

VECTOR GROUP LTD
Form DEF 14A
April 22, 2005

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SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under Rule 14a-11(c) or Rule 14a-12

Vector Group Ltd.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**VECTOR GROUP LTD.
100 S.E. Second Street
Miami, Florida 33131
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 23, 2005**

To the Stockholders of Vector Group Ltd.:

The Annual Meeting of Stockholders of Vector Group Ltd., a Delaware corporation (the Company), will be held at The Hyatt Regency Miami, 400 S.E. Second Avenue, Miami, Florida 33131 on Monday, May 23, 2005 at 1:00 p.m. local time, and at any postponement or adjournment thereof, for the following purposes:

1. To elect seven directors to hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

2. To transact such other business as properly may come before the meeting or any adjournments or postponements of the meeting.

Every holder of record of Common Stock of the Company at the close of business on April 19, 2005 is entitled to notice of the meeting and any adjournments or postponements thereof and to vote, in person or by proxy, one vote for each share of Common Stock held by such holder. A list of stockholders entitled to vote at the meeting will be available to any stockholder for any purpose germane to the meeting during ordinary business hours from May 13, 2005 to May 23, 2005, at the headquarters of the Company located at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131. A proxy statement, form of proxy and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 are enclosed herewith.

By Order of the Board of Directors,

Bennett S. LeBow
Chairman of the Board of Directors

Miami, Florida
April 22, 2005

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE.

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MISCELLANEOUS

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**VECTOR GROUP LTD.
100 S.E. Second Street
Miami, Florida 33131**

PROXY STATEMENT

INTRODUCTION

The enclosed proxy is solicited on behalf of the board of directors of Vector Group Ltd., a Delaware corporation (the Company). The proxy is solicited for use at the annual meeting of stockholders to be held at The Hyatt Regency Miami, 400 S.E. Second Avenue, Miami, Florida 33131 on Monday, May 23, 2005, at 1:00 p.m. local time, and at any postponement or adjournment. The Company's principal executive offices are located at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, and its telephone number is (305) 579-8000.

VOTING RIGHTS AND SOLICITATION OF PROXIES

Every holder of record of common stock of the Company at the close of business on April 19, 2005 is entitled to notice of the meeting and any adjournments or postponements and to vote, in person or by proxy, one vote for each share of Common Stock held by such holder. At the record date, the Company had outstanding 41,837,553 shares of Common Stock. This proxy statement, accompanying notice and proxy and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 are first being mailed to stockholders on or about April 25, 2005.

Any stockholder giving a proxy has the power to revoke the proxy prior to its exercise. A proxy can be revoked by an instrument of revocation delivered at or prior to the annual meeting to the secretary of the Company, by a duly executed proxy bearing a date or time later than the date or time of the proxy being revoked, or at the annual meeting if the stockholder is present and elects to vote in person. Mere attendance at the annual meeting will not serve to revoke a proxy. Abstentions and shares held of record by a broker or its nominee that are voted on any matter are included in determining the number of votes present for quorum purposes. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

All proxies received and not revoked will be voted as directed. If no directions are specified, such proxies will be voted **FOR** the election of the board's nominees. The nominees receiving a plurality of the votes cast will be elected as directors. The affirmative vote of the majority of votes present and entitled to vote on the matter at the meeting will be necessary for approval of any other matters to be considered at the annual meeting. With respect to the election of directors, shares as to which authority is withheld and broker shares that are not voted will not be included in determining the number of votes cast. With respect to other matters, abstentions and broker shares that are not voted are not treated as present and entitled to vote on the matter.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the record date, the beneficial ownership of the Company's Common Stock, the only class of voting securities, by:

each person known to the Company to own beneficially more than five percent of the Common Stock;

each of the Company's directors and nominees;

each of the Company's named executive officers (as such term is defined in the Summary Compensation Table below); and

all directors and executive officers as a group.

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Unless otherwise indicated, each person possesses sole voting and investment power with respect to the shares indicated as beneficially owned, and the business address of each person is 100 S.E. Second Street, Miami, Florida 33131.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
Bennett S. LeBow(1)(4)(6)	16,644,176	34.9%
High River Limited Partnership(2)	9,252,620	21.7%
Hopper Investments LLC Barberry Corp. Carl C. Icahn 767 Fifth Avenue New York, NY 10153		
Howard M. Lorber(3)(4)(6)	2,301,208	5.4%
Henry C. Beinstein(4) Gagnon Securities LLC 1370 Avenue of the Americas New York, NY 10019	10,500	(*)
Robert J. Eide(4)(5) Aegis Capital Corp. 810 Seventh Avenue New York, NY 10019	58,177	(*)
Jeffrey S. Podell(4)(5) 173 Doral Court Roslyn, NY 11576	59,319	(*)
Jean E. Sharpe(4)(5) 28 Old Church Lane South Salem, NY 10590	45,920	(*)
Richard J. Lampen(6)(7)	293,400	(*)
Marc N. Bell(6)(8)	63,813	(*)
Ronald J. Bernstein(4)(8)(9) Liggett Vector Brands Inc. One Park Drive Research Triangle Park, NC 27709	421,197	(*)
All directors and executive officers as a group (9 persons)	19,897,710	40.4%

(*) The percentage of shares beneficially owned does not exceed 1% of the Common Stock.

- (1) Includes 10,310,055 shares of Common Stock held by LeBow Gamma Limited Partnership, a Nevada limited partnership, 367,033 shares held by LeBow Alpha LLLP, a Delaware limited liability limited partnership, 94,678 shares held by The Bennett and Geraldine LeBow Foundation, Inc., a Florida not for profit corporation, 2,512,679 shares acquirable by LeBow Gamma Limited Partnership, as assignee of Mr. LeBow, upon exercise of currently exercisable options to purchase Common Stock, and 3,359,731 shares acquirable by LeBow Epsilon Investments Trust, as assignee of Mr. LeBow, upon exercise of currently exercisable options. Mr. LeBow indirectly exercises sole voting power and sole dispositive power over the shares of Common Stock held or acquirable by the

partnerships and trust. The shares held by LeBow Alpha LLLP are pledged to US Clearing Corp. to secure a margin loan to Mr. LeBow. LeBow Holdings, Inc., a Nevada corporation, is the general partner of LeBow Alpha LLLP and is the sole stockholder of LeBow Gamma, Inc., a Nevada corporation, which is the general partner of LeBow Gamma Limited Partnership. Mr. LeBow is a director, officer and sole shareholder of LeBow Holdings, Inc., a director and officer of LeBow Gamma, Inc. and the sole trustee of LeBow Epsilon Investments Trust. Mr. LeBow and family members serve as directors and executive officers of the foundation, and Mr. LeBow possesses shared voting power and shared dispositive power with the other directors of the foundation with respect to the foundation's shares of Common Stock.

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- (2) Based upon a Form 4, filed by the named entities on November 22, 2004. Barberry Corp. is the managing member of Hopper Investments LLC, which is the general partner of High River Limited Partnership, and is wholly owned by Mr. Icahn. Includes 832,293 shares of Common Stock issuable upon conversion of the Company's convertible notes.
- (3) Includes 104,076 shares held directly by Mr. Lorber, 1,255,117 shares of Common Stock held by Lorber Epsilon 1999 Limited Partnership, a Delaware limited partnership, and 942,015 shares acquirable by Mr. Lorber upon exercise of currently exercisable options to purchase Common Stock. Mr. Lorber exercises sole voting power and sole dispositive power over the shares of Common Stock held by the partnership and by himself. Lorber Epsilon 1999 LLC, a Delaware limited liability company, is the general partner of Lorber Epsilon 1999 Limited Partnership. Lorber Alpha II Limited Partnership, a Nevada limited partnership, is the sole member of, and Mr. Lorber is the manager of, Lorber Epsilon 1999 LLC. Lorber Alpha II, Inc., a Nevada corporation, is the general partner of Lorber Alpha II Limited Partnership. Mr. Lorber is a director, officer and controlling shareholder of Lorber Alpha II, Inc. Mr. Lorber disclaims beneficial ownership of 11,343 shares of Common Stock held by Lorber Charitable Fund. Lorber Charitable Fund is a New York not-for-profit corporation, of which family members of Mr. Lorber serve as directors and executive officers.
- (4) The named individual is a director of the Company.
- (5) Includes 12,761 shares issuable upon exercise of currently exercisable options to purchase Common Stock.
- (6) The named individual is an executive officer of the Company.
- (7) Includes 127,627 shares issuable upon exercise of currently exercisable options to purchase Common Stock.
- (8) Represents shares issuable upon exercise of currently exercisable options to purchase Common Stock.
- (9) The named individual is an executive officer of the Company's subsidiaries Liggett Vector Brands Inc. and Liggett Group Inc.

In addition, by virtue of his controlling interest in the Company, Mr. LeBow may be deemed to own beneficially the securities of the Company's subsidiaries, including VGR Holding Inc., Liggett Group, Vector Tobacco Inc. and New Valley Corporation. The disclosure of this information should not be construed as an admission that Mr. LeBow is the beneficial owner of any securities of the Company's subsidiaries under Rule 13d-3 of the Securities Exchange Act of 1934 or for any other purpose, and beneficial ownership is expressly disclaimed. None of the Company's other directors or executive officers beneficially owns any equity securities of any of the Company's subsidiaries, except for Mr. Lorber and his affiliates who own 1,970,037 common shares of New Valley and hold options to acquire 65,333 New Valley common shares.

NOMINATION AND ELECTION OF DIRECTORS

The by-laws of the Company provide, among other things, that the board, from time to time, shall determine the number of directors of the Company. The size of the board is presently set at seven. The present term of office of all directors will expire at the annual meeting. Seven directors are to be elected at the annual meeting to serve until the next annual meeting of stockholders and until their respective successors are duly elected and qualified.

It is intended that proxies received will be voted **FOR** election of the nominees named below unless marked to the contrary. In the event any such person is unable or unwilling to serve as a director, proxies may be voted for substitute nominees designated by the present board. The board has no reason to believe that any of the persons named below will be unable or unwilling to serve as a director if elected.

The board recommends that stockholders vote **FOR** election of the nominees named below.

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The following table sets forth certain information, as of the record date, with respect to each of the nominees. Each nominee is a citizen of the United States.

Name and Address	Age	Principal Occupation
Bennett S. LeBow Vector Group Ltd. 100 S.E. Second Street Miami, FL 33131	67	Chairman of the Board and Chief Executive Officer
Howard M. Lorber Vector Group Ltd. 100 S.E. Second Street Miami, FL 33131	56	President and Chief Operating Officer
Ronald J. Bernstein Liggett Vector Brands Inc. One Park Drive Research Triangle Park, NC 27709	52	President and Chief Executive Officer, Liggett Group Inc. and Liggett Vector Brands Inc.
Henry C. Beinstein Gagnon Securities LLC 1370 Avenue of the Americas New York, NY 10022	62	Partner, Gagnon Securities LLC
Robert J. Eide Aegis Capital Corp. 810 Seventh Avenue New York, NY 10019	52	Chairman and Chief Executive Officer, Aegis Capital Corp.
Jeffrey S. Podell 173 Doral Court Roslyn, NY 11576	64	Chairman of the Board and President, Newsote, Inc.
Jean E. Sharpe 28 Old Church Lane South Salem, NY 10590	58	Private Investor

Each director is elected annually and serves until the next annual meeting of stockholders and until his successor is duly elected and qualified.

Business Experience of Nominees

Bennett S. LeBow has been Chairman of the Board and Chief Executive Officer of the Company since June 1990 and has been a director of the Company since October 1986. Since November 1990, he has been Chairman of the Board and Chief Executive Officer of VGR Holding Inc., a wholly-owned subsidiary of the Company, which directly or indirectly holds the Company's equity interests in several private and public companies. Mr. LeBow has served as President and Chief Executive Officer of Vector Tobacco Inc., a subsidiary of the Company engaged in the development and marketing of low nicotine and nicotine-free cigarette products and the development of reduced risk cigarette products, since January 2001 and as a director since October 1999. Mr. LeBow has been Chairman of the Board of New Valley Corporation, a majority-owned subsidiary of the Company engaged in the real estate business and seeking to acquire additional operating companies and real estate properties, since January 1988 and Chief Executive Officer since November 1994.

Howard M. Lorber has been President, Chief Operating Officer and a director of the Company and VGR Holding since January 2001. Since November 1994, Mr. Lorber has served as President and Chief Operating Officer of New Valley, where he also serves as a director. Mr. Lorber was Chairman of the Board of Directors of Hallman & Lorber

Assoc. Inc., consultants and actuaries of qualified pension and profit sharing plans, and various of its affiliates from 1975 to December 2004 and has been a consultant to these entities since January 2005; a stockholder and a registered representative of Aegis Capital Corp., a broker-dealer and a member firm

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of the National Association of Securities Dealers, since 1984; Chairman of the Board of Directors since 1987 and Chief Executive Officer since November 1993 of Nathan's Famous, Inc., a chain of fast food restaurants; a consultant to the Company and its Liggett Group Inc. subsidiary from January 1994 to January 2001; a director of United Capital Corp., a real estate investment and diversified manufacturing company, since May 1991; and the Chairman of the Board of Ladenburg Thalmann Financial Services since May 2001. He is also a trustee of Long Island University.

Ronald J. Bernstein has been a director of the Company and VGR Holding since March 2004. Mr. Bernstein has served as President and Chief Executive Officer of Liggett since September 1, 2000 and of Liggett Vector Brands since March 2002. From July 1996 to December 1999, Mr. Bernstein served as General Director and, from December 1999 to September 2000, as Chairman of Liggett-Ducat Ltd., the Company's former Russian tobacco business sold in 2000. Prior to that time, Mr. Bernstein served in various positions with Liggett commencing in 1991, including Executive Vice President and Chief Financial Officer.

Henry C. Beinstein has been a director of the Company and VGR Holding since March 2004. Since January 2005, Mr. Beinstein has been a partner of Gagnon Securities LLC, a broker-dealer, and has been a money manager and registered representative at such firm since August 2002. He retired in August 2002 as the Executive Director of Schulte Roth & Zabel LLP, a New York-based law firm, a position he had held since August 1997. Before that, Mr. Beinstein had served as the Managing Director of Milbank, Tweed, Hadley & McCloy LLP, a New York-based law firm, commencing November 1995. Mr. Beinstein was the Executive Director of Proskauer Rose LLP, a New York-based law firm, from April 1985 through October 1995. Mr. Beinstein is a certified public accountant in New York and New Jersey and prior to joining Proskauer was a partner and National Director of Finance and Administration at Coopers & Lybrand. Mr. Beinstein has been a director of Ladenburg Thalmann Financial Services since May 2001 and a director of New Valley since November 1994.

Robert J. Eide has been a director of the Company and VGR Holding since November 1993. Mr. Eide has been the Chairman and Chief Executive Officer of Aegis Capital Corp., a registered broker-dealer, since 1984. Mr. Eide also serves as a director of Nathan's Famous, Inc., a restaurant chain, and Ladenburg Thalmann Financial Services.

Jeffrey S. Podell has been a director of the Company and VGR Holding since November 1993. Mr. Podell has been the Chairman of the Board and President of Newsote, Inc., a privately-held holding company, since 1989.

Jean E. Sharpe has been a director of the Company and VGR Holding since May 1998. Ms. Sharpe is a private investor and has engaged in various philanthropic activities since her retirement in September 1993 as Executive Vice President and Secretary of the Company and as an officer of various of its subsidiaries. Ms. Sharpe previously served as a director of the Company from July 1990 until September 1993.

Board of Directors and Committees

The board of directors, which held eight meetings in 2004, currently has seven members. The board has determined that all four of the Company's non-employee directors have no material relationship with the Company and meet the New York Stock Exchange listing standards for independence. Mr. Eide is an officer and stockholder of Aegis Capital Corp. which performs brokerage services for New Valley. See Compensation Committee Interlocks and Insider Participation. In making the determination that this relationship is not material and does not prevent Mr. Eide from being an independent director, the board took into account that the fees paid to Aegis are comparable to those paid to other brokerage firms for similar services and the amounts involved are insignificant to both New Valley and Aegis. Each director attended at least 75% of the aggregate number of meetings of the board and of each committee of which the director was a member held during such period. To ensure free and open discussion and communication among the non-employee directors of the board, the non-employee directors meet in executive sessions periodically, with no members of management present. The chair of the corporate governance and nominating committee presides at the executive sessions.

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The board of directors has four committees established in accordance with the Company's bylaws: the executive committee, audit committee, compensation committee, and corporate governance and nominating committee. Each of the members of the audit committee, compensation committee, and corporate governance and nominating committee meets the New York Stock Exchange listing standards for independence.

The executive committee, whose members are Messrs. LeBow, chairman, Lorber and Eide, did not meet in 2004. The executive committee exercises, in the intervals between meetings of the board, all the powers of the board in the management and affairs of the Company, except for matters expressly reserved by law for board action.

The audit committee, whose members are currently Messrs. Beinstein, chairman, Eide and Podell and Ms. Sharpe, met 11 times in 2004. The committee is governed by a written charter. The audit committee oversees the Company's financial statements, system of internal controls, and auditing, accounting and financial reporting processes; appoints, compensates, evaluates and, where appropriate, replaces the Company's independent accountants; reviews annually the audit committee charter; and reviews and pre-approves audit and permissible non-audit services. See Audit Committee Report. Each of the members of the audit committee is financially literate, as required of audit committee members by the New York Stock Exchange. The board of directors has determined that Mr. Beinstein is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission.

The compensation committee, whose members are currently Messrs. Eide, chairman, Beinstein and Podell, met two times in 2004. The committee is governed by a written charter. The compensation committee reviews, approves and administers management compensation and executive compensation plans. The compensation committee also administers the Company's 1998 and 1999 Long-Term Incentive Plans. See Compensation Committee Report on Executive Compensation.

The corporate governance and nominating committee, whose members are Ms. Sharpe, chair, and Messrs. Eide and Beinstein, met once in 2004. The committee is governed by a written charter. This committee assists the board of directors in identifying individuals qualified to become board members and recommends to the board the nominees for election as directors at the next annual meeting of shareholders, develops and recommends to the board the corporate governance guidelines applicable to the Company, and oversees the evaluation of the board and management. In recommending candidates for the board, the committee takes into consideration the following criteria established by the board in the Company's corporate governance guidelines:

personal qualities and characteristics, accomplishments and reputation in the business community;

current knowledge and contacts in the communities in which the Company does business and in the Company's industry or other industries relevant to the Company's business;

ability and willingness to commit adequate time to board and committee matters;

the fit of the individual's skills and personality with those of other directors and potential directors in building a board that is effective, collegial and responsive to the needs of the Company; and

diversity of viewpoints, background, experience and other demographics.

The committee also considers such other factors as it deems appropriate, including judgment, skill, diversity, experience with businesses and other organizations of comparable size, the interplay of the candidate's experience with the experience of other board members, and the extent to which the candidate would be a desirable addition to the board and any committees of the board. The committee will consider nominees recommended by stockholders, which nominations should be submitted by directing an appropriate letter and resume to the secretary of the Company. If the Company were to receive recommendations of candidates from the Company's stockholders, the committee would consider such recommendations in the same manner as all other candidates.

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The Company's corporate governance guidelines, code of business conduct and ethics and the charters of the Company's audit committee, compensation committee, and corporate governance and nominating committee are all available in the investor relations section of the Company's website (www.vectorgroupltd.com).

Executive Compensation

The following table sets forth information concerning compensation awarded to, earned by or paid during the past three years to those persons who were, at December 31, 2004, the Company's Chief Executive Officer and the other four most highly compensated executive officers (collectively, the named executive officers):

Summary Compensation Table(1)

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation		
		Salary(\$)	Bonus(\$)	Other Annual Compensation(\$)	Securities Underlying Options(#)	All Other Compensation(\$)
Bennett S. LeBow Chairman of the Board and Chief Executive Officer	2004	3,739,501(2)	1,043,700(3)	168,645(4)		6,150(8)
	2003	3,739,501(2)	1,913,450(3)	217,492(4)		6,000(8)
	2002	3,739,501(2)	1,043,700(3)	66,975(4)		305,970(5)
Howard M. Lorber President and Chief Operating Officer	2004	2,401,690(6)	1,500,000(6)	129,444(4)		
	2003	2,325,777(6)	1,500,000(6)	190,718(4)		
	2002	2,257,082(6)	2,000,000(6)	149,905(4)		
Richard J. Lampen(7) Executive Vice President	2004	750,000	100,000			6,150(8)
	2003	750,000				6,000(8)
	2002	750,000				6,000(8)
Marc N. Bell(9) Vice President, General Counsel and Secretary	2004	375,000	50,000			6,150(8)
	2003	375,000				6,000(8)
	2002	375,000				6,000(8)
Ronald J. Bernstein President and Chief Executive Officer of Liggett Vector Brands and Liggett Group	2004	750,000	250,000			6,150(8)
	2003	650,000				6,000(8)
	2002	650,000				6,000(8)

(1) Unless otherwise stated, the aggregate value of perquisites and other personal benefits received by the named executive officers are not reflected because the amounts were below the reporting requirements established by SEC rules.

(2) Includes salary paid by New Valley of \$2,000,000 per year.

- (3) Includes payments equal to 10% of Mr. LeBow's base salary from the Company (\$173,950 in each of 2004, 2003 and 2002) in lieu of certain other executive benefits and a special bonus of \$863,500 in 2003, the proceeds of which were used by Mr. LeBow to repay to the Company its interest of \$863,500 under his split-dollar insurance agreements.
- (4) Includes for Mr. LeBow \$78,645 in 2004 and \$127,492 in 2003 for personal use of corporate aircraft and an allowance paid by New Valley to an entity affiliated with him for lodging and related business expenses of \$90,000, \$90,000 and \$59,503 for 2004, 2003 and 2002, respectively. Includes for Mr. Lorber \$39,444 in 2004 and \$41,281 in 2003 for personal use of corporate aircraft, an allowance paid by New Valley for lodging and related business expenses of \$90,000 for 2004, 2003 and 2002 and an automobile allowance paid by New Valley of \$59,437 for 2003 and \$41,973 for 2002.

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- (5) Represents \$6,000 of 401(k) plan contributions and \$299,970 of premiums paid in 2002 by the Company under collateral assignment split-dollar insurance agreements covering the life of Mr. LeBow entered into by the Company in 1998 and 1999. Effective August 2002, no further premiums were paid by the Company under the split-dollar insurance agreements. On December 31, 2003, Mr. LeBow repaid to the Company its interest of \$863,500 in the split-dollar arrangements.
- (6) Includes salary of \$1,882,341 and bonus of \$1,500,000 paid by New Valley for 2004, salary of \$1,822,587 and bonus of \$1,500,000 paid by New Valley for 2003 and salary of \$1,769,004 and bonus of \$2,000,000 paid by New Valley for 2002.
- (7) The table reflects 100% of Mr. Lampen's salary and bonus, all of which are paid by New Valley. Of Mr. Lampen's salary from New Valley, \$187,500 per year has been reimbursed to New Valley by the Company and \$25,000 of his 2004 bonus was reimbursed to New Valley by the Company.
- (8) Represents 401(k) plan contributions.
- (9) The table reflects 100% of Mr. Bell's salary, all of which are paid by the Company. Of Mr. Bell's salary from the Company, \$187,500 per year has been reimbursed to the Company by New Valley and \$25,000 of his 2004 bonus was reimbursed to the Company by New Valley.

The following table sets forth certain information concerning option exercises during 2004 by the named executive officers and the status of their options as of December 31, 2004.

**Aggregated Option Exercises During Last Fiscal Year
and Fiscal Year-End Option Values**

Name	Number of Shares Acquired on Exercise	Value Realized Upon Exercise	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-The-Money Options at December 31, 2004*	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Bennett S. LeBow			5,872,410		\$39,604,439	
Howard M. Lorber	670,045	\$5,398,656	942,015		\$3,013,536	
Richard J. Lampen	125,937	\$1,460,869	127,627		\$557,730	
Marc N. Bell	69,082	\$798,951	63,813		\$278,863	
Ronald J. Bernstein	78,750	\$387,060	421,197	108,528	\$1,276,094	

* Calculated using the closing price of \$16.47 per share on December 31, 2004 less the option exercise price.

Equity Compensation Plan Information

The following table summarizes information about the options, warrants and rights and other equity compensation under the Company's equity plans as of December 31, 2004.

**Number of securities
remaining**

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	8,811,681	\$ 11.98	5,391,526
Equity compensation plans not approved by security holders(2)	38,283	\$ 13.12	
Total	8,849,964	\$ 11.98	5,391,526

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- (1) Includes options to purchase shares of the Company's Common Stock under the following stockholder-approved plans: 1998 Long-Term Incentive Plan and 1999 Amended and Restated Long-Term Incentive Plan.
- (2) Represents options to purchase shares of the Company's Common Stock granted in December 1999 to the Company's three outside directors, which vested over three years.

Compensation of Directors

Outside directors of the Company receive \$7,000 per annum as compensation for serving as director, \$2,500 (\$5,000 for the chair) per annum for each committee membership, \$1,000 per meeting for each board meeting attended, and \$500 per meeting for each committee meeting attended. In addition, each outside director of VGR Holding receives \$28,000 per annum as compensation for serving as director, \$500 per meeting for each board meeting attended, and \$500 for each committee meeting attended. Each director is reimbursed for reasonable out-of-pocket expenses incurred in serving on the board of the Company and/or VGR Holding. The Company also makes available health and dental insurance coverage to its directors.

In June 2004, the Company granted 10,500 restricted shares of Common Stock to each of the four outside directors of the Company. The stock grant will vest in three equal annual installments commencing on the first anniversary of the date of grant based on continued service as a director subject to earlier vesting upon death, disability or the occurrence of a change-of-control.

Employment Agreements

Bennett S. LeBow is a party to an employment agreement with the Company dated February 21, 1992, as amended July 20, 1998. The agreement has a one-year term with automatic renewals for additional one-year terms unless notice of non-renewal is given by either party six months prior to the termination date. As of January 1, 2005, Mr. LeBow's annual base salary from the Company was \$1,739,501. He was also paid an annual bonus for 2004 of \$869,750 and an annual payment equal to 10% of his base salary in lieu of certain other executive benefits such as club memberships, company-paid automobiles and other similar perquisites. Following termination of his employment without cause, he would continue to receive his then current base salary and bonus for 24 months. Following termination of his employment within two years of a change-of-control or in connection with similar events, he would receive a lump sum payment equal to 2.99 times his then current base salary and bonus.

Mr. LeBow is a party to an employment agreement with New Valley dated as of June 1, 1995, as amended effective as of January 1, 1996. The agreement had an initial term of three years effective as of January 18, 1995, with an automatic one year extension on each anniversary of the effective date unless notice of non-extension is given by either party within the 60-day period before such anniversary date. As of January 1, 2005, Mr. LeBow's annual base salary from New Valley was \$2,000,000. Following termination of his employment without cause, he would continue to receive his base salary for a period of 36 months commencing with the next anniversary of the effective date following the termination notice. 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 his then current base salary.

Howard M. Lorber is a party to an employment agreement with the Company dated January 17, 2001. The agreement has an initial term of three years from January 17, 2001, 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, 2005, Mr. Lorber's annual base salary was \$538,893. Mr. Lorber's salary is subject to an annual cost of living adjustment. In addition, the Board must periodically review this base salary and may increase but not decrease it from time to time in its sole discretion. The Board may also award an annual bonus to Mr. Lorber in its sole discretion. Following termination of his employment without cause, he would continue to receive his base salary for a period of 36 months commencing with the next anniversary of the effective date following the termination notice. 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

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base salary and the bonus amounts earned by him for the twelve-month period ending with the last day of the month immediately before the month in which the termination occurs.

Mr. Lorber is a party to an employment agreement with New Valley dated June 1, 1995, as amended effective as of January 1, 1996. The agreement has an initial term of three years effective as of January 18, 1995, 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, 2005, Mr. Lorber's annual base salary was \$1,953,177. Mr. Lorber's salary is subject to an annual cost of living adjustment. In addition, the New Valley board must periodically review this base salary and may increase but not decrease it from time to time in its sole discretion. New Valley's board of directors may also award an annual bonus to Mr. Lorber in its sole discretion. The New Valley board awarded Mr. Lorber a bonus of \$1,500,000 for 2004. Following termination of his employment without cause, he would continue to receive his base salary for a period of 36 months commencing with the next anniversary of the effective date following the termination notice. 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 amounts earned by him for the twelve-month period ending with the last day of the month immediately before the month in which the termination occurs.

On January 10, 2005, New Valley awarded Mr. Lorber, the President and Chief Operating Officer of New Valley, who also serves in the same positions with the Company, a restricted stock grant of 1,250,000 shares of New Valley's common shares pursuant to New Valley's 2000 Long-Term Incentive Plan. Under the terms of the award, one-seventh of the shares vest on July 15, 2005, with an additional one-seventh vesting on each of the five succeeding one-year anniversaries of the first vesting date through July 15, 2010 and an addi