then the Severance Period shall begin at the end of such 60-day period and the provisions of Section 6(a) shall apply.

(f) Termination Following a Change in Control. For purposes of this Agreement, a “Change in Control” shall occur if or upon the occurrence of:

(i) Any “Person” (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”)) acquires “Beneficial Ownership” (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of any securities of the Company which generally entitles the holder thereof to vote for the election of directors of the Company (the “Voting Securities”), which, when added to the Voting Securities then “Beneficially Owned” by such person, would result in such Person “Beneficially Owning” forty percent (40%) or more of the combined voting power of the Company’s then outstanding Voting Securities; provided, however, that for purposes of this paragraph (i), a Person shall not be deemed to have made an acquisition of Voting Securities if such Person: (a) acquires Voting Securities as a result of a stock split, stock dividend or other corporate restructuring in which all stockholders of the class of such Voting Securities are treated on a pro rata basis; (b) acquires the Voting Securities directly from the Company; (c) becomes the Beneficial Owner of more than the permitted percentage of Voting Securities solely as a result of the acquisition of Voting Securities by the Company, which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by such Person; (d) is the Company or any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a “Controlled Entity”); or (e) acquires Voting Securities in connection with a “Non-Control Transaction” (as defined in paragraph (iii) below); or

(ii) The individuals who, as of January 1, 2006 are members of the Board (the “Incumbent Board”), cease for any reason to constitute at least two-thirds of the

Incumbent Board, provided, however, that if either the election of any new director or the nomination for election of any new director was approved by a vote of more than two-thirds of the Incumbent Board, such new director shall be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(iii) Shareholder approval of:

(a) A merger, consolidation or reorganization involving the Company (a "Business Combination"), unless

(1) the stockholders of the Company immediately before the Business Combination, own, directly or indirectly immediately following the Business Combination, at least fifty-one percent (51%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from the Business Combination (the "Surviving Corporation"), and

(2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for the Business Combination constitute at least a majority of the members of the Board of Directors of the relevant Surviving Corporation, and

(3) no Person (other than the Company, or any Controlled Entity, a trustee or other fiduciary holding securities under one or more employee

benefit plans or arrangements (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Controlled Entity, or any Person who, immediately prior to the Business Combination, had Beneficial Ownership of forty percent (40%) or more of the then outstanding Voting Securities) has Beneficial Ownership of forty percent (40%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities (a transaction described in this subparagraph (a) shall be referred to as a "Non-Control Transaction");

(b) A complete liquidation or dissolution of the Company; or

(c) The sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Controlled Entity).

Notwithstanding the foregoing, (x) a Change in Control shall not be deemed to occur solely because forty percent (40%) or more of the then outstanding Voting Securities is Beneficially Owned by (A) a trustee or other fiduciary holding securities under one or more employee benefit plans or arrangements (or any trust forming a part thereof) maintained by the Company or any Controlled Entity or (B) any corporation which, immediately prior to its acquisition of such interest, is owned directly or indirectly by the stockholders of the Company in the same proportion as their ownership of stock in the Company, immediately prior to such acquisition; (y) a Change in Control shall not be deemed to occur by reason of a testamentary bequest by Bennett S. LeBow to or for the benefit of his surviving spouse of any or all securities of the Company Beneficially Owned by him as of the date of death, so long as, following the bequest, the event referenced in Section 6(f)(ii) shall not have occurred; and (z) if the Executive ceases to be an employee of the Company and the Executive reasonably demonstrates that such

termination (A) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control and who effectuates a Change in Control or (B) otherwise occurred in connection with, or in anticipation of, a Change in Control which actually occurs, then for all purposes hereof, the date of a Change in Control with respect to the Executive shall mean the date immediately prior to the date of such termination of employment (and the Executive shall be entitled to the payments, benefits and entitlements provided under Section 6(g) determined as of his termination but reduced and offset as appropriate to reflect the value of the payments, benefits and entitlements received by the Executive and his beneficiaries pursuant to Section 6(a) prior to the date it is determined that Section 6(g) applies. Upon a Change in Control, the Executive's outstanding equity awards shall immediately vest in full, with all outstanding stock options and stock appreciation rights granted to the Executive on or after the date of this Agreement remaining exercisable for the remainder of their terms.

(g) If within two years of a Change in Control, the Executive's employment is terminated by the Company without Cause (other than for reason of death or Disability) or by the Executive for any (or all) of the reasons set forth in Sections 6(e)(A)(i), (ii), (iii), (iv) or (v), the Company shall pay the Executive in cash in a lump sum to be paid as soon as practicable following termination (but in no event later than 30 days following such termination), an amount equal to 2.99 times the sum of (a) the annual Base Salary of the Executive and (b) the bonus earned by him (including any amounts deferred) for the performance period that ended immediately prior to the performance period in which the date of termination occurs (but not greater than 100% of the Executive's Base Salary during such year). The Executive and his eligible dependents shall also be entitled to continue to participate in all welfare benefit plans in which they were participating on the date of termination of the Executive's employment until the

earlier of (x) the end of the Employment Period or (y) the date he receives equivalent coverage and benefits under the plans and programs of a subsequent employer. In addition, for a thirty six month period after such termination, the Company shall arrange to provide the Executive and his eligible dependents, at the Company's expense, with life, disability, accident, and health and medical insurance benefits substantially similar to those which the Executive and such dependents were receiving immediately prior to such termination; but benefits otherwise receivable by the Executive and his dependents pursuant to this sentence shall be reduced to the extent comparable benefits are actually received by him and his dependents during such period following such termination from a subsequent employer, and any such benefits actually received by the Executive and his dependents shall be reported to the Company. In addition, the Executive shall be entitled to (x) accelerated vesting upon the Termination Date of all outstanding equity awards, with all outstanding stock options or stock appreciation rights granted to the Executive on or after the date of this Agreement remaining exercisable for the no less than two years or the remainder of the original term, if shorter, (y) payment of any earned but unpaid amounts, including bonuses for performance periods that ended prior to the Termination Date and any unreimbursed business expenses, with such payment made in accordance with Company practices in effect on the date of his termination of employment, and (z) any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates. There shall be no Severance Period following a termination under this Section 6(g) or any termination pursuant to clause (z) of Section 6(f), and upon such a termination the Executive shall no longer be bound by the provisions of Section 5 of this Agreement.

(h) **Retirement.** Any termination of the Executive's employment pursuant to Sections 6(a), 6(b), 6(c), 6(e) (to the extent the provisions of Section 6(a) shall apply), Section 6(f)(z) or Section 6(g) shall be deemed a "Retirement" for purposes of Section 9 of this Agreement.

(i) **Timing of Payments.** Notwithstanding the other provisions of this Agreement, any payment or other benefit required to be made to or provided to or with respect to the Executive under this Agreement upon his termination of employment shall be made or provided promptly after the six month anniversary of the Executive's date of termination of employment to the extent necessary to avoid imposition upon the Executive of any additional tax imposed under Section 409A of the Code. All payments due and owing for the six month period shall be paid on the first day following the six month anniversary of the Executive's date of termination, with interest at the prime lending rate as published in *The Wall Street Journal* and in effect as of the date the payment or benefit should otherwise have been provided. In addition, if any payment or benefit permitted or required under this Agreement or otherwise is reasonably determined by either party to be subject for any reason to a material risk of additional tax pursuant to Section 409A of the Code, then the parties shall promptly negotiate in good faith appropriate provisions to avoid such risk without increasing the cost of this Agreement to the Company or, to the extent practicable, materially changing the economic value of this Agreement to the Executive.

7. Gross Up Payment.

Notwithstanding anything else to the contrary, in the event it shall be determined that any payment, distribution, benefit or entitlement made or provided by the Company (including any of its subsidiaries or affiliates) to or for the benefit of the Executive

pursuant to this Agreement or otherwise (a “Base Payment”) would be subject to the excise tax imposed by Section 4999 of the Code or similar excise tax (excluding, for the sake of clarity, any additional tax imposed under Section 409A of the Code) that may hereafter be imposed, together with any interest or penalties are incurred by the Executive with respect to any such excise tax (any such excise and other similar tax, together with any such interest and penalties, are hereinafter collectively referred to as the “Excise Tax”), then the Company shall pay to the Executive an additional payment (the “Gross Up Payment”) in an amount such that the net amount retained by him, after the calculation and deduction of any Excise Tax on the Base Payment and interest and penalties imposed with respect thereto and any federal, state, and local income taxes and interest and penalties imposed with respect thereto and Excise Tax on the Gross Up Payment, shall be equal to the Base Payment. In determining this amount, the amount of the Gross Up Payment attributable to federal income taxes shall be reduced by the maximum reduction in federal income taxes that is obtainable by the Executive on his federal income tax return by the deduction of the portion of the Gross Up Payment attributable to state and local income taxes. Additionally, the Gross Up Payment shall be reduced by income or excise tax withholding payments made by the Company to any federal, state, or local taxing authority with respect to the Gross Up Payment that were not deducted from compensation payable to the Executive.

All determinations required to be made under this Section 7, including whether and when a Gross Up Payment is required, the amount of such Gross Up Payment, and the assumptions to be utilized in arriving at such determination, except as specified above, shall be made by a national accounting firm reasonably selected by the Board (other than the Company’s independent auditor or an accounting firm that advised a party (other than the

Company) with respect to any transaction related to the Change in Control or serves as the independent auditor for any such party) (the “Accounting Firm”), which shall provide detailed supporting calculations both to the Company and the Executive within fifteen business days after the receipt of notice from the Executive that there should be a Gross Up Payment. The determination of tax liability made by the Accounting Firm shall be subject to review by the Executive’s tax advisor, and if said tax advisor does not agree with the determination reached by the Accounting Firm, then the Accounting Firm and said tax advisor shall jointly designate a nationally recognized public accounting firm, which shall make the determination. All fees and expenses of the accountants and tax advisors retained by either the Executive or the Company shall be borne by the Company. Any Gross Up Payment shall be paid by the Company to the Executive within five days after the receipt of the determination. Any determination by a jointly designated public accounting firm shall be binding upon the Company and the Executive.

As a result of uncertainty in the application of Section 4999 of the Code at the time of the initial determination hereunder, it is possible that Gross Up Payments shall not have been made by the Company that should have been made consistent with the calculations required to be made hereunder (“Underpayment”). In the event that the Executive thereafter is required to make a payment of any Excise Tax, any such Underpayment, together with any interest and penalties owed by the Executive, shall be promptly paid by the Company to or for the benefit of the Executive. In the event that the Gross Up Payment exceeds the amount subsequently determined to be due and the Executive is refunded an amount of the Gross Up Payment by the Internal Revenue Service, such refund shall be payable by the Executive to the Company (together with any interest paid or credited thereon after taxes applicable thereto) within five business days of its receipt by the Executive.

8. No Mitigation of Damages; No Offset.

In the event the employment of the Executive under this Agreement is terminated for any reason, the Executive shall not be required to seek other employment so as to minimize any obligation of the Company to compensate him for any damages he may suffer by reason of such termination. In addition, the Company or any of its subsidiaries or affiliates shall not have a right of offset against any payments, benefits or entitlements due to the Executive under this Agreement (except to the extent expressly set forth in Section 6(g) hereof) or otherwise on account of any remuneration the Executive receives from subsequent employment or on account of any claims the Company or any of its subsidiaries or affiliates may have against the Executive.

9. SERP.

If a termination of the Executive's employment is deemed a Retirement for purposes of this Agreement, such termination shall constitute one of the following events, as appropriate, under the Vector Group Ltd. Supplemental Retirement Plan (as in effect on the date hereof or as amended or restated if more favorable to the Executive) (the "SERP"): in the event of a termination under Section 6(b) hereof, the death of the Executive under Section 4.3 of the SERP; under Section 6(c) hereof, the Disability of the Executive under Section 4.2 of the SERP; and under Sections 6(a), 6(e) (to the extent Section 6(a) shall apply), Section 6(f)(z) and 6(g) hereof, the termination of the Executive without cause under Section 4.4 of the SERP. In the event the Executive's employment is terminated under Section 6(d), the Executive shall not be entitled to any benefit under the SERP if the facts and circumstances upon which such termination is based would constitute "cause" under Section 4.4 of the SERP. If such facts and circumstances would not constitute "cause" under Section 4.4 of the SERP, such termination of the Executive's employment under Section 6(d) will be treated as a termination of the Executive

without cause under Section 4.4 of the SERP. Additionally, with respect to a termination of employment that is deemed a Retirement hereunder, both the remaining term of the Employment Period, if any, and the Severance Period shall be included in calculating the full Years of Participation (as defined under the SERP) for the purposes of determining the Participation Ratio in Section 1.18 of the SERP, provided that in the case of a termination pursuant to Section 6(f)(z) or Section 6(g) the Severance Period shall be deemed to be 36 months; provided, further, for the avoidance of doubt any Severance Period shall not be taken into account for the purposes of determining when benefits are payable under the SERP.

10. Indemnification.

(a) The Company agrees that if the Executive is made a party to, is threatened to be made a party to, receives any legal process in, or receives any discovery request or request for information in connection with, any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer, employee, consultant or agent of the Company or was serving at the request of, or on behalf of, the Company as a director, officer, member, employee, consultant or agent of another corporation, limited liability corporation, partnership, joint venture, trust or other entity, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee, consultant or agent of the Company or other entity, the Executive shall be indemnified and held harmless by the Company to the fullest extent permitted or authorized by the Company's certificate of incorporation and/or bylaws, or, if greater, by applicable law, against any and all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, judgments, fines, ERISA excise taxes or penalties

and amounts paid or to be paid in settlement and any reasonable costs and fees incurred in enforcing his rights to indemnification or contribution) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even though he has ceased to be a director, officer, member, employee, consultant or agent of the Company or other entity; provided that a Proceeding shall not include any action, suit or proceeding related to the trading of Company-issued securities by the Executive (including actions, suits or proceedings related to insider trading allegations or related to Section 16 of the Securities Exchange Act of 1934, as amended). The Company shall advance to the Executive his legal fees and other expenses to be paid by him in connection with a Proceeding within 20 business days after receipt by the Company of a written request for such reimbursement and appropriate documentation associated with such expenses. Such request shall include an undertaking by the Executive to repay such amounts if, and to the extent, required to do so by applicable law if it shall ultimately be determined by a final court adjudication from which there is no right of appeal that the Executive is not entitled to be indemnified against such costs and expenses; provided that, to the extent permitted by law, the amount of such obligation to repay shall be limited to the after-tax amount of any such advance except to the extent the Executive is able to offset such taxes incurred on the advance by the tax benefit, if any, attributable to a deduction for repayment.

(b) The Company agrees to maintain for the Executive a directors' and officers' liability insurance policy not less favorable than any policy that the Company or any subsidiary or affiliate thereof maintains for its directors and executive officers in general for a period of at least 6 years following the termination of the Executive's employment.

(c) This Section 10 establishes contract rights which shall be binding upon, and shall inure to the benefit of the heirs, executors, personal and legal representatives, successors and assigns of the Executive. The obligations set forth in this Section 10 shall survive any termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise). Nothing in this Section 10 shall be construed as reducing or waiving any right to indemnification, advancement of expenses or coverage under directors' and officers' liability insurance policies, the Executive has or would otherwise have under the Company's certificate of incorporation, by laws, other agreement or under applicable law.

11. No Conflicting Agreements.

As of the date of this Agreement, the Executive hereby represents and warrants to the Company that his entering into this Agreement, and the obligations and duties undertaken by him hereunder, will not conflict with, constitute a breach of, or otherwise violate the terms of any other employment or other written agreement to which he is a party. The Company represents and warrants that it is a corporation duly organized and existing under the laws of the State of Delaware and that execution and delivery of this Agreement has been duly authorized by all necessary corporate action, including approval by the Company's Compensation Committee.

12. Assignment.

(a) **By the Executive.** This Agreement and any obligations hereunder shall not be assigned, pledged, alienated, sold, attached, encumbered or transferred in any way by the Executive and any attempt to do so shall be void. Notwithstanding the foregoing, the Executive may transfer his rights and entitlements to compensation and benefits under this

Agreement or otherwise pursuant to will, operation of law or in accordance with any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **By the Company.** Provided the substance of the Executive's duties set forth in Section 2 shall not change, and provided that the Executive's compensation as set forth in Section 3 shall not be adversely affected, the Company may assign or transfer its rights and obligations under this Agreement, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.

(c) This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of the Executive) and assigns.

13. Arbitration.

(a) At the sole election of the Executive, any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of New York, New York before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association then pertaining in the City of New York. In any such arbitration, one arbitrator shall be selected by each of the parties, and the third arbitrator shall be selected by the first two arbitrators. The arbitration award shall be final and binding upon the parties and judgment thereon may be entered in any court having jurisdiction thereof. The arbitrators shall be deemed to possess the powers to issue mandatory orders and restraining orders in connection with such arbitration; provided, however, that nothing in this Section 13 shall be construed so as to deny the Company the right and power to seek and

obtain injunctive relief in a court of equity for any breach or threatened breach of the Executive of any of his covenants contained in Section 5 hereof.

(b) All costs, fees and expenses of any arbitration or litigation in connection with this Agreement, including, without limitation, attorneys' fees of the Executive and the Company, shall be borne by, and be the obligation of, the Company; provided, however, that if the Executive chooses not to arbitrate pursuant to Section 13(a) above the Company's obligations under this Section 13(b) shall not exceed \$250,000. The obligations of the Company under this Section 13 shall survive the termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise).

14. Notices.

All notices, requests, demands and other communications hereunder must be in writing and shall be deemed to have been duly given if delivered by hand or overnight delivery service or mailed within the continental United States by first class, certified mail, return receipt requested, to the applicable party and addressed as follows:

(a) if to the Company:

Vector Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131
Attn: General Counsel

(b) if to the Executive:

Most recent home address as indicated in the Company's records.

Addresses may be changed by notice in writing signed by the addressee in accordance with this Section 14.

15. Miscellaneous.

(a) If any provision of this Agreement shall, for any reason, be adjudicated by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not effect, impair or invalidate the remainder of this Agreement but shall be confined in its operation to the jurisdiction in which made and to the provisions of this Agreement directly involved in the controversy in which such judgment shall have been rendered.

(b) No course of dealing and no delay on the part of any party hereto in exercising any right, power or remedy under or relating to this Agreement shall operate as a waiver thereof or otherwise prejudice such party's rights, power and remedies. No single or partial exercise of any rights, powers or remedies under or relating to this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(c) This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument, and all signatures need not appear on any one counterpart.

(d) All payments required to be made to the Executive by the Company hereunder shall be subject to any applicable withholding under any applicable Federal, state, or local tax laws. Any such withholding shall be based upon the most recent form W-4 filed by the Executive with the Company, and the Executive may from time to time revise such filing.

(e) This Agreement embodies the entire understanding, and supersedes all other oral or written agreements or understandings, between the parties regarding the subject matter hereof, including, without limitation, the Employment Agreement dated as of June 1,

1995, as thereafter amended, between the Executive and New Valley Corporation, but excluding, to the extent not expressly modified by the provisions of this Agreement, the SERP and any outstanding equity award agreements and the letter agreement between the Executive and the Company dated April 13, 2005. No change, alteration or modification hereof may be made except in writing signed by both parties hereto. Any waiver to be effective must be in writing, specifically referencing the provision of this Agreement being waived and signed by the party against whom enforcement is being sought. Except as otherwise expressly provided herein, there are no other restrictions or limitations on the Executive's activities following termination of employment. In the event of any inconsistency between this Agreement and any plan, policy, program or arrangement of, or any other agreement with, the Company or any of its subsidiaries or affiliates, the provision most favorable to the Executive shall govern. The headings in this Agreement are for convenience of reference only and shall not be considered part of this Agreement or limit or otherwise affect the meaning hereof. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the laws of the state of New York (disregarding any choice of law rules which might look to the laws of any other jurisdiction).

(f) Except as otherwise expressly set forth in this Agreement, upon the termination or expiration of the Employment Period, the respective rights and obligations of the parties shall survive such termination or expiration to the extent necessary to carry out the intentions of the parties as embodied under this Agreement. This Agreement shall continue in effect until there are no further rights or obligations of the parties outstanding hereunder and shall not be terminated by either party without the express prior written consent of the both parties.

(g) Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in, or entitlements under, any benefit, bonus, incentive or other plan or program of the Company or any of its subsidiaries or affiliates and for which the Executive may qualify, nor shall anything herein limit or reduce such rights as the Executive may have under any other agreement with the Company or its subsidiaries or affiliates, provided that in no event shall the Executive be entitled to duplication of benefits or payments on a benefit-by-benefit or payment-by-payment basis.

(h) The Company shall promptly pay directly the law firm representing the Executive for the expenses and fees incurred by the Executive in connection with the negotiation and execution of this Agreement, subject to a limit of \$35,000.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first written above.

/s/ Howard M. Lorber
HOWARD M. LORBER

VECTOR GROUP LTD.

By: /s/ Richard J. Lampen
Richard J. Lampen
Executive Vice President

WITNESS

/s/ Robert J. Eide
Robert J. Eide

**VECTOR GROUP LTD.
100 S.E. Second Street, 32nd Floor
Miami, FL 33131**

January 27, 2006

Mr. Bennett S. LeBow
5203 Fisher Island Drive
Fisher Island, FL 33109

Dear Mr. LeBow:

This letter agreement sets forth the first amendment to the Amended and Restated Employment Agreement dated as of September 27, 2005 (the "Agreement"), between Vector Group Ltd. (the "Company") and Bennett S. LeBow ("Executive"). The Company and Executive wish to amend the Agreement to clarify the operation of the Agreement under Section 409A of the Internal Revenue Code of 1986, as amended. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed thereto in the Agreement.

A. The Agreement is amended in the following respects:

1. Subsection 4(f) is amended by deleting clause (y) and inserting a new clause (y) to read as follows:

"(y) notwithstanding Section 6.3 of the SERP, the Company and Executive shall establish a separate trust for the benefit of Executive that is not subject to the claims of the Company's creditors, and the Company shall make a contribution to such trust of \$125,000 on the last business day of each quarter of each year of the Employment Term, which contributions shall be subject to the terms and conditions of such trust and shall be invested as determined by the Company;"

2. Section 5(a)(vii) is amended by deleting the number "50%" in each place it appears and inserting in its place the number "40%".

3. Section 5(b) is amended by removing the last sentence of paragraph (vi), redesignating existing paragraph (vii) as paragraph (viii) and adding a new paragraph (vii) to read as follows:

"(vii) Notwithstanding the other provisions of this Agreement, any payment or other benefit required to be made or provided to or with respect to Executive under this Agreement upon or as a result of his termination of employment shall be made or promptly provided after the six-month anniversary of Executive's date of termination to the extent necessary to avoid the imposition on Executive of any additional tax imposed under Section 409A of the Code. All payments due and owing for the six month period shall be paid on the first day following the six month anniversary of Executive's date of termination, with interest at the prime lending rate as published in *The Wall Street Journal* and in effect as of the date the payment or benefit should

otherwise have been provided. In addition, if any payment or benefit permitted or required under this Agreement or otherwise is reasonably determined by either party to be subject for any reason to a material risk of additional tax pursuant to Section 409A of the Code, then the parties shall promptly negotiate in good faith appropriate provisions to avoid such risk without increasing the cost of this Agreement to the Company or, to the extent practicable, materially changing the economic value of this Agreement to Executive.”

4. Each amendment above shall be effective as of September 27, 2005.

B. Effective December 13, 2005, upon the merger of New Valley Corporation with a subsidiary of the Company, Executive’s employment agreement dated as of June 1, 1995, as amended, with New Valley Corporation terminated, without further force or effect, and is superseded by this Agreement.

C. This letter agreement constitutes an amendment to and a modification of the Agreement and shall for all purposes be considered a part of the Agreement. Except as amended hereby, the Agreement is confirmed and ratified in all respects and shall remain in full force and effect.

Please indicate your agreement with the foregoing by countersigning two copies of this letter agreement in the space provided below and returning one of such copies to us.

Very truly yours,

VECTOR GROUP LTD.

By: /s/ Richard J. Lampen

Richard J. Lampen
Executive Vice President

The foregoing letter agreement
is consented and agreed to as
of the date first above written.

By: /s/ Bennett S. LeBow

Bennett S. LeBow

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT dated as of January 27, 2006, by and between Vector Group Ltd., a Delaware corporation (together with its successors and assigns, the "Company"), and Richard J. Lampen (the "Executive").

WITNESSETH

A. WHEREAS, the Board of Directors of the Company (the "Board") wishes the Executive to continue to serve as the Executive Vice President of the Company; and

B. WHEREAS, the Executive is willing to continue to provide his services and experience to the Company for the period and upon the terms and conditions set forth herein;

C. NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Company and the Executive hereby agree as follows:

1. Employment and Term.

(a) Effective January 1, 2006, the Company agrees to employ the Executive, and the Executive accepts employment by the Company, as its Executive Vice President upon the terms and conditions set forth herein.

(b) Subject to Sections 1(c) and (d) and the provisions for termination hereinafter provided in Section 6, the term of the Executive's employment hereunder shall be from January 1, 2006 (the "Effective Date") through and including the day immediately preceding the second anniversary of the Effective Date (the "Initial Period").

(c) On the first anniversary of the Effective Date and on each subsequent anniversary of such date (each a "Renewal Date"), the term of this Agreement shall

automatically be extended by one additional calendar year (the "Extension Period") unless either party shall have provided notice to the other within the sixty-day period prior to a Renewal Date that such party does not desire to extend the term of this Agreement, in which case no further extension of the term of this Agreement shall occur pursuant hereto but all previous extensions of the term shall continue to be given full force and effect.

(d) For purposes of this Agreement, subject to the provisions for termination hereinafter provided in Section 6, the term "Employment Period" means the Initial Period, if the term of this Agreement has not been extended pursuant to Section 1(c); otherwise, the period beginning on the Effective Date and ending with the last day of the most recently arising Extension Period. Notwithstanding the foregoing, the Employment Period shall terminate on the applicable date set forth in Section 6 and shall not include any Severance Period (as hereinafter defined).

2. Duties.

(a) Throughout the Employment Period, the Executive shall be the Executive Vice President of the Company, reporting directly to the Executive Chairman and the Chief Executive Officer of the Company, and shall have all duties and authorities as customarily exercised by an individual serving in such positions in a company the nature and size of the Company. The Executive shall at all times comply with all written Company policies applicable to him.

(b) Throughout the Employment Period, the Executive shall devote substantially all his working hours to performing his services to the Company hereunder, and shall use his reasonable best efforts to perform his duties under this Agreement fully, diligently

and faithfully, and shall use his reasonable best efforts to promote the interests of the Company and its subsidiaries and affiliates.

(c) Anything herein to the contrary notwithstanding, nothing shall preclude the Executive from (i) serving on the boards of directors of a reasonable number of other business entities (other than public companies), trade associations and/or charitable organizations, (ii) engaging in charitable activities and community affairs, (iii) managing his personal and/or family investments and affairs, and (iv) engaging in any other activities (including serving on the boards of directors of public companies) approved by the Board or the Chief Executive Officer; provided, however, that such activities do not interfere with the proper performance of his duties and responsibilities specified in Section 2(b).

3. Compensation.

As compensation for his services to be performed hereunder and for his acceptance of the responsibilities described herein, the Company agrees to pay the Executive, and the Executive agrees to accept, the following compensation and other benefits:

(a) **Base Salary.** During the Employment Period, the Company shall pay the Executive a salary (the "Base Salary") at the rate of \$750,000 per annum, payable in equal installments at such payment intervals as are the usual custom of the Company, but not less often than monthly. In addition to the foregoing, the Board shall periodically review such Base Salary and may increase (but not decrease) it from time to time, in its sole discretion. After any increase, "Base Salary" as used in this Agreement shall mean the increased amount.

(b) **Annual Incentive Compensation.** Subject to the approval of the Company's Senior Executive Annual Bonus Plan (together with any amendments thereto, the "Plan") by the Company's shareholders at the Company's 2006 annual shareholders' meeting,

during the Employment Period, the Executive shall be entitled to participate in the Plan, including any successor thereto, commencing with the calendar year ending December 31, 2006, and be eligible to receive an annual bonus ("Bonus Amount") based on a target bonus opportunity of 33.3% of Base Salary. Bonus payments shall be subject to compliance with performance goals determined by the Compensation Committee of the Board in accordance with the Plan.

(c) **Long-Term Incentive Plans.** During the Employment Period, the Executive shall be entitled to participate in the long-term incentive plans of the Company, including, but not limited to, the Company's Amended and Restated 1999 Long-Term Incentive Plan (together with any amendments thereto, the "LTIP").

(d) **Benefit Plans.** During the Employment Period and as otherwise provided herein in Section 6, the Executive shall be entitled to participate in the employee welfare and health benefit plans (including, but not limited to, life insurance, health and medical, dental and disability plans) and other employee benefit plans, including but not limited to qualified pension plans and the SERP (as defined in Section 9 hereof), established by the Company from time to time for the general and overall benefit of the senior executives of the Company; provided that nothing herein contained shall be construed as requiring the Company to establish or continue any particular benefit plan in discharge of its obligations hereunder.

4. Vacation and Other Benefits.

During the Employment Period, the Executive shall be entitled to not less than five (5) weeks of paid vacation each year of his employment hereunder, as well as to payment or reimbursement of all reasonable expenses incurred by the Executive in the performance of his responsibilities and the promotion of the Company's businesses. In all

events, during the Employment Period, the Executive shall be entitled to first-class air travel and lodging, cellular phone charges and a luncheon club membership and dues. The Executive shall submit to the Company periodic statements of all expenses so incurred. Subject to such audits as the Company may deem necessary, the Company shall reimburse the Executive the full amount of any such expenses advanced by him promptly in the ordinary course.

5. Executive Covenants.

Provided that the Company is not in material default to the Executive on any of its obligations under this Agreement, the Executive agrees as follows:

(a) Except with the consent of or as directed by the Board or otherwise in the ordinary course of the business of the Company or any subsidiary, affiliate or investee in which the Company holds, directly or indirectly, more than a 20% equity interest (a "Significant Investee"), the Executive shall keep confidential and not divulge to any other person, during the Employment Period or thereafter, any business secrets and other confidential information regarding the Company, its subsidiaries, its affiliates and/or its Significant Investees, except for information which is or becomes publicly available or known within the relevant trade or industry other than as a result of disclosure by the Executive in violation of this Section 5(a). Anything herein to the contrary notwithstanding, the provisions of this Section 5(a) shall not apply (i) when disclosure is required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with apparent jurisdiction to order the Executive to disclose or make accessible any information, (ii) when disclosure is necessary to resolve an issue raised in good faith in any litigation, arbitration or mediation involving this Agreement or any other agreement between the Executive and the Company or any of its subsidiaries, affiliates or Significant Investees, including, but not limited to, the

enforcement of such agreements or (iii) when disclosure is required in connection with the Executive's cooperation pursuant to Section 5(f).

(b) All papers, books and records of every kind and description relating to the business and affairs of the Company, its subsidiaries, affiliates or Significant Investees, whether or not prepared by the Executive are the exclusive property of the Company, and the Executive shall surrender them to the Company, at any time upon request by the General Counsel of the Company, during or after the Employment Period. Anything to the contrary notwithstanding, the Executive shall be entitled to retain (i) papers and other materials of a personal nature, including, but not limited to, photographs, correspondence, personal diaries, calendars and Rolodexes, personal files and phone books, (ii) information showing his compensation or relating to reimbursement of expenses, (iii) information that he reasonably believes may be needed for tax purposes and (iv) copies of plans, programs and agreements relating to his employment, or if applicable, his termination of employment, with the Company or any of its subsidiaries or affiliates.

(c) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, participate as a director, officer, employee, agent, representative, stockholder, or partner, or have any direct or indirect financial interest as a creditor, in any business which directly or indirectly competes with a business in which the Company, a subsidiary, affiliate or Significant Investee (collectively, the "Restricted Group") is engaged both for some period during the Employment Period and on the day the Executive's employment is terminated hereunder ("Competitive Business"); provided, however, that this Section 5(c) shall not restrict the Executive from holding up to 5% of the publicly traded

securities of any entity which so competes with the Company. Anything to the contrary notwithstanding, this Section 5(c) shall not prohibit the Executive from (i) serving on the board of directors of any entity on which he was serving prior to his termination date, (ii) providing services to a subsidiary, division or affiliate of a Competitive Business if such subsidiary, division or affiliate is not itself engaged in a Competitive Business and the Executive does not provide services to or with respect to the Competitive Business, (iii) engaging in any activity with the prior written approval of the Chief Executive Officer of the Company, (iv) practicing law in a law firm that represents a Competitive Business provided that the Executive does not personally represent such Competitive Business, or (v) investment banking activities (including without limitation with an investment entity for its own account or a fund operated by it) provided such activities do not involve any investment opportunity that the Company, a subsidiary or an affiliate is considering or advising on at the time of termination of the Employment Period either for its own account, any fund managed by it or for any customer or potential customer of the Company or such entity.

(d) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, either for his own account or for any person, firm or company (i) solicit any customer of the Company, its subsidiaries or affiliates (other than with respect to products and services not provided by any member of the Restricted Group on the date the Executive's employment is terminated), or (ii) solicit or endeavor to cause any employee of any member of the Restricted Group to leave such employment or induce or attempt to induce any such employee to breach any written employment agreement with the Company, its

subsidiaries or affiliates, provided the Executive knows (or reasonably should have known) about the provisions of such agreement.

(e) Without limiting any other provision of this Agreement, the Executive hereby agrees to act in a manner consistent with, and to use his reasonable best efforts to cause the Company, its subsidiaries and its affiliates, as appropriate, to comply with, any obligations known to the Executive and imposed on the Company, its subsidiaries or affiliates, by law, rule, regulation, ordinance, order, decree, instrument, agreement, understanding or other restriction of any kind.

(f) The Executive hereby agrees to provide reasonable cooperation to the Company, its subsidiaries and affiliates during the Employment Period and, subject to his other personal and business commitments, any Severance Period in any litigation between the Company, its subsidiaries or affiliates, and third parties.

(g) The parties agree that the Company shall, in addition to other remedies provided by law, have the right and remedy to have the provisions of this Section 5 specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any breach or threatened breach by the Executive of the provisions of this Section 5 will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company. Nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages from the Executive.

6. Termination of Employment Period and Severance.

(a) **Termination by the Company without Cause.** Except as provided in Section 6(d), if for any reason the Company wishes to terminate the Employment

Period and the Executive's employment hereunder (including by not extending the term of this Agreement pursuant to Section 1(c)), (i) the Company shall give notice (the "Termination Notice") to the Executive stating such intention, (ii) the Employment Period shall terminate on the date set forth in the Termination Notice (the "Termination Date"), and (iii) a severance period shall commence upon such Termination Date for a period of twenty-four months (such period, the "Severance Period"). During the Severance Period, the Executive shall continue to receive the Base Salary under Section 3(a), shall be entitled to an annual cash bonus pursuant to Section 3(b) (which annual cash bonus shall be the bonus paid the Executive for the performance period immediately prior to the year in which the Termination Notice is given but not greater than 33.3% of Base Salary) and the Executive and his eligible dependents shall continue to receive the welfare benefits under Section 3(d) (including any benefits under the Company's long-term disability and life insurance plans) of this Agreement as if the Employment Period continued throughout the Severance Period; provided that if such plans or programs do not permit the Executive and/or his eligible dependents continued participation, the Company shall pay the Executive, quarterly, an amount (not to exceed \$35,000 per year) which after-tax will keep him in the same economic position as if he and/or his eligible dependents had continued in such plans and/or programs. In addition, the Executive shall be entitled to (x) payment of any earned but unpaid amounts, including bonuses for performance periods that ended prior to the Termination Date and any unreimbursed business expenses, with such payment made in accordance with Company practices in effect on the date of his termination of employment, and (y) any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **Death.** If the Executive dies during the Employment Period, the Employment Period shall automatically terminate and the Severance Period described in Section 6(a) hereof shall immediately commence. The Executive's designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall be entitled to the rights, benefits and other entitlements as set forth in Section 6(a) as if the Executive's employment had been terminated by the Company without Cause, including, without limitation, the payments and benefit continuation during the Severance Period as set forth in Section 6(a), provided that if any benefit plan or program does not permit the Executive's eligible dependents to continue to participate in such plan or program, the Company shall pay the Executive's eligible dependents, quarterly, an amount (not to exceed \$35,000 per year) which after-tax will keep them in the same economic position as if they had continued in such plans and/or programs. If the Executive dies during any Severance Period during which he is entitled to benefits pursuant to Section 6, his designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall continue to receive the compensation that the Executive would have otherwise received during the remainder of the Severance Period and his designated beneficiary(ies) shall be entitled to continue to participate in the Company's medical plans during the remainder of the Severance Period.

(c) **Disability.** If the Executive is deemed to have a Disability (as hereinafter defined) during the Employment Period, the Company shall be entitled to terminate the Executive's employment upon 30 days notice to the Executive. In the event of such termination, the Executive shall be released from his duties under Section 2, and the Employment Period shall end and the Severance Period described in Section 6(a) hereof shall immediately commence upon the expiration of such 30-day notice period. The Executive's

rights, benefits and other entitlements during such Severance Period shall be as set forth in Section 6(a) as if his employment had been terminated by the Company without Cause, and the Executive shall be entitled to all such compensation and benefits during the Severance Period without any offset or reduction except by such amounts, if any, as are paid to the Executive in lieu of compensation for services under any applicable disability or other similar insurance policies of the Company (or by the Company under any self insurance plan). For purposes of this Employment Agreement, "Disability" shall mean mental or physical impairment or incapacity rendering the Executive substantially unable to perform his duties under this Agreement for more than 180 days out of any 360-day period during the Employment Period. A determination of Disability shall be made by the Board in its reasonable discretion after obtaining the advice of a medical doctor mutually selected by the Company and the Executive. If the parties cannot agree upon a medical doctor, each party shall select a medical doctor and the two doctors shall select a third who shall be the approved medical doctor for this purpose.

(d) **Termination by the Company for Cause.** The Company, by notice to the Executive, shall have the right to terminate the Employment Period and the Executive's employment hereunder in the event of any of the following (any of which shall constitute "Cause" for purposes of this Agreement):

(i) the Executive having been convicted of or entered a plea of nolo contendere with respect to a criminal offense constituting a felony;

(ii) the Executive having committed in the performance of his duties under this Agreement one or more acts or omissions constituting fraud, dishonesty, or willful injury to the Company which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iii) the Executive having committed one or more acts constituting gross neglect or willful misconduct which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iv) the Executive having exposed the Company to criminal liability substantially and knowingly caused by the Executive which results in a material adverse effect on the business, financial condition or results of operations of the Company; or

(v) the Executive having failed, after written warning from the Board specifying in reasonable detail the breach(es) complained of, to substantially perform his duties under this Agreement (excluding, however, any failure to meet any performance targets or to raise capital or any failure as a result of an approved absence or any mental or physical impairment that could reasonably be expected to result in a Disability).

For purposes of the foregoing, no act or failure to act on the part of the Executive shall be considered “willful” or “knowingly” unless it is done, or omitted to be done, by the Executive without reasonable belief that the Executive’s action or omission was in the best interests of the Company. Any act or failure to act that is expressly authorized by the Board pursuant to a resolution duly adopted by the Board, or pursuant to the written advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Executive in the best interests of the Company. Notwithstanding the foregoing, termination by the Company for Cause under clauses (ii) through (v) shall not be effective until and unless each of the following provisions shall have been complied with: (a) notice of intention to terminate for Cause (a “Preliminary Cause Notice”), the giving of which shall have been authorized by a vote of a majority of the members of the Board then in office, which shall include a written statement of the particular acts or circumstances which are the basis for the termination for Cause and shall

set forth a reasonable period (not less than thirty days) to cure (the “Cure Period”), shall have been given to the Executive by the Board within ninety days after the Company first learns of the act, failure or event constituting Cause; (b) the Executive shall not have cured the acts or circumstances complained of within the Cure Period; (c) the Board shall have called an in person meeting of the Board, at which termination of the Executive is an agenda item, and shall have provided the Executive with not less than twenty days’ notice thereof (which meeting shall be held after the end of the Cure Period); (d) the Executive shall have been afforded the opportunity, accompanied by counsel, to provide written materials to the members of the Board in advance of such meeting and, if he so desires, to personally address the members of the Board at such meeting; and (e) the Board shall have provided within three business days after such meeting, a written notice of termination for cause, stating that, based upon the evidence it has received and reviewed, and specifying in reasonable detail the acts and circumstances complained of, it has voted by a vote of at least a majority of all of the members of the Board then in office to terminate the Executive for Cause (such a notice, a “Cause Termination Notice”), which such notice shall be effective on the day of receipt thereof by the Executive.

Any termination of employment under this Section 6(d) shall not be followed by a Severance Period and shall be without damages or liability to the Company for compensation and other benefits which otherwise would have accrued to the Executive hereunder after the date of termination, but any unpaid compensation, benefits and reimbursements accrued through the date of such termination, including Base Salary and any unpaid bonus amount, shall be paid to the Executive at the times normally paid by the Company and the Executive shall be entitled to any other rights, benefits or entitlements in accordance with this Agreement or any applicable

plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(e) **Voluntary Termination by the Executive.** In the event of the voluntary termination of employment by the Executive, the terms of the last paragraph of Section 6(d) shall apply; provided, however, if (A) such voluntary termination occurs as a result of (and, except for a material diminution of Executive's duties and responsibilities that does not involve the failure to elect or re-elect the Executive as Executive Vice President of the Company or the removal of the Executive from such position, the Executive has given the Company notice of such event within 120 days of the Executive learning of such event): (i) a material diminution of the Executive's duties and responsibilities provided in Section 2, including, without limitation, the failure to elect or re-elect the Executive as Executive Vice President of the Company or the removal of the Executive from such position, (ii) a reduction of the Executive's Base Salary or target bonus opportunity as a percentage of Base Salary or any other material breach of any material provision of this Agreement by the Company, (iii) relocation of the Executive's office from the Miami metropolitan area, (iv) the change in the Executive's reporting relationship from direct reporting to the Executive Chairman and the Chief Executive Officer of the Company or (v) the failure of a successor to all or substantially all of the Company's business and/or assets to promptly assume and continue the Company's obligations under this Agreement, whether contractually or as a matter of law, within 15 days of such transaction and (B) the Executive gives the Company sixty days' prior notice of his intent to voluntarily terminate his employment for any (or all) of the reasons set forth in Section 6(e)(A)(i), (ii), (iii), (iv) or (v) (which if the 120-day notice period set forth in clause (A) is applicable, such notice can be given at any time within such 120-day notice period) and the Company shall not have cured such breach within

such 60-day period, then the Severance Period shall begin at the end of such 60-day period and the provisions of Section 6(a) shall apply.

(f) **Retirement.** Any termination of the Executive's employment pursuant to Sections 6(a), 6(b), 6(c) or 6(e) (to the extent the provisions of Section 6(a) shall apply) shall be deemed a "Retirement" for purposes of Section 8 of this Agreement.

(g) **Timing of Payments.** Notwithstanding the other provisions of this Agreement, any payment or other benefit required to be made to or provided to or with respect to the Executive under this Agreement upon his termination of employment shall be made or provided promptly after the six month anniversary of the Executive's date of termination of employment to the extent necessary to avoid imposition upon the Executive of any additional tax imposed under Section 409A of the Code. All payments due and owing for the six month period shall be paid on the first day following the six month anniversary of the Executive's date of termination, with interest at the prime lending rate as published in *The Wall Street Journal* and in effect as of the date the payment or benefit should otherwise have been provided. In addition, if any payment or benefit permitted or required under this Agreement or otherwise is reasonably determined by either party to be subject for any reason to a material risk of additional tax pursuant to Section 409A of the Code, then the parties shall promptly negotiate in good faith appropriate provisions to avoid such risk without increasing the cost of this Agreement to the Company or, to the extent practicable, materially changing the economic value of this Agreement to the Executive.

7. No Mitigation of Damages; No Offset.

In the event the employment of the Executive under this Agreement is terminated for any reason, the Executive shall not be required to seek other employment so as to

minimize any obligation of the Company to compensate him for any damages he may suffer by reason of such termination. In addition, the Company or any of its subsidiaries or affiliates shall not have a right of offset against any payments, benefits or entitlements due to the Executive under this Agreement or otherwise on account of any remuneration the Executive receives from subsequent employment or on account of any claims the Company or any of its subsidiaries or affiliates may have against the Executive.

8. SERP.

If a termination of the Executive's employment is deemed a Retirement for purposes of this Agreement, such termination shall constitute one of the following events, as appropriate, under the Vector Group Ltd. Supplemental Retirement Plan (as in effect on the date hereof or as amended or restated if more favorable to the Executive) (the "SERP"): in the event of a termination under Section 6(b) hereof, the death of the Executive under Section 4.3 of the SERP; under Section 6(c) hereof, the Disability of the Executive under Section 4.2 of the SERP; and under Sections 6(a) or 6(e) (to the extent Section 6(a) shall apply) hereof, the termination of the Executive without cause under Section 4.4 of the SERP. In the event the Executive's employment is terminated under Section 6(d), the Executive shall not be entitled to any benefit under the SERP if the facts and circumstances upon which such termination is based would constitute "cause" under Section 4.4 of the SERP. If such facts and circumstances would not constitute "cause" under Section 4.4 of the SERP, such termination of the Executive's employment under Section 6(d) will be treated as a termination of the Executive without cause under Section 4.4 of the SERP.

9. Indemnification.

(a) The Company agrees that if the Executive is made a party to, is threatened to be made a party to, receives any legal process in, or receives any discovery request or request for information in connection with, any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer, employee, consultant or agent of the Company or was serving at the request of, or on behalf of, the Company as a director, officer, member, employee, consultant or agent of another corporation, limited liability corporation, partnership, joint venture, trust or other entity, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee, consultant or agent of the Company or other entity, the Executive shall be indemnified and held harmless by the Company to the fullest extent permitted or authorized by the Company's certificate of incorporation and/or bylaws, or, if greater, by applicable law, against any and all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement and any reasonable costs and fees incurred in enforcing his rights to indemnification or contribution) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even though he has ceased to be a director, officer, member, employee, consultant or agent of the Company or other entity; provided that a Proceeding shall not include any action, suit or proceeding related to the trading of Company-issued securities by the Executive (including actions, suits or proceedings related to insider trading allegations or related to Section 16 of the Securities Exchange Act of 1934, as amended). The Company shall advance to the Executive his legal fees and other expenses to be paid by him in connection with a Proceeding within 20 business days

after receipt by the Company of a written request for such reimbursement and appropriate documentation associated with such expenses. Such request shall include an undertaking by the Executive to repay such amounts if, and to the extent, required to do so by applicable law if it shall ultimately be determined by a final court adjudication from which there is no right of appeal that the Executive is not entitled to be indemnified against such costs and expenses; provided that, to the extent permitted by law, the amount of such obligation to repay shall be limited to the after-tax amount of any such advance except to the extent the Executive is able to offset such taxes incurred on the advance by the tax benefit, if any, attributable to a deduction for repayment.

(b) The Company agrees to maintain for the Executive a directors' and officers' liability insurance policy not less favorable than any policy that the Company or any subsidiary or affiliate thereof maintains for its directors and executive officers in general for a period of at least 6 years following the termination of the Executive's employment.

(c) This Section 9 establishes contract rights which shall be binding upon, and shall inure to the benefit of the heirs, executors, personal and legal representatives, successors and assigns of the Executive. The obligations set forth in this Section 9 shall survive any termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise). Nothing in this Section 9 shall be construed as reducing or waiving any right to indemnification, advancement of expenses or coverage under directors' and officers' liability insurance policies, the Executive has or would otherwise have under the Company's certificate of incorporation, by laws, other agreement or under applicable law.

10. No Conflicting Agreements.

As of the date of this Agreement, the Executive hereby represents and warrants to the Company that his entering into this Agreement, and the obligations and duties undertaken by him hereunder, will not conflict with, constitute a breach of, or otherwise violate the terms of any other employment or other written agreement to which he is a party. The Company represents and warrants that it is a corporation duly organized and existing under the laws of the State of Delaware and that execution and delivery of this Agreement has been duly authorized by all necessary corporate action, including approval by the Company's Compensation Committee.

11. Assignment.

(a) **By the Executive.** This Agreement and any obligations hereunder shall not be assigned, pledged, alienated, sold, attached, encumbered or transferred in any way by the Executive and any attempt to do so shall be void. Notwithstanding the foregoing, the Executive may transfer his rights and entitlements to compensation and benefits under this Agreement or otherwise pursuant to will, operation of law or in accordance with any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **By the Company.** Provided the substance of the Executive's duties set forth in Section 2 shall not change, and provided that the Executive's compensation as set forth in Section 3 shall not be adversely affected, the Company may assign or transfer its rights and obligations under this Agreement, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee

assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.

(c) This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of the Executive) and assigns.

12. Arbitration.

(a) Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the Miami, Florida before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association then pertaining in Miami, Florida. In any such arbitration, one arbitrator shall be selected by each of the parties, and the third arbitrator shall be selected by the first two arbitrators. The arbitration award shall be final and binding upon the parties and judgment thereon may be entered in any court having jurisdiction thereof. The arbitrators shall be deemed to possess the powers to issue mandatory orders and restraining orders in connection with such arbitration; provided, however, that nothing in this Section 12 shall be construed so as to deny the Company the right and power to seek and obtain injunctive relief in a court of equity for any breach or threatened breach of the Executive of any of his covenants contained in Section 5 hereof.

(b) The Company shall bear the costs of the American Arbitration Association and the arbitrators, but each party shall bear its or his own legal expenses. The obligations of the Company under this Section 12 shall survive the termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise).

13. Notices.

All notices, requests, demands and other communications hereunder must be in writing and shall be deemed to have been duly given if delivered by hand or overnight delivery service or mailed within the continental United States by first class, certified mail, return receipt requested, to the applicable party and addressed as follows:

(a) if to the Company:

Vector Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131
Attn: General Counsel

(b) if to the Executive:

Most recent home address as indicated in the Company's records.

Addresses may be changed by notice in writing signed by the addressee in accordance with this Section 13.

14. Miscellaneous.

(a) If any provision of this Agreement shall, for any reason, be adjudicated by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not effect, impair or invalidate the remainder of this Agreement but shall be confined in its operation to the jurisdiction in which made and to the provisions of this Agreement directly involved in the controversy in which such judgment shall have been rendered.

(b) No course of dealing and no delay on the part of any party hereto in exercising any right, power or remedy under or relating to this Agreement shall operate as a waiver thereof or otherwise prejudice such party's rights, power and remedies. No single or partial exercise of any rights, powers or remedies under or relating to this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(c) This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument, and all signatures need not appear on any one counterpart.

(d) All payments required to be made to the Executive by the Company hereunder shall be subject to any applicable withholding under any applicable Federal, state, or local tax laws. Any such withholding shall be based upon the most recent form W-4 filed by the Executive with the Company, and the Executive may from time to time revise such filing.

(e) This Agreement embodies the entire understanding, and supersedes all other oral or written agreements or understandings, between the parties regarding the subject matter hereof, including, without limitation, the Employment Agreement dated as of September 22, 1995, between the Executive and New Valley Corporation, but excluding, to the extent not expressly modified by the provisions of this Agreement, the SERP and any outstanding equity award agreements. No change, alteration or modification hereof may be made except in writing signed by both parties hereto. Any waiver to be effective must be in writing, specifically referencing the provision of this Agreement being waived and signed by the party against whom enforcement is being sought. Except as otherwise expressly provided herein, there are no other restrictions or limitations on the Executive's activities following termination of employment. In the event of any inconsistency between this Agreement and any plan, policy, program or arrangement of, or any other agreement with, the Company or any of its subsidiaries or affiliates, the provision most favorable to the Executive shall govern. The headings in this Agreement are for convenience of reference only and shall not be considered part of this Agreement or limit or

otherwise affect the meaning hereof. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the laws of the state of Florida (disregarding any choice of law rules which might look to the laws of any other jurisdiction).

(f) Except as otherwise expressly set forth in this Agreement, upon the termination or expiration of the Employment Period, the respective rights and obligations of the parties shall survive such termination or expiration to the extent necessary to carry out the intentions of the parties as embodied under this Agreement. This Agreement shall continue in effect until there are no further rights or obligations of the parties outstanding hereunder and shall not be terminated by either party without the express prior written consent of the both parties.

(g) Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in, or entitlements under, any benefit, bonus, incentive or other plan or program of the Company or any of its subsidiaries or affiliates and for which the Executive may qualify, nor shall anything herein limit or reduce such rights as the Executive may have under any other agreement with the Company or its subsidiaries or affiliates, provided that in no event shall the Executive be entitled to duplication of benefits or payments on a benefit-by-benefit or payment-by-payment basis.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first written above.

VECTOR GROUP LTD.

/s/ Richard J. Lampen
RICHARD J. LAMPEN

By: /s/ Howard M. Lorber
Howard M. Lorber
President and Chief Executive Officer

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT dated as of January 27, 2006, by and between Vector Group Ltd., a Delaware corporation (together with its successors and assigns, the "Company"), and Marc N. Bell (the "Executive").

WITNESSETH

A. WHEREAS, the Executive has served as Vice President and General Counsel of the Company pursuant to an Employment Agreement dated as of April 15, 1994 (the "Prior Employment Agreement");

B. WHEREAS, the Company and the Executive desire to amend and restate the Prior Employment Agreement, effective as of January 1, 2006 (as so amended and restated, this "Agreement"), to provide for the continued employment of the Executive by the Company for the period and upon the terms and conditions set forth herein; and

C. NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Company and the Executive hereby agree as follows:

1. Employment and Term.

(a) Effective January 1, 2006, the Company agrees to employ the Executive, and the Executive accepts employment by the Company, as its Vice President and General Counsel upon the terms and conditions set forth herein.

(b) Subject to Sections 1(c) and (d) and the provisions for termination hereinafter provided in Section 6, the term of the Executive's employment hereunder shall be

from January 1, 2006 (the "Effective Date") through and including the day immediately preceding the second anniversary of the Effective Date (the "Initial Period").

(c) On the first anniversary of the Effective Date and on each subsequent anniversary of such date (each a "Renewal Date"), the term of this Agreement shall automatically be extended by one additional calendar year (the "Extension Period") unless either party shall have provided notice to the other within the sixty-day period prior to a Renewal Date that such party does not desire to extend the term of this Agreement, in which case no further extension of the term of this Agreement shall occur pursuant hereto but all previous extensions of the term shall continue to be given full force and effect.

(d) For purposes of this Agreement, subject to the provisions for termination hereinafter provided in Section 6, the term "Employment Period" means the Initial Period, if the term of this Agreement has not been extended pursuant to Section 1(c); otherwise, the period beginning on the Effective Date and ending with the last day of the most recently arising Extension Period. Notwithstanding the foregoing, the Employment Period shall terminate on the applicable date set forth in Section 6 and shall not include any Severance Period (as hereinafter defined).

2. Duties.

(a) Throughout the Employment Period, the Executive shall be the Vice President and General Counsel of the Company, reporting directly to the Executive Chairman, the Chief Executive Officer or the Executive Vice President of the Company, and shall have all duties and authorities as customarily exercised by an individual serving in such positions in a company the nature and size of the Company. The Executive shall at all times comply with all written Company policies applicable to him.

(b) Throughout the Employment Period, the Executive shall devote substantially all his working hours to performing his services to the Company hereunder, and shall use his reasonable best efforts to perform his duties under this Agreement fully, diligently and faithfully, and shall use his reasonable best efforts to promote the interests of the Company and its subsidiaries and affiliates.

(c) Anything herein to the contrary notwithstanding, nothing shall preclude the Executive from (i) serving on the boards of directors of a reasonable number of other business entities (other than public companies), trade associations and/or charitable organizations, (ii) engaging in charitable activities and community affairs, (iii) managing his personal and/or family investments and affairs, and (iv) engaging in any other activities (including serving on the boards of directors of public companies) approved by the Board or the Chief Executive Officer; provided, however, that such activities do not interfere with the proper performance of his duties and responsibilities specified in Section 2(b).

3. Compensation.

As compensation for his services to be performed hereunder and for his acceptance of the responsibilities described herein, the Company agrees to pay the Executive, and the Executive agrees to accept, the following compensation and other benefits:

(a) **Base Salary.** During the Employment Period, the Company shall pay the Executive a salary (the "Base Salary") at the rate of \$375,000 per annum, payable in equal installments at such payment intervals as are the usual custom of the Company, but not less often than monthly. In addition to the foregoing, the Board shall periodically review such Base Salary and may increase (but not decrease) it from time to time, in its sole discretion. After any increase, "Base Salary" as used in this Agreement shall mean the increased amount.

(b) **Annual Incentive Compensation.** Subject to the approval of the Company's Senior Executive Annual Bonus Plan (together with any amendments thereto, the "Plan") by the Company's shareholders at the Company's 2006 annual shareholders' meeting, during the Employment Period, the Executive shall be entitled to participate in the Plan, including any successor thereto, commencing with the calendar year ending December 31, 2006, and be eligible to receive an annual bonus ("Bonus Amount") based on a target bonus opportunity of 25% of Base Salary. Bonus payments shall be subject to compliance with performance goals determined by the Compensation Committee of the Board in accordance with the Plan.

(c) **Long-Term Incentive Plans.** During the Employment Period, the Executive shall be entitled to participate in the long-term incentive plans of the Company, including, but not limited to, the Company's Amended and Restated 1999 Long-Term Incentive Plan (together with any amendments thereto, the "LTIP").

(d) **Benefit Plans.** During the Employment Period and as otherwise provided herein in Section 6, the Executive shall be entitled to participate in the employee welfare and health benefit plans (including, but not limited to, life insurance, health and medical, dental and disability plans) and other employee benefit plans, including but not limited to qualified pension plans and the SERP (as defined in Section 9 hereof), established by the Company from time to time for the general and overall benefit of the senior executives of the Company; provided that nothing herein contained shall be construed as requiring the Company to establish or continue any particular benefit plan in discharge of its obligations hereunder.

4. Vacation and Other Benefits.

During the Employment Period, the Executive shall be entitled to not less than four (4) weeks of paid vacation each year of his employment hereunder, as well as to payment or reimbursement of all reasonable expenses incurred by the Executive in the performance of his responsibilities and the promotion of the Company's businesses. The Executive shall submit to the Company periodic statements of all expenses so incurred. Subject to such audits as the Company may deem necessary, the Company shall reimburse the Executive the full amount of any such expenses advanced by him promptly in the ordinary course.

5. Executive Covenants.

Provided that the Company is not in material default to the Executive on any of its obligations under this Agreement, the Executive agrees as follows:

(a) Except with the consent of or as directed by the Board or otherwise in the ordinary course of the business of the Company or any subsidiary, affiliate or investee in which the Company holds, directly or indirectly, more than a 20% equity interest (a "Significant Investee"), the Executive shall keep confidential and not divulge to any other person, during the Employment Period or thereafter, any business secrets and other confidential information regarding the Company, its subsidiaries, its affiliates and/or its Significant Investees, except for information which is or becomes publicly available or known within the relevant trade or industry other than as a result of disclosure by the Executive in violation of this Section 5(a). Anything herein to the contrary notwithstanding, the provisions of this Section 5(a) shall not apply (i) when disclosure is required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with apparent jurisdiction to order the Executive to disclose or make accessible any information, (ii) when disclosure is

necessary to resolve an issue raised in good faith in any litigation, arbitration or mediation involving this Agreement or any other agreement between the Executive and the Company or any of its subsidiaries, affiliates or Significant Investees, including, but not limited to, the enforcement of such agreements or (iii) when disclosure is required in connection with the Executive's cooperation pursuant to Section 5(f).

(b) All papers, books and records of every kind and description relating to the business and affairs of the Company, its subsidiaries, affiliates or Significant Investees, whether or not prepared by the Executive are the exclusive property of the Company, and the Executive shall surrender them to the Company, at any time upon request by the President of the Company, during or after the Employment Period. Anything to the contrary notwithstanding, the Executive shall be entitled to retain (i) papers and other materials of a personal nature, including, but not limited to, photographs, correspondence, personal diaries, calendars and Rolodexes, personal files and phone books, (ii) information showing his compensation or relating to reimbursement of expenses, (iii) information that he reasonably believes may be needed for tax purposes and (iv) copies of plans, programs and agreements relating to his employment, or if applicable, his termination of employment, with the Company or any of its subsidiaries or affiliates.

(c) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, participate as a director, officer, employee, agent, representative, stockholder, or partner, or have any direct or indirect financial interest as a creditor, in any business which directly or indirectly competes with a business in which the Company, a subsidiary, affiliate or Significant Investee (collectively, the "Restricted Group") is

engaged both for some period during the Employment Period and on the day the Executive's employment is terminated hereunder ("Competitive Business"); provided, however, that this Section 5(c) shall not restrict the Executive from holding up to 5% of the publicly traded securities of any entity which so competes with the Company. Anything to the contrary notwithstanding, this Section 5(c) shall not prohibit the Executive from (i) serving on the board of directors of any entity on which he was serving prior to his termination date, (ii) providing services to a subsidiary, division or affiliate of a Competitive Business if such subsidiary, division or affiliate is not itself engaged in a Competitive Business and the Executive does not provide services to or with respect to the Competitive Business, (iii) engaging in any activity with the prior written approval of the Chief Executive Officer of the Company, (iv) practicing law in a law firm that represents a Competitive Business provided that the Executive does not personally represent such Competitive Business, or (v) investment banking activities (including without limitation with an investment entity for its own account or a fund operated by it) provided such activities do not involve any investment opportunity that the Company, a subsidiary or an affiliate is considering or advising on at the time of termination of the Employment Period either for its own account, any fund managed by it or for any customer or potential customer of the Company or such entity.

(d) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, either for his own account or for any person, firm or company (i) solicit any customer of the Company, its subsidiaries or affiliates (other than with respect to products and services not provided by any member of the Restricted Group on the date the Executive's employment is terminated), or (ii) solicit or endeavor to cause any employee

of any member of the Restricted Group to leave such employment or induce or attempt to induce any such employee to breach any written employment agreement with the Company, its subsidiaries or affiliates, provided the Executive knows (or reasonably should have known) about the provisions of such agreement.

(e) Without limiting any other provision of this Agreement, the Executive hereby agrees to act in a manner consistent with, and to use his reasonable best efforts to cause the Company, its subsidiaries and its affiliates, as appropriate, to comply with, any obligations known to the Executive and imposed on the Company, its subsidiaries or affiliates, by law, rule, regulation, ordinance, order, decree, instrument, agreement, understanding or other restriction of any kind.

(f) The Executive hereby agrees to provide reasonable cooperation to the Company, its subsidiaries and affiliates during the Employment Period and, subject to his other personal and business commitments, any Severance Period in any litigation between the Company, its subsidiaries or affiliates, and third parties.

(g) The parties agree that the Company shall, in addition to other remedies provided by law, have the right and remedy to have the provisions of this Section 5 specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any breach or threatened breach by the Executive of the provisions of this Section 5 will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company. Nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages from the Executive.

6. Termination of Employment Period and Severance.

(a) **Termination by the Company without Cause.** Except as provided in Section 6(d), if for any reason the Company wishes to terminate the Employment Period and the Executive's employment hereunder (including by not extending the term of this Agreement pursuant to Section 1(c)), (i) the Company shall give notice (the "Termination Notice") to the Executive stating such intention, (ii) the Employment Period shall terminate on the date set forth in the Termination Notice (the "Termination Date"), and (iii) a severance period shall commence upon such Termination Date for a period of twenty-four months (such period, the "Severance Period"). During the Severance Period, the Executive shall continue to receive the Base Salary under Section 3(a), shall be entitled to an annual cash bonus pursuant to Section 3(b) (which annual cash bonus shall be the bonus paid the Executive for the performance period immediately prior to the year in which the Termination Notice is given but not greater than 25% of Base Salary) and the Executive and his eligible dependents shall continue to receive the welfare benefits under Section 3(d) (including any benefits under the Company's long-term disability and life insurance plans) of this Agreement as if the Employment Period continued throughout the Severance Period; provided that if such plans or programs do not permit the Executive and/or his eligible dependents continued participation, the Company shall pay the Executive, quarterly, an amount (not to exceed \$35,000 per year) which after-tax will keep him in the same economic position as if he and/or his eligible dependents had continued in such plans and/or programs. In addition, the Executive shall be entitled to (x) payment of any earned but unpaid amounts, including bonuses for performance periods that ended prior to the Termination Date and any unreimbursed business expenses, with such payment made in accordance with Company practices in effect on the date of his termination of employment, and (y) any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy,

program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **Death.** If the Executive dies during the Employment Period, the Employment Period shall automatically terminate and the Severance Period described in Section 6(a) hereof shall immediately commence. The Executive's designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall be entitled to the rights, benefits and other entitlements as set forth in Section 6(a) as if the Executive's employment had been terminated by the Company without Cause, including, without limitation, the payments and benefit continuation during the Severance Period as set forth in Section 6(a), provided that if any benefit plan or program does not permit the Executive's eligible dependents to continue to participate in such plan or program, the Company shall pay the Executive's eligible dependents, quarterly, an amount (not to exceed \$35,000 per year) which after-tax will keep them in the same economic position as if they had continued in such plans and/or programs. If the Executive dies during any Severance Period during which he is entitled to benefits pursuant to Section 6, his designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall continue to receive the compensation that the Executive would have otherwise received during the remainder of the Severance Period and his designated beneficiary(ies) shall be entitled to continue to participate in the Company's medical plans during the remainder of the Severance Period.

(c) **Disability.** If the Executive is deemed to have a Disability (as hereinafter defined) during the Employment Period, the Company shall be entitled to terminate the Executive's employment upon 30 days notice to the Executive. In the event of such termination, the Executive shall be released from his duties under Section 2, and the

Employment Period shall end and the Severance Period described in Section 6(a) hereof shall immediately commence upon the expiration of such 30-day notice period. The Executive's rights, benefits and other entitlements during such Severance Period shall be as set forth in Section 6(a) as if his employment had been terminated by the Company without Cause, and the Executive shall be entitled to all such compensation and benefits during the Severance Period without any offset or reduction except by such amounts, if any, as are paid to the Executive in lieu of compensation for services under any applicable disability or other similar insurance policies of the Company (or by the Company under any self insurance plan). For purposes of this Employment Agreement, "Disability" shall mean mental or physical impairment or incapacity rendering the Executive substantially unable to perform his duties under this Agreement for more than 180 days out of any 360-day period during the Employment Period. A determination of Disability shall be made by the Board in its reasonable discretion after obtaining the advice of a medical doctor mutually selected by the Company and the Executive. If the parties cannot agree upon a medical doctor, each party shall select a medical doctor and the two doctors shall select a third who shall be the approved medical doctor for this purpose.

(d) **Termination by the Company for Cause.** The Company, by notice to the Executive, shall have the right to terminate the Employment Period and the Executive's employment hereunder in the event of any of the following (any of which shall constitute "Cause" for purposes of this Agreement):

- (i) the Executive having been convicted of or entered a plea of nolo contendere with respect to a criminal offense constituting a felony;
- (ii) the Executive having committed in the performance of his duties under this Agreement one or more acts or omissions constituting fraud, dishonesty, or

willful injury to the Company which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iii) the Executive having committed one or more acts constituting gross neglect or willful misconduct which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iv) the Executive having exposed the Company to criminal liability substantially and knowingly caused by the Executive which results in a material adverse effect on the business, financial condition or results of operations of the Company; or

(v) the Executive having failed, after written warning from the Board specifying in reasonable detail the breach(es) complained of, to substantially perform his duties under this Agreement (excluding, however, any failure to meet any performance targets or to raise capital or any failure as a result of an approved absence or any mental or physical impairment that could reasonably be expected to result in a Disability).

For purposes of the foregoing, no act or failure to act on the part of the Executive shall be considered “willful” or “knowingly” unless it is done, or omitted to be done, by the Executive without reasonable belief that the Executive’s action or omission was in the best interests of the Company. Any act or failure to act that is expressly authorized by the Board pursuant to a resolution duly adopted by the Board, or pursuant to the written advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Executive in the best interests of the Company. Notwithstanding the foregoing, termination by the Company for Cause under clauses (ii) through (v) shall not be effective until and unless each of the following provisions shall have been complied with: (a) notice of intention to terminate for Cause (a “Preliminary Cause Notice”), the giving of which shall have been authorized by a vote

of a majority of the members of the Board then in office, which shall include a written statement of the particular acts or circumstances which are the basis for the termination for Cause and shall set forth a reasonable period (not less than thirty days) to cure (the "Cure Period"), shall have been given to the Executive by the Board within ninety days after the Company first learns of the act, failure or event constituting Cause; (b) the Executive shall not have cured the acts or circumstances complained of within the Cure Period; (c) the Board shall have called an in person meeting of the Board, at which termination of the Executive is an agenda item, and shall have provided the Executive with not less than twenty days' notice thereof (which meeting shall be held after the end of the Cure Period); (d) the Executive shall have been afforded the opportunity, accompanied by counsel, to provide written materials to the members of the Board in advance of such meeting and, if he so desires, to personally address the members of the Board at such meeting; and (e) the Board shall have provided within three business days after such meeting, a written notice of termination for cause, stating that, based upon the evidence it has received and reviewed, and specifying in reasonable detail the acts and circumstances complained of, it has voted by a vote of at least a majority of all of the members of the Board then in office to terminate the Executive for Cause (such a notice, a "Cause Termination Notice"), which such notice shall be effective on the day of receipt thereof by the Executive.

Any termination of employment under this Section 6(d) shall not be followed by a Severance Period and shall be without damages or liability to the Company for compensation and other benefits which otherwise would have accrued to the Executive hereunder after the date of termination, but any unpaid compensation, benefits and reimbursements accrued through the date of such termination, including Base Salary and any unpaid bonus amount, shall be paid to the Executive at the times normally paid by the Company and the Executive shall be entitled to

any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(e) Voluntary Termination by the Executive. In the event of the voluntary termination of employment by the Executive, the terms of the last paragraph of Section 6(d) shall apply; provided, however, if (A) such voluntary termination occurs as a result of (and, except for a material diminution of Executive's duties and responsibilities that does not involve the failure to elect or re-elect the Executive as Vice President and General Counsel of the Company or the removal of the Executive from any such position, the Executive has given the Company notice of such event within 120 days of the Executive learning of such event): (i) a material diminution of the Executive's duties and responsibilities provided in Section 2, including, without limitation, the failure to elect or re-elect the Executive as Vice President and General Counsel of the Company or the removal of the Executive from any such position, (ii) a reduction of the Executive's Base Salary or target bonus opportunity as a percentage of Base Salary or any other material breach of any material provision of this Agreement by the Company, (iii) relocation of the Executive's office from the Miami metropolitan area, (iv) the change in the Executive's reporting relationship from direct reporting to the Executive Chairman, the Chief Executive Officer or the Executive Vice President of the Company or (v) the failure of a successor to all or substantially all of the Company's business and/or assets to promptly assume and continue the Company's obligations under this Agreement, whether contractually or as a matter of law, within 15 days of such transaction and (B) the Executive gives the Company sixty days' prior notice of his intent to voluntarily terminate his employment for any (or all) of the reasons set forth in Section 6(e)(A)(i), (ii), (iii), (iv) or (v) (which if the 120-day notice period set

forth in clause (A) is applicable, such notice can be given at any time within such 120-day notice period) and the Company shall not have cured such breach within such 60-day period, then the Severance Period shall begin at the end of such 60-day period and the provisions of Section 6(a) shall apply.

(f) **Retirement.** Any termination of the Executive's employment pursuant to Sections 6(a), 6(b), 6(c) or 6(e) (to the extent the provisions of Section 6(a) shall apply) shall be deemed a "Retirement" for purposes of Section 8 of this Agreement.

(g) **Timing of Payments.** Notwithstanding the other provisions of this Agreement, any payment or other benefit required to be made to or provided to or with respect to the Executive under this Agreement upon his termination of employment shall be made or provided promptly after the six month anniversary of the Executive's date of termination of employment to the extent necessary to avoid imposition upon the Executive of any additional tax imposed under Section 409A of the Code. All payments due and owing for the six month period shall be paid on the first day following the six month anniversary of the Executive's date of termination, with interest at the prime lending rate as published in *The Wall Street Journal* and in effect as of the date the payment or benefit should otherwise have been provided. In addition, if any payment or benefit permitted or required under this Agreement or otherwise is reasonably determined by either party to be subject for any reason to a material risk of additional tax pursuant to Section 409A of the Code, then the parties shall promptly negotiate in good faith appropriate provisions to avoid such risk without increasing the cost of this Agreement to the Company or, to the extent practicable, materially changing the economic value of this Agreement to the Executive.

7. No Mitigation of Damages; No Offset.

In the event the employment of the Executive under this Agreement is terminated for any reason, the Executive shall not be required to seek other employment so as to minimize any obligation of the Company to compensate him for any damages he may suffer by reason of such termination. In addition, the Company or any of its subsidiaries or affiliates shall not have a right of offset against any payments, benefits or entitlements due to the Executive under this Agreement or otherwise on account of any remuneration the Executive receives from subsequent employment or on account of any claims the Company or any of its subsidiaries or affiliates may have against the Executive.

8. SERP.

If a termination of the Executive's employment is deemed a Retirement for purposes of this Agreement, such termination shall constitute one of the following events, as appropriate, under the Vector Group Ltd. Supplemental Retirement Plan (as in effect on the date hereof or as amended or restated if more favorable to the Executive) (the "SERP"): in the event of a termination under Section 6(b) hereof, the death of the Executive under Section 4.3 of the SERP; under Section 6(c) hereof, the Disability of the Executive under Section 4.2 of the SERP; and under Sections 6(a) or 6(e) (to the extent Section 6(a) shall apply) hereof, the termination of the Executive without cause under Section 4.4 of the SERP. In the event the Executive's employment is terminated under Section 6(d), the Executive shall not be entitled to any benefit under the SERP if the facts and circumstances upon which such termination is based would constitute "cause" under Section 4.4 of the SERP. If such facts and circumstances would not constitute "cause" under Section 4.4 of the SERP, such termination of the Executive's employment under Section 6(d) will be treated as a termination of the Executive without cause under Section 4.4 of the SERP.

9. Indemnification.

(a) The Company agrees that if the Executive is made a party to, is threatened to be made a party to, receives any legal process in, or receives any discovery request or request for information in connection with, any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer, employee, consultant or agent of the Company or was serving at the request of, or on behalf of, the Company as a director, officer, member, employee, consultant or agent of another corporation, limited liability corporation, partnership, joint venture, trust or other entity, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee, consultant or agent of the Company or other entity, the Executive shall be indemnified and held harmless by the Company to the fullest extent permitted or authorized by the Company's certificate of incorporation and/or bylaws, or, if greater, by applicable law, against any and all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement and any reasonable costs and fees incurred in enforcing his rights to indemnification or contribution) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even though he has ceased to be a director, officer, member, employee, consultant or agent of the Company or other entity; provided that a Proceeding shall not include any action, suit or proceeding related to the trading of Company-issued securities by the Executive (including actions, suits or proceedings related to insider trading allegations or related to Section 16 of the Securities Exchange Act of 1934, as amended). The Company shall advance to the Executive his legal fees and other expenses to be paid by him in connection with a Proceeding within 20 business days

after receipt by the Company of a written request for such reimbursement and appropriate documentation associated with such expenses. Such request shall include an undertaking by the Executive to repay such amounts if, and to the extent, required to do so by applicable law if it shall ultimately be determined by a final court adjudication from which there is no right of appeal that the Executive is not entitled to be indemnified against such costs and expenses; provided that, to the extent permitted by law, the amount of such obligation to repay shall be limited to the after-tax amount of any such advance except to the extent the Executive is able to offset such taxes incurred on the advance by the tax benefit, if any, attributable to a deduction for repayment.

(b) The Company agrees to maintain for the Executive a directors' and officers' liability insurance policy not less favorable than any policy that the Company or any subsidiary or affiliate thereof maintains for its directors and executive officers in general for a period of at least 6 years following the termination of the Executive's employment.

(c) This Section 9 establishes contract rights which shall be binding upon, and shall inure to the benefit of the heirs, executors, personal and legal representatives, successors and assigns of the Executive. The obligations set forth in this Section 9 shall survive any termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise). Nothing in this Section 9 shall be construed as reducing or waiving any right to indemnification, advancement of expenses or coverage under directors' and officers' liability insurance policies, the Executive has or would otherwise have under the Company's certificate of incorporation, by laws, other agreement or under applicable law.

10. No Conflicting Agreements.

As of the date of this Agreement, the Executive hereby represents and warrants to the Company that his entering into this Agreement, and the obligations and duties undertaken by him hereunder, will not conflict with, constitute a breach of, or otherwise violate the terms of any other employment or other written agreement to which he is a party. The Company represents and warrants that it is a corporation duly organized and existing under the laws of the State of Delaware and that execution and delivery of this Agreement has been duly authorized by all necessary corporate action, including approval by the Company's Compensation Committee.

11. Assignment.

(a) By the Executive. This Agreement and any obligations hereunder shall not be assigned, pledged, alienated, sold, attached, encumbered or transferred in any way by the Executive and any attempt to do so shall be void. Notwithstanding the foregoing, the Executive may transfer his rights and entitlements to compensation and benefits under this Agreement or otherwise pursuant to will, operation of law or in accordance with any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) By the Company. Provided the substance of the Executive's duties set forth in Section 2 shall not change, and provided that the Executive's compensation as set forth in Section 3 shall not be adversely affected, the Company may assign or transfer its rights and obligations under this Agreement, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee

assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.

(c) This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of the Executive) and assigns.

12. Arbitration.

(a) Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the Miami, Florida before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association then pertaining in Miami, Florida. In any such arbitration, one arbitrator shall be selected by each of the parties, and the third arbitrator shall be selected by the first two arbitrators. The arbitration award shall be final and binding upon the parties and judgment thereon may be entered in any court having jurisdiction thereof. The arbitrators shall be deemed to possess the powers to issue mandatory orders and restraining orders in connection with such arbitration; provided, however, that nothing in this Section 12 shall be construed so as to deny the Company the right and power to seek and obtain injunctive relief in a court of equity for any breach or threatened breach of the Executive of any of his covenants contained in Section 5 hereof.

(b) The Company shall bear the costs of the American Arbitration Association and the arbitrators, but each party shall bear its or his own legal expenses. The obligations of the Company under this Section 12 shall survive the termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise).

13. Notices.

All notices, requests, demands and other communications hereunder must be in writing and shall be deemed to have been duly given if delivered by hand or overnight delivery service or mailed within the continental United States by first class, certified mail, return receipt requested, to the applicable party and addressed as follows:

(a) if to the Company:

Vector Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131
Attn: President

(b) if to the Executive:

Most recent home address as indicated in the Company's records.

Addresses may be changed by notice in writing signed by the addressee in accordance with this Section 13.

14. Miscellaneous.

(a) If any provision of this Agreement shall, for any reason, be adjudicated by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not effect, impair or invalidate the remainder of this Agreement but shall be confined in its operation to the jurisdiction in which made and to the provisions of this Agreement directly involved in the controversy in which such judgment shall have been rendered.

(b) No course of dealing and no delay on the part of any party hereto in exercising any right, power or remedy under or relating to this Agreement shall operate as a waiver thereof or otherwise prejudice such party's rights, power and remedies. No single or partial exercise of any rights, powers or remedies under or relating to this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(c) This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument, and all signatures need not appear on any one counterpart.

(d) All payments required to be made to the Executive by the Company hereunder shall be subject to any applicable withholding under any applicable Federal, state, or local tax laws. Any such withholding shall be based upon the most recent form W-4 filed by the Executive with the Company, and the Executive may from time to time revise such filing.

(e) This Agreement embodies the entire understanding, and supersedes all other oral or written agreements or understandings, between the parties regarding the subject matter hereof, but excluding, to the extent not expressly modified by the provisions of this Agreement, the SERP and any outstanding equity award agreements. No change, alteration or modification hereof may be made except in writing signed by both parties hereto. Any waiver to be effective must be in writing, specifically referencing the provision of this Agreement being waived and signed by the party against whom enforcement is being sought. Except as otherwise expressly provided herein, there are no other restrictions or limitations on the Executive's activities following termination of employment. In the event of any inconsistency between this Agreement and any plan, policy, program or arrangement of, or any other agreement with, the Company or any of its subsidiaries or affiliates, the provision most favorable to the Executive shall govern. The headings in this Agreement are for convenience of reference only and shall not be considered part of this Agreement or limit or otherwise affect the meaning hereof. This Agreement and the rights and obligations of the parties hereunder shall be construed in

accordance with and governed by the laws of the state of Florida (disregarding any choice of law rules which might look to the laws of any other jurisdiction).

(f) Except as otherwise expressly set forth in this Agreement, upon the termination or expiration of the Employment Period, the respective rights and obligations of the parties shall survive such termination or expiration to the extent necessary to carry out the intentions of the parties as embodied under this Agreement. This Agreement shall continue in effect until there are no further rights or obligations of the parties outstanding hereunder and shall not be terminated by either party without the express prior written consent of the both parties.

(g) Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in, or entitlements under, any benefit, bonus, incentive or other plan or program of the Company or any of its subsidiaries or affiliates and for which the Executive may qualify, nor shall anything herein limit or reduce such rights as the Executive may have under any other agreement with the Company or its subsidiaries or affiliates, provided that in no event shall the Executive be entitled to duplication of benefits or payments on a benefit-by-benefit or payment-by-payment basis.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first written above.

VECTOR GROUP LTD.

/s/ Marc N. Bell

MARC N. BELL

By: /s/ Howard M. Lorber

Howard M. Lorber
President and Chief Executive Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT dated as of January 27, 2006, by and between Vector Group Ltd., a Delaware corporation (together with its successors and assigns, the "Company"), and J. Bryant Kirkland III (the "Executive").

WITNESSETH

A. WHEREAS, the Board of Directors of the Company (the "Board") wishes the Executive to continue to serve as the Vice President of the Company and, effective April 1, 2006, to serve as the Vice President and Chief Financial Officer of the Company; and

B. WHEREAS, the Executive is willing to continue to provide his services and experience to the Company for the period and upon the terms and conditions set forth herein;

C. NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Company and the Executive hereby agree as follows:

1. Employment and Term.

(a) Effective January 1, 2006, the Company agrees to employ the Executive, and the Executive accepts employment by the Company, as its Vice President upon the terms and conditions set forth herein. Effective April 1, 2006, the Executive shall serve as the Vice President and Chief Financial Officer of the Company.

(b) Subject to Sections 1(c) and (d) and the provisions for termination hereinafter provided in Section 6, the term of the Executive's employment hereunder shall be from January 1, 2006 (the "Effective Date") through and including the day immediately preceding the second anniversary of the Effective Date (the "Initial Period").

(c) On the first anniversary of the Effective Date and on each subsequent anniversary of such date (each a "Renewal Date"), the term of this Agreement shall automatically be extended by one additional calendar year (the "Extension Period") unless either party shall have provided notice to the other within the sixty-day period prior to a Renewal Date that such party does not desire to extend the term of this Agreement, in which case no further extension of the term of this Agreement shall occur pursuant hereto but all previous extensions of the term shall continue to be given full force and effect.

(d) For purposes of this Agreement, subject to the provisions for termination hereinafter provided in Section 6, the term "Employment Period" means the Initial Period, if the term of this Agreement has not been extended pursuant to Section 1(c); otherwise, the period beginning on the Effective Date and ending with the last day of the most recently arising Extension Period. Notwithstanding the foregoing, the Employment Period shall terminate on the applicable date set forth in Section 6 and shall not include any Severance Period (as hereinafter defined).

2. Duties.

(a) Throughout the Employment Period, the Executive shall be the Vice President of the Company and, effective April 1, 2006, the Vice President and Chief Financial Officer of the Company, reporting directly to the Executive Chairman, the Chief Executive Officer or the Executive Vice President of the Company, and shall have all duties and authorities as customarily exercised by an individual serving in such positions in a company the nature and size of the Company. The Executive shall at all times comply with all written Company policies applicable to him.

(b) Throughout the Employment Period, the Executive shall devote substantially all his working hours to performing his services to the Company hereunder, and

shall use his reasonable best efforts to perform his duties under this Agreement fully, diligently and faithfully, and shall use his reasonable best efforts to promote the interests of the Company and its subsidiaries and affiliates.

(c) Anything herein to the contrary notwithstanding, nothing shall preclude the Executive from (i) serving on the boards of directors of a reasonable number of other business entities (other than public companies), trade associations and/or charitable organizations, (ii) engaging in charitable activities and community affairs, (iii) managing his personal and/or family investments and affairs, and (iv) engaging in any other activities (including serving on the boards of directors of public companies) approved by the Board or the Chief Executive Officer; provided, however, that such activities do not interfere with the proper performance of his duties and responsibilities specified in Section 2(b).

3. Compensation.

As compensation for his services to be performed hereunder and for his acceptance of the responsibilities described herein, the Company agrees to pay the Executive, and the Executive agrees to accept, the following compensation and other benefits:

(a) **Base Salary.** From January 1, 2006 to March 31, 2006, the Company shall pay the Executive a salary (the "Base Salary") at the rate of \$250,000 per annum, payable in equal installments at such payment intervals as are the usual custom of the Company, but not less often than monthly. Effective April 1, 2006, the Base Salary shall be increased to \$300,000 per annum. In addition to the foregoing, the Board shall periodically review such Base Salary and may increase (but not decrease) it from time to time, in its sole discretion. After any increase, "Base Salary" as used in this Agreement shall mean the increased amount.

(b) **Annual Incentive Compensation.** Subject to the approval of the Company's Senior Executive Annual Bonus Plan (together with any amendments thereto, the

“Plan”) by the Company’s shareholders at the Company’s 2006 annual shareholders’ meeting, during the Employment Period, the Executive shall be entitled to participate in the Plan, including any successor thereto, commencing with the calendar year ending December 31, 2006, and be eligible to receive an annual bonus (“Bonus Amount”) based on a target bonus opportunity of 25% of Base Salary. Bonus payments shall be subject to compliance with performance goals determined by the Compensation Committee of the Board in accordance with the Plan.

(c) **Long-Term Incentive Plans.** During the Employment Period, the Executive shall be entitled to participate in the long-term incentive plans of the Company, including, but not limited to, the Company’s Amended and Restated 1999 Long-Term Incentive Plan (together with any amendments thereto, the “LTIP”).

(d) **Benefit Plans.** During the Employment Period and as otherwise provided herein in Section 6, the Executive shall be entitled to participate in the employee welfare and health benefit plans (including, but not limited to, life insurance, health and medical, dental and disability plans) and other employee benefit plans, including but not limited to qualified pension plans and the SERP (as defined in Section 9 hereof), established by the Company from time to time for the general and overall benefit of the senior executives of the Company; provided that nothing herein contained shall be construed as requiring the Company to establish or continue any particular benefit plan in discharge of its obligations hereunder.

4. Vacation and Other Benefits.

During the Employment Period, the Executive shall be entitled to not less than four (4) weeks of paid vacation each year of his employment hereunder, as well as to payment or reimbursement of all reasonable expenses incurred by the Executive in the performance of his responsibilities and the promotion of the Company’s businesses. In all

events, during the Employment Period, the Executive shall be entitled to reimbursement for at least 40 hours of continuing professional education per annum. The Executive shall submit to the Company periodic statements of all expenses so incurred. Subject to such audits as the Company may deem necessary, the Company shall reimburse the Executive the full amount of any such expenses advanced by him promptly in the ordinary course.

5. Executive Covenants.

Provided that the Company is not in material default to the Executive on any of its obligations under this Agreement, the Executive agrees as follows:

(a) Except with the consent of or as directed by the Board or otherwise in the ordinary course of the business of the Company or any subsidiary, affiliate or investee in which the Company holds, directly or indirectly, more than a 20% equity interest (a "Significant Investee"), the Executive shall keep confidential and not divulge to any other person, during the Employment Period or thereafter, any business secrets and other confidential information regarding the Company, its subsidiaries, its affiliates and/or its Significant Investees, except for information which is or becomes publicly available or known within the relevant trade or industry other than as a result of disclosure by the Executive in violation of this Section 5(a). Anything herein to the contrary notwithstanding, the provisions of this Section 5(a) shall not apply (i) when disclosure is required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with apparent jurisdiction to order the Executive to disclose or make accessible any information, (ii) when disclosure is necessary to resolve an issue raised in good faith in any litigation, arbitration or mediation involving this Agreement or any other agreement between the Executive and the Company or any of its subsidiaries, affiliates or Significant Investees, including, but not limited to, the

enforcement of such agreements or (iii) when disclosure is required in connection with the Executive's cooperation pursuant to Section 5(f).

(b) All papers, books and records of every kind and description relating to the business and affairs of the Company, its subsidiaries, affiliates or Significant Investees, whether or not prepared by the Executive are the exclusive property of the Company, and the Executive shall surrender them to the Company, at any time upon request by the General Counsel of the Company, during or after the Employment Period. Anything to the contrary notwithstanding, the Executive shall be entitled to retain (i) papers and other materials of a personal nature, including, but not limited to, photographs, correspondence, personal diaries, calendars and Rolodexes, personal files and phone books, (ii) information showing his compensation or relating to reimbursement of expenses, (iii) information that he reasonably believes may be needed for tax purposes and (iv) copies of plans, programs and agreements relating to his employment, or if applicable, his termination of employment, with the Company or any of its subsidiaries or affiliates.

(c) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, participate as a director, officer, employee, agent, representative, stockholder, or partner, or have any direct or indirect financial interest as a creditor, in any business which directly or indirectly competes with a business in which the Company, a subsidiary, affiliate or Significant Investee (collectively, the "Restricted Group") is engaged both for some period during the Employment Period and on the day the Executive's employment is terminated hereunder ("Competitive Business"); provided, however, that this Section 5(c) shall not restrict the Executive from holding up to 5% of the publicly traded securities of any entity which so competes with the Company. Anything to the contrary

notwithstanding, this Section 5(c) shall not prohibit Executive from (i) serving on the board of directors of any entity on which he was serving prior to his termination date, (ii) providing services to a subsidiary, division or affiliate of a Competitive Business if such subsidiary, division or affiliate is not itself engaged in a Competitive Business and the Executive does not provide services to or with respect to the Competitive Business, (iii) engaging in any activity with the prior written approval of the Chief Executive Officer of the Company, (iv) practicing accounting in an accounting firm that represents a Competitive Business provided that the Executive does not personally represent such Competitive Business, or (v) investment banking activities (including without limitation with an investment entity for its own account or a fund operated by it) provided such activities do not involve any investment opportunity that the Company, a subsidiary or an affiliate is considering or advising on at the time of termination of the Employment Period either for its own account, any fund managed by it or for any customer or potential customer of the Company or such entity.

(d) During the Employment Period and during any Severance Period in which the Executive is eligible to receive severance pursuant to Section 6, the Executive shall not, without the prior written consent of the Board, either for his own account or for any person, firm or company (i) solicit any customer of the Company, its subsidiaries or affiliates (other than with respect to products and services not provided by any member of the Restricted Group on the date the Executive's employment is terminated), or (ii) solicit or endeavor to cause any employee of any member of the Restricted Group to leave such employment or induce or attempt to induce any such employee to breach any written employment agreement with the Company, its subsidiaries or affiliates, provided the Executive knows (or reasonably should have known) about the provisions of such agreement.

(e) Without limiting any other provision of this Agreement, the Executive hereby agrees to act in a manner consistent with, and to use his reasonable best efforts to cause the Company, its subsidiaries and its affiliates, as appropriate, to comply with, any obligations known to the Executive and imposed on the Company, its subsidiaries or affiliates, by law, rule, regulation, ordinance, order, decree, instrument, agreement, understanding or other restriction of any kind.

(f) The Executive hereby agrees to provide reasonable cooperation to the Company, its subsidiaries and affiliates during the Employment Period and, subject to his other personal and business commitments, any Severance Period in any litigation between the Company, its subsidiaries or affiliates, and third parties.

(g) The parties agree that the Company shall, in addition to other remedies provided by law, have the right and remedy to have the provisions of this Section 5 specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any breach or threatened breach by the Executive of the provisions of this Section 5 will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company. Nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of damages from the Executive.

6. Termination of Employment Period and Severance.

(a) **Termination by the Company without Cause.** Except as provided in Section 6(d), if for any reason the Company wishes to terminate the Employment Period and the Executive's employment hereunder (including by not extending the term of this Agreement pursuant to Section 1(c)), (i) the Company shall give notice (the "Termination Notice") to the Executive stating such intention, (ii) the Employment Period shall terminate on

the date set forth in the Termination Notice (the "Termination Date"), and (iii) a severance period shall commence upon such Termination Date for a period of twenty-four months (such period, the "Severance Period"). During the Severance Period, the Executive shall continue to receive the Base Salary under Section 3(a), shall be entitled to an annual cash bonus pursuant to Section 3(b) (which annual cash bonus shall be the bonus paid the Executive for the performance period immediately prior to the year in which the Termination Notice is given but not greater than 25% of Base Salary) and the Executive and his eligible dependents shall continue to receive the welfare benefits under Section 3(d) (including any benefits under the Company's long-term disability and life insurance plans) of this Agreement as if the Employment Period continued throughout the Severance Period; provided that if such plans or programs do not permit the Executive and/or his eligible dependents continued participation, the Company shall pay the Executive, quarterly, an amount (not to exceed \$35,000 per year) which after-tax will keep him in the same economic position as if he and/or his eligible dependents had continued in such plans and/or programs. In addition, the Executive shall be entitled to (x) payment of any earned but unpaid amounts, including bonuses for performance periods that ended prior to the Termination Date and any unreimbursed business expenses, with such payment made in accordance with Company practices in effect on the date of his termination of employment, and (y) any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **Death.** If the Executive dies during the Employment Period, the Employment Period shall automatically terminate and the Severance Period described in Section 6(a) hereof shall immediately commence. The Executive's designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall be entitled to the rights,

benefits and other entitlements as set forth in Section 6(a) as if the Executive's employment had been terminated by the Company without Cause, including, without limitation, the payments and benefit continuation during the Severance Period as set forth in Section 6(a), provided that if any benefit plan or program does not permit the Executive's eligible dependents to continue to participate in such plan or program, the Company shall pay the Executive's eligible dependents, quarterly, an amount (not to exceed \$35,000 per year) which after-tax will keep them in the same economic position as if they had continued in such plans and/or programs. If the Executive dies during any Severance Period during which he is entitled to benefits pursuant to Section 6, his designated beneficiary(ies) (or his estate in the absence of any surviving designated beneficiary) shall continue to receive the compensation that the Executive would have otherwise received during the remainder of the Severance Period and his designated beneficiary(ies) shall be entitled to continue to participate in the Company's medical plans during the remainder of the Severance Period.

(c) **Disability.** If the Executive is deemed to have a Disability (as hereinafter defined) during the Employment Period, the Company shall be entitled to terminate the Executive's employment upon 30 days notice to the Executive. In the event of such termination, the Executive shall be released from his duties under Section 2, and the Employment Period shall end and the Severance Period described in Section 6(a) hereof shall immediately commence upon the expiration of such 30-day notice period. The Executive's rights, benefits and other entitlements during such Severance Period shall be as set forth in Section 6(a) as if his employment had been terminated by the Company without Cause, and the Executive shall be entitled to all such compensation and benefits during the Severance Period without any offset or reduction except by such amounts, if any, as are paid to the Executive in lieu of compensation for services under any applicable disability or other similar insurance

policies of the Company (or by the Company under any self insurance plan). For purposes of this Employment Agreement, "Disability" shall mean mental or physical impairment or incapacity rendering the Executive substantially unable to perform his duties under this Agreement for more than 180 days out of any 360-day period during the Employment Period. A determination of Disability shall be made by the Board in its reasonable discretion after obtaining the advice of a medical doctor mutually selected by the Company and the Executive. If the parties cannot agree upon a medical doctor, each party shall select a medical doctor and the two doctors shall select a third who shall be the approved medical doctor for this purpose.

(d) **Termination by the Company for Cause.** The Company, by notice to the Executive, shall have the right to terminate the Employment Period and the Executive's employment hereunder in the event of any of the following (any of which shall constitute "Cause" for purposes of this Agreement):

(i) the Executive having been convicted of or entered a plea of nolo contendere with respect to a criminal offense constituting a felony;

(ii) the Executive having committed in the performance of his duties under this Agreement one or more acts or omissions constituting fraud, dishonesty, or willful injury to the Company which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iii) the Executive having committed one or more acts constituting gross neglect or willful misconduct which results in a material adverse effect on the business, financial condition or results of operations of the Company;

(iv) the Executive having exposed the Company to criminal liability substantially and knowingly caused by the Executive which results in a material adverse effect on the business, financial condition or results of operations of the Company; or

(v) the Executive having failed, after written warning from the Board specifying in reasonable detail the breach(es) complained of, to substantially perform his duties under this Agreement (excluding, however, any failure to meet any performance targets or to raise capital or any failure as a result of an approved absence or any mental or physical impairment that could reasonably be expected to result in a Disability).

For purposes of the foregoing, no act or failure to act on the part of the Executive shall be considered “willful” or “knowingly” unless it is done, or omitted to be done, by the Executive without reasonable belief that the Executive’s action or omission was in the best interests of the Company. Any act or failure to act that is expressly authorized by the Board pursuant to a resolution duly adopted by the Board, or pursuant to the written advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Executive in the best interests of the Company. Notwithstanding the foregoing, termination by the Company for Cause under clauses (ii) through (v) shall not be effective until and unless each of the following provisions shall have been complied with: (a) notice of intention to terminate for Cause (a “Preliminary Cause Notice”), the giving of which shall have been authorized by a vote of a majority of the members of the Board then in office, which shall include a written statement of the particular acts or circumstances which are the basis for the termination for Cause and shall set forth a reasonable period (not less than thirty days) to cure (the “Cure Period”), shall have been given to the Executive by the Board within ninety days after the Company first learns of the act, failure or event constituting Cause; (b) the Executive shall not have cured the acts or circumstances complained of within the Cure Period; (c) the Board shall have called an in person meeting of the Board, at which termination of the Executive is an agenda item, and shall have provided the Executive with not less than twenty days’ notice thereof (which meeting shall be held after the end of the Cure Period); (d) the Executive shall have been afforded the

opportunity, accompanied by counsel, to provide written materials to the members of the Board in advance of such meeting and, if he so desires, to personally address the members of the Board at such meeting; and (e) the Board shall have provided within three business days after such meeting, a written notice of termination for cause, stating that, based upon the evidence it has received and reviewed, and specifying in reasonable detail the acts and circumstances complained of, it has voted by a vote of at least a majority of all of the members of the Board then in office to terminate the Executive for Cause (such a notice, a "Cause Termination Notice"), which such notice shall be effective on the day of receipt thereof by the Executive.

Any termination of employment under this Section 6(d) shall not be followed by a Severance Period and shall be without damages or liability to the Company for compensation and other benefits which otherwise would have accrued to the Executive hereunder after the date of termination, but any unpaid compensation, benefits and reimbursements accrued through the date of such termination, including Base Salary and any unpaid bonus amount, shall be paid to the Executive at the times normally paid by the Company and the Executive shall be entitled to any other rights, benefits or entitlements in accordance with this Agreement or any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(e) **Voluntary Termination by the Executive.** In the event of the voluntary termination of employment by the Executive, the terms of the last paragraph of Section 6(d) shall apply; provided, however, if (A) such voluntary termination occurs as a result of (and, except for a material diminution of Executive's duties and responsibilities that does not involve the failure to elect or re-elect the Executive as Vice President and, effective April 1, 2006, as Vice President and Chief Financial Officer of the Company or the removal of the Executive from any such position, the Executive has given the Company notice of such event within 120 days of

the Executive learning of such event): (i) a material diminution of the Executive's duties and responsibilities provided in Section 2, including, without limitation, the failure to elect or re-elect the Executive as Vice President and, effective April 1, 2006, as Vice President and Chief Financial Officer of the Company or the removal of the Executive from any such position, (ii) a reduction of the Executive's Base Salary or target bonus opportunity as a percentage of Base Salary or any other material breach of any material provision of this Agreement by the Company, (iii) relocation of the Executive's office from the Miami metropolitan area, (iv) the change in the Executive's reporting relationship from direct reporting to the Executive Chairman, the Chief Executive Officer or the Executive Vice President of the Company or (v) the failure of a successor to all or substantially all of the Company's business and/or assets to promptly assume and continue the Company's obligations under this Agreement, whether contractually or as a matter of law, within 15 days of such transaction and (B) the Executive gives the Company sixty days' prior notice of his intent to voluntarily terminate his employment for any (or all) of the reasons set forth in Section 6(e)(A)(i), (ii), (iii), (iv) or (v) (which if the 120-day notice period set forth in clause (A) is applicable, such notice can be given at any time within such 120-day notice period) and the Company shall not have cured such breach within such 60-day period, then the Severance Period shall begin at the end of such 60-day period and the provisions of Section 6(a) shall apply.

(f) **Retirement.** Any termination of the Executive's employment pursuant to Sections 6(a), 6(b), 6(c) or 6(e) (to the extent the provisions of Section 6(a) shall apply) shall be deemed a "Retirement" for purposes of Section 8 of this Agreement.

(g) **Timing of Payments.** Notwithstanding the other provisions of this Agreement, any payment or other benefit required to be made to or provided to or with respect to the Executive under this Agreement upon his termination of employment shall be made or

provided promptly after the six month anniversary of the Executive's date of termination of employment to the extent necessary to avoid imposition upon the Executive of any additional tax imposed under Section 409A of the Code. All payments due and owing for the six month period shall be paid on the first day following the six month anniversary of the Executive's date of termination, with interest at the prime lending rate as published in *The Wall Street Journal* and in effect as of the date the payment or benefit should otherwise have been provided. In addition, if any payment or benefit permitted or required under this Agreement or otherwise is reasonably determined by either party to be subject for any reason to a material risk of additional tax pursuant to Section 409A of the Code, then the parties shall promptly negotiate in good faith appropriate provisions to avoid such risk without increasing the cost of this Agreement to the Company or, to the extent practicable, materially changing the economic value of this Agreement to the Executive.

7. No Mitigation of Damages; No Offset.

In the event the employment of the Executive under this Agreement is terminated for any reason, the Executive shall not be required to seek other employment so as to minimize any obligation of the Company to compensate him for any damages he may suffer by reason of such termination. In addition, the Company or any of its subsidiaries or affiliates shall not have a right of offset against any payments, benefits or entitlements due to the Executive under this Agreement or otherwise on account of any remuneration the Executive receives from subsequent employment or on account of any claims the Company or any of its subsidiaries or affiliates may have against the Executive.

8. SERP.

If a termination of the Executive's employment is deemed a Retirement for purposes of this Agreement, such termination shall constitute one of the following events, as

appropriate, under the Vector Group Ltd. Supplemental Retirement Plan (as in effect on the date hereof or as amended or restated if more favorable to the Executive) (the "SERP"): in the event of a termination under Section 6(b) hereof, the death of the Executive under Section 4.3 of the SERP; under Section 6(c) hereof, the Disability of the Executive under Section 4.2 of the SERP; and under Sections 6(a) or 6(e) (to the extent Section 6(a) shall apply) hereof, the termination of the Executive without cause under Section 4.4 of the SERP. In the event the Executive's employment is terminated under Section 6(d), the Executive shall not be entitled to any benefit under the SERP if the facts and circumstances upon which such termination is based would constitute "cause" under Section 4.4 of the SERP. If such facts and circumstances would not constitute "cause" under Section 4.4 of the SERP, such termination of the Executive's employment under Section 6(d) will be treated as a termination of the Executive without cause under Section 4.4 of the SERP.

9. Indemnification.

(a) The Company agrees that if the Executive is made a party to, is threatened to be made a party to, receives any legal process in, or receives any discovery request or request for information in connection with, any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer, employee, consultant or agent of the Company or was serving at the request of, or on behalf of, the Company as a director, officer, member, employee, consultant or agent of another corporation, limited liability corporation, partnership, joint venture, trust or other entity, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee, consultant or agent of the Company or other entity, the Executive shall be indemnified and held harmless by the Company to the fullest extent permitted or

authorized by the Company's certificate of incorporation and/or bylaws, or, if greater, by applicable law, against any and all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement and any reasonable costs and fees incurred in enforcing his rights to indemnification or contribution) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even though he has ceased to be a director, officer, member, employee, consultant or agent of the Company or other entity; provided that a Proceeding shall not include any action, suit or proceeding related to the trading of Company-issued securities by the Executive (including actions, suits or proceedings related to insider trading allegations or related to Section 16 of the Securities Exchange Act of 1934, as amended). The Company shall advance to the Executive his legal fees and other expenses to be paid by him in connection with a Proceeding within 20 business days after receipt by the Company of a written request for such reimbursement and appropriate documentation associated with such expenses. Such request shall include an undertaking by the Executive to repay such amounts if, and to the extent, required to do so by applicable law if it shall ultimately be determined by a final court adjudication from which there is no right of appeal that the Executive is not entitled to be indemnified against such costs and expenses; provided that, to the extent permitted by law, the amount of such obligation to repay shall be limited to the after-tax amount of any such advance except to the extent the Executive is able to offset such taxes incurred on the advance by the tax benefit, if any, attributable to a deduction for repayment.

(b) The Company agrees to maintain for the Executive a directors' and officers' liability insurance policy not less favorable than any policy that the Company or any

subsidiary or affiliate thereof maintains for its directors and executive officers in general for a period of at least 6 years following the termination of the Executive's employment.

(c) This Section 9 establishes contract rights which shall be binding upon, and shall inure to the benefit of the heirs, executors, personal and legal representatives, successors and assigns of the Executive. The obligations set forth in this Section 9 shall survive any termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise). Nothing in this Section 9 shall be construed as reducing or waiving any right to indemnification, advancement of expenses or coverage under directors' and officers' liability insurance policies, the Executive has or would otherwise have under the Company's certificate of incorporation, by laws, other agreement or under applicable law.

10. No Conflicting Agreements.

As of the date of this Agreement, the Executive hereby represents and warrants to the Company that his entering into this Agreement, and the obligations and duties undertaken by him hereunder, will not conflict with, constitute a breach of, or otherwise violate the terms of any other employment or other written agreement to which he is a party. The Company represents and warrants that it is a corporation duly organized and existing under the laws of the State of Delaware and that execution and delivery of this Agreement has been duly authorized by all necessary corporate action, including approval by the Company's Compensation Committee.

11. Assignment.

(a) **By the Executive.** This Agreement and any obligations hereunder shall not be assigned, pledged, alienated, sold, attached, encumbered or transferred in any way by the Executive and any attempt to do so shall be void. Notwithstanding the foregoing, the

Executive may transfer his rights and entitlements to compensation and benefits under this Agreement or otherwise pursuant to will, operation of law or in accordance with any applicable plan, policy, program, arrangement of, or other agreement with, the Company or any of its subsidiaries or affiliates.

(b) **By the Company.** Provided the substance of the Executive's duties set forth in Section 2 shall not change, and provided that the Executive's compensation as set forth in Section 3 shall not be adversely affected, the Company may assign or transfer its rights and obligations under this Agreement, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.

(c) This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of the Executive) and assigns.

12. Arbitration.

(a) Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the Miami, Florida before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association then pertaining in Miami, Florida. In any such arbitration, one arbitrator shall be selected by each of the parties, and the third arbitrator shall be selected by the first two arbitrators. The arbitration award shall be final and binding upon the parties and judgment thereon may be entered in any court having jurisdiction thereof. The arbitrators shall be deemed to possess the powers to issue mandatory orders and restraining orders in connection with such arbitration; provided, however, that nothing in this Section 12 shall be construed so as to deny the Company the right and power to seek and obtain injunctive relief in a court of equity for any

breach or threatened breach of the Executive of any of his covenants contained in Section 5 hereof.

(b) The Company shall bear the costs of the American Arbitration Association and the arbitrators, but each party shall bear its or his own legal expenses. The obligations of the Company under this Section 12 shall survive the termination of this Agreement (whether such termination is by the Company, the Executive, upon the expiration of this Agreement, or otherwise).

13. Notices.

All notices, requests, demands and other communications hereunder must be in writing and shall be deemed to have been duly given if delivered by hand or overnight delivery service or mailed within the continental United States by first class, certified mail, return receipt requested, to the applicable party and addressed as follows:

(a) if to the Company:

Vector Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131
Attn: General Counsel

(b) if to the Executive:

Most recent home address as indicated in the Company's records.

Addresses may be changed by notice in writing signed by the addressee in accordance with this Section 13.

14. Miscellaneous.

(a) If any provision of this Agreement shall, for any reason, be adjudicated by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not effect, impair or invalidate the remainder of this Agreement but shall be confined in its

operation to the jurisdiction in which made and to the provisions of this Agreement directly involved in the controversy in which such judgment shall have been rendered.

(b) No course of dealing and no delay on the part of any party hereto in exercising any right, power or remedy under or relating to this Agreement shall operate as a waiver thereof or otherwise prejudice such party's rights, power and remedies. No single or partial exercise of any rights, powers or remedies under or relating to this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(c) This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument, and all signatures need not appear on any one counterpart.

(d) All payments required to be made to the Executive by the Company hereunder shall be subject to any applicable withholding under any applicable Federal, state, or local tax laws. Any such withholding shall be based upon the most recent form W-4 filed by the Executive with the Company, and the Executive may from time to time revise such filing.

(e) This Agreement embodies the entire understanding, and supersedes all other oral or written agreements or understandings, between the parties regarding the subject matter hereof, including, without limitation, the Employment Agreement dated as of August 1, 1999, between the Executive and New Valley Corporation, but excluding, to the extent not expressly modified by the provisions of this Agreement, the SERP and any outstanding equity award agreements. No change, alteration or modification hereof may be made except in writing signed by both parties hereto. Any waiver to be effective must be in writing, specifically referencing the provision of this Agreement being waived and signed by the party against whom

enforcement is being sought. Except as otherwise expressly provided herein, there are no other restrictions or limitations on the Executive's activities following termination of employment. In the event of any inconsistency between this Agreement and any plan, policy, program or arrangement of, or any other agreement with, the Company or any of its subsidiaries or affiliates, the provision most favorable to the Executive shall govern. The headings in this Agreement are for convenience of reference only and shall not be considered part of this Agreement or limit or otherwise affect the meaning hereof. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the laws of the state of Florida (disregarding any choice of law rules which might look to the laws of any other jurisdiction).

(f) Except as otherwise expressly set forth in this Agreement, upon the termination or expiration of the Employment Period, the respective rights and obligations of the parties shall survive such termination or expiration to the extent necessary to carry out the intentions of the parties as embodied under this Agreement. This Agreement shall continue in effect until there are no further rights or obligations of the parties outstanding hereunder and shall not be terminated by either party without the express prior written consent of the both parties.

(g) Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in, or entitlements under, any benefit, bonus, incentive or other plan or program of the Company or any of its subsidiaries or affiliates and for which the Executive may qualify, nor shall anything herein limit or reduce such rights as the Executive may have under any other agreement with the Company or its subsidiaries or affiliates, provided that in no event shall the Executive be entitled to duplication of benefits or payments on a benefit-by-benefit or payment-by-payment basis.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first written above.

VECTOR GROUP LTD.

/s/ J. Bryant Kirkland III
J. BRYANT KIRKLAND III

By: /s/ Howard M. Lorber
Howard M. Lorber
President and Chief Executive Officer

**VECTOR GROUP LTD.
SUPPLEMENTAL RETIREMENT PLAN
(as amended and restated January 27, 2006)**

WHEREAS, VECTOR GROUP LTD., a Delaware corporation (the "Company"), adopted the Vector Group Ltd. Supplemental Retirement Plan as of January 1, 2002, as amended by Amendment No. 1 thereto entered into on January 21, 2003 and as amended and restated March 3, 2004, for the purpose of providing certain select management employees of the Company and its affiliates unfunded deferred compensation benefits payable upon retirement, death or other termination of employment;

WHEREAS, the Board has the right under Section 8.2 of the Plan to amend the Plan; and

WHEREAS, the Board desires to make certain additional amendments to the Plan, to cause the Plan to meet the applicable requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and to amend and restate the Plan in its entirety.

NOW, THEREFORE, the Plan is amended and restated, as of January 1, 2005, to read as follows:

SECTION 1
DEFINITIONS

Except as otherwise provided herein, the following terms shall be defined in accordance with this Section 1:

1.1 "Accrued Benefit" shall mean that amount of projected annual retirement benefit set forth on Exhibit A hereto that a Participant who fulfills the terms and conditions of the Plan would receive at his Normal Retirement Date.

1.2 "Actuarial Equivalent" shall mean a form of benefit differing in time, period or manner of payout from the normal form of Retirement Benefit provided under the Plan but having the same value when computed using post-retirement mortality table 1983 Group Annuity (50% male/50% female) and pre- and post-retirement interest rates of 7.5%.

1.3 "Adopting Employer" means (a) any business entity in which the Company owns a majority interest upon the Effective Date or (b) any other business entity, which, following the Effective Date, is authorized by the Board to adopt the Plan.

1.4 "Anniversary Date" shall mean the Effective Date and each anniversary thereof while the Plan remains in effect.

1.5 "Board" shall mean the Board of Directors of the Company.

1.6 "Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations, rulings and other guidance published thereunder by the Internal Revenue Service.

1.7 "Committee" shall mean the person, persons or entity designated by the Company to administer the Plan on behalf of the Company and the Adopting

Employers. Unless otherwise designated by the Board, the Compensation Committee of the Board shall serve as the Committee to administer the Plan.

1.8 "Company" shall mean Vector Group Ltd., a Delaware corporation.

1.9 "Disability" shall mean the date a Participant becomes "disabled" within the meaning of Section 409A(a)(2) of the Code; provided, however, that a Participant shall be deemed to be disabled if the Participant is determined to be totally disabled by the Social Security Administration.

1.10 "Disability Retirement Date" shall mean a date selected by the Committee as soon as practicable following a determination by the Committee that a Participant has incurred a Disability.

1.11 "Effective Date" shall mean the date set forth in Section 8.1 of the Plan.

1.12 "Employer" shall mean the Company and any Adopting Employer for which a Participant renders service.

1.13 "Employer Contribution" shall mean the contribution by an Employer to the Fund for each Plan Year described in Section 3.1 hereof.

1.14 "Fiscal Year" shall mean the fiscal year of the Company.

1.15 "Fund" shall mean the fund established under the Trust Fund Agreement.

1.16 "Normal Retirement Date" shall mean the January 1 following the Participant's attainment of the later of age 60 during active Service or the completion of 8 Years of Participation with the Company or an Adopting Employer following the Effective Date.

1.17 "Participant" shall mean any key employee of an Employer who from time to time may be designated on Exhibit A hereto as a participant in the Plan by the Board and who is an active participant in the Plan.

1.18 "Participant Payment Date" shall mean the date on which a Participant's Retirement Benefit shall be paid to the Participant. Such date shall be: (a) the Disability Retirement Date of a Participant who has incurred a Disability, (b) that date which falls 30 days following the later to occur of (i) the Normal Retirement Date of a Participant and (ii) the Participant's actual termination of Service with the Company or an Adopting Employer, (c) that date selected by the Committee as soon as practicable following the death of a Participant, if the Participant's death takes place prior to any date described in clauses (a), (b) or (d) of this Section 1.18, or (d) that date that falls 30 days following the termination of the Service of a Participant without cause (as defined in Section 4.4 hereof), but only to the extent that any such termination of Service constitutes a "separation from service" described in Section 409A(a)(2) of the Code.

1.19 "Participation Ratio" shall mean that percentage equal to a fraction, the numerator of which consists of that number of full Years of Participation of the Participant in the Plan that were completed by the Participant prior to the Participant's termination of Service or incurrence of a Disability and the denominator of which consists

of that total number of Years of Participation that would have been required on the part of the Participant for the Participant to attain the Participant's Normal Retirement Date.

1.20 "Plan" shall mean the Vector Group Ltd. Supplemental Retirement Plan, as set forth herein and as the same may be amended from time to time hereafter.

1.21 "Retirement Benefit" shall mean the benefit payable to a Participant in accordance with Section 4.

1.22 "Service" shall mean the period of full time continuous employment of the Participant by the Company or an Adopting Employer, following the Effective Date.

1.23 "Specified Employee" shall mean each Participant who is considered to be a "specified employee" under Section 409A(a)(2) of the Code, and the determination of Specified Employee status shall be made as of December 31st of each year.

1.24 "Trust Fund Agreement" shall mean the Vector Group Ltd. Supplemental Retirement Plan Trust, the purpose of which agreement is to hold the Fund.

1.25 "Trustee" shall mean the trustee serving in such capacity under the Trust Fund Agreement.

1.26 "Year of Participation" shall mean a Year of Service in which the Participant participated in the Plan. A Participant shall be deemed to have commenced participation in the Plan on the participation date set forth on Exhibit A hereto.

1.27 “Year of Service” shall mean a 12 consecutive month period, in each month of which a Participant is entitled to compensation by reason of Service.

SECTION 2
DESIGNATION OF PARTICIPANTS
AND ELIGIBILITY FOR BENEFITS

2.1 Designation of Participants. The Participants shall be those key employees of the Company or an Adopting Employer that the Board designates to participate in the Plan.

2.2 Eligibility for Benefits. Except as otherwise provided herein, benefits under the Plan shall be payable in respect of a Participant at the Participant Payment Date applicable to the Participant and only by reason of the circumstances provided in Sections 4.1 through 4.4 hereof.

SECTION 3
CONTRIBUTION

3.1 Amount of Employer Contribution. For the Fiscal Year ending with the Effective Date or within which falls the Effective Date and thereafter for each Fiscal Year (or portion thereof) that the Plan remains in effect, an Employer may, in the discretion of the Board, make an Employer Contribution to the Fund in that amount that the Employer shall determine to be necessary or appropriate to provide the benefits under the Plan.

SECTION 4
CIRCUMSTANCES OF PAYMENT; EXCLUSIVITY

4.1 Attainment of Normal Retirement Date. Upon the attainment of a Participant of the Participant's Normal Retirement Date, the Participant shall be vested in the Participant's Accrued Benefit, which shall be paid in the manner set forth in Section 5 hereof to the Participant at the Participant Payment Date of such Participant, as provided in Section 1.18(b) hereof.

4.2 Disability. A Participant in the Service of an Employer who incurs a Disability prior to the attainment of the Participant's Normal Retirement Date shall be vested at the Participant's Disability Retirement Date in that amount equal to: (i) the Actuarial Equivalent of the Participant's Accrued Benefit, multiplied by (ii) the Participant's Participation Ratio, which amount shall be paid in the manner set forth in Section 5 hereof to the Participant at the Participant Payment Date of such Participant, as provided in Section 1.18(a) hereof.

4.3 Death. In the event a Participant in the Service of an Employer dies prior to incurring a Disability or attaining his Normal Retirement Date, such Participant's beneficiary shall be vested in the Actuarial Equivalent of the Participant's Accrued Benefit, which shall be paid in the manner set forth in Section 5 hereof at the Participant Payment Date provided in Section 1.18(c) hereof.

4.4 Termination of Service. In the event of the termination of the Service of a Participant hereunder by an Employer without "cause" (as defined herein), such Participant shall be vested upon the effective date of such termination of Service in

that amount equal to: (i) the Actuarial Equivalent of the Participant's Accrued Benefit, multiplied by (ii) the Participant's Participation Ratio, which amount shall be paid in the manner set forth in Section 5 hereof at the Participant Payment Date provided in Section 1.18(d) hereof. For purposes of this Section 4.4, the term "cause" shall mean solely an act of fraud or dishonesty by the Participant which constitutes a violation of the penal law of the State of New York and which results in gain or personal enrichment of the Participant at the expense of an Employer or any entity affiliated therewith.

4.5 Exclusivity. A Participant whose Service is terminated upon the Participant's own initiative or for any reason other than as set forth in the foregoing provisions of this Section 4 shall be entitled to no benefits whatsoever under the Plan.

SECTION 5
METHOD AND RECIPIENTS OF PAYMENTS;
PLAN ADMINISTRATION

5.1 Normal Payment Method and Recipients of Payments. Except as provided in Section 5.2 hereof, the form of distribution payable to a Participant pursuant to this Section 5.1 shall be a lump sum payment on the Participant Payment Date of the Participant which shall be the Actuarial Equivalent of the Participant's Accrued Benefit on such date. In the event of the death of a Participant prior to the applicable Participant Payment Date of the Participant, the amount of the death benefit payable in accordance with Section 4.3 hereof shall be paid in a lump sum to the Participant's beneficiary or beneficiaries theretofore designated by the Participant by filing with the Participant's Employer or the Committee a notice in writing in such form as the Committee may prescribe, and in the absence of such designation, shall be paid to the executors or

administrators of the estate of the Participant. The beneficiaries named as aforesaid may be changed at any time by the Participant by amending and forwarding to the Participant's Employer or the Committee a further written designation. Any payment required under this Section 5.1 shall in all events be made no later than the later of (i) the end of the calendar year in which the event giving rise to the distribution occurs and (ii) the 15th day of the third calendar month following the occurrence of the event giving rise to the distribution.

5.2 Distributions to Specified Employees. Notwithstanding the other provisions of the Plan, any payment required to be made under the Plan upon the termination of Service of a Participant who is a Specified Employee shall be made promptly after the sixth month anniversary of the Participant's date of termination of Service to the extent necessary to avoid the imposition upon the Participant of any additional tax imposed under Section 409A of the Code. All payments due and owing for the six month period shall be paid on the first day following the six month anniversary of the Participant's date of termination, with interest at the prime lending rate as published in *The Wall Street Journal* and in effect as of the date the payment should otherwise have been provided.

5.3 Distribution Limitations. The Committee may, but shall not be required to, defer any distribution to any Participant to the first date on which it determines in its sole and absolute discretion that such distribution would not be subject to the limits on deductions contained in Section 162(m) of the Code; provided that the date selected by the Committee shall not be earlier than the earliest date on which such distribution could be

made to the Participant without causing the Participant to be subject to any additional tax imposed under Section 409A of the Code.

5.4 Determination of Payment. If a Participant's applicable Participant Payment Date occurs following the Participant's Normal Retirement Date, as provided in Section 1.18(b) hereof, the Participant shall be entitled upon his actual Participant Payment Date to the Actuarial Equivalent on such date of the Participant's Accrued Benefit on the Participant's Normal Retirement Date.

5.5 Plan Administration. The general administration of the Plan shall be the responsibility of the Committee, which is hereby authorized, in its discretion, to delegate said responsibilities to an administrator or administrative committee.

SECTION 6
SOURCE OF BENEFITS;
NO GUARANTEE OF EMPLOYMENT;
NO FUNDING; CONSTRUCTIVE RECEIPT

6.1 Source of Benefits. Benefits payable under the Plan shall be payable either from the general assets of the Company or an Adopting Employer or, in the discretion of the Board, from the Fund. No one of the Trustees, directors, officers, agents or shareholders of the Company or an Adopting Employer, or of the Committee or of any administrator or administrative committee to which any function is delegated pursuant to Section 5.5 hereof, assumes any personal liability for obligations incurred on behalf of the Company or an Adopting Employer or under the Trust Agreement. No Participant's or beneficiary's interest in a Participant's benefits under the Plan shall be greater than that of an unsecured creditor of the Company or an Adopting Employer, as appropriate.

6.2 No Guarantee of Employment. Nothing contained herein shall be construed as a contract of employment or deemed to give any Participant the right to be retained in the employ of any Employer.

6.3 Unfunded Plan. In adopting the Plan and entering into the Trust Fund Agreement, it is the intention of the Company and the Adopting Employers that any benefits to be provided under the Plan shall be deemed unfunded for tax and pension law purposes and that any assets acquired by or held within the Trust shall not be deemed to constitute funding for the benefit of the Participant, or the Participant's beneficiary or estate. Consequently, at all times while the Plan is in effect, the Accrued Benefit of a Participant shall be understood to reflect only a means for the measurement and determination of the amounts to be paid to the Participant pursuant to the terms of the Plan, and a Participant's Accrued Benefit shall not constitute or be treated as a trust fund of any kind, nor shall any assets held under the Trust be deemed to represent security for the performance of any obligation of the Company or an Adopting Employer hereunder but shall at all times be, and remain, their general, unpledged and unrestricted assets.

SECTION 7
NONASSIGNABILITY

7.1 No benefit payable hereunder may be assigned, pledged, mortgaged or hypothecated and, except to the extent required by applicable law, no such benefit shall be subject to legal process or attachment for the payment of any claims of a creditor of a Participant or the beneficiary of such Participant.

SECTION 8
EFFECTIVE DATE; AMENDMENT AND TERMINATION

8.1 Effective Date. This Plan shall be effective as of January 1, 2002 and shall remain in effect through its termination, subject to the provisions of Section 8.2 hereof.

8.2 Amendment and Termination. The Board may at any time, or from time to time, amend this Plan in any respect on a prospective basis or terminate this Plan without restriction and without the consent of any Participant or beneficiary, provided that any such amendment or termination shall not impair the right of any Participant or any beneficiary to be paid benefits earned and vested hereunder prior to such amendment or termination. In the event of the termination of the Plan, each Participant shall be deemed to have attained the Participant's Normal Retirement Date as of the date of such termination, and the Participant's Accrued Benefit shall be paid to the Participant in accordance with the terms of Sections 4 and 5 hereof.

8.3 Plan Sponsor. The Company shall be the sponsor and named fiduciary of the Plan, which the Company and Adopting Employers have adopted for the benefit of certain designated highly compensated and key management personnel.

SECTION 9 CLAIMS PROCEDURES

9.1 Initial Claim. If the Participant or the Participant's beneficiary (hereinafter referred to as a "Claimant") is denied all or any portion of an expected benefit under this Plan for any reason, the Claimant may file a claim with the Committee. The Committee shall notify the Claimant within 60 days of its allowance or denial of the claim, unless the Claimant receives written notice from the Committee prior to the end of the

60-day period stating that special circumstances require an extension of the time for decision for an additional period not to exceed an additional 60 days. The notice of the Committee's decision shall be in writing, sent by mail to the Claimant's last known address, and, if a denial of the claim, must contain the following information:

(a) the specific reasons for denial;

(b) specific reference to pertinent provisions of the Plan on which the denial is based; and

(c) if applicable, a description of any additional information or material necessary to perfect the claim, an explanation of why such information or material is necessary, and an explanation of the claims review procedure.

9.2 Review. A Claimant may request a review by the Committee of any denial of the Claimant's claim by submitting in writing such a request within 60 days of the mailing of notice of the denial. The Claimant or the Claimant's representative shall be entitled to review all pertinent documents, and to submit issues and comments in writing. Absent a request for review within such 60-day period, the claim shall be deemed to be conclusively denied.

SECTION 10 MISCELLANEOUS

10.1 Payment to Representatives. If an individual entitled to receive any benefits hereunder is determined by the Committee or is otherwise adjudged to be legally incompetent, they shall be paid to such individual's duly appointed and acting guardian, if any, and if no such guardian is appointed and acting, to such persons as the Committee

may designate for the benefit of such individual. Such payment shall, to the extent made, be deemed a complete discharge for such payments under the Plan.

10.2 Timing of Payments. If the Committee is unable to make the determinations required under the Plan in sufficient time for payments to be made when due, the Committee shall make such payments upon the completion of such determinations with interest at a reasonable rate from such due date and may, at its option, make provisional payments, subject to adjustment, pending the completion of such determinations, all in a manner which would not cause the Participant to be subject to any additional tax under Section 409A of the Code.

10.3 Withholding, etc. The Employer shall deduct from each payment under the Plan any Federal, state or local withholding or other taxes or charges which an Employer would be required to deduct under applicable law, and any amount so deducted shall be treated as a payment hereunder to the Participant or the Participant's beneficiaries.

10.4 Governing Law. The provisions of this Plan shall be construed according to the laws of the United States and the State of New York, excluding the provisions of any such laws that would require the application of the laws of another jurisdiction.

10.5 Gender and Number. The masculine pronoun wherever used shall include the feminine. Wherever any words are used herein in the singular, they shall be construed as though they were also used in the plural in all cases where they shall so apply.

10.6 Binding Effect. This Agreement shall be binding upon the Company and the Adopting Employers and their successors or assigns.

10.7 Captions. The captions at the head of an article, section or a paragraph of the Plan are designed for convenience of reference only and are not to be resorted to for the purposes of interpreting any provision of the Plan, and in the case of any conflict with the text of the Plan, the text of the Plan shall control.

10.8 Severability. The invalidity of any portion of the Plan shall not invalidate the remainder thereof, which shall continue in full force and effect.

10.9 Communications. Any election, application, claim, notice, or other communication required or permitted to be made by a Participant pursuant to the Plan shall be made in writing and in such form as the Committee shall prescribe. Such communication or notice shall be effective upon receipt, if sent by first class mail, postage prepaid, and addressed to the Committee, c/o the Company's offices at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131.

10.10 Interpretation and Administration. Notwithstanding any provisions of the Plan to the contrary, the provisions of the Plan shall be interpreted and administered and the reserved powers of the Company shall be exercised, including on a retroactive basis to the extent necessary, in accordance with the requirements of Section 409A of the Code (or disregarded to the extent that a provision cannot be so administered, interpreted or exercised), so that no Plan Participant will be subject to any additional tax under Section 409A of the Code.

IN WITNESS WHEREOF, the Company has caused this amended and restated Agreement to be executed in its name by its duly authorized officer on January 27, 2006, to be effective as set forth above.

VECTOR GROUP LTD.

/s/ Richard J. Lampen

By: Authorized Signatory

EXHIBIT A

<u>Participant</u>	<u>Projected Annual Single Life Annuity Retirement Benefit</u>	<u>Participation Date</u>
Bennett S. LeBow	\$2,524,163	1/1/02
Howard M. Lorber	\$1,051,875	1/1/02
Ronald J. Bernstein	\$ 438,750	1/1/02
Gregory Sulin	\$ 148,500	1/1/02
Richard J. Lampen	\$ 250,000	1/1/04
Marc N. Bell	\$ 200,000	1/1/04
J. Bryant Kirkland III	\$ 202,500	1/1/04
Dr. Anthony Albino	\$ 175,000	1/1/04

VECTOR GROUP LTD.
SENIOR EXECUTIVE ANNUAL BONUS PLAN
Adopted January 27, 2006

1. Purpose

This Senior Executive Annual Bonus Plan (the “Plan”) is applicable to those employees of Vector Group Ltd. (the “Company”) and its subsidiaries who are considered to be executive officers of the Company (“Covered Employees”), including members of the Board of Directors (the “Board”) who are such employees. The Plan is designed to reward, through additional cash compensation, Covered Employees who are selected to participate in the Plan (each, a “Participant”) for their significant contribution toward improved profitability and growth of the Company.

2. Administration

The Plan shall be administered by a committee (the “Committee”) comprised exclusively of members of the Board who are “outside directors” within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended (the “Code”) and Treasury Regulation 1.162-27(e)(3). The Committee shall be appointed from time to time by the Board and shall consist of not less than two of the then members of the Board who are “outside directors”, as defined above. Unless otherwise designated by the Board, the Compensation Committee of the Board shall serve as the Committee to administer the Plan. The Committee shall have the authority, subject to the provisions herein, (a) to select Covered Employees to participate in the Plan; (b) to establish and administer the performance goals and the award opportunities applicable to each Participant and certify whether the goals have been attained; (c) to construe and interpret the Plan and any agreement or instrument entered into under or in connection with the Plan; (d) to establish, amend, and waive rules and regulations for the Plan’s administration; and (e) to make all other determinations that may be necessary or advisable for the administration of the Plan. The Committee’s determinations under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated. Any determination by the Committee pursuant to the Plan shall be final, binding and conclusive on all employees and Participants and anyone claiming under or through any of them.

3. Eligibility

All Covered Employees shall be eligible to be selected to participate in the Plan. The Committee shall select the Covered Employees who shall participate in the Plan in any year no later than the applicable deadline (the “Determination Date”) for the establishment of performance goals permitting the compensation payable to such Covered Employee for such year hereunder to qualify as “qualified performance-based compensation” under Treasury Regulation 1.162-27(e).

4. Establishment of Performance Goals and Award Opportunities

No later than the Determination Date for each year, the Committee shall establish, in writing, the method for computing the amount of compensation that will be payable under the Plan to each Participant in the Plan for such year if the performance goals established by the Committee for such year are attained in whole or in part and if the Participant's employment by the Company or a subsidiary continues without interruption during that year. Such method shall be stated in terms of an objective formula or standard that precludes discretion to increase the amount of the award that would otherwise be due upon attainment of the goals and may be different for each Participant. Notwithstanding anything to the contrary contained herein, the Committee may, however, exercise negative discretion (within the meaning of Treasury Regulation 1.162-27(e)(2)(iii)(A)) with respect to any award hereunder to reduce any amount that would otherwise be payable hereunder.

No later than the Determination Date for each year, the Committee shall establish in writing the performance goals for such year, which shall be based on any of the following performance criteria, either alone or in any combination, on either a consolidated or business unit or divisional level, and which shall include or exclude discontinued operations, acquisition expenses and restructuring expenses, as the Committee may determine: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added (as determined by the Committee), sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, dividends and/or other distributions, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, debt, debt reduction, earnings per share, price per share of stock, market share, completion of acquisitions, business expansion, product diversification, new or expanded market penetration and other non-financial operating and management performance objectives. The foregoing criteria shall have any reasonable definitions that the Committee may specify, which may include or exclude any or all of the following items, as the Committee may specify: extraordinary, unusual or non-recurring items; effects of changes in tax law, accounting principles or other such laws or provisions affecting reported results; effects of currency fluctuations; effects of financing activities (e.g., effect on earnings per share of issuing convertible debt securities); expenses for restructuring, productivity initiatives or new business initiatives; impairment of tangible or intangible assets; litigation or claim judgments or settlements; non-operating items; acquisition expenses; and effects of assets sales or divestitures. Any such performance criterion or combination of such criteria may apply to the Participant's award opportunity in its entirety or to any designed portion or portions of the award opportunity, as the Committee may specify.

5. Maximum Award

The maximum amount of compensation that may be paid under the Plan to any Participant for any year is \$5,000,000.

6. Attainment of Performance Goals Required

Awards shall be paid under this Plan for any year solely on account of the attainment of the performance goals established by the Committee with respect to such year. Awards shall also be contingent upon the Participant remaining employed by the Company or a subsidiary of the Company during such year. In the event of termination of employment by reason of death, disability or retirement (each as determined by the Committee) during the Plan year, an award shall be payable under this Plan to the Participant or the Participant's estate for such year, which shall be paid at the same time as the award the Participant would have received for such year had no termination of employment occurred, and which shall be equal to the amount of such award multiplied by a fraction the numerator of which is the number of full or partial calendar months elapsed in such year prior to termination of employment and the denominator of which is the number twelve. A Participant whose employment terminates prior to the end of a Plan year for any reason other than as described above shall not be entitled to any award under the Plan for that year.

7. Shareholder Approval and Committee Certification Contingencies; Payment of Awards

Payment of any awards under the Plan shall be contingent upon the approval of the Plan by the affirmative vote of at least a majority of the Company's shareholders casting votes (including abstentions) at the next annual meeting of the Company's shareholders. Unless and until such shareholder approval is obtained, no award shall be paid pursuant to the Plan. Payment of any award under the Plan shall also be contingent upon the Committee's certifying in writing that the performance goals and any other material terms applicable to such award were in fact satisfied, in accordance with applicable Treasury Regulations under Code Section 162(m). Unless and until the Committee so certifies, such award shall not be paid. Unless the Committee provides otherwise, (a) earned awards shall be paid no later than 2 1/2 months after the end of the year with respect to which such award is earned, and (b) such payment shall be made in cash (subject to any payroll tax withholding the Company may determine applies).

To the extent necessary for purposes of Code Section 162(m), the Plan shall be resubmitted to shareholders for their re-approval with respect to awards payable for the taxable years of the Company commencing on and after 5th anniversary of initial shareholder approval.

8. Amendment, Termination and Term of Plan

The Board of Directors may amend, modify or terminate the Plan at any time in whole or in part, but no such action shall adversely affect any rights or obligations with respect to awards theretofore made under the Plan. The Plan will remain in effect until terminated by the Board.

9. Interpretation and Construction

Any provision of the Plan to the contrary notwithstanding, (a) awards under the Plan are intended to qualify as "qualified performance-based compensation" under Treasury Regulation 1.162-27(e) and (b) any provision of the Plan that would prevent an award under the Plan from so qualifying shall be administered, interpreted and construed to carry out such intention and any

provision that cannot be so administered, interpreted and construed shall to that extent be disregarded. No provision of the Plan, nor the selection of any Covered Employee to participate in the Plan, shall constitute an employment agreement or affect the duration of any Participant's employment, which shall remain "employment at will" unless an employment agreement between the Company and the Participant provides otherwise. Both the Participant and the Company shall remain free to terminate the Participant's employment at any time to the same extent as if the Plan has not been adopted. The existence of the Plan and/or any award under the Plan shall not limit, affect or restrict in any way the right or power of the Board or the shareholders to take or authorize any action, or to refrain from taking or authorizing any action, with respect to the stock, assets, obligations or business of the Company and/or any of its subsidiaries.

Notwithstanding any provisions of the Plan to the contrary, if any benefit provided under the Plan is subject to the provisions of Section 409A of the Code and the regulations issued thereunder, the provisions of the Plan shall be administered, interpreted and construed in a manner necessary to comply with Section 409A of the Code and the regulations and other guidance issued thereunder (or disregarded to the extent such provision cannot be so administered, interpreted, or construed) so that no Participant will be subject to any additional tax imposed under Section 409A of the Code.

10. No Funding of Plan

The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award under the Plan. All benefits under the Plan shall be paid from the general assets of the Company.

11. Governing Law

The terms of the Plan shall be governed by the laws of the State of Delaware, without reference to the conflicts of laws principles thereof.