

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2021

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

VECTOR GROUP LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
incorporation or organization)

1-5759
Commission File Number

65-0949535
(I.R.S. Employer Identification No.)

**4400 Biscayne Boulevard
Miami, Florida 33137
305-579-8000**

(Address, including zip code and telephone number, including area code,
of the principal executive offices)

Securities Registered Pursuant to 12(b) of the Act:

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common stock, par value \$0.10 per share	VGR	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At August 3, 2021, Vector Group Ltd. had 153,959,427 shares of common stock outstanding.

VECTOR GROUP LTD.

FORM 10-Q

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VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

	June 30, 2021	December 31, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 490,390	\$ 352,842
Investment securities at fair value	157,001	135,585
Accounts receivable - trade, net	51,463	40,711
Inventories	93,161	97,545
Other current assets	46,171	37,220
Total current assets	838,186	663,903
Property, plant and equipment, net	72,804	77,988
Investments in real estate, net	9,608	15,631
Long-term investments (includes \$35,534 and \$34,218 at fair value)	55,362	52,528
Investments in real estate ventures	76,192	85,400
Operating lease right-of-use assets	138,057	145,356
Goodwill and other intangible assets, net	207,497	207,577
Other assets	98,671	95,026
Total assets	\$ 1,496,377	\$ 1,343,409
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Current portion of notes payable and long-term debt	\$ 12,558	\$ 12,557
Current payments due under the Master Settlement Agreement	89,488	38,767
Income taxes payable, net	13,834	5,847
Current operating lease liability	26,625	27,207
Other current liabilities	223,498	198,937
Total current liabilities	366,003	283,315
Notes payable, long-term debt and other obligations, less current portion	1,402,827	1,393,729
Non-current employee benefits	66,829	66,616
Deferred income taxes, net	36,602	32,456
Non-current operating lease liability	144,487	154,199
Payments due under the Master Settlement Agreement	13,224	17,933
Other liabilities	58,450	54,848
Total liabilities	2,088,422	2,003,096
Commitments and contingencies (Note 9)		
Stockholders' deficiency:		
Preferred stock, par value \$1 per share, 10,000,000 shares authorized	—	—
Common stock, par value \$0.1 per share, 250,000,000 shares authorized, 154,156,100 and 153,324,629 shares issued and outstanding	15,416	15,332
Additional paid-in capital	5,048	—
Accumulated deficit	(591,911)	(653,945)
Accumulated other comprehensive loss	(20,598)	(21,074)
Total Vector Group Ltd. stockholders' deficiency	(592,045)	(659,687)
Non-controlling interest	—	—
Total stockholders' deficiency	(592,045)	(659,687)
Total liabilities and stockholders' deficiency	\$ 1,496,377	\$ 1,343,409

The accompanying notes are an integral part of the condensed consolidated financial statements.

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
Tobacco*	\$ 329,496	\$ 312,510	\$ 597,959	\$ 599,579
Real estate	400,033	133,250	675,334	300,669
Total revenues	<u>729,529</u>	<u>445,760</u>	<u>1,273,293</u>	<u>900,248</u>
Expenses:				
Cost of sales:				
Tobacco*	206,145	214,067	370,176	411,357
Real estate	294,265	90,818	493,776	204,151
Total cost of sales	<u>500,410</u>	<u>304,885</u>	<u>863,952</u>	<u>615,508</u>
Operating, selling, administrative and general expenses	92,043	71,064	182,057	161,581
Litigation settlement and judgment expense	—	53	5	53
Impairments of goodwill and other intangible assets	—	—	—	58,252
Restructuring charges	—	2,961	—	2,961
Operating income	<u>137,076</u>	<u>66,797</u>	<u>227,279</u>	<u>61,893</u>
Other income (expenses):				
Interest expense	(28,115)	(29,358)	(56,866)	(64,985)
Loss on extinguishment of debt	—	—	(21,362)	—
Change in fair value of derivatives embedded within convertible debt	—	1,669	—	4,999
Equity in earnings from investments	941	2,207	1,518	52,359
Equity in earnings (losses) from real estate ventures	16,685	(12,260)	18,274	(18,765)
Other, net	<u>5,578</u>	<u>7,635</u>	<u>8,332</u>	<u>(3,020)</u>
Income before provision for income taxes	132,165	36,690	177,175	32,481
Income tax expense	<u>38,860</u>	<u>10,916</u>	<u>51,913</u>	<u>9,938</u>
Net income	93,305	25,774	125,262	22,543
Net income attributed to non-controlling interest	—	—	—	—
Net income attributed to Vector Group Ltd.	<u>\$ 93,305</u>	<u>\$ 25,774</u>	<u>\$ 125,262</u>	<u>\$ 22,543</u>
Per basic common share:				
Net income applicable to common shares attributed to Vector Group Ltd.	<u>\$ 0.61</u>	<u>\$ 0.17</u>	<u>\$ 0.81</u>	<u>\$ 0.14</u>
Per diluted common share:				
Net income applicable to common shares attributed to Vector Group Ltd.	<u>\$ 0.61</u>	<u>\$ 0.16</u>	<u>\$ 0.81</u>	<u>\$ 0.14</u>

* Revenues and cost of sales include federal excise taxes of \$118,735, \$121,170, \$216,449, and \$234,309 for the three and six months ended June 30, 2021 and 2020, respectively.

The accompanying notes are an integral part of the condensed consolidated financial statements.

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	\$ 93,305	\$ 25,774	\$ 125,262	\$ 22,543
Net unrealized (losses) gains on investment securities available for sale:				
Change in net unrealized (losses) gains	(122)	644	(304)	(20)
Net unrealized losses (gains) reclassified into net income	34	(70)	(7)	433
Net unrealized (losses) gains on investment securities available for sale	(88)	574	(311)	413
Net change in pension-related amounts:				
Amortization of loss	481	463	963	927
Other comprehensive income	393	1,037	652	1,340
Income tax effect on:				
Change in net unrealized (losses) gains on investment securities	33	(174)	82	6
Net unrealized losses (gains) reclassified into net income on investment securities	(9)	19	2	(117)
Pension-related amounts	(130)	(125)	(260)	(250)
Income tax provision on other comprehensive income	(106)	(280)	(176)	(361)
Other comprehensive income, net of tax	287	757	476	979
Comprehensive income	93,592	26,531	125,738	23,522
Comprehensive income attributed to non-controlling interest	—	—	—	—
Comprehensive income attributed to Vector Group Ltd.	\$ 93,592	\$ 26,531	\$ 125,738	\$ 23,522

The accompanying notes are an integral part of the condensed consolidated financial statements.

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
(Dollars in Thousands, Except Share Amounts)
Unaudited

Vector Group Ltd. Stockholders' Deficiency							
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of April 1, 2021	154,194,629	\$ 15,419	\$ 2,573	\$ (653,606)	\$ (20,885)	\$ —	\$ (656,499)
Net income	—	—	—	93,305	—	—	93,305
Total other comprehensive income	—	—	—	—	287	—	287
Dividends on common stock (\$0.20 per share)	—	—	—	(31,610)	—	—	(31,610)
Restricted stock grant	3,500	1	(1)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(42,029)	(4)	(604)	—	—	—	(608)
Stock-based compensation	—	—	3,080	—	—	—	3,080
Balance as of June 30, 2021	154,156,100	\$ 15,416	\$ 5,048	\$ (591,911)	\$ (20,598)	\$ —	\$ (592,045)

Vector Group Ltd. Stockholders' Deficiency							
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of April 1, 2020	148,084,900	\$ 14,808	\$ —	\$ (712,221)	\$ (21,586)	\$ —	\$ (718,999)
Net income	—	—	—	25,774	—	—	25,774
Total other comprehensive income	—	—	—	—	757	—	757
Distributions and dividends on common stock (\$0.20 per share)	—	—	(54,244)	22,644	—	—	(31,600)
Restricted stock grant	405,000	41	(41)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(5,423)	(1)	(61)	—	—	—	(62)
Issuance of common stock	5,000,000	500	52,063	—	—	—	52,563
Stock-based compensation	—	—	2,283	—	—	—	2,283
Other	—	—	—	80	—	—	80
Balance as of June 30, 2020	153,484,477	\$ 15,348	\$ —	\$ (663,723)	\$ (20,829)	\$ —	\$ (669,204)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Vector Group Ltd. Stockholders' Deficiency

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of January 1, 2021	153,324,629	\$ 15,332	\$ —	\$ (653,945)	\$ (21,074)	\$ —	\$ (659,687)
Net income	—	—	—	125,262	—	—	125,262
Total other comprehensive income	—	—	—	—	476	—	476
Dividends on common stock (\$0.40 per share)	—	—	—	(63,228)	—	—	(63,228)
Restricted stock grants	873,500	88	(88)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(42,029)	(4)	(604)	—	—	—	(608)
Stock-based compensation	—	—	5,740	—	—	—	5,740
Balance as of June 30, 2021	154,156,100	\$ 15,416	\$ 5,048	\$ (591,911)	\$ (20,598)	\$ —	\$ (592,045)

Vector Group Ltd. Stockholders' Deficiency

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Shares	Amount					
Balance as of January 1, 2020	148,084,900	\$ 14,808	\$ —	\$ (678,464)	\$ (21,808)	\$ 448	\$ (685,016)
Impact of adoption of new accounting standards	—	—	—	(2,263)	—	—	(2,263)
Net income	—	—	—	22,543	—	—	22,543
Total other comprehensive income	—	—	—	—	979	—	979
Distributions and dividends on common stock (\$0.40 per share)	—	—	(56,502)	(5,619)	—	—	(62,121)
Restricted stock grant	405,000	41	(41)	—	—	—	—
Surrender of shares in connection with restricted stock vesting	(5,423)	(1)	(61)	—	—	—	(62)
Issuance of common stock	5,000,000	500	52,063	—	—	—	52,563
Stock-based compensation	—	—	4,541	—	—	—	4,541
Distributions to non-controlling interest	—	—	—	—	—	(448)	(448)
Other	—	—	—	80	—	—	80
Balance as of June 30, 2020	153,484,477	\$ 15,348	\$ —	\$ (663,723)	\$ (20,829)	\$ —	\$ (669,204)

The accompanying notes are an integral part of the condensed consolidated financial statements.

VECTOR GROUP LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
Unaudited

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net cash provided by operating activities	\$ 221,300	\$ 341,329
Cash flows from investing activities:		
Sale of investment securities	23,477	19,555
Maturities of investment securities	36,461	31,574
Purchase of investment securities	(74,805)	(16,867)
Proceeds from sale or liquidation of long-term investments	8,009	23,407
Purchase of long-term investments	(6,963)	(5,238)
Investments in real estate ventures	(9,902)	(3,858)
Distributions from investments in real estate ventures	11,163	5,172
Increase in cash surrender value of life insurance policies	(1,348)	(751)
(Increase) decrease in restricted assets	(5)	87
Capital expenditures	(3,055)	(6,242)
Paydowns of investment securities	302	415
Investments in real estate, net	—	(679)
Net cash (used in) provided by investing activities	(16,666)	46,575
Cash flows from financing activities:		
Proceeds from issuance of debt	875,000	531
Deferred financing costs	(20,109)	—
Repayments of debt	(856,316)	(172,467)
Borrowings under revolver	7,699	130,641
Repayments on revolver	(7,699)	(165,593)
Dividends and distributions on common stock	(63,738)	(63,478)
Distributions to non-controlling interest	—	(448)
Proceeds from issuance of common stock	—	52,563
Other	(51)	5
Net cash used in financing activities	(65,214)	(218,246)
Net increase in cash, cash equivalents and restricted cash	139,420	169,658
Cash, cash equivalents and restricted cash, beginning of period	365,677	379,476
Cash, cash equivalents and restricted cash, end of period	\$ 505,097	\$ 549,134

The accompanying notes are an integral part of the condensed consolidated financial statements.

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation:

The condensed consolidated financial statements of Vector Group Ltd. (the “Company” or “Vector”) include the accounts of Liggett Group LLC (“Liggett”), Vector Tobacco Inc. (“Vector Tobacco”), Liggett Vector Brands LLC (“Liggett Vector Brands”), New Valley LLC (“New Valley”) and other less significant subsidiaries. New Valley includes the accounts of Douglas Elliman Realty, LLC (“Douglas Elliman”) and other less significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

Liggett and Vector Tobacco are engaged in the manufacture and sale of cigarettes in the United States. Liggett Vector Brands coordinates Liggett and Vector Tobacco’s sales and marketing efforts. Certain references to “Liggett” refer to the Company’s tobacco operations, including the business of Liggett and Vector Tobacco, unless otherwise specified. New Valley is engaged in the real estate business.

The unaudited, interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and, in management’s opinion, contain all adjustments, consisting only of normal recurring items, necessary for a fair statement of the results for the periods presented. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission (“SEC”). The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

Certain reclassifications have been made to the 2020 financial information to conform to the 2021 presentation. Credit loss income (expense) has been reclassified from Other (expense) income as components of Other, net.

(b) Distributions and Dividends on Common Stock:

The Company records distributions on its common stock as dividends in its condensed consolidated statements of stockholders’ deficiency to the extent of retained earnings. Any amounts exceeding retained earnings are recorded as a reduction to additional paid-in capital to the extent paid-in-capital is available and then to accumulated deficit.

(c) Earnings Per Share (“EPS”):

Net income for purposes of determining basic EPS was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Net income attributed to Vector Group Ltd.	\$ 93,305	\$ 25,774	\$ 125,262	\$ 22,543
Income attributed to participating securities	(952)	(707)	(1,686)	(1,268)
Net income applicable to common shares attributed to Vector Group Ltd.	<u>\$ 92,353</u>	<u>\$ 25,067</u>	<u>\$ 123,576</u>	<u>\$ 21,275</u>

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

Net income for purposes of determining diluted EPS was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income attributed to Vector Group Ltd.	\$ 93,305	\$ 25,774	\$ 125,262	\$ 22,543
Income attributable to 5.50% Variable Interest Senior Convertible Notes	—	(375)	—	—
Income attributed to participating securities	(952)	(707)	(1,686)	(1,268)
Net income applicable to common shares attributed to Vector Group Ltd.	<u>\$ 92,353</u>	<u>\$ 24,692</u>	<u>\$ 123,576</u>	<u>\$ 21,275</u>

Basic and diluted EPS were calculated using the following common shares:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Weighted-average shares for basic EPS	152,285,182	149,379,306	152,267,410	148,189,710
Plus incremental shares related to convertible debt	—	1,379,454	—	—
Plus incremental shares related to stock options and non-vested restricted stock	282,313	88,100	206,381	85,701
Weighted-average shares for diluted EPS	<u>152,567,495</u>	<u>150,846,860</u>	<u>152,473,791</u>	<u>148,275,411</u>

The following non-vested restricted stock were outstanding during the three and six months ended June 30, 2021 and 2020, but were not included in the computation of diluted EPS because the impact of the per share expense associated with the restricted stock was greater than the average market price of the common shares during the respective periods. The following shares issuable upon the conversion of convertible debt were outstanding during the three and six months ended June 30, 2020, but were not included in the computation of diluted EPS because the impact of the common shares issuable under the convertible debt were anti-dilutive to EPS.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Weighted-average shares of non-vested restricted stock	—	625,122	—	625,122
Weighted-average expense per share	\$ —	\$ 19.54	\$ —	\$ 19.54
Weighted-average number of shares issuable upon conversion of debt	—	—	—	4,874,072
Weighted-average conversion price	\$ —	\$ —	\$ —	\$ 20.27

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

(d) Restructuring:

During 2020, in response to the coronavirus pandemic (“COVID-19”), the Company’s Real Estate segment, including Douglas Elliman, underwent a restructuring by realigning its administrative support function and office locations as well as adjusting its business model to more efficiently serve its clients. This included a reduction of brokerage personnel by approximately 25% at Douglas Elliman. For the three and six months ended June 30, 2021, there were no restructuring charges. As of December 31, 2020, there was no accrual for restructuring charges.

The following table summarizes amounts expensed for the three and six months ended June 30, 2020:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Cash Charges:		
Employee severance and benefits	\$ 1,599	\$ 1,599
Other restructuring expenses	218	218
	<u>1,817</u>	<u>1,817</u>
Non-Cash:		
Loss on fixed assets associated with consolidation of sales offices	1,144	1,144
Total restructuring charges	<u>\$ 2,961</u>	<u>\$ 2,961</u>

All amounts expensed for the three and six months ended June 30, 2020 are included as Restructuring charges in the Company’s condensed consolidated statements of operations and are all attributable to the Company’s Real Estate segment.

Severance and benefits expensed for the three and six months ended June 30, 2020 relate entirely to a reduction in administrative positions.

The following table presents the activity under the Real Estate segment restructuring plan for the six months ended June 30, 2020:

	Employee Severance and Benefits	Other	Non-Cash Loss on Fixed Assets	Total
Accrual balance as of January 1, 2020	\$ —	\$ —	\$ —	\$ —
Restructuring charges	1,599	218	1,144	2,961
Utilized	(1,239)	—	(1,144)	(2,383)
Accrual balance as of June 30, 2020	<u>\$ 360</u>	<u>\$ 218</u>	<u>\$ —</u>	<u>\$ 578</u>

(e) Investments in Real Estate Ventures:

In accounting for its investments in real estate ventures, the Company identified its participation in Variable Interest Entities (“VIE”), which are defined as (a) entities in which the equity investment at risk is not sufficient to finance its activities without additional subordinated financial support; (b) as a group, the equity investors at risk lack 1) the power to direct the activities of a legal entity that most significantly impact the entity’s economic performance, 2) the obligation to absorb the expected losses of the entity, or 3) the right to receive the expected residual returns of the entity; or (c) as a group, the equity investors have voting rights that are not proportionate to their economic interests and the entity’s activities involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company’s interest in VIEs is primarily in the form of equity ownership. The Company examines specific criteria and uses judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

operating decisions, representation on a VIE’s executive committee, existence of unilateral kick-out rights exclusive of protective rights or voting rights and level of economic disproportionality between the Company and its other partner(s).

Accounting guidance requires the consolidation of VIEs in which the Company is the primary beneficiary. The guidance requires consolidation of VIEs that an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company’s maximum exposure to loss in its investments in unconsolidated VIEs is limited to its investment in the VIE, any unfunded capital commitments to the VIE, and, in some cases, guarantees in connection with debt on the specific project. The Company’s maximum exposure to loss in its investment in consolidated VIEs is limited to its investment, which is the carrying value of the investment net of the non-controlling interest. Creditors of the consolidated VIEs have no recourse to the general credit of the primary beneficiary.

On a quarterly basis, the Company evaluates its investments in real estate ventures to determine if there are indicators of impairment. If so, the Company further investigates to determine if an impairment has occurred and whether such impairment is considered temporary or other than temporary. The Company believes that the assessment of temporary or other-than-temporary impairment is facts-and-circumstances driven.

(f) Other, net:

Other, net consisted of:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Interest and dividend income	\$ 525	\$ 968	\$ 1,136	\$ 3,648
Net gains (losses) recognized on investment securities	8,469	4,781	10,918	(7,459)
Net periodic benefit cost other than the service costs	(243)	(454)	(487)	(909)
Credit loss income (expense)	—	1,128	—	(432)
Other (expense) income	(3,173)	1,212	(3,235)	2,132
Other, net	<u>\$ 5,578</u>	<u>\$ 7,635</u>	<u>\$ 8,332</u>	<u>\$ (3,020)</u>

(g) Other Assets:

Other assets consisted of:

	June 30,	December 31, 2020
	2021	
Restricted assets	\$ 4,170	\$ 3,456
Prepaid pension costs	35,751	35,209
Contract assets, net	23,538	24,002
Other assets	35,212	32,359
Total other assets	<u>\$ 98,671</u>	<u>\$ 95,026</u>

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(h) Other Current Liabilities:

Other current liabilities consisted of:

	June 30, 2021	December 31, 2020
Accounts payable	\$ 10,718	\$ 12,846
Accrued promotional expenses	49,269	45,579
Accrued excise and payroll taxes payable, net	22,973	13,849
Accrued interest	30,998	31,624
Commissions payable	38,832	25,615
Accrued salaries and benefits	25,517	27,104
Contract liabilities	7,507	7,633
Allowance for sales returns	7,414	7,356
Other current liabilities	30,270	27,331
Total other current liabilities	<u>\$ 223,498</u>	<u>\$ 198,937</u>

(i) Reconciliation of Cash, Cash Equivalents and Restricted Cash:

The components of “Cash, cash equivalents and restricted cash” in the condensed consolidated statements of cash flows were as follows:

	June 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 490,390	\$ 352,842
Restricted cash and cash equivalents included in other current assets	11,364	10,374
Restricted cash and cash equivalents included in other assets	3,343	2,461
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 505,097</u>	<u>\$ 365,677</u>

Amounts included in current restricted assets and non-current restricted assets represent cash and cash equivalents required to be deposited into escrow for bonds required to appeal adverse product liability judgments, amounts required for letters of credit related to office leases, and certain deposit requirements for banking arrangements. The restrictions related to the appellate bonds will remain in place until the appeal process has been completed. The restrictions related to the letters of credit will remain in place for the duration of the respective lease. The restrictions related to the banking arrangements will remain in place for the duration of the arrangement.

(j) New Accounting Pronouncements:

Accounting Standards Updates (“ASU”) adopted in 2021:

In December 2019, the Financial Accounting Standards Board (the “FASB”) issued *ASU No. 2019-12, Simplifying the Accounting for Income Taxes (“ASU 2019-12”)*. This update simplifies various aspects related to accounting for income taxes, removes certain exceptions to the general principles in Accounting Standards Codification (“ASC”) 740, and clarifies and amends existing guidance to improve consistent application. *ASU No. 2019-12* is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020. Adoption of this update did not have a material impact on the Company’s condensed consolidated financial statements.

In January 2020, the FASB issued *ASU No. 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (“ASU 2020-01”)*. The new standard clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The ASU is effective for

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fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Adoption of this update did not have a material impact on the Company's condensed consolidated financial statements.

ASUs to be adopted in future periods:

In March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). This ASU is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. This guidance is effective for all entities for contract modifications beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01 to clarify the scope of the guidance and allow certain aspects of Topic 848 to be applied to all derivative instruments that undergo a modification of the interest rate used for discounting, margining or contract price alignment as a result of the reference reform. The Company has not yet determined the extent to which it will utilize these expedients and exceptions should a modification occur. The Company does not anticipate an impact on its condensed consolidated financial statements.

2. REVENUE RECOGNITION

Disaggregation of Revenue

In the following table, revenue is disaggregated by major product line for the Tobacco segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<u>Tobacco Segment Revenues:</u>				
Core Discount Brands - <i>Eagle 20's, Pyramid, Montego, Grand Prix, Liggett Select, and Eve</i>	\$ 313,264	\$ 295,388	\$ 566,520	\$ 564,393
Other Brands	16,232	17,122	31,439	35,186
Total tobacco revenues	<u>\$ 329,496</u>	<u>\$ 312,510</u>	<u>\$ 597,959</u>	<u>\$ 599,579</u>

In the following table, revenue is disaggregated by major services line and primary geographical market for the Real Estate segment:

	Three Months Ended June 30, 2021				
	New York City	Northeast	Southeast	West	Total
<u>Real Estate Segment Revenues:</u>					
Commission and other brokerage income - existing home sales	\$ 105,852	\$ 66,419	\$ 121,966	\$ 51,518	\$ 345,755
Commission and other brokerage income - development marketing	15,919	—	14,078	281	30,278
Property management revenue	9,762	139	—	—	9,901
Escrow and title fees	1,413	392	—	4,236	6,041
Total Douglas Elliman revenue	<u>132,946</u>	<u>66,950</u>	<u>136,044</u>	<u>56,035</u>	<u>391,975</u>
Other real estate revenues	6,750	—	—	1,308	8,058
Total real estate revenues	<u>\$ 139,696</u>	<u>\$ 66,950</u>	<u>\$ 136,044</u>	<u>\$ 57,343</u>	<u>\$ 400,033</u>

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	Three Months Ended June 30, 2020				
	New York City	Northeast	Southeast	West	Total
<u>Real Estate Segment Revenues:</u>					
Commission and other brokerage income - existing home sales	\$ 35,861	\$ 35,631	\$ 23,232	\$ 20,024	\$ 114,748
Commission and other brokerage income - development marketing	5,173	—	2,747	586	8,506
Property management revenue	8,617	215	—	—	8,832
Escrow and title fees	474	369	—	—	843
Total Douglas Elliman revenue	50,125	36,215	25,979	20,610	132,929
Other real estate revenues	—	—	—	321	321
Total real estate revenues	<u>\$ 50,125</u>	<u>\$ 36,215</u>	<u>\$ 25,979</u>	<u>\$ 20,931</u>	<u>\$ 133,250</u>

	Six Months Ended June 30, 2021				
	New York City	Northeast	Southeast	West	Total
<u>Real Estate Segment Revenues:</u>					
Commission and other brokerage income - existing home sales	\$ 175,987	\$ 122,669	\$ 197,519	\$ 92,596	\$ 588,771
Commission and other brokerage income - development marketing	24,363	—	21,385	614	46,362
Property management revenue	18,857	312	—	—	19,169
Escrow and title fees	1,879	809	—	7,761	10,449
Total Douglas Elliman revenue	221,086	123,790	218,904	100,971	664,751
Other real estate revenues	6,750	—	—	3,833	10,583
Total real estate revenues	<u>\$ 227,836</u>	<u>\$ 123,790</u>	<u>\$ 218,904</u>	<u>\$ 104,804</u>	<u>\$ 675,334</u>

	Six Months Ended June 30, 2020				
	New York City	Northeast	Southeast	West	Total
<u>Real Estate Segment Revenues:</u>					
Commission and other brokerage income - existing home sales	\$ 85,970	\$ 70,355	\$ 53,410	\$ 45,724	\$ 255,4
Commission and other brokerage income - development marketing	13,624	—	9,469	668	23,7
Property management revenue	17,179	432	—	—	17,6
Escrow and title fees	1,067	632	—	—	1,6
Total Douglas Elliman revenue	117,840	71,419	62,879	46,392	298,5
Other real estate revenues	—	—	—	2,139	2,1
Total real estate revenues	<u>\$ 117,840</u>	<u>\$ 71,419</u>	<u>\$ 62,879</u>	<u>\$ 48,531</u>	<u>\$ 300,6</u>

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Contract Balances

The following table provides information about contract assets and contract liabilities from development marketing and commercial leasing contracts with customers:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Receivables, which are included in accounts receivable - trade, net	\$ 2,703	\$ 1,520
Contract assets, net, which are included in other current assets	6,563	6,529
Payables, which are included in other current liabilities	2,072	1,113
Contract liabilities, which are included in other current liabilities	7,507	7,633
Contract assets, net, which are included in other assets	23,538	24,002
Contract liabilities, which are included in other liabilities	34,302	32,104

The Company recognized revenue of \$1,717 and \$2,649 for the three and six months ended June 30, 2021, that were included in the contract liabilities balances at December 31, 2020. The Company recognized revenue of \$3,921 and \$6,658 for the three and six months ended June 30, 2020, that were included in the contract liabilities balances at December 31, 2019.

3. CURRENT EXPECTED CREDIT LOSSES

Tobacco receivables: Average collection terms for Tobacco sales range between three and twelve days from the time that the cigarettes are shipped to the customer. Based on Tobacco historical and ongoing cash collections from customers, an estimated credit loss in accordance with ASU 2016-13 was not recorded for these trade receivables as of June 30, 2021 and December 31, 2020.

Real estate broker agent receivables: Douglas Elliman Realty is exposed to credit losses for various amounts due from real estate agents, which are included in Other current assets on the condensed consolidated balance sheets, net of an allowance for credit losses. The Company estimates its allowance for credit losses on receivables from agents based on an evaluation of aging, agent sales in pipeline, any security, specific exposures, historical experience of collections from the individual agents, and current and expected future market trends (such as the current and expected impact of COVID-19 on the real estate market). The Company estimated that the credit losses for these receivables were \$7,128 and \$7,038 at June 30, 2021 and December 31, 2020, respectively.

Term loan receivables: New Valley periodically provides term loans to commercial real estate developers, which are included in Other assets on the condensed consolidated balance sheets. New Valley had two loans with a total amortized cost basis of \$15,928, including accrued interest receivable of \$6,428 at both June 30, 2021 and December 31, 2020, and have maturities in 2021 and beyond. The loans are secured by guarantees and given their risk profiles are evaluated individually. As New Valley does not have internal historical loss information by which to evaluate the risk of credit losses, external market data measuring default risks on high yield loans as of each measurement date was utilized to estimate reserves for credit losses on these loans. Pursuant to the requirements of ASU 2016-13, New Valley's expected credit loss estimate was \$15,928 at both June 30, 2021 and December 31, 2020.

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The following is the rollforward of the allowance for credit losses for the six months ended June 30, 2021:

	January 1, 2021	Current Period Provision	Write-offs	Recoveries	June 30, 2021
<u>for credit losses:</u>					
Real estate broker agent receivables	\$ 0,038	(1) 289	\$ 199	\$ —	7,128
New Valley term loan receivables	15,928	—	—	—	15,928

(1) The bad debt expense related to the real estate broker agent receivables is included in Operating, selling, administrative and general expenses on the condensed consolidated statements of operations.

The following is the rollforward of the allowance for credit losses for the six months ended June 30, 2020:

	January 1, 2020	Current Period Provision	Write-offs	Recoveries	June 30, 2020
<u>Allowance for credit losses:</u>					
Real estate broker agent receivables	\$ 6,132	\$ 1,270(1)	\$ 41	\$ —	7,361
New Valley term loan receivables	3,100	432(2)	—	—	3,532

(1) The bad debt expense related to the real estate broker agent receivables is included in Operating, selling, administrative and general expenses on the condensed consolidated statements of operations.

(2) The credit losses related to the New Valley term loan receivables are included in Other, net on the condensed consolidated statements of operations.

4. LEASES

Leases

The Company has operating and finance leases for corporate and sales offices, and certain vehicles and equipment. The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating lease cost	\$ 9,292	\$ 9,356	\$ 18,593	\$ 18,780
Short-term lease cost	261	389	552	790
Variable lease cost	1,029	588	2,037	1,155
<u>Finance lease cost:</u>				
Amortization	14	39	30	77
Interest on lease liabilities	2	4	5	7
Total lease cost	<u>\$ 10,598</u>	<u>\$ 10,376</u>	<u>\$ 21,217</u>	<u>\$ 20,809</u>

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Supplemental cash flow information related to leases was as follows:

	Six Months Ended	
	June 30,	
	2021	2020
<u>Cash paid for amounts included in measurement of lease liabilities:</u>		
Operating cash flows from operating leases	\$ 21,879	\$ 11,953
Operating cash flows from finance leases	5	7
Financing cash flows from finance leases	28	69
<u>Right-of-use assets obtained in exchange for lease obligations:</u>		
Operating leases	3,432	9,076
Finance leases	—	60

Supplemental balance sheet information related to leases was as follows:

	June 30,	December 31,
	2021	2020
<u>Operating leases:</u>		
Operating lease right-of-use assets	\$ 138,057	\$ 145,356
Current operating lease liability	\$ 26,625	\$ 27,207
Non-current operating lease liability	144,487	154,199
Total operating lease liabilities	\$ 171,112	\$ 181,406
<u>Finance leases:</u>		
Investments in real estate, net ⁽¹⁾	\$ 45	\$ 62
Property, plant and equipment, at cost	\$ 127	\$ 127
Accumulated amortization	(57)	(44)
Property and equipment, net	\$ 70	\$ 83
Current portion of notes payable and long-term debt	\$ 57	\$ 57
Notes payable, long-term debt and other obligations, less current portion	67	96
Total finance lease liabilities	\$ 124	\$ 153
<u>Weighted average remaining lease term:</u>		
Operating leases	7.62	7.87
Finance leases	2.27	2.71
<u>Weighted average discount rate:</u>		
Operating leases	9.24 %	9.26 %
Finance leases	7.98 %	7.82 %

⁽¹⁾ Included in Investments in real estate, net on the condensed consolidated balance sheets are financing lease equipment, at cost of \$748 and \$748 and accumulated amortization of \$703 and \$686 as of June 30, 2021 and December 31, 2020, respectively.

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As of June 30, 2021, maturities of lease liabilities were as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Period Ending December 31:		
Remainder of 2021	\$ 21,960	\$ 33
2022	38,780	60
2023	34,007	35
2024	28,054	8
2025	22,895	—
2026	19,114	—
Thereafter	78,236	—
Total lease payments	243,046	136
Less imputed interest	(71,934)	(12)
Total	<u>\$ 171,112</u>	<u>\$ 124</u>

As of June 30, 2021, the Company had \$2,181 in undiscounted lease payments relating to an additional operating lease for equipment that has not yet commenced. The operating lease will commence in the second half of 2021 with a lease term of 3 years.

As a result of the COVID-19 pandemic, the Company received lease concessions from landlords in 2020 mostly in the form of rent deferrals and a few in the form of rent abatements. The Company elected to treat these deferrals and abatements as lease modifications and the existing lease liabilities were remeasured with a corresponding adjustment to the right-of-use asset on the effective date of the modification in 2020. The deferrals varied as to the timing of repayment but all agreements required repayment of the deferrals over the remaining lease terms.

5. INVENTORIES

Inventories consisted of:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Leaf tobacco	\$ 41,693	\$ 42,988
Other raw materials	5,292	5,987
Work-in-process	674	520
Finished goods	66,233	68,781
Inventories at current cost	113,892	118,276
LIFO adjustments	(20,731)	(20,731)
	<u>\$ 93,161</u>	<u>\$ 97,545</u>

All of the Company's inventories at June 30, 2021 and December 31, 2020 are reported under the LIFO method. The \$20,731 LIFO adjustment as of June 30, 2021 decreased the current cost of inventories by \$14,139 for Leaf tobacco, \$474 for Other raw materials, \$26 for Work-in-process and \$6,092 for Finished goods. The \$20,731 LIFO adjustment as of December 31, 2020 decreased the current cost of inventories by \$14,139 for Leaf tobacco, \$474 for Other raw materials, \$26 for Work-in-process and \$6,092 for Finished goods.

The amount of capitalized MSA cost in "Finished goods" inventory was \$21,416 and \$21,120 at June 30, 2021 and December 31, 2020, respectively. Federal excise tax capitalized in inventory was \$24,695 and \$27,683 at June 30, 2021 and December 31, 2020, respectively.

At June 30, 2021, Liggett had tobacco purchase commitments of approximately \$18,772. Liggett has a single-source supply agreement for reduced ignition propensity cigarette paper through 2022.

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6. INVESTMENT SECURITIES

Investment securities consisted of the following:

	June 30, 2021	December 31, 2020
Debt securities available for sale	\$ 108,489	\$ 91,204
Property technology (“PropTech”) convertible trading debt securities	2,481	—
Equity securities at fair value:		
Marketable equity securities	25,187	21,155
Mutual funds invested in debt securities	23,325	23,226
Long-term investment securities at fair value ⁽¹⁾	33,053	34,218
Total equity securities at fair value	<u>81,565</u>	<u>78,599</u>
Total investment securities at fair value	192,535	169,803
Less:		
Long-term investment securities at fair value ⁽¹⁾	33,053	34,218
PropTech convertible trading debt securities	2,481	—
Current investment securities at fair value	<u>157,001</u>	<u>135,585</u>
Long-term investment securities at fair value ⁽¹⁾	33,053	34,218
Equity-method investments	19,828	18,310
PropTech convertible trading debt securities	2,481	—
Total long-term investments	<u>\$ 55,362</u>	<u>\$ 52,528</u>

⁽¹⁾ These assets are measured at net asset value (“NAV”) as a practical expedient under ASC 820.

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Net gains (losses) recognized on investment securities were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net gains (losses) recognized on equity securities	\$ 8,522	\$ 4,711	\$ 10,930	\$ (7,026)
Net gains (losses) recognized on debt securities available for sale	10	70	65	(47)
Impairment expense	(44)	—	(58)	(386)
Net losses recognized on PropTech convertible trading debt securities	(19)	—	(19)	—
Net gains (losses) recognized on investment securities	<u>\$ 8,469</u>	<u>\$ 4,781</u>	<u>\$ 10,918</u>	<u>\$ (7,459)</u>

(a) Debt Securities Available for Sale:

The components of debt securities available for sale at June 30, 2021 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities	\$ 108,217	\$ 272	\$ —	\$ 108,489

The table below summarizes the maturity dates of debt securities available for sale at June 30, 2021.

<u>Investment Type:</u>	Fair Value	Under 1 Year	1 Year up to 5 Years	More than Years
U.S. Government securities	\$ 12,512	\$ 10,195	\$ 2,317	\$ —
Corporate securities	49,843	31,457	18,386	—
U.S. mortgage-backed securities	15,467	200	15,267	—
Commercial paper	29,443	29,443	—	—
Foreign fixed-income securities	1,224	—	1,224	—
Total debt securities available for sale by maturity dates	<u>\$ 108,489</u>	<u>\$ 71,295</u>	<u>\$ 37,194</u>	<u>\$ —</u>

The components of debt securities available for sale at December 31, 2020 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable debt securities	\$ 90,621	\$ 583	\$ —	\$ 91,204

There were no available-for-sale debt securities with continuous unrealized losses for less than 12 months and 12 months or greater at June 30, 2021 and December 31, 2020, respectively.

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Gross realized gains and losses on debt securities available for sale were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Gross realized gains on sales	\$ 11	\$ 72	\$ 67	\$ 1
Gross realized losses on sales	(1)	(2)	(2)	(2)
Net gains (losses) recognized on debt securities available for sale	<u>\$ 10</u>	<u>\$ 70</u>	<u>\$ 65</u>	<u>\$ (4)</u>
Impairment expense	\$ (44)	\$ —	\$ (58)	\$ (3)

Although management generally does not have the intent to sell any specific securities at the end of the period, in the ordinary course of managing the Company's investment securities portfolio, management may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements.

(b) PropTech Convertible Trading Debt Securities:

New Valley, through its subsidiary New Valley Ventures LLC, is actively seeking to capitalize on its real estate knowledge and experience by investing in PropTech ventures that will both supplement and enhance the technology-based experience of Douglas Elliman's agents and the general real estate industry as well as improve the operating efficiency of New Valley. During the first quarter 2021, New Valley Ventures invested \$2,500 into convertible notes of four PropTech ventures. The securities are classified as trading debt securities and are accounted for at fair value. The maturities of the notes are between April 2022 and March 2023.

(c) Equity Securities at Fair Value:

The following is a summary of unrealized and realized net gains and losses recognized in net income on equity securities at fair value during the three and six months ended June 30, 2021 and 2020, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net gains (losses) recognized on equity securities	\$ 8,522	\$ 4,711	\$ 10,930	\$ (7,000)
Less: Net gains (losses) recognized on equity securities sold	4,054	601	4,223	(1,000)
Net unrealized gains (losses) recognized on equity securities still held at the reporting date	<u>\$ 4,468</u>	<u>\$ 4,110</u>	<u>\$ 6,707</u>	<u>\$ (7,000)</u>

The Company's mutual funds invested in debt securities are classified as Level 1 under the fair value hierarchy disclosed in Note 12. Their fair values are based on quoted prices for identical assets in active markets or inputs that are based upon quoted prices for similar instruments in active markets. The Company has unfunded commitments of \$1,939 related to long-term investment securities at fair value as of June 30, 2021.

The Company received cash distributions of \$8,009 and \$23,510 related to its long-term investment securities at fair value for the six months ended June 30, 2021 and 2020, respectively. The Company classified \$8,009 and \$23,407 of these distributions as investing cash inflows for the six months ended June 30, 2021 and 2020, respectively.

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Unaudited

(d) Equity-Method Investments:

Equity-method investments consisted of the following:

	June 30, 2021	December 31, 2020
Mutual fund and hedge funds	\$ 19,828	\$ 18,310

At June 30, 2021, the Company's ownership percentages in the mutual fund and hedge funds accounted for under the equity method ranged from 6.63% to 37.09%. The Company's ownership percentage in these investments meets the threshold for equity-method accounting.

On February 14, 2020, the Company received proceeds of \$53,169 in exchange for the Company's 15,191,205 common shares of Ladenburg Thalmann Financial Services Inc. ("LTS"). The Company also tendered 240,000 shares of LTS 8% Series A Cumulative Redeemable Preferred Stock (Liquidation Preference \$25.00 Per Share) for redemption and received an additional \$6,009 in March 2020. At the closing of the transaction, the Company's Executive Vice President and Chief Operating Officer resigned as Chairman, President and Chief Executive Officer of LTS, and the Company's management agreement with LTS was terminated.

Equity in earnings from investments were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Mutual fund and hedge funds	\$ 941	\$ 2,207	\$ 1,518	\$ (693)
LTS	—	—	—	53,052
Equity in earnings from investments	<u>\$ 941</u>	<u>\$ 2,207</u>	<u>\$ 1,518</u>	<u>\$ 52,359</u>

The Company received cash distributions of \$53,484 (including the \$53,169 received by the Company in exchange for the Company's 15,191,205 common shares of LTS) from the Company's equity-method investments for the six months ended June 30, 2020. The Company classified these cash distributions as operating activities on the condensed consolidated statements of cash flows for the six months ended June 30, 2020.

(e) Equity Securities Without Readily Determinable Fair Values That Do Not Qualify for the NAV Practical Expedient

Equity securities without readily determinable fair values that do not qualify for the NAV practical expedient consisted of investments in various limited liability companies at June 30, 2021 and December 31, 2020, respectively. The total carrying value of these investments was \$6,225 as of June 30, 2021 and \$5,200 as of December 31, 2020, and was included in "Other assets" on the condensed consolidated balance sheets. No impairment or other adjustments related to observable price changes in orderly transactions for identical or similar investments were identified for the three and six months ended June 30, 2021 and 2020, respectively.

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

7. NEW VALLEY LLC

Investments in real estate ventures:

The components of “Investments in real estate ventures” were as follows:

	Range of Ownership ⁽¹⁾	June 30, 2021	December 31, 2020
Condominium and Mixed Use Development:			
New York City Standard Metropolitan Statistical Area (“SMSA”)	4.2% - 46.7%	\$ 25,233	30,465
All other U.S. areas	19.6% - 77.8%	36,253	37,773
		61,486	68,238
Apartment Buildings:			
New York City SMSA	0.4% - 17.8%	2,114	2,629
All other U.S. areas	49.0%	1,324	1,852
		3,438	4,481
Hotels:			
New York City SMSA	49.0%	—	2,591
All other U.S. areas	1.6%	7,139	7,084
		7,139	9,675
	15.0% - 50.0%	4,129	3,006
Investments in real estate ventures		\$ 76,192	85,400

⁽¹⁾ The Range of Ownership reflects New Valley’s estimated current ownership percentage. New Valley’s actual ownership percentage as well as the percentage of earnings and cash distributions may ultimately differ as a result of a number of factors including potential dilution, financing or admission of additional partners.

Contributions:

The components of New Valley’s contributions to its investments in real estate ventures were as follows:

	Six Months Ended June 30,	
	2021	2020
Condominium and Mixed Use Development:		
New York City SMSA	\$ 396	\$ 1,169
All other U.S. areas	6,661	2,161
	7,057	3,330
Apartment Buildings:		
All other U.S. areas	—	76
	—	76
Hotels:		
New York City SMSA	1,246	—
	1,246	—
Other:		
	1,599	452
Total contributions	\$ 9,902	\$ 3,858

For ventures where New Valley previously held an investment, New Valley contributed its proportionate share of additional capital along with contributions by the other investment partners during the six months ended June 30, 2021 and June 30, 2020. New Valley’s direct investment percentage for these ventures did not significantly change.

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Distributions:

The components of distributions received by New Valley from its investments in real estate ventures were as follows:

	Six Months Ended	
	June 30,	
	2021	2020
Condominium and Mixed Use Development:		
New York City SMSA	\$ 3,338	\$ 1,735
All other U.S. areas	13,594	5,214
	16,932	6,949
Apartment Buildings:		
All other U.S. areas	17,567	—
	17,567	—
Commercial:		
New York City SMSA	—	3
All other U.S. areas	219	52
	219	55
Other	75	23
Total distributions	\$ 34,793	\$ 7,027

Of the distributions received by New Valley from its investment in real estate ventures, \$23,630 and \$1,855 were from distributions of earnings for the six months ended June 30, 2021 and 2020, respectively, and \$11,163 and \$5,172 were a return of capital for the six months ended June 30, 2021 and 2020, respectively. Distributions from earnings are included in cash from operations in the condensed consolidated statements of cash flows, while distributions that are returns of capital are included in cash flows from investing activities in the condensed consolidated statements of cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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Equity in Earnings (losses) from Real Estate Ventures:

New Valley recognized equity in earnings (losses) from real estate ventures as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Condominium and Mixed Use Development:				
New York City SMSA	\$ (967)	\$ (5,104)	\$ (2,472)	\$ (8,451)
All other U.S. areas	7,315	(6,489)	7,274	(9,288)
	6,348	(11,593)	4,802	(17,739)
Apartment Buildings:				
All other U.S. areas	12,959	(76)	17,567	(76)
	12,959	(76)	17,567	(76)
Hotels:				
New York City SMSA ⁽¹⁾	(386)	(542)	(848)	(649)
International	(23)	(90)	(529)	(551)
	(409)	(632)	(1,377)	(1,200)
Commercial:				
New York City SMSA	(2,713)	301	(2,591)	227
All other U.S. areas	180	(264)	273	(15)
	(2,533)	37	(2,318)	212
Other:	320	4	(400)	38
Equity in earnings (losses) from real estate ventures	<u>\$ 16,685</u>	<u>\$ (12,260)</u>	<u>\$ 18,274</u>	<u>\$ (18,765)</u>

⁽¹⁾ The Company recognized a liability, classified in Other current liabilities, of \$333 as a result of recording equity in losses in excess of the joint venture's carrying value.

As part of the Company's ongoing assessment of the carrying values of its investments in real estate ventures, the Company determined that the fair value of one of its New York City SMSA Commercial ventures was less than its carrying value as of June 30, 2021. The Company determined that the impairment was other than temporary. The Company recorded an impairment charge as a component of equity in losses from real estate ventures of \$2,713 for the three and six months ended June 30, 2021.

As part of the Company's ongoing assessment of the carrying values of its investments in real estate ventures, the Company determined that the fair value of a New York City SMSA Condominium and Mixed Use Development venture was less than its carrying value as of June 30, 2020. The Company determined that the impairment was other than temporary. The Company recorded an impairment charge as a component of equity in losses from real estate ventures of \$3,784 for the three and six months ended June 30, 2020.

VIE Consideration:

The Company has determined that New Valley is the primary beneficiary of one real estate venture because it controls the activities that most significantly impact the economic performance of the real estate venture. Consequently, New Valley consolidates this variable interest entity ("VIE").

The carrying amount of the consolidated assets of the VIE was \$0 at both June 30, 2021 and December 31, 2020. Those assets are owned by the VIE, not the Company. The consolidated VIE had no recourse liabilities as of June 30, 2021 and December 31, 2020. A VIE's assets can only be used to settle the obligations of that VIE. The VIE is not a guarantor of the Company's senior notes and other debts payable.

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For the remaining investments in real estate ventures, New Valley determined that the entities were VIEs but New Valley was not the primary beneficiary. Therefore, New Valley's investment in such real estate ventures has been accounted for under the equity method of accounting.

Maximum Exposure to Loss:

New Valley's maximum exposure to loss from its investments in real estate ventures consisted of the net carrying value of the venture adjusted for any future capital commitments and/or guarantee arrangements. The maximum exposure to loss was as follows:

	June 30, 2021
Condominium and Mixed Use Development:	
New York City SMSA	\$ 25,233
All other U.S. areas	36,253
	61,486
Hotels:	
New York City SMSA	2,114
International	1,324
	3,438
Commercial:	
All other U.S. areas	7,139
	7,139
Other	4,129
Total maximum exposure to loss	\$ 76,192

New Valley capitalized \$592 and \$1,022 of interest costs into the carrying value of its ventures whose projects were currently under development for the three and six months ended June 30, 2021, respectively. New Valley capitalized \$1,004 and \$2,257 of interest costs into the carrying value of its ventures whose projects were currently under development for the three and six months ended June 30, 2020, respectively.

Douglas Elliman has been engaged by the developers as the sole broker or the co-broker for several of the real estate development projects that New Valley owns an interest in through its real estate venture investments. Douglas Elliman had gross commissions of approximately \$6,585 and \$7,698 from these projects for the six months ended June 30, 2021 and 2020, respectively.

Combined Financial Statements for Unconsolidated Subsidiaries Accounted for under the Equity Method:

Pursuant to Rule 4-08(g), the following summarized financial data for unconsolidated subsidiaries includes information for the following: Other Condominium and Mixed Use Development (West Hollywood Edition).

Other Condominium and Mixed Use Development:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Income Statements				
Revenue	\$ 4,991	\$ 1,830	\$ 15,278	\$ 33,409
Cost of goods sold	—	—	—	22,100
Other expenses	16,997	14,013	42,340	31,926
Loss from continuing operations	\$ (12,006)	\$ (12,183)	\$ (27,062)	\$ (20,617)

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Investments in Real Estate, net:

The components of “Investments in real estate, net” were as follows:

	June 30, 2021	December 31, 2020
Escena, net	\$ 9,608	\$ 9,735
Townhome A (11 Beach Street)	—	5,896
Investments in real estate, net	<u>\$ 9,608</u>	<u>\$ 15,631</u>

Escena. The assets of “Escena, net” were as follows:

	June 30, 2021	December 31, 2020
Land and land improvements	\$ 8,911	\$ 8,911
Building and building improvements	1,926	1,926
Other	1,655	1,672
	12,492	12,509
Less accumulated depreciation	<u>(2,884)</u>	<u>(2,774)</u>
	<u>\$ 9,608</u>	<u>\$ 9,735</u>

New Valley recorded operating losses of \$90 and \$629 for the three months ended June 30, 2021 and 2020, respectively, from Escena. New Valley recorded operating income of \$280 and operating losses of \$272 for the six months ended June 30, 2021 and 2020, respectively, from Escena. Escena is a master planned community, golf course, and club house in Palm Springs, California.

Townhome A (11 Beach Street). In November 2020, New Valley received, as part of a liquidating distribution from a real estate joint venture, Unit TH-A, a townhouse located in Manhattan, NY. In April 2021, New Valley sold the unit for \$6,750 and recognized the revenue in accordance with the scope of ASC Topic 606 since New Valley has no continuing investment or involvement. The sale was presented as revenue and the cost of the investment as cost of sales on the condensed consolidated statements of operations.

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8. NOTES PAYABLE, LONG-TERM DEBT AND OTHER OBLIGATIONS

Notes payable, long-term debt and other obligations consisted of:

	June 30, 2021	December 31, 2020
Notes payable:		
5.75% Senior Secured Notes due 2029	\$ 875,000	—
6.125% Senior Secured Notes due 2025	—	850,000
10.5% Senior Notes due 2026, net of unamortized discount of \$2,849 and \$3,040	552,151	551,960
Other:		
Equipment loans	77	89
Accounts payable	18,797	25,484
Notes payable, long-term debt and other obligations	1,446,025	1,427,533
Less:		
Debt issuance costs	(30,640)	(21,247)
Total notes payable, long-term debt and other obligations	1,415,385	1,406,286
Current maturities:		
Current maturities	(12,558)	(12,557)
Amount due after one year	\$ 1,402,827	1,393,729

5.75% Senior Secured Notes due 2029 — Vector:

On January 28, 2021, the Company completed the sale of \$875,000 in aggregate principal amount of its 5.75% Senior Secured Notes due 2029 (“5.75% Senior Secured Notes”) to qualified institutional buyers and non-U.S. persons in a private offering pursuant to the exemptions from the registration requirements of the Securities Act contained in Rule 144A and Regulation S under the Securities Act. The aggregate net cash proceeds from the sale of the 5.75% Senior Secured Notes were approximately \$855,500 after deducting the initial purchaser’s discount and estimated expenses and fees payable by the Company in connection with the offering. The Company used the net cash proceeds from the 5.75% Senior Secured Notes offering, together with cash on hand, to redeem all of the Company’s outstanding 6.125% Senior Secured Notes due 2025, including accrued interest and premium thereon, and to pay fees and expenses in connection with the offering of the 5.75% Senior Secured Notes and the redemption of the 6.125% Secured Notes due 2025.

The 5.75% Senior Secured Notes pay interest on a semi-annual basis at a rate of 5.75% per year and mature on the earlier of February 1, 2029 and the date that is 91 days before November 1, 2026, the final stated maturity date of the 10.5% Senior Notes due 2026 (“10.5% Senior Notes”) if such 10.5% Senior Notes have not been repurchased and cancelled or refinanced by such date.

The 5.75% Senior Secured Notes are fully and unconditionally guaranteed, subject to certain customary automatic release provisions, on a joint and several basis by all of the wholly-owned domestic subsidiaries of the Company that are engaged in the conduct of the Company’s cigarette businesses, which subsidiaries, as of the issuance date of the 5.75% Senior Secured Notes were also guarantors under the Company’s outstanding 10.5% Senior Notes. The 5.75% Senior Secured Notes are not guaranteed by New Valley LLC, or any of the Company’s subsidiaries engaged in the Company’s real estate business conducted through its subsidiary, New Valley LLC. The guarantees provided by certain of the guarantors are secured by first priority or second priority security interests in certain collateral of such guarantors pursuant to security and pledge agreements, subject to certain permitted liens and exceptions as further described in the indenture and the security documents relating thereto. The Company does not provide any security for the 5.75% Senior Secured Notes.

As of June 30, 2021, the Company was in compliance with all debt covenants.

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6.125% Senior Secured Notes due 2025 — Vector:

On February 1, 2021, the 6.125% Senior Secured Notes due 2025 were redeemed in full and the Company recorded a loss on the extinguishment of debt of \$21,362 for the six months ended June 30, 2021, including \$13,014 of premium and \$8,348 of other costs and non-cash interest expense related to the recognition of previously unamortized deferred finance costs.

10.5% Senior Notes due 2026 — Vector:

As of June 30, 2021, the Company was in compliance with all debt covenants related to its 10.5% Senior Notes due 2026.

Revolving Credit Agreement — Liggett:

On March 22, 2021, Liggett, 100 Maple LLC (“Maple”) and Vector Tobacco entered into Amendment No. 4 and Joinder to Third Amended and Restated Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as agent and lender.

The existing credit agreement was amended to, among other things, (i) add Vector Tobacco as a borrower under the Credit Agreement, (ii) extend the maturity of the Credit Agreement to March 22, 2026, and (iii) increase the amount of the maximum credit line thereunder from \$60,000 to \$90,000.

As of June 30, 2021, there was no outstanding balance due under the Credit Agreement. Availability, as determined under the Credit Agreement, was approximately \$84,600 based on eligible collateral at June 30, 2021. As of June 30, 2021, Liggett, Maple, and Vector Tobacco were in compliance with all debt covenants under the Credit Agreement.

Other:

Other notes payable consist primarily of \$18,750 of notes payable issued by New Valley as part of the acquisition of the remaining 29.41% interest in Douglas Elliman in December 2018. Interest on the outstanding principal balance of the notes accrues at the then-current mid-term applicable federal rate. Principal and interest is payable in installments through October 1, 2022. \$11,250 of principal has been repaid through June 30, 2021 and the remaining principal is due to be repaid as follows: (1) \$6,250 in 2021; and (2) \$12,500 in 2022.

Non-Cash Interest Expense — Vector:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Amortization of debt discount, net	\$ 97	\$ 847	\$ 191	\$ 5,447
Amortization of debt issuance costs	942	889	1,835	2,047
Loss on extinguishment of 6.125% Senior Secured Notes	—	—	8,349	—
	<u>\$ 1,039</u>	<u>\$ 1,736</u>	<u>\$ 10,375</u>	<u>\$ 7,494</u>

Fair Value of Notes Payable and Long-Term Debt:

	June 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Notes	\$ 1,427,151	\$ 1,482,980	\$ 1,401,960	\$ 1,464,208
Liggett and other	18,874	18,880	25,573	25,581
Notes payable and long-term debt	<u>\$ 1,446,025</u>	<u>\$ 1,501,860</u>	<u>\$ 1,427,533</u>	<u>\$ 1,489,789</u>

Notes payable and long-term debt are carried on the condensed consolidated balance sheets at amortized cost. The fair value determinations disclosed above are classified as Level 2 under the fair value hierarchy disclosed in Note 12 if such liabilities were recorded on the condensed consolidated balance sheets at fair value. The estimated fair value of the Company’s notes payable and long-term debt has been determined by the Company using available market information and appropriate

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valuation methodologies including the evaluation of the Company's credit risk. The Company used a derived price based upon quoted market prices and trade activity as of June 30, 2021 to determine the fair value of its publicly-traded notes and debentures. The carrying value of the revolving credit facility is equal to fair value. The fair value of the equipment loans and other obligations was determined by calculating the present value of the required future cash flows. However, considerable judgment is required to develop the estimates of fair value and, accordingly, the estimate presented herein is not necessarily indicative of the amount that could be realized in a current market exchange.

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9. CONTINGENCIES

Tobacco-Related Litigation:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and purported class actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. The cases have generally fallen into the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs (“Individual Actions”); (ii) lawsuits by individuals requesting the benefit of the *Engle* ruling (“*Engle* progeny cases”); (iii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring, as well as cases alleging that use of the terms “lights” and/or “ultra lights” constitutes a deceptive and unfair trade practice, common law fraud or violation of federal law, purporting to be brought on behalf of a class of individual plaintiffs (“Class Actions”); and (iv) health care cost recovery actions brought by various foreign and domestic governmental plaintiffs and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits (“Health Care Cost Recovery Actions”). The future financial impact of the risks and expenses of litigation are not quantifiable. For the six months ended June 30, 2021 and 2020, Liggett incurred tobacco product liability legal expenses and costs totaling \$3,067 and \$3,191 respectively. Legal defense costs are expensed as incurred.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending cases. With the commencement of new cases, the defense costs and the risks relating to the unpredictability of litigation increase. Management reviews on a quarterly basis with counsel all pending litigation and evaluates the probability of a loss being incurred and whether an estimate can be made of the possible loss or range of loss that could result from an unfavorable outcome. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. Damages awarded in tobacco-related litigation can be significant.

Bonds. Although Liggett has been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts are on appeal, there remains a risk that such relief may not be obtainable in all cases. This risk has been reduced given that a majority of states now limit the dollar amount of bonds or require no bond at all. As of June 30, 2021, Liggett had no outstanding bonds.

In June 2009, Florida amended its existing bond cap statute by adding a \$200,000 bond cap that applies to all *Engle* progeny cases in the aggregate and establishes individual bond caps for individual *Engle* progeny cases in amounts that vary depending on the number of judgments in effect at a given time. The maximum amount of any such bond for an appeal in the Florida state courts will be no greater than \$5,000. In several cases, plaintiffs challenged the constitutionality of the bond cap statute, but to date the courts have upheld the constitutionality of the statute. It is possible that the Company’s consolidated financial position, results of operations, and cash flows could be materially adversely affected by an unfavorable outcome of such challenges.

Accounting Policy. The Company and its subsidiaries record provisions in their consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as discussed in this Note 9: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; or (ii) management is unable to reasonably estimate the possible loss or range of loss that could result from an unfavorable outcome of any of the pending tobacco-related cases and, therefore, management has not provided any amounts in the condensed consolidated financial statements for unfavorable outcomes, if any.

Although Liggett has generally been successful in managing the litigation filed against it, litigation is subject to uncertainty and significant challenges remain, including with respect to the remaining *Engle* progeny cases. There can be no assurances that Liggett’s past litigation experience will be representative of future results. Judgments have been entered against Liggett in the past, in Individual Actions and *Engle* progeny cases, and several of those judgments were affirmed on appeal and satisfied by Liggett. It is possible that the consolidated financial position, results of operations and cash flows of the Company could be materially adversely affected by an unfavorable outcome or settlement of any of the remaining smoking-related litigation. Liggett believes, and has been so advised by counsel, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. All such cases are and will continue to be vigorously defended. Liggett has entered into settlement discussions in individual cases or groups of cases where Liggett has determined it was in its best interest to do so, and it may continue to do so in the future. As cases proceed through the appellate process, the Company will consider accruals on a case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

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Individual Actions

As of June 30, 2021, there were 74 Individual Actions pending against Liggett, where one or more individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. These cases do not include the remaining *Engle* progeny cases. The following table lists the number of Individual Actions by state:

State	Number of Cases
Florida	45
Illinois	14
Nevada	7
New Mexico	5
Louisiana	2
Hawaii	1

The plaintiffs’ allegations of liability in cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, concealment, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity, violations of deceptive trade practice laws, the federal Racketeer Influenced and Corrupt Organizations Act (“RICO”), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including treble/multiple damages, medical monitoring, disgorgement of profits and punitive damages. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from state to state and jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even billions of dollars.

Defenses raised in Individual Actions include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, statute of repose, equitable defenses such as “unclean hands” and lack of benefit, failure to state a claim and federal preemption.

Engle Progeny Cases

In May 1994, the *Engle* case was filed as a class action against Liggett and others in Miami-Dade County, Florida. The class consisted of all Florida residents who, by November 21, 1996, “have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarette smoking.” A trial was held and the jury returned a verdict adverse to the defendants (approximately \$145,000,000 in punitive damages, including \$790,000 against Liggett). Following an appeal to the Third District Court of Appeal, the Florida Supreme Court in July 2006 decertified the class on a prospective basis and affirmed the appellate court’s reversal of the punitive damages award. Former class members had until January 2008 to file individual lawsuits. As a result, Liggett and the Company, and other cigarette manufacturers, were sued in thousands of *Engle* progeny cases in both federal and state courts in Florida. Although the Company was not named as a defendant in the *Engle* case, it was named as a defendant in substantially all of the *Engle* progeny cases where Liggett was named as a defendant.

Cautionary Statement About Engle Progeny Cases. Since 2009, judgments have been entered against Liggett and other cigarette manufacturers in *Engle* progeny cases. A number of the judgments were affirmed on appeal and satisfied by the defendants. Many were overturned on appeal. As of June 30, 2021, 25 *Engle* progeny cases where Liggett was a defendant at trial resulted in verdicts.

There have been 16 verdicts returned in favor of the plaintiffs and nine in favor of Liggett. In five of the cases, punitive damages were awarded against Liggett. Several of the adverse verdicts were overturned on appeal and new trials were ordered. In certain cases, the judgments were entered jointly and severally with other defendants and Liggett may face the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, under certain circumstances, Liggett may have to pay more than its proportionate share of any bonding or judgment related amounts. Except as discussed in this Note 9, management is unable to estimate the possible loss or range of loss from the remaining *Engle* progeny cases as there are currently multiple defendants in

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each case and, in most cases, discovery has not occurred or is limited. As a result, the Company lacks information about whether plaintiffs are in fact *Engle* class members, the relevant smoking history, the nature of the alleged injury and the availability of various defenses, among other things. Further, plaintiffs typically do not specify the amount of their demand for damages. As cases proceed through the appellate process, the Company will consider accruals on a case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

Engle Progeny Settlements.

In October 2013, the Company and Liggett entered into a settlement with approximately 4,900 *Engle* progeny plaintiffs and their counsel. Pursuant to the terms of the settlement, Liggett agreed to pay a total of approximately \$110,000, with \$61,600 paid in an initial lump sum and the balance to be paid in installments over 14 years starting in February 2015. The Company's future payments will be approximately \$3,400 per annum through 2028, with a cost of living increase beginning in 2021. In exchange, the claims of these plaintiffs were dismissed with prejudice against the Company and Liggett.

Liggett subsequently entered into two separate settlement agreements with a total of 152 *Engle* progeny plaintiffs where Liggett paid a total of \$23,150. On an individual basis, Liggett settled an additional 203 *Engle* progeny cases for approximately \$8,100 in the aggregate.

Notwithstanding the comprehensive nature of the *Engle* progeny settlements, 38 plaintiffs' claims remain pending in state court. Therefore, the Company and Liggett may still be subject to periodic adverse judgments which could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

Judgments Paid in Engle Progeny Cases.

As of June 30, 2021, Liggett had paid in the aggregate \$40,111, including interest and attorneys' fees, to satisfy the judgments in the following *Engle* progeny cases: *Lukacs, Campbell, Douglas, Clay, Tullo, Ward, Rizzuto, Lambert, Buchanan, and Santoro.*

Maryland Cases

Liggett was a defendant in 16 multi-defendant personal injury cases in Maryland alleging claims arising from asbestos and tobacco exposure ("synergy cases"). In July 2016, the Court of Appeals (Maryland's highest court) ruled that joinder of tobacco and asbestos cases may be possible in certain circumstances, but plaintiffs must demonstrate at the trial court level how such cases may be joined while providing appropriate safeguards to prevent embarrassment, delay, expense or prejudice to defendants and "the extent to which, if at all, the special procedures applicable to asbestos cases should extend to tobacco companies." The Court of Appeals remanded these issues to be determined at the trial court level. In June 2017, the trial court issued an order dismissing all synergy cases against the tobacco defendants, including Liggett, without prejudice. Plaintiffs may seek appellate review or file new cases against the tobacco companies.

Liggett Only Cases

There are currently four cases where Liggett is the sole defendant: *Cowart* is an Individual Action and *Tumin, Forbing, and Jones* are *Engle* progeny cases. It is possible that cases where Liggett is the only defendant could increase as a result of the remaining *Engle* progeny cases and newly filed Individual Actions.

Upcoming Trials

As of June 30, 2021, there was one *Engle* progeny case (*Alvarez*) and eight Individual Actions (*Baron, Bennett, Cupp, Feld, Geist, Lane, Mendez and Tully*) scheduled for trial through June 30, 2022, where Liggett is a named defendant. Trial dates are subject to change and additional cases could be set for trial during this time.

Class Actions

As of June 30, 2021, two actions were pending for which either a class had been certified or plaintiffs were seeking class certification where Liggett is a named defendant. Other cigarette manufacturers are also named in these two cases.

Plaintiffs' allegations of liability in class action cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violation of deceptive trade practice laws and consumer protection statutes and claims under the federal and state anti-racketeering statutes. Plaintiffs in the class actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief.

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Defenses raised in these cases include, among others, lack of proximate cause, individual issues predominate, assumption of the risk, comparative fault and/or contributory negligence, statute of limitations and federal preemption.

In November 1997, in *Young v. American Tobacco Co.*, a purported personal injury class action was commenced on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, allege they were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. A stay order entered on March 16, 2016 stays the case pending completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co.*

In February 1998, in *Parsons v. AC & S Inc.*, a purported class action was commenced on behalf of all West Virginia residents who allegedly have claims arising from their exposure to cigarette smoke and asbestos fibers. The operative complaint seeks to recover unspecified compensatory and punitive damages on behalf of the putative class. The case is stayed as a result of the December 2000 bankruptcy of three of the defendants.

Health Care Cost Recovery Actions

As of June 30, 2021, one Health Care Cost Recovery Action was pending against Liggett, *Crow Creek Sioux Tribe v. American Tobacco Company*, a South Dakota case filed in 1997, where the plaintiff seeks to recover damages from Liggett and other cigarette manufacturers based on various theories of recovery as a result of alleged sales of tobacco products to minors. The case is dormant.

The claims asserted in health care cost recovery actions vary, but can include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO. Although no specific damage amounts are typically pleaded, it is possible that requested damages might be in the billions of dollars. In these cases, plaintiffs typically assert equitable claims that the tobacco industry was “unjustly enriched” by their payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Relief sought by some, but not all, plaintiffs include punitive damages, multiple damages and other statutory damages and penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees.

Department of Justice Lawsuit

In September 1999, the United States government commenced litigation against Liggett and other cigarette manufacturers in the United States District Court for the District of Columbia. The action sought to recover, among other things, an unspecified amount of health care costs paid and to be paid by the federal government for smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants. In August 2006, the trial court entered a Final Judgment against each of the cigarette manufacturing defendants, except Liggett. The judgment was affirmed on appeal. As a result, the cigarette manufacturing defendants, other than Liggett, are now subject to the trial court’s Final Judgment which ordered, among other things, the issuance of “corrective statements” in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking “low tar” or “lights” cigarettes, defendants’ manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to environmental tobacco smoke.

MSA and Other State Settlement Agreements

In March 1996, March 1997 and March 1998, Liggett entered into settlements of smoking-related litigation with 45 states and territories. The settlements released Liggett from all smoking-related claims made by those states and territories, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

In November 1998, Philip Morris, R.J. Reynolds and two other companies (the “Original Participating Manufacturers” or “OPMs”) and Liggett and Vector Tobacco (together with any other tobacco product manufacturer that becomes a signatory, the “Subsequent Participating Manufacturers” or “SPMs”) (the OPMs and SPMs are hereinafter referred to jointly as “PMs”) entered into the Master Settlement Agreement (the “MSA”) with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands (collectively, the “Settling States”) to settle the asserted and unasserted health care cost recovery and certain other claims of the Settling States. The MSA received final judicial approval in each Settling State.

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As a result of the MSA, the Settling States released Liggett and Vector Tobacco from:

- all claims of the Settling States and their respective political subdivisions and other recipients of state health care funds, relating to: (i) past conduct arising out of the use, sale, distribution, manufacture, development, advertising and marketing of tobacco products; (ii) the health effects of, the exposure to, or research, statements or warnings about, tobacco products; and
- all monetary claims of the Settling States and their respective subdivisions and other recipients of state health care funds relating to future conduct arising out of the use of, or exposure to, tobacco products that have been manufactured in the ordinary course of business.

The MSA restricts tobacco product advertising and marketing within the Settling States and otherwise restricts the activities of PMs. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each PM to one tobacco brand name sponsorship during any 12-month period; bans all outdoor advertising, with certain limited exceptions; prohibits payments for tobacco product placement in various media; bans gift offers based on the purchase of tobacco products without sufficient proof that the intended recipient is an adult; prohibits PMs from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; and prohibits PMs from using as a tobacco product brand name any nationally recognized non-tobacco brand or trade name or the names of sports teams, entertainment groups or individual celebrities.

The MSA also requires PMs to affirm corporate principles to comply with the MSA and to reduce underage use of tobacco products and imposes restrictions on lobbying activities conducted on behalf of PMs. In addition, the MSA provides for the appointment of an independent auditor to calculate and determine the amounts of payments owed pursuant to the MSA.

Under the payment provisions of the MSA, PMs are required to make annual payments of \$9,000,000 (subject to applicable adjustments, offsets and reductions including a “Non-Participating Manufacturers Adjustment” or “NPM Adjustment”). These annual payments are allocated based on unit volume of domestic cigarette shipments. The payment obligations under the MSA are the several, and not joint, obligation of each PM and are not the responsibility of any parent or affiliate of a PM.

Liggett has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 1.65% of total cigarettes sold in the United States. Vector Tobacco has no payment obligations under the MSA except to the extent its market share exceeds a market share exemption of approximately 0.28% of total cigarettes sold in the United States. Liggett and Vector Tobacco’s domestic shipments accounted for approximately 4.1% of the total cigarettes sold in the United States in 2020. If Liggett’s or Vector Tobacco’s market share exceeds their respective market share exemption in a given year, then on April 15 of the following year, Liggett and/or Vector Tobacco, as the case may be, must pay on each excess unit an amount equal (on a per-unit basis) to that due from the OPMs for that year. On December 30, 2020, Liggett and Vector Tobacco pre-paid \$143,000 of their approximate \$178,000 2020 MSA obligation, the balance of which was paid in April 2021, subject to applicable disputes or adjustments.

Certain MSA Disputes

NPM Adjustment. Liggett and Vector Tobacco contend that they are entitled to an NPM Adjustment for each year from 2003 - 2020. The NPM Adjustment is a potential adjustment to annual MSA payments, available when PMs suffer a market share loss to NPMs for a particular year and an economic consulting firm selected pursuant to the MSA determines (or the parties agree) that the MSA was a “significant factor contributing to” that loss. A Settling State that has “diligently enforced” its qualifying escrow statute in the year in question may be able to avoid its allocable share of the NPM Adjustment. For 2003 - 2020, Liggett and Vector Tobacco, as applicable, disputed that they owed the Settling States the NPM Adjustments as calculated by the independent auditor. As permitted by the MSA, Liggett and Vector Tobacco either paid subject to dispute, withheld payment, or paid into a disputed payment account, the amounts associated with these NPM Adjustments.

In June 2010, after the PMs prevailed in 48 of 49 motions to compel arbitration, the parties commenced the arbitration for the 2003 NPM Adjustment. That arbitration concluded in September 2013. It was followed by various challenges filed in state courts by states that did not prevail in the arbitration. Those challenges resulted in reductions, but not elimination of, the amounts awarded.

The PMs settled most of the disputed NPM Adjustment years with 37 states representing approximately 75% of the MSA share for 2003 - 2022. The 2004 NPM Adjustment arbitration commenced in 2016, with the final individual state hearing scheduled to occur in October 2021 and a second phase addressing the effect of the settlements to start thereafter. The parties have also selected an arbitration panel to address the NPM Adjustments for 2005-2007.

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As a result of the settlement and arbitration award described above, Liggett and Vector Tobacco reduced cost of sales for years 2013 - 2020 by \$54,382 and by \$3,935 for the six months ended June 30, 2021. Liggett and Vector Tobacco may be entitled to further adjustments. As of June 30, 2021, Liggett and Vector Tobacco had accrued approximately \$13,200 related to the disputed amounts withheld from the non-settling states for 2004 - 2010, which may be subject to payment, with interest, if Liggett and Vector Tobacco lose the disputes for those years. As of June 30, 2021, there remains approximately \$49,800 in the disputed payments account relating to Liggett and Vector Tobacco's 2011 - 2020 NPM Adjustment disputes with the non-settling states. If Liggett and Vector Tobacco lose the disputes for all or any of those years, pursuant to the MSA, no interest would be due on the amounts paid into the disputed payment account.

Other State Settlements. The MSA replaced Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. Each of these four states, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies, separate from those settlements reached previously with Liggett. Except as described below, Liggett's agreements with these states remain in full force and effect. These states' settlement agreements with Liggett contained most favored nation provisions which could reduce Liggett's payment obligations based on subsequent settlements or resolutions by those states with certain other tobacco companies. Beginning in 1999, Liggett determined that, based on settlements or resolutions with United States Tobacco Company, Liggett's payment obligations to those four states were eliminated. With respect to all non-economic obligations under the previous settlements, Liggett believes it is entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In 2003, as a result of a dispute with Minnesota regarding its settlement agreement, Liggett agreed to pay \$100 a year in any year cigarettes manufactured by Liggett are sold in that state. Further, the Attorneys General for Florida, Mississippi and Texas advised Liggett that they believed Liggett had failed to make payments under the respective settlement agreements with those states. In 2010, Liggett settled with Florida and agreed to pay \$1,200 and to make further annual payments of \$250 for a period of 21 years, starting in March 2011, with the payments from year 12 forward being subject to an inflation adjustment.

In January 2016, the Attorney General for Mississippi filed a motion in Chancery Court in Jackson County, Mississippi to enforce the March 1996 settlement agreement among Liggett, Mississippi and other states (the "1996 Agreement") alleging that Liggett owes Mississippi at least \$27,000 in compensatory damages and interest. In April 2017, the Chancery Court ruled, over Liggett's objections, that the 1996 Agreement should be enforced as Mississippi claims and referred the matter first to arbitration and then to a Special Master for further proceedings to determine the amount of damages, if any, to be awarded. In April 2021, following confirmation of the final arbitration award, the parties stipulated that the unpaid principal (exclusive of interest) purportedly due from Liggett to Mississippi pursuant to the 1996 Agreement was approximately \$16,700, subject to Liggett's right to litigate and/or appeal the enforceability of the 1996 Agreement (and all issues other than the calculation of the principal amount allegedly due).

In September 2019, the Special Master held a hearing regarding Mississippi's claim for pre and post-judgment interest. In June 2021, the Special Master issued a draft report with proposed findings that pre-judgment interest, in the amount of approximately \$18,600, is due from Liggett from April 2005 - July 9, 2021. At the request of the Special Master, the parties provided comments to the draft report and the matter is *sub judice*. The Special Master's report, once finalized, is subject to objections by the parties and further review and hearing by the trial court before a final judgment may be entered. Once final judgment is entered, additional interest amounts will accrue if the judgment is not overturned on appeal. Liggett continues to believe that the April 2017 Chancery Court order is in error because the most favored nations provision in the 1996 Agreement eliminated all of Liggett's payment obligations to Mississippi, and it reserved all rights to appeal this and other issues at the conclusion of the case. In the event Liggett appeals an adverse judgment, the posting of a bond may be required.

Liggett may be required to make additional payments to Mississippi and Texas which could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

Cautionary Statement

Management is not able to reasonably predict the outcome of the litigation pending or threatened against Liggett or the Company. Litigation is subject to many uncertainties. Liggett has been found liable in multiple *Engle* progeny cases and Individual Actions, several of which were affirmed on appeal and satisfied by Liggett. It is possible that other cases could be decided unfavorably against Liggett and that Liggett will be unsuccessful on appeal. Liggett may attempt to settle particular cases if it believes it is in its best interest to do so.

Management cannot predict the cash requirements related to any future defense costs, settlements or judgments, including cash required to bond any appeals, and there is a risk that Liggett may not be able to meet those requirements. An unfavorable outcome of a pending smoking-related case could encourage the commencement of additional litigation. Except as discussed in

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this Note 9, management is unable to estimate the loss or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases and as a result has not provided any amounts in its consolidated financial statements for unfavorable outcomes.

The tobacco industry is subject to a wide range of laws and regulations regarding the marketing, sale, taxation and use of tobacco products imposed by local, state and federal governments. There have been a number of restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional litigation or legislation.

It is possible that the Company's consolidated financial position, results of operations and cash flows could be materially adversely affected by an unfavorable outcome in any of the smoking-related litigation.

The activity in the Company's accruals for the MSA and tobacco litigation for the six months ended June 30, 2021 was as follows:

	<i>Current Liabilities</i>			<i>Non-Current Liabilities</i>		
	Payments due under Master Settlement Agreement	Litigation Accruals	Total	Payments due under Master Settlement Agreement	Litigation Accruals	Total
Balance as of January 1, 2021	\$ 38,767	\$ 3,967	\$ 42,734	\$ 17,933	\$ 19,268	\$ 37,201
Expenses	80,922	5	80,927	—	—	—
Change in MSA obligations capitalized as inventory	296	—	296	—	—	—
Payments	(35,206)	(4,065)	(39,271)	—	—	—
Reclassification to/(from) non-current liabilities	4,709	3,351	8,060	(4,709)	(3,351)	(8,060)
Interest on withholding	—	288	288	—	851	851
Balance as of June 30, 2021	<u>\$ 89,488</u>	<u>\$ 3,546</u>	<u>\$ 93,034</u>	<u>\$ 13,224</u>	<u>\$ 16,768</u>	<u>\$ 29,992</u>

The activity in the Company's accruals for the MSA and tobacco litigation for the six months ended June 30, 2020 was as follows:

	<i>Current Liabilities</i>			<i>Non-Current Liabilities</i>		
	Payments due under Master Settlement Agreement	Litigation Accruals	Total	Payments due under Master Settlement Agreement	Litigation Accruals	Total
Balance as of January 1, 2020	\$ 34,116	\$ 4,249	\$ 38,365	\$ 17,275	\$ 20,594	\$ 37,869
Expenses	96,215	28	96,243	—	—	—
Change in MSA obligations capitalized as inventory	(137)	—	(137)	—	—	—
Payments	(27,214)	(4,324)	(31,538)	—	—	—
Reclassification to/(from) non-current liabilities	(855)	3,252	2,397	855	(3,252)	(2,397)
Interest on withholding	—	238	238	—	932	932
Balance as of June 30, 2020	<u>\$ 102,125</u>	<u>\$ 3,443</u>	<u>\$ 105,568</u>	<u>\$ 18,130</u>	<u>\$ 18,274</u>	<u>\$ 36,404</u>

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Other Matters:

Liggett's and Vector Tobacco's management are unaware of any material environmental conditions affecting their existing facilities. Liggett's and Vector Tobacco's management believe that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material impact on the capital expenditures, results of operations or competitive position of Liggett or Vector Tobacco.

Liggett and the Company have received three separate demands for indemnification from Altria Client Services, on behalf of Philip Morris, relating to lawsuits alleging smokers' use of L&M cigarettes. The indemnification demands are purportedly issued in connection with Eve Holdings' 1999 sale of certain brands to Philip Morris.

In addition to the foregoing, Douglas Elliman and certain of its subsidiaries are subject to numerous proceedings, lawsuits and claims in connection with their ordinary business activities. Many of these matters are covered by insurance or, in some cases, the company or its subsidiaries are indemnified by third parties.

Management is of the opinion that the liabilities, if any, resulting from other proceedings, lawsuits and claims pending against the Company and its consolidated subsidiaries, unrelated to tobacco product liability, should not materially affect the Company's consolidated financial position, results of operations or cash flows.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of Goodwill and other intangible assets, net were as follows:

	December 31, 2020	Impairment Losses	Amortization	June 30, 2021
Goodwill	\$ 31,756	\$ —	\$ —	\$ 31,756
Indefinite life intangibles:				
Intangible asset associated with benefit under the MSA	107,511	—	—	107,511
Trademark - Douglas Elliman	68,000	—	—	68,000
Intangibles with a finite life, net	310	—	(80)	230
Total goodwill and other intangible assets, net	<u>\$ 207,577</u>	<u>\$ —</u>	<u>\$ (80)</u>	<u>\$ 207,497</u>

	December 31, 2019	Impairment Losses	Amortization	June 30, 2020
Goodwill	\$ 78,008	\$ (46,252)	\$ —	\$ 31,756
Indefinite life intangibles:				
Intangible asset associated with benefit under the MSA	107,511	—	—	107,511
Trademark - Douglas Elliman	80,000	(12,000)	—	68,000
Intangibles with a finite life, net	474	—	(82)	392
Total goodwill and other intangible assets, net	<u>\$ 265,993</u>	<u>\$ (58,252)</u>	<u>\$ (82)</u>	<u>\$ 207,659</u>

Goodwill is evaluated for impairment annually or whenever the Company identifies certain triggering events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors (for example, interest rate and foreign exchange rate fluctuations, and loss of key personnel), supply costs, unanticipated competitive activities, and acts by governments and courts.

During the first quarter of 2020, the Company determined that a triggering event occurred related to the Douglas Elliman reporting unit due to a decline in sales and profitability projections for the reporting unit driven by the COVID-19 pandemic

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and related economic disruption. The Company utilized third-party valuation specialists to prepare a quantitative assessment of goodwill and trademark intangible asset related to Douglas Elliman.

For the goodwill testing, the Company utilized an income approach (a discounted cash flows method) to estimate the fair value of the Douglas Elliman business. The estimated fair value of the trademark indefinite-life intangible asset related to the Douglas Elliman brand name was determined using an approach that values the Company's cash savings from having a royalty-free license compared to the market rate it would pay for access to use the trade name.

The third-party quantitative assessments of the goodwill and trademark intangible asset reflected management's assumptions regarding revenue growth rates, economic and market trends including current expectations of deterioration resulting from the COVID-19 pandemic, changes to cost structures and other expectations about the anticipated short-term and long-term operating results of Douglas Elliman. The quantitative assessments resulted in impairment charges to goodwill of \$46,252 and to the trademark intangible asset of \$12,000.

The Company determined that there have not been any triggering events since the first quarter of 2020. If the Company fails to achieve the financial projections used in the quantitative assessments of fair value or the impacts of COVID-19 are more severe than expected, additional impairment charges could result in future periods, and such impairment charges could be material.

11. INCOME TAXES

The Company's effective income tax rate is based on expected income, statutory rates, valuation allowances against deferred tax assets, and any tax planning opportunities available to the Company. For interim financial reporting, the Company estimates the annual effective income tax rate based on full year projections and applies the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. The Company refines annual estimates as new information becomes available. The Company's tax rate does not bear a relationship to statutory tax rates due to permanent differences, which are primarily related to nondeductible compensation, and state taxes.

The Company's income tax expense consisted of the following:

		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2021	2020	2021	2020
Income before provision for income taxes	\$	132,165	36,690	177,135	32,481
Income tax expense using estimated annual effective income tax rate		38,725	10,896	51,913	9,647
Changes in effective tax rates		135	(12)	—	—
Impact of discrete items, net		—	32	—	291
Income tax expense	\$	<u>38,860</u>	<u>10,916</u>	<u>51,913</u>	<u>9,938</u>

The discrete items for the three months ended June 30, 2020 primarily relates to income tax expense on the changes in value of certain contingent consideration partially offset by income tax benefit related to stock-based compensation. The discrete items for the six months ended June 30, 2020 relate to income tax benefits on the goodwill and trademark impairment charges, changes in value of certain contingent consideration and stock-based compensation partially offset by the income tax expense related to the equity in earnings from investments associated with the one-time gain on sale of LTS.

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12. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Company's financial assets and liabilities subject to fair value measurements were as follows:

Description	Fair Value Measurements as of June 30, 2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds ⁽¹⁾	\$ 310,300	\$ 310,300	\$ —	\$ —
Commercial paper ⁽¹⁾	24,071	—	24,071	—
Certificates of deposit ⁽²⁾	679	—	679	—
Investment securities at fair value				
Equity securities at fair value				
Marketable equity securities	25,187	25,187	—	—
Mutual funds invested in debt securities	23,325	23,325	—	—
Total equity securities at fair value	48,512	48,512	—	—
Debt securities available for sale				
U.S. government securities	12,512	—	12,512	—
Corporate securities	49,843	—	49,843	—
U.S. government and federal agency	15,467	—	15,467	—
Commercial paper	29,443	—	29,443	—
Foreign fixed-income securities	1,224	—	1,224	—
Total debt securities available for sale	108,489	—	108,489	—
PropTech convertible trading debt securities	2,481	—	—	2,481
Total investment securities at fair value	159,482	48,512	108,489	2,481
Long-term investments				
Long-term investment securities at fair value ⁽³⁾	33,053	—	—	—
Total	\$ 527,585	\$ 358,812	\$ 133,239	\$ 2,481
Liabilities:				
Fair value of contingent liability	\$ 4,522	\$ —	\$ —	\$ 4,522
Total	\$ 4,522	\$ —	\$ —	\$ 4,522

(1) Amounts included in Cash and cash equivalents on the condensed consolidated balance sheets, except for \$11,364 that is included in Other current assets and \$1,907 that is included in Other assets.

(2) Amounts included in current restricted assets and non-current restricted assets on the condensed consolidated balance sheets.

(3) In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy.

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Description	Fair Value Measurements as of December 31, 2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds ⁽¹⁾	\$ 255,294	255,294	\$—	—
Commercial paper ⁽¹⁾	44,397	—	44,397	—
Certificates of deposit ⁽²⁾	2,111	—	2,111	—
Money market funds securing legal bonds ⁽²⁾	535	535	—	—
Investment securities at fair value				
Equity securities at fair value				
Marketable equity securities	21,155	21,155	—	—
Mutual funds invested in debt securities	23,226	23,226	—	—
Total equity securities at fair value	44,381	44,381	—	—
Debt securities available for sale				
U.S. government securities	19,200	—	19,200	—
Corporate securities	52,434	—	52,434	—
U.S. government and federal agency	10,484	—	10,484	—
Commercial paper	9,086	—	9,086	—
Total debt securities available for sale	91,204	—	91,204	—
Total investment securities at fair value	135,585	44,381	91,204	—
Long-term investments				
Long-term investment securities at fair value ⁽³⁾	34,218	—	—	—
Total	\$ 472,640	300,210	137,712	—
Liabilities:				
Fair value of contingent liability	\$ 999	\$—	\$—	999
Total	\$ 999	\$—	\$—	999

(1) Amounts included in Cash and cash equivalents on the condensed consolidated balance sheets, except for \$10,374 that is included in current restricted assets and \$1,907 that is included in non-current restricted assets.

(2) Amounts included in current restricted assets and non-current restricted assets on the condensed consolidated balance sheets.

(3) In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy.

The fair value of the Level 2 certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is the rate offered by the financial institution. The fair value of investment securities at fair value included in Level 1 is based on quoted market prices from various stock exchanges. The Level 2 investment securities at fair value are based on quoted market prices of securities that are thinly traded, quoted prices for identical or similar assets in markets that are not active or inputs other than quoted prices such as interest rates and yield curves.

The long-term investments are based on NAV per share provided by the partnerships based on the indicated market value of the underlying assets or investment portfolio. In accordance with Subtopic 820-10, these investments are not classified under the fair value hierarchy disclosed above because they are measured at fair value using the NAV practical expedient.

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The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at June 30, 2021:

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at June 30, 2021	Valuation Technique	Unobservable Input	Range (Actual)
PropTech convertible trading debt securities	\$ 2,481	Discounted cash flow	Interest rates	3% - 5%
			Maturity	Apr 2022 - Mar 2023
			Volatility	43.6% - 111.6%
			Discount rate	23.75% - 43.33%
Fair value of contingent liability	\$ 4,522	Monte Carlo simulation model	Estimated fair value of the Douglas Elliman reporting unit	\$ 825,946
			Risk-free rate for a 1.5-year term	0.16 %
			Leverage-adjusted equity volatility of peer firms	48.21 %

The unobservable inputs related to the valuations of the Level 3 assets and liabilities were as follows at December 31, 2020:

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at December 31, 2020	Valuation Technique	Unobservable Input	Range (Actual)
Fair value of contingent liability	\$ 999	Monte Carlo simulation model	Estimated fair value of the Douglas Elliman reporting unit	\$ 169,000
			Risk-free rate for a 2-year term	0.13 %
			Leverage-adjusted equity volatility of peer firms	78.57 %

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets and liabilities are recorded at fair value on a nonrecurring basis as a result of impairment charges. The Company had no nonrecurring nonfinancial assets subject to fair value measurements as of June 30, 2021 and December 31, 2020, respectively, except for investments in real estate ventures that were impaired as of June 30, 2021 and December 31, 2020, respectively.

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The Company's investments in real estate ventures subject to nonrecurring fair value measurements are as follows:

Description	Fair Value Measurement Using:				
	Three Months Ended June 30, 2021	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inp (Level 3)
	Impairment Charge				
Assets:					
Investments in real estate ventures	\$ 2,713	\$ —	\$ —	\$ —	\$

The Company estimated the fair value of its investments in real estate ventures using observable inputs such as market pricing based on recent events, however, significant judgment was required to select certain inputs from observed market data. The decrease in the investments in real estate ventures was attributed to the decline in the projected sales prices and the duration of the estimated sell out of the respective real estate ventures. The \$2,713 of impairment charges were included in equity in earnings from real estate ventures for the three months ended June 30, 2021.

Description	Fair Value Measurement Using:				
	Year Ended December 31, 2020	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inp (Level 3)
	Impairment Charge				
Assets:					
Investments in real estate ventures	\$ 16,513	\$ —	\$ —	\$ —	\$

The Company estimated the fair value of its investments in real estate ventures using observable inputs such as market pricing based on recent events, however, significant judgment was required to select certain inputs from observed market data. The decrease in the investments in real estate ventures was attributed to the decline in the projected sales prices and the duration of the estimated sell out of the respective real estate ventures. The \$16,513 of impairment charges were included in equity in losses from real estate ventures for the year ended December 31, 2020.

VECTOR GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Dollars in Thousands, Except Per Share Amounts)
Unaudited

13. SEGMENT INFORMATION

The Company's business segments for the three and six months ended June 30, 2021 and 2020 were Tobacco and Real Estate. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Financial information for the Company's operations before taxes and non-controlling interests for the three and six months ended June 30, 2021 and 2020 were as follows:

	<u>Tobacco</u>	<u>Real Estate</u>	<u>Corporate and Other</u>	<u>Total</u>
<u>Three months ended June 30, 2021</u>				
Revenues	\$ 329,496	\$ 400,033	\$—	729,529
Operating income (loss)	103,179	42,362	(8,465)	137,076
Equity in earnings from real estate ventures	—	16,685	—	16,685
Depreciation and amortization	1,697	2,158	234	4,089
<u>Three months ended June 30, 2020</u>				
Revenues	\$ 312,510	\$ 133,250	\$—	445,760
Operating income (loss)	79,309	(6,875)	(5,637)	66,797
Equity in losses from real estate ventures	—	(12,260)	—	(12,260)
Depreciation and amortization	2,000	2,198	214	4,412
<u>Six months ended June 30, 2021</u>				
Revenues	\$ 597,959	\$ 675,334	\$—	1,273,293
Operating income (loss)	184,978	57,622	(15,121)	227,279
Equity in earnings from real estate ventures	—	18,274	—	18,274
Identifiable assets	406,978	620,499	468,900	1,496,377
Depreciation and amortization	3,457	4,346	465	8,268
Capital expenditures	1,375	1,263	417	3,055
<u>Six months ended June 30, 2020</u>				
Revenues	\$ 599,579	\$ 300,669	\$—	900,248
Operating income (loss)	148,495	(74,350)	(12,252)	61,893
Equity in losses from real estate ventures	—	(18,765)	—	(18,765)
Identifiable assets	357,518	557,505	428,386	1,343,409
Depreciation and amortization	4,042	4,511	434	8,987
Capital expenditures	2,973	3,249	20	6,242

(1) Operating income includes \$53 of litigation settlement and judgment expense.

(2) Operating loss includes \$2,961 of restructuring charges.

(3) Operating income includes \$2,722 received from a litigation settlement associated with the MSA (which reduced cost of sales) and \$5 of litigation settlement and judgment expense.

(4) Operating income includes \$53 of litigation settlement and judgment expense.

(5) Operating loss includes \$58,252 of impairment charges related to the impairments of goodwill and other intangible assets and \$2,961 of restructuring charges.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except Per Share Amounts)

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of Vector Group Ltd.'s financial statements with a narrative from our management's perspective. Our MD&A is divided into the following sections:

- Overview
- Recent Developments
- Results of Operations
- Summary of Real Estate Investments
- Liquidity and Capital Resources

Please read this discussion along with our MD&A and audited financial statements as of and for the year ended December 31, 2020 and Notes thereto, included in our 2020 Annual Report on Form 10-K, and our Condensed Consolidated Financial Statements and related Notes as of and for the quarterly period and six months ended June 30, 2021 and 2020.

Overview

We are a holding company and are engaged principally in two business segments:

- Tobacco: the manufacture and sale of cigarettes in the United States through our Liggett Group LLC ("Liggett") and Vector Tobacco Inc. ("Vector Tobacco") subsidiaries, and
- Real Estate: the real estate services, technology and investment business through our subsidiary New Valley, which (i) owns Douglas Elliman Realty LLC ("Douglas Elliman"), (ii) has interests in numerous real estate projects across the United States and (iii) is seeking to acquire or invest in additional real estate services, technologies, properties or projects. Douglas Elliman operates the largest residential brokerage company in the New York metropolitan area and also conducts residential real estate brokerage operations in Florida, California, Connecticut, Massachusetts, Colorado, New Jersey and Texas.

Our tobacco subsidiaries' cigarettes are produced in 100 combinations of length, style and packaging. Liggett's current brand portfolio includes:

- *Eagle 20's*
- *Pyramid*
- *Montego*
- *Grand Prix*
- *Liggett Select*
- *Eve*
- *USA* and various Partner Brands and private label brands.

The discount segment is a challenging marketplace, with consumers having less brand loyalty and placing greater emphasis on price. Liggett's competition is divided into two segments. The first segment consists of the three largest manufacturers of cigarettes in the United States: Philip Morris USA Inc., which is owned by Altria Group, Inc., RJ Reynolds Tobacco Company, which is owned by British American Tobacco Plc, and ITG Brands LLC, which is owned by Imperial Brands Plc. These three manufacturers, while primarily premium cigarette-based companies, also produce and sell discount cigarettes. The second segment of competition is comprised of a group of smaller manufacturers and importers, most of which sell deep discount cigarettes.

COVID-19 Pandemic

The COVID-19 pandemic continues to evolve and disrupt normal activities in many segments of the U.S. economy even as COVID-19 vaccines have been and continue to be administered in 2021. Many uncertainties continue to surround the pandemic, including risks associated with the timing and extent of vaccine administration and the impact of COVID-19 variants, the duration of the pandemic and the length of immunity. Thus, the ultimate overall impact on our operations and real estate ventures is uncertain and we are continuing to carefully evaluate potential outcomes and working to mitigate risks.

The following provides a summary of our actions in our two segments - Tobacco and Real Estate - since COVID-19 was declared a pandemic in March 2020.

Impact of COVID-19 on Tobacco Segment. We believe many adult tobacco consumers have had incremental discretionary spending availability during the COVID-19 pandemic as a result of a variety of factors, including federal government stimulus payments and enhanced unemployment benefit payments enacted in response to the COVID-19 pandemic, and lower non-tobacco discretionary spending due to their stay-at-home practices.

Although our Tobacco segment has not experienced a material adverse impact to date by the COVID-19 pandemic, there is continued uncertainty as to how the COVID-19 pandemic (including vaccine administration and the impact of variants as well as changes in COVID-19-related restrictions and guidelines) may impact adult tobacco consumers in the future. The majority of retail stores in which our tobacco products are sold, including convenience stores, have been deemed to be essential businesses by authorities and have remained open.

Our management also continues to monitor the macroeconomic risks of the COVID-19 pandemic and its effect on adult tobacco consumers purchasing behaviors, including mix between premium and discount brand purchases. Our Eagle 20's and Montego brands are priced in the deep discount category and our other brands are primarily priced in the traditional discount category.

To date, we have not experienced any material disruptions to our supply or distribution chains and have not experienced any material adverse effects associated with governmental actions to restrict consumer movement or business operations. However, our suppliers and members of our distribution chain may be subject to government action requiring facility closures and remote working protocols. We continue to monitor the risk that a supplier, a distributor or any other entity within our supply and distribution chain closes temporarily or permanently.

Impact of COVID-19 on Real Estate Segment. The three and six months ended June 30, 2021 demonstrated continued strength in the residential real estate market, which has improved markedly from a sharp decline in transactions, primarily in the second quarter of 2020, due to factors related to the COVID-19 pandemic. As Douglas Elliman's markets began reopening and vaccines for COVID-19 have become available, and consistent with home buying trends in the U.S., Douglas Elliman's business improved significantly in markets complementary to New York City, including South Florida (Miami and Palm Beach), the New York City suburbs (Long Island, Westchester County and Connecticut), the Hamptons, Los Angeles, and Aspen and, in 2021, in New York City.

In 2020, and, in particular, the second quarter of 2020, Douglas Elliman experienced a severe decline in closed sales volume in New York City. Therefore, as a result of the impact of COVID-19 pandemic on the New York City market, and combined with the increased demand for existing-homes in other areas of the U.S., the percentage of Douglas Elliman's brokerage revenues from the New York City market declined from approximately 46% in 2019 to approximately 29% for the twelve months ended June 30, 2021. In addition, New Valley has investments in multiple real estate ventures and properties in the New York metropolitan area, which had a carrying value of \$27,347 at June 30, 2021.

Beginning in April 2020, as a response to the impact of the COVID-19 pandemic, we made significant operating adjustments at Douglas Elliman, including a reduction of brokerage personnel of approximately 25% and reductions of other administrative expenses, as well as a reduction, deferral or elimination of certain office lease expenses. As markets have reopened and Douglas Elliman's revenues have significantly increased, Douglas Elliman's expenses have increased from the comparable 2020 periods. These increases were primarily the result of increased personnel expenses (associated with both discretionary compensation as well as the reinstatement of salary levels) and advertising expenses (associated with increased listings in 2021). Despite increases in expenses, which began during the fourth quarter of 2020, Douglas Elliman operated at a lower cost basis during the three and six months ended June 30, 2021 when compared to the 2019 comparable periods.

The circumstances around the potential impact of COVID-19 pandemic on our Real Estate segment remain fluid and we continue to actively monitor the impact of the pandemic, including risks associated with the timing and extent of vaccine administration and the impact of COVID-19 variants, the duration of the pandemic and how long immunity lasts. Therefore, we are unable to predict the ultimate impact of the COVID-19 pandemic and related macroeconomic trends (including, in particular, the virtual work trend arising as a result of the COVID-19 pandemic and the availability of vaccines), or other factors resulting therefrom on the future financial condition, results of operations and cash flows from our Real Estate segment.

Recent Developments

Issuance of Senior Secured Notes due 2029. In January 2021, we issued \$875,000 in aggregate principal of our 5.75% Senior Secured Notes due 2029 (“5.75% Senior Secured Notes”) in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), to qualified institutional buyers in accordance with Rule 144A under the Securities Act and to persons outside the United States in compliance with Regulation S under the Securities Act. The 5.75% Senior Secured Notes pay interest on a semi-annual basis at a rate of 5.75% per year and mature on February 1, 2029. Prior to February 1, 2024, we may redeem some or all of the 5.75% Senior Secured Notes at any time at a make-whole redemption price and, thereafter, we may redeem some or all of the 5.75% Senior Secured Notes at a premium that will decrease over time, plus accrued and unpaid interest, if any, to the redemption date. The aggregate net proceeds from the issuance of the 5.75% Senior Secured Notes were approximately \$855,500 after deducting offering expenses. We used the net proceeds of the issuance, together with cash on hand, to redeem all of our outstanding 6.125% Senior Secured Notes due 2025, including accrued interest and any premium thereon, and to pay fees and expenses in connection with the offering of the 5.75% Senior Secured Notes.

Liggett Credit Facility. On March 22, 2021, Liggett, 100 Maple LLC (“Maple”) and Vector Tobacco entered into Amendment No. 4 and Joinder to Third Amended and Restated Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as agent and lender.

The existing credit agreement was amended to, among other things, (i) add Vector Tobacco as a borrower under the Restated Credit Agreement, (ii) extend the maturity of the Credit Agreement to March 22, 2026, and (iii) increase the amount of the maximum credit line thereunder from \$60,000 to \$90,000. As of June 30, 2021, approximately \$84,600 was available for borrowing with no outstanding balance under the Restated Credit Agreement.

Montego. Since August 2020, Liggett has expanded the distribution of its *Montego* deep discount brand by 17 states, primarily located in the southeast and midwest. *Montego* was Liggett’s third-largest brand for the three months ended June 30, 2021. Prior to August 2020, *Montego* was sold in select targeted markets in four states. *Montego*’s volume represented approximately 12% for the three months ended June 30, 2021 compared to approximately 5% of total unit volume sales for the three months ended June 30, 2020 and approximately 12% of Liggett’s unit volume for the six months ended June 30, 2021 compared to approximately 5% for the six months ended June 30, 2020.

Property Technology (“PropTech”) Investments. New Valley Ventures’ made the following investments (all of which are currently \$1,000 or less) during the six months ended June 30, 2021.

- *Rechat* – an investment in February 2021 in a mobile-centric real estate agent marketing, customer relationship management and transaction-management software. This investment aligns strategically with Douglas Elliman’s multi-year services agreement with Rechat for its agents.
- *Purlin* – an investment in March 2021 in an automated intelligence platform to aid in home buying.
- *EVPassport* – an investment in March 2021 in an electronic vehicle charging platform.
- *Humming Homes* – an investment in March 2021 in a tech-enabled home management service.
- *MoveEasy* – an investment in June 2021 in a client-facing digital concierge service designed to assist clients move into and “set up” their new homes, while offering additional services to maintain their homes. MoveEasy is delivered in a white-labeled format in partnership with residential real estate brokerages in a package that features the name and contact information of the selling agent.
- *The Lab PropTech Fund* – an investment in June 2021 into a Miami-based fund that will invest in emerging technology companies serving emerging real estate and construction industries.

Recent Developments in Litigation

The cigarette industry continues to be challenged on numerous fronts. New cases continue to be commenced against Liggett and other cigarette manufacturers. Liggett could be subjected to substantial liabilities and bonding requirements from litigation relating to cigarette products. Adverse litigation outcomes could have a negative impact on our ability to operate due to their impact on cash flows. It is possible that there could be adverse developments in pending cases including the certification of additional class actions. An unfavorable outcome or settlement of pending tobacco-related litigation could encourage the commencement of additional litigation. In addition, an unfavorable outcome in any tobacco-related litigation could have a material adverse effect on our consolidated financial position, results of operations or cash flows. Liggett could face difficulties in obtaining a bond to stay execution of a judgment pending appeal.

Mississippi Dispute. In January 2016, the Attorney General for Mississippi filed a motion in Chancery Court in Jackson County, Mississippi to enforce the March 1996 settlement agreement (the “1996 Agreement”) alleging that Liggett owes Mississippi at least \$27,000 in compensatory damages and interest. In April 2017, the Chancery Court ruled, over Liggett’s objections, that the 1996 Agreement should be enforced and referred the matter first to arbitration and then to a Special Master for further proceedings to determine the amount of damages, if any, to be awarded. In April 2021, following confirmation of the final arbitration award, the parties stipulated that the unpaid principal (exclusive of interest) purportedly due from Liggett to Mississippi pursuant to the 1996 Agreement (from inception through 2020 - the final contract year) is approximately \$16,700, subject to Liggett’s right to litigate and/or appeal the enforceability of the 1996 Agreement (and all issues other than the calculation of such principal amount).

In September 2019, the Special Master held a hearing regarding Mississippi’s claim for pre and post-judgment interest. In June 2021, the Special Master issued a draft report with proposed findings that pre-judgment interest in the amount of approximately \$18,600, is due from Liggett from April 2005 - July 9, 2021. At the request of the Special Master, the parties provided comments to the draft report and the matter is *sub judice*. The Special Master’s report, once finalized, is subject to objections by the parties and further review and hearing by the trial court before a final judgment may be entered. Once final judgment is entered, additional interest amounts will accrue if the judgment is not overturned on appeal. Liggett continues to believe that the April 2017 Chancery Court order is in error because the most favored nations provision in the 1996 Agreement eliminated all of Liggett’s payment obligations to Mississippi, and it reserved all rights to appeal this and other issues at the conclusion of the case. In the event Liggett appeals an adverse judgment, the posting of a bond may be required.

Liggett may be required to make additional payments to Mississippi and Texas which could have a material adverse effect on the Company’s consolidated financial position, results of operations and cash flows.

See “*Legislation and Regulation*” in Item 2 of the MD&A for further information on litigation.

Critical Accounting Policies

There are no material changes except for the items listed below from the critical accounting policies set forth in Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” of our Annual Report on Form 10-K, for the year ended December 31, 2020. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

Results of Operations

The following discussion provides an assessment of our results of operations, capital resources and liquidity and should be read in conjunction with our condensed consolidated financial statements included elsewhere in this report. The condensed consolidated financial statements include the accounts of Liggett, Vector Tobacco, Liggett Vector Brands, New Valley and other less significant subsidiaries.

For purposes of this discussion and other consolidated financial reporting, our business segments for the three and six months ended June 30, 2021 and 2020 were Tobacco and Real Estate. The Tobacco segment consisted of the manufacture and sale of cigarettes. The Real Estate segment included our investment in New Valley, which includes ownership of Douglas Elliman, investments in real estate and investments in real estate ventures.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Revenues:				
Tobacco	\$ 329,496	\$ 312,510	\$ 597,959	\$ 599,579
Real estate	400,033	133,250	675,334	300,669
Total revenues	\$ 729,529	\$ 445,760	\$ 1,273,293	\$ 900,248
Operating income (loss):				
Tobacco	\$ 103,179	\$ 79,309 ⁽¹⁾	\$ 184,778 ⁽³⁾	\$ 148,495 ⁽⁴⁾
Real estate	42,362	(6,875) ⁽²⁾	57,622	(74,350) ⁽⁵⁾
Corporate and Other	(8,465)	(5,637)	(15,121)	(12,252)
Total operating income	\$ 137,076	\$ 66,797	\$ 227,279	\$ 61,893

⁽¹⁾ Operating income included \$53 of litigation settlement and judgement expense.

⁽²⁾ Operating loss included \$2,961 of restructuring charges.

- (3) Operating income included \$2,722 received from a litigation settlement associated with the MSA (which reduced cost of sales) and \$5 of litigation settlement and judgment expense.
- (4) Operating income included \$53 of litigation settlement and judgement expense.
- (5) Operating loss included \$58,252 of impairment charges related to the impairments of goodwill and other intangible assets and \$2,961 of restructuring charges.

Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020

Revenues. Total revenues were \$729,529 for the three months ended June 30, 2021 compared to \$445,760 for the three months ended June 30, 2020. The \$283,769 (63.7%) increase in revenues was primarily due to a \$266,783 increase in Real Estate revenues, which was primarily related to Douglas Elliman and a \$16,986 increase in Tobacco revenues.

Cost of sales. Total cost of sales was \$500,410 for the three months ended June 30, 2021 compared to \$304,885 for the three months ended June 30, 2020. The \$195,525 (64.1%) increase in cost of sales was primarily due to a \$203,447 increase in Real Estate cost of sales, which was primarily related to Douglas Elliman. This was offset by a \$7,922 decline in Tobacco cost of sales.

Expenses. Operating expenses were \$92,043 for the three months ended June 30, 2021 compared to \$74,078 for the same period last year. The \$17,965 (24.3%) increase in operating expenses was due to a \$14,099 increase in Real Estate expenses, which included \$2,961 of restructuring expenses, a \$1,038 increase in Tobacco expenses, and a \$2,828 increase in Corporate and Other expenses.

Operating income. Operating income was \$137,076 for the three months ended June 30, 2021 compared to \$66,797 for the same period last year. The \$70,279 (105.2%) increase in operating income was due to a \$49,237 increase in Real Estate operating income, primarily related to Douglas Elliman, and a \$23,870 increase in Tobacco operating income. This was offset by an increase of \$2,828 in Corporate and Other operating loss.

Other expenses. Other expenses were \$4,911 and \$30,107 for the three months ended June 30, 2021 and 2020, respectively. For the three months ended June 30, 2021, other expenses primarily consisted of interest expense of \$28,115. This was offset by equity in earnings from real estate ventures of \$16,685, other income of \$5,578 and equity in earnings from investments of \$941. For the three months ended June 30, 2020, other expenses primarily consisted of interest expense of \$29,358 and equity in losses from real estate ventures of \$12,260. This was offset by income of \$1,669 from changes in fair value of derivatives embedded within convertible debt, other income of \$7,635 and equity in earnings from investments of \$2,207.

Income before provision for income taxes. Income before income taxes was \$132,165 and \$36,690 for the three months ended June 30, 2021 and 2020, respectively.

Income tax expense. Income tax expense was \$38,860 and \$10,916 for the three months ended June 30, 2021 and 2020, respectively. Our provision for income taxes in interim periods is based on expected income, statutory rates, permanent differences, valuation allowances against deferred tax assets, and any tax planning opportunities available to us. For interim financial reporting, we estimate the annual effective income tax rate based on full year projections and apply the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. We refine annual estimates as new information becomes available. For the three months ended June 30, 2020, the discrete items of \$32 primarily relates to changes in value of certain contingent consideration and stock-based compensation.

Tobacco.

Tobacco revenues. Liggett increased the list price of *Eagle 20's*, *Pyramid*, *Liggett Select* and *Grand Prix* by \$0.14 per pack on June 28, 2021, \$0.14 per pack in January 2021, by \$0.13 per pack in November 2020, \$0.11 per pack in June 2020, and \$0.08 per pack in February 2020.

All of our Tobacco sales were in the discount category in 2021 and 2020. For the three months ended June 30, 2021, Tobacco revenues were \$329,496 compared to \$312,510 for the three months ended June 30, 2020. Revenues increased by \$16,986 (5.4%) due primarily to an increase in the average selling price of our brands for the three months ended June 30, 2021 partially offset by a 1.9% (46 million units) decline in sales volume.

Despite recent pricing increases, *Eagle 20's* remains Liggett's primary low-cost cigarette brand and its percentage of Liggett's total unit volume sales has declined slightly from 63% in the three months ended June 30, 2020 to 60% for the three months ended June 30, 2021. *Pyramid*, Liggett's second-largest brand, declined from 24% of total unit volume sales in the three months ended June 30, 2020 to 21% for the three months ended June 30, 2021. *Montego* is Liggett's third largest brand and increased from approximately 5% of total unit volume sales in the three months ended June 30, 2020 to approximately 12% for the three months ended June 30, 2021.

Tobacco cost of sales. The major components of our Tobacco cost of sales were as follows:

	Three Months Ended June 30,	
	2021	2020
Manufacturing overhead, raw materials and labor	\$ 33,277	\$ 32,669
Customer shipping and handling	1,885	1,361
Federal Excise Taxes, net	118,735	121,170
FDA expense	5,622	6,116
MSA expense, net of market share exemption	46,626	52,751
Total cost of sales	<u>\$ 206,145</u>	<u>\$ 214,067</u>

The Tobacco segment's MSA expense is included in cost of sales. Under the terms of the MSA, we have no payment obligations except to the extent that our tobacco subsidiaries' market share of the U.S. Cigarette market exceeds 1.92%. The calculation of our benefit from the MSA is an estimate based on U.S. domestic taxable cigarette shipments. As of June 30, 2021, we estimate taxable shipments in the U.S. will decline by 6.0% in 2021. As of June 30, 2020, we estimated taxable shipments in the U.S. would decline by 4.5% in 2020 and, the actual change in 2020 taxable shipments was an increase of 2.0%. Our annual MSA expense changes by approximately \$1,650 for each percentage change in estimated shipment volumes in the U.S. market.

Inflationary pressures impact Liggett's cost of sales through increases in MSA expense as well as manufacturing costs. Liggett's MSA expense is subject to an annual inflation adjustment, which is the greater of the U.S. CPI rate or 3% and inflationary pressures in the U.S. economy could also increase Liggett's cost of sales. For the three months ended June 30, 2021, Liggett's management assumed an inflation adjustment to MSA expense of 3.4% for the six months ended June 30, 2021 and assumed 3% for the three months ended June 30, 2020. The actual inflation adjustment to the MSA in 2020 was 3%. In addition, the largest component of Liggett's manufacturing costs is leaf tobacco and other raw materials. Our annual MSA expense increases by approximately \$1,800 for each 1% percentage increase of inflation in excess of 3%. In addition, the largest component of Liggett's manufacturing costs is leaf tobacco and other raw materials. In recent years, due to declining prices of leaf tobacco as well as efficiencies gained from technological innovation in Liggett's factory, Liggett's raw material costs have been flat and, therefore, has not been impacted by inflation. However, during 2021, Liggett experienced a 2.1% inflation increase for the three months ended June 30, 2021 and management anticipates the inflationary trends could continue.

Tobacco gross profit was \$123,351 for the three months ended June 30, 2021 compared to \$98,443 for the three months ended June 30, 2020, an increase of \$24,908 (25.3%). The increase in gross profit for the three months ended June 30, 2021 was primarily attributable to increased pricing associated with the *Eagle 20's* and *Pyramid* brands more than offsetting the impact of a 1.9% decline in unit sales. As a percentage of revenue (excluding Federal Excise Taxes), Tobacco gross profit increased from 51.4% in the 2020 period to 58.5% in the 2021 period. The increase in gross profit was primarily the result of increased net pricing as well as lower per unit MSA expense.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses, excluding settlements and judgments, were \$20,172 and \$19,081 for the three months ended June 30, 2021 and 2020, respectively. The increase of \$1,091 was mainly due to increased travel and marketing expenses related to the lifting of COVID-19 pandemic related restrictions, and higher compensation accruals, partially offset by a decrease in professional fees and expenses associated with Colorado's minimum price legislation. Total tobacco product liability legal expenses, including settlements and judgments, were \$1,542 and \$1,641 for the three months ended June 30, 2021 and 2020, respectively.

Tobacco operating income. Tobacco operating income was \$103,179 for the three months ended June 30, 2021 compared to \$79,309 for the same period last year. The increase of \$23,870 (30.1%) was primarily attributable to higher gross profit, as discussed above, partially offset by increased operating, selling, general and administrative expenses.

Real Estate.

Real Estate revenues. Real Estate revenues were \$400,033 and \$133,250 for the three months ended June 30, 2021 and 2020, respectively. Real Estate revenues increased by \$266,783, which was primarily related to an increase of \$252,779 in Douglas Elliman's commission and other brokerage income, reflecting increased revenues from existing home sales due to home-buying trends in Douglas Elliman's markets.

In 2020, and, in particular, the second quarter of 2020, Douglas Elliman experienced a severe decline in closed sales volume in New York City. Therefore, as a result of the impact of COVID-19 pandemic on the New York City market, and combined with the increased demand for existing-homes in other areas of the U.S., the percentage of Douglas Elliman's brokerage revenues from the New York City market declined from approximately 46% in 2019 to approximately 29% for the twelve months ended June 30, 2021.

The three months ended June 30, 2021 demonstrated continued strength in the residential real estate market, which has improved markedly from a sharp decline in transactions, primarily in the second quarter of 2020, due to factors related to the COVID-19 pandemic. As Douglas Elliman's markets began reopening and vaccines for COVID-19 have become available, and consistent with home buying trends in the U.S., Douglas Elliman's business improved significantly in markets complementary to New York City, including South Florida (Miami and Palm Beach), the New York City suburbs (Long Island, Westchester County and Connecticut), the Hamptons, Los Angeles, and Aspen and, in 2021, in New York City. Douglas Elliman's commission and other brokerage income generated from the sales of existing homes increased by \$98,734 in the Southeast region, \$69,991 in New York City, \$31,494 in the West (California and Colorado) region, and \$30,788 in the Northeast region, which excludes New York City. In addition, Douglas Elliman's revenues from Development Marketing increased by \$21,772 for the three months ended June 30, 2021.

Real Estate revenues and cost of sales for the three months ended June 30, 2021 and 2020, respectively, were as follows:

	Three Months Ended	
	June 30,	
	2021	2020
Real Estate Revenues:		
Commission and other brokerage income	\$ 376,033	\$ 123,254
Property management revenue	9,901	8,832
Escrow and title fees	6,041	843
Revenues from investments in real estate	6,750	—
Sales on facilities primarily from Escena	1,308	321
Total real estate revenues	<u>\$ 400,033</u>	<u>\$ 133,250</u>
Real Estate Cost of Sales:		
Real estate commissions	\$ 283,652	\$ 90,116
Cost of sales from investments in real estate	6,744	—
Escrow and title fees	2,867	139
Cost of sales on facilities primarily from Escena	1,002	563
Total real estate cost of sales	<u>\$ 294,265</u>	<u>\$ 90,818</u>

Real Estate cost of sales. Real Estate cost of sales were \$294,265 and \$90,818 for the three months ended June 30, 2021 and 2020, respectively. Real Estate cost of sales increased by \$203,447, primarily related to a \$193,536 increase in Douglas Elliman's real estate agent commissions, which resulted from an increase in sales volume. Real estate brokerage commissions increased from 73.1% for the three months ended June 30, 2020 to 75.4% for the three months ended June 30, 2021. This was primarily due to the increase in the percentage of revenues from the Southeast (Florida) and Western (primarily California) regions which traditionally pay higher commission percentages than the New York City region.

Real Estate segment gross profit increased from \$42,432 for the three months ended June 30, 2020 to \$105,768 for the three months ended June 30, 2021, an increase of \$63,336, which was primarily related to increases in Douglas Elliman's commission and other brokerage income.

Real Estate expenses. Real Estate expenses, which are primarily comprised of expenses of Douglas Elliman, were \$63,406 and \$49,307 for the three months ended June 30, 2021 and 2020, respectively. For the three months ended June 30, 2020, Real Estate expenses included restructuring charges, which were the result of expense-reduction initiatives, of \$2,961 at Douglas

Elliman. The restructuring charges were the result of Douglas Elliman realigning its administrative support functions, and office locations as well as adjusting its business model to more efficiently serve its clients.

Beginning in April 2020, as a response to the impact of the COVID-19 pandemic, we made significant operating adjustments at Douglas Elliman, including reductions in brokerage personnel of approximately 25%, certain salaries and other administrative expenses, as well as a reduction, deferral or elimination of certain office lease expenses. As markets have reopened and Douglas Elliman's revenues have significantly increased, Douglas Elliman's expenses have increased from the comparable 2020 periods. Real estate expenses, excluding restructuring charges, increased by \$17,060 for the three months ended June 30, 2021 compared to the comparable period in 2020, primarily as a result of increased personnel expense (associated with both discretionary compensation as well as the reinstatement of salary levels) and advertising expenses associated with Douglas Elliman's increased listings in 2021.

Real Estate operating income (loss). The Real Estate segment reported operating income of \$42,362 for the three months ended June 30, 2021 compared to operating loss of \$6,875 for the three months ended June 30, 2020. The increase in Real Estate segment's operating income of \$49,237 was primarily the result of the increase in gross profit discussed above along with the impact of expense-reduction initiatives that began at Douglas Elliman in the second quarter of 2020.

Corporate and Other.

Corporate and Other operating loss. The operating loss at the Corporate and Other segment was \$8,465 for the three months ended June 30, 2021 compared to \$5,637 for the same period in 2020 and the difference was due primarily to increased administrative costs related to professional fees and travel expenses related to the lifting of COVID-19 restrictions.

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

Revenues. Total revenues were \$1,273,293 for the six months ended June 30, 2021 compared to \$900,248 for the six months ended June 30, 2020. The \$373,045 (41.4%) increase in revenues was primarily due to a \$374,665 increase in Real Estate revenues, which was primarily related to an increase in Douglas Elliman's brokerage revenues related to the strength of the U.S. existing home market during the 2021 period. This was offset by a \$1,620 decline in Tobacco revenues related to lower unit volume partially offset by increases in net pricing resulting primarily from increases in 2020 and 2021.

Cost of sales. Total cost of sales was \$863,952 for the six months ended June 30, 2021 compared to \$615,508 for the six months ended June 30, 2020. The \$248,444 (40.4%) increase in cost of sales was primarily due to a \$289,625 increase in Real Estate cost of sales, which was primarily related to increased Douglas Elliman's commissions. This was offset by a \$41,181 decline in Tobacco cost of sales primarily related to decreased sales volume.

Expenses. Operating expenses were \$182,062 for the six months ended June 30, 2021 compared to \$222,847 for the same period last year. The \$40,785 (18.3%) decline was due to a \$46,932 decline in Real Estate expenses, primarily related to the absence of the impairment of goodwill and other intangible asset charge and restructuring charges at Douglas Elliman of \$58,252 and \$2,961, respectively, recorded in the 2020 period. This was offset by a \$3,278 increase in Tobacco expenses and a \$2,869 increase in Corporate and Other expense for the six months ended June 30, 2021.

Operating income. Operating income was \$227,279 for the six months ended June 30, 2021 compared to an operating income of \$61,893 for the same period last year. Operating income for the six months ended June 30, 2020 included an impairment expense associated with goodwill and other intangible assets and restructuring charges in our Real Estate segment. Real Estate operating income increased \$131,972 primarily related to increased revenues at Douglas Elliman in 2021 associated with the strength of existing-home sales, which was propelled by home-buying trends associated with increased demand in Douglas Elliman's markets, and the absence of the impairment and restructuring expenses in the 2021 period. Tobacco operating income increased by \$36,283 due primarily to increases in net pricing and lower per unit MSA expense. This was offset by the increased Corporate and Other operating loss of \$2,869.

Other expenses. Other expenses were \$50,104 for the six months ended June 30, 2021 compared to other expenses of \$29,412 for the six months ended June 30, 2020. For the six months ended June 30, 2021, other expenses primarily consisted of interest expense of \$56,866, and loss on the extinguishment of debt of \$21,362. This was offset by equity in earnings from real estate ventures of \$18,274, equity in earnings from investments of \$1,518 and other income of \$8,332. For the six months ended June 30, 2020, other expenses primarily consisted of interest expense of \$64,985, equity in losses from real estate ventures \$18,765 and other expenses of \$3,020. This was offset by equity in earnings of investments of \$52,359 and income of \$4,999 from changes in fair value of derivatives embedded within convertible debt.

Income (loss) before provision for income taxes. Income before income taxes was \$177,175 for the six months ended June 30, 2021 compared to loss before income taxes of \$32,481 for the six months ended June 30, 2020.

Income tax expense (benefit). Income tax expense was \$51,913 for the six months ended June 30, 2021 compared to income tax expense of \$9,938 for the six months ended June 30, 2020. Our provision for income taxes in interim periods is based on expected income, statutory rates, permanent differences, valuation allowances against deferred tax assets, and any tax planning opportunities available to us. For interim financial reporting, we estimate the annual effective income tax rate based on full year projections and apply the annual effective income tax rate against year-to-date pretax income to record income tax expense, adjusted for discrete items, if any. We refine annual estimates as new information becomes available. For the six months ended June 30, 2020, the annual effective tax rate applied to year-to-date income resulted in tax expense which was increased by discrete items related to income tax benefits on goodwill and trademark impairment charges, changes in value of certain contingent consideration and stock-based compensation, partially offset by the income tax expense related to equity in earnings from investments associated with the one-time gain on sale of LTS.

Tobacco.

Tobacco revenues. Liggett increased the list price of *Eagle 20's*, *Pyramid*, *Liggett Select*, *Eve* and *Grand Prix* by \$0.14 per pack on June 28, 2021, \$0.14 per pack in January 2021, by \$0.13 per pack in November 2020, \$0.11 per pack in June 2020, and \$0.08 per pack in February 2020.

All of our Tobacco sales were in the discount category in 2021 and 2020. For the six months ended June 30, 2021, Tobacco revenues were \$597,959 compared to \$599,579 for the six months ended June 30, 2020. Revenues declined by \$1,620 (0.3%) due primarily to a 7.7% (357 million units) decline in unit sales volume partially offset by an increase in the average selling price of our brands for the six months ended June 30, 2021.

Despite recent pricing increases, *Eagle 20's* remains Liggett's primary low-cost cigarette brand and its percentage of Liggett's total unit volume sales declined from approximately 63% in the six months ended June 30, 2020 to approximately 60% for the six months ended June 30, 2021. *Pyramid*, Liggett's second largest brand, declined from approximately 24% of total unit volume sales in the six months ended June 30, 2020 to approximately 21% for the six months ended June 30, 2021. *Montego* is Liggett's third largest brand and increased from approximately 5% of total unit volume sales in the six months ended June 30, 2020 to approximately 12% for the six months ended June 30, 2021.

Tobacco cost of sales. The major components of our Tobacco cost of sales were as follows:

	Six Months Ended June 30,	
	2021	2020
Manufacturing overhead, raw materials and labor	\$ 60,538	\$ 65,534
Customer shipping and handling	3,301	2,833
Federal Excise Taxes, net	216,449	234,309
FDA expense	11,694	12,466
MSA expense, net of market share exemption	78,194 ⁽¹⁾	96,215
Total cost of sales	<u>\$ 370,176</u>	<u>\$ 411,357</u>

⁽¹⁾ Includes \$2,722 received from a litigation settlement associated with the MSA expense.

The Tobacco segment's MSA expense is included in cost of sales. Under the terms of the MSA, we have no payment obligations except to the extent that our tobacco subsidiaries' market share of the U.S. cigarette market exceeds 1.92%. The calculation of our benefit from the MSA is an estimate based on U.S. domestic taxable cigarette shipments. As of June 30, 2021, we estimate taxable shipments in the U.S. will decline by 6.0% in 2021. As of June 30, 2020, we estimated taxable shipments in the U.S. would decline by 4.5% in 2020 and, the actual change in 2020 taxable shipments was an increase of 2.0%. Our annual MSA expense changes by approximately \$1,650 for each percentage change in estimated shipment volumes in the U.S. market.

Inflationary pressures impact Liggett's cost of sales through increases in MSA expense as well as manufacturing costs. Liggett's MSA expense is subject to an annual inflation adjustment, which is the greater of the U.S. CPI rate or 3% and inflationary pressures in the U.S. economy could also increase Liggett's cost of sales. For the six months ended June 30, 2021, Liggett's management assumed an inflation adjustment to MSA expense of 3.4% for the six months ended June 30, 2021 and assumed 3% for the six months ended June 30, 2020. The actual inflation adjustment to the MSA in 2020 was 3%. In addition, the largest component of Liggett's manufacturing costs is leaf tobacco and other raw materials. In recent years, due to declining prices of leaf tobacco as well as efficiencies gained from technological innovation in Liggett's factory, Liggett's raw material costs have been flat and, therefore, has not been impacted by inflation. However, during 2021, Liggett experienced a 1.2% inflation increase for the six months ended June 30, 2021 and management anticipates the inflationary trends could continue.

Tobacco gross profit was \$227,783 for the six months ended June 30, 2021 compared to \$188,222 for the six months ended June 30, 2020, an increase of \$39,561 (21.0%). For the six months ended June 30, 2021, gross profit included \$2,722 received from an MSA settlement, which reduced cost of sales. Excluding this settlement, gross profit for the six months ended June 30, 2021 was \$225,061, an increase of \$36,839 (19.6%). This increase in gross profit for the six months ended June 30, 2021 was primarily attributable to increased net pricing across Liggett's brand portfolio more than offsetting the impact of a 7.7% decline in unit sales. As a percentage of revenue (excluding Federal Excise Taxes), Tobacco gross profit increased from 51.5% in the 2020 period to 59.7% in the 2021 period. The increase in gross profit was primarily the result of increased pricing and lower per unit MSA expenses.

Tobacco expenses. Tobacco operating, selling, general and administrative expenses, excluding settlements and judgments, were \$43,000 for the six months ended June 30, 2021 compared to \$39,674 for the six months ended June 30, 2020. The increase of \$3,326 was mainly due to increased professional fees and expenses associated with Colorado's minimum price legislation, increased travel and marketing expenses related to the lifting of COVID-19 restrictions and higher compensation accruals. Tobacco product liability legal expenses, including settlements and judgments, were \$3,067 and \$3,191 for the six months ended June 30, 2021 and 2020, respectively.

Tobacco operating income. Tobacco operating income was \$184,778 for the six months ended June 30, 2021 compared to \$148,495 for the six months ended June 30, 2020. The increase of \$36,283 (24.4%) was primarily attributable to higher gross profit margins, as discussed above, partially offset by increased operating, selling, general and administrative expenses.

Real Estate.

Real Estate revenues. Real Estate revenues were \$675,334 and \$300,669 for the six months ended June 30, 2021 and 2020, respectively. Real Estate revenues increased by \$374,665, which was primarily related to an increase of \$355,913 in Douglas Elliman's commission and other brokerage income, reflecting increased revenues from existing home sales due to home-buying trends in Douglas Elliman's markets.

In 2020, and, in particular, the second quarter of 2020, Douglas Elliman experienced a severe decline in closed sales volume in New York City. Therefore, as a result of the impact of COVID-19 pandemic on the New York City market, and combined with the increased demand for existing-homes in other areas of the U.S., the percentage of Douglas Elliman's brokerage revenues from the New York City market declined from approximately 46% in 2019 to approximately 29% for the twelve months ended June 30, 2021.

The six months ended June 30, 2021 demonstrated continued strength in the residential real estate market, which has improved markedly from a sharp decline in transactions, primarily in the second quarter of 2020, due to factors related to the COVID-19 pandemic. As Douglas Elliman's markets began reopening and vaccines for COVID-19 have become available, and consistent with home buying trends in the U.S., Douglas Elliman's business improved significantly in markets complementary to New York City, including South Florida (Miami and Palm Beach), the New York City suburbs (Long Island, Westchester County and Connecticut), the Hamptons, Los Angeles, and Aspen and, in 2021, in New York City. Douglas Elliman's commission and other brokerage income generated from the sales of existing homes increased by \$144,109 in the Southeast region, \$90,017 in New York City, \$52,314 in the Northeast region, which excludes New York City, and \$46,872 in the West region. In addition, Douglas Elliman's revenues from Development Marketing increased by \$22,601 for the six months ended June 30, 2021.

Real Estate revenues and cost of sales for the six months ended June 30, 2021 and 2020, respectively, were as follows:

	Six Months Ended June 30,	
	2021	2020
Real Estate Revenues:		
Commission and other brokerage income	\$ 635,133	\$ 279,220
Property management revenue	19,169	17,611
Escrow and title fees	10,449	1,699
Revenues from investments in real estate	7,650	—
Sales on facilities primarily from Escena	2,933	2,139
Total real estate revenues	<u>\$ 675,334</u>	<u>\$ 300,669</u>
Real Estate Cost of Sales:		
Real estate agent commissions	\$ 480,669	\$ 202,315
Cost of sales from investments in real estate	6,744	—
Escrow and title fees	4,485	277
Cost of sales on facilities primarily from Escena	1,878	1,559
Total real estate cost of sales	<u>\$ 493,776</u>	<u>\$ 204,151</u>

Real Estate cost of sales. Real Estate cost of sales were \$493,776 and \$204,151 for the six months ended June 30, 2021 and 2020, respectively. Real Estate cost of sales increased by \$289,625, primarily related to \$278,354 increase in Douglas Elliman's real estate agent commissions, which resulted from an increase in sales volume. Real estate brokerage commissions increased from 72.5% to for the six months ended June 30, 2020 to 75.7% for the six months ended June 30, 2021. This was primarily due to the increase in the percentage of revenues from the Southeast (Florida) and Western (primarily California) regions which traditionally pay higher commission percentages than the New York City region.

Real Estate segment gross profit increased from \$96,518 for the six months ended June 30, 2020 to \$181,558 for the six months ended June 30, 2021, an increase of \$85,040, which was primarily related to increases in Douglas Elliman's commission and other brokerage income.

Real Estate expenses. Real Estate expenses, which are primarily comprised of expenses of Douglas Elliman, were \$123,936 and \$170,868 for the six months ended June 30, 2021 and 2020. The expenses for the six months ended June 30, 2020 included the non-cash impairment of goodwill and other intangible assets of \$58,252 and restructuring charges, which were the result of expense-reduction initiatives, of \$2,961 at Douglas Elliman. The restructuring charges were the result of Douglas Elliman realigning its administrative support functions, and office locations as well as adjusting its business model to more efficiently serve its clients.

Beginning in April 2020, as a response to the impact of the COVID-19 pandemic, we made significant operating adjustments at Douglas Elliman, including reductions in brokerage personnel of approximately 25%, certain salaries and other administrative expenses, as well as a reduction, deferral or elimination of certain office lease expenses. As markets have reopened and Douglas Elliman's revenues have significantly increased, Douglas Elliman's expenses have increased from the comparable 2020 periods. Real estate expenses, excluding the restructuring charges and non-cash impairment, increased by \$14,281 for the six months ended June 30, 2021 compared to the comparable period in 2020, primarily as a result of increased personnel expense (associated with both discretionary compensation as well as the reinstatement of salary levels) and advertising expenses associated with Douglas Elliman's increased listings in 2021. These amounts were offset by lower general and administrative, occupancy and travel expenses.

Real Estate operating income (loss). The Real Estate segment reported operating income of \$57,622 and operating loss of \$74,350 for the six months ended June 30, 2021 and 2020, respectively. The increase in the Real Estate segment's operating income, after excluding the non-cash impairment charge in the 2020 period, was primarily the result of the increase in gross profit discussed above along with the impact of expense-reduction initiatives that began at Douglas Elliman in the second quarter of 2020.

Corporate and Other.

Corporate and Other loss. The operating loss at the Corporate and Other segment was \$15,121 for the six months ended June 30, 2021 compared to \$12,252 for the same period in 2020.

Summary of Real Estate Investments

We own and seek to acquire investment interests in various domestic and international real estate projects through debt and equity investments. Our real estate investments primarily include the following projects as of June 30, 2021:

(Dollars in Thousands. Area and Unit Information in Ones)												
Location	Date of Initial Investment	Percentage Owned (1)	Net Cash Invested (Returned)	Cumulative Earnings (Losses)	Carrying Value as of June 30, 2021	Future Capital Commitments from New Valley (2)	Projected Residential and/or Hotel Area	Projected Commercial Space	Projected Number of Residential Units and/or Hotel Rooms	Actual/Projected Construction Start Date	Projected Construction End Date	
Escena, net	Master planned community, golf course, and club house in Palm Springs, CA	March 2008	100 %	\$ 2,951	\$ 6,657	\$ 9,608	\$ —	450 Acres	667 R Lots	N/A	N/A	
Townhome A (11 Beach Street)	TriBeCa, Manhattan, NY	November 2020	100 %	(6)	6	—	6,169 SF	1	R	N/A	Completed	
Investments in real estate, net				\$ 2,945	\$ 6,663	\$ 9,608	\$ —					
Investments in real estate ventures:												
111 Murray Street	TriBeCa, Manhattan, NY	May 2013	9.5 %	\$ 6,819	\$ (4,414)	\$ 2,405	\$ —	330,000 SF	1,700 SF	157 R	September 2014	Completed
87 Park (8701 Collins Avenue)	Miami Beach, FL	December 2013	23.1 %	(6,485)	6,485	—	—	160,000 SF	TBD	70 R	October 2015	Completed
125 Greenwich Street	Financial District, Manhattan, NY	August 2014	13.4 %	7,992	(7,992)	—	—	306,000 SF	16,000 SF	273 R	March 2015	TBD
West Hollywood Edition (9040 Sunset Boulevard)	West Hollywood, CA	October 2014	48.5 %	11,513	(11,513)	—	—	210,000 SF	—	20 R	May 2015	Completed
The XI (76 Eleventh Avenue)	West Chelsea, Manhattan, NY	May 2015	5.1 %	17,000	(17,000)	—	—	630,000 SF	85,000 SF	236 R	September 2016	TBD
Monad Terrace (1300 West Ave)	Miami Beach, FL	May 2015	19.6 %	7,635	(7,635)	—	—	160,000 SF	—	59 R	May 2016	Completed
Takanasee (805 Ocean Ave)	Long Branch, NJ	December 2015	22.8 %	6,144	(6,144)	—	—	63,000 SF	—	13 R	June 2017	TBD
Brookland (15 East 19th St)	Brooklyn, NY	April 2017	9.8 %	402	1	403	—	24,000 SF	—	33 R	August 2017	Completed
Dime (209 Havemeyer St)	Brooklyn, NY	November 2017	16.5 %	9,145	(1,356)	7,789	—	100,000 SF	150,000 SF	177 R	May 2017	Completed
352 6th Avenue	Brooklyn, NY	February 2019	37.0 %	685	111	796	—	5,200 SF	—	4 R	September 2019	Completed
Meatpacking Plaza (44 Ninth Ave)	Meatpacking District, Manhattan, NY	April 2019	16.9 %	10,692	(2,746)	7,946	—	8,741 SF	76,919 SF	15 R	July 2021	May 2023
Five Park (500 Alton Road)	Miami Beach, FL	September 2019	38.9 %	18,098	1,461	19,559	—	482,000 SF	15,000 SF	291 R	April 2020	August 2023
9 DeKalb Avenue	Brooklyn, NY	April 2019	4.2 %	5,000	894	5,894	—	450,000 SF	120,000 SF	540 R	March 2019	February 2023
Natura	Miami, FL	December 2019	77.8 %	7,354	5,263	12,617	—	460,000 SF	—	460 R	December 2019	November 2022
Townhome B (11 Beach Street)	TriBeCa, Manhattan, NY	November 2020	46.7 %	(594)	594	—	—	4,752 SF	—	1 R	N/A	Completed
Ritz-Carlton Villas (4701 Meridian Avenue)	Miami Beach, FL	December 2020	50.0 %	4,109	(32)	4,077	—	55,000 SF	—	15 R	October 2020	August 2022
Condominium and Mixed Use Development				\$ 105,509	\$ (44,023)	\$ 61,486	\$ —					
Maryland Portfolio	Primarily Baltimore County, MD	July 2012	7.6 %	\$ (16,585)	\$ 16,585	\$ —	N/A	N/A	245	R	N/A	N/A
Apartment Buildings				\$ (16,585)	\$ 16,585	\$ —						
Park Lane Hotel (36 Central Park South)	Central Park South, Manhattan, NY	November 2013	1.0 %	\$ 8,682	\$ (7,229)	\$ 1,453	\$ —	446,000 SF	—	628 H	N/A	N/A
215 Chrystie Street (4)	Lower East Side, Manhattan, NY	December 2012	17.8 %	(2,136)	1,803	(333)	—	246,000 SF	—	367 H	June 2014	Completed
Coral Beach and Tennis Club	Coral Beach, Bermuda	December 2013	49.0 %	6,048	(4,724)	1,324	—	52 Acres	—	101 H	N/A	N/A
Parker New York (119 W 56th St)	Midtown, Manhattan, NY	July 2019	0.4 %	1,000	(339)	661	—	470,000 SF	—	587 R	May 2020	December 2022
Hotels				\$ 13,594	\$ (10,489)	\$ 3,105	\$ —					
The Plaza at Harmon Meadow	Secaucus, NJ	March 2015	49.0 %	\$ 4,200	\$ (4,200)	\$ —	—	219,000 SF	—	—	N/A	N/A
Wynn Las Vegas Retail	Las Vegas, NV	December 2016	1.6 %	4,519	2,620	7,139	—	160,000 SF	—	—	N/A	N/A
Commercial				\$ 8,719	\$ (1,580)	\$ 7,139	\$ —					
Witkoff GP Partners (3)	Multiple	March 2017	15.0 %	\$ 11,154	\$ (9,620)	\$ 1,534	\$ —	N/A	N/A	N/A	N/A	N/A
1 QPS Tower (23-10 Queens Plaza South)	Long Island City, NY	December 2012	45.4 %	(14,406)	14,406	—	—	N/A	N/A	N/A	March 2014	Completed
Witkoff EB-5 Capital Partners	Multiple	September 2018	49.0 %	516	479	995	—	N/A	N/A	N/A	N/A	N/A
Biscayne Mortgage	Multiple	April 2021	50.0 %	1,500	—	1,500	—	N/A	N/A	N/A	N/A	N/A
Partners Land Services	Multiple	June 2021	50.0 %	100	—	100	—	N/A	N/A	N/A	N/A	N/A
Diverse Real Estate Portfolio				\$ (1,136)	\$ 5,265	\$ 4,129	\$ —					
Investments in real estate ventures				\$ 110,101	\$ (34,242)	\$ 75,859	\$ —					
Total Carrying Value				\$ 113,046	\$ (27,579)	\$ 85,467	\$ —					

(1) The Percentage Owned reflects our estimated current ownership percentage. Our actual ownership percentage as well as the percentage of earnings and cash distributions may ultimately differ as a result of a number of factors including potential dilution, financing or admission of additional partners.

(2) This column only represents capital commitments required under the various joint venture agreements. However, many of the operating agreements provide for the operating partner to call capital. If a joint venture partner, such as New Valley, declines to fund the capital call, then the partner's ownership percentage could either be diluted or, in some situations, the character of a funding member's contribution would be converted from a capital contribution to a member loan.

(3) The Witkoff GP Partners venture includes a \$1,534 investment in 500 Broadway, a Condominium and Mixed Use Development in Santa Monica, CA.

(4) Equity in losses in excess of the joint ventures' carrying value were \$333 as of June 30, 2021, and are classified in Other current liabilities.

N/A - Not applicable

SF - Square feet

H - Hotel rooms

TBD -To be determined

R - Residential Units

R Lots - Residential lots

New Valley capitalizes net interest expense into the carrying value of its ventures whose projects were under development. Net capitalized interest costs included in Carrying Value as of June 30, 2021 were \$8,347. This amount is included in the "Cumulative Earnings (Losses)" column in the table above. During the six months ended June 30, 2021, New Valley capitalized \$1,022 of interest costs and utilized (reversed) \$153 of previously capitalized interest in connection with the recognition of equity in (losses) earnings, gains and liquidations from various ventures.

Liquidity and Capital Resources

Cash, cash equivalents and restricted cash increased by \$139,420 and \$169,658 for the six months ended June 30, 2021 and 2020, respectively.

Cash provided from operations was \$221,300 and \$341,329 for the six months ended June 30, 2021 and 2020, respectively. The decline in cash provided from operations related primarily to higher federal excise tax payments by the tobacco segment in 2021, (ii) the absence of proceeds in 2021 associated with the sale of LTS, which occurred in 2020, and (iii) cash expenditures in February 2021 associated with the premium for the retirement of our 6.125% Senior Secured Notes due 2025. These amounts were offset by increased operating income during the six months ended June 30, 2021. The lower excise tax payments in 2020 related to the 90-day postponement of the payment due dates of U.S. excise taxes from March 1, 2020 to July 1, 2020. This postponement resulted in an increase to the liquidity of our tobacco segment in the second quarter of 2020 of approximately \$131,700 and the payments were made in the third quarter of 2020.

Cash used in investing activities was \$16,666 for the six months ended June 30, 2021 and cash provided by investing activities was \$46,575 for the six months ended June 30, 2020. In the first six months of 2021, cash used in investing activities was for the purchase of investment securities of \$74,805, investments in real estate ventures of \$9,902, capital expenditures of \$3,055, an increase in cash surrender value of life insurance policies of \$1,348, purchase of long-term investments of \$6,963, and an increase in restricted assets of \$5. This was offset by the sale of investment securities of \$23,477, paydowns of investment securities of \$302, maturities of investment securities of \$36,461, distributions from investments in real estate ventures of \$11,163, and proceeds from the sale or liquidation of long-term investments of \$8,009. In the first six months of 2020, cash provided by investing activities was from the sale of investment securities of \$19,555, paydowns of investment securities of \$415, maturities of investment securities of \$31,574, distributions from investments in real estate ventures of \$5,172, a decrease in restricted assets of \$87, and proceeds from the sale or liquidation of long-term investments of \$23,407. This was offset by the purchase of investment securities of \$16,867, investments in real estate ventures of \$3,858, capital expenditures of \$6,242, investments in real estate, net of \$679, an increase in cash surrender value of life insurance policies of \$751, and purchase of long-term investments of \$5,238.

Cash used in financing activities was \$65,214 and \$218,246 for the six months ended June 30, 2021 and 2020, respectively. In the first six months of 2021, cash was used for the dividends on common stock of \$63,738, repayments of debt of \$856,316, deferred financing costs of \$20,109, and other of \$51. This was offset by proceeds from debt issuance of \$875,000. In the first six months of 2020, cash was used for dividends and distributions on common stock of \$63,478, repayments of debt of \$172,467, distributions to non-controlling interest of \$448, and net repayments of debt under the revolver of \$34,952. This was offset by proceeds from issuance of common stock of \$52,563, proceeds from debt issuance of \$531 and other of \$5.

We use dividends from our tobacco and real estate subsidiaries, as well as cash and cash equivalents maintained at the corporate level, to fund our significant liquidity commitments at the corporate level (not including our tobacco and real estate operations). These liquidity commitments include cash interest expense of approximately \$108,900, dividends on our outstanding common shares of approximately \$128,900, which is based on an assumed quarterly cash dividend of \$0.20 per share, and other corporate expenses and income taxes.

As of June 30, 2021, we had cash and cash equivalents of \$490,390 (including \$155,224 of cash at Douglas Elliman and \$108,191 of cash at Liggett), investment securities and long-term investments, which were carried at \$212,363 (see Note 6 to condensed consolidated financial statements). As of June 30, 2021, our investments in real estate ventures were carried at \$76,192 and our investment in real estate, net of accumulated depreciation, was carried at \$9,608.

Limitation of interest expense deductible for income taxes. Since 2018, the amount of interest expense that is deductible in the computation of income tax liability has been limited to a percentage of adjusted taxable income, as defined by applicable law. In 2019 and 2020, the amount of deductible interest expense was limited to 50% of taxable income before interest, depreciation and amortization and, in 2021, the amount will be limited to 30% of taxable income before interest, depreciation and amortization. Beginning in 2022, the amount will be limited to 30% of taxable income before interest. However, interest expense allocable to a designated excepted trade or business is not subject to limitation. One such excepted trade or business is any electing real property trade or business, for which portions of our real estate businesses may qualify. If any interest expense is disallowed, we are permitted to carry forward the disallowed interest expense indefinitely. As a result of interest expense that is allocated to our real estate businesses (from the holding company) not being subject to the limitation, all of our interest expense to date has been tax deductible; however, due to our high degree of leverage and the large amount of our interest expense that is currently allocated to our real estate businesses (from the holding company) for income tax purposes, a portion of our interest expense in future years may not be deductible, which could increase the after-tax cost of any new debt financings as well as the refinancing of our existing debt.

Tobacco Litigation. As of June 30, 2021, 16 verdicts were entered in *Engle* progeny cases against Liggett. Several of these verdicts have been affirmed on appeal and have been satisfied by Liggett. Liggett has paid \$40,111, including interest and attorney's fees, to satisfy the final judgments entered against it. It is possible that additional cases could be decided unfavorably.

Notwithstanding the comprehensive nature of the *Engle* Progeny Settlements of more than 5,200 cases, approximately 38 plaintiffs' claims remain outstanding. Therefore, we and Liggett may still be subject to periodic adverse judgments that could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

In addition, Liggett may be required to make additional payments to Mississippi which could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. See *Recent Developments in Litigation*.

Management cannot predict the cash requirements related to any future settlements or judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. Management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Liggett or the costs of defending such cases. It is possible that our consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such tobacco-related litigation.

Vector.

6.125% Senior Secured Notes. On February 1, 2021, the 6.125% Senior Secured Notes due 2025 were redeemed in full and we recorded a loss on the extinguishment of debt of \$21,362 for the six months ended June 30, 2021, including \$13,014 of premium and \$8,348 of other costs and non-cash interest expense related to the recognition of previously unamortized deferred finance costs.

5.75% Senior Secured Notes due 2029. On January 28, 2021, we completed the sale of \$875,000 in aggregate principal amount of our 5.75% Senior Secured Notes due 2029 ("5.75% Senior Secured Notes") to qualified institutional buyers and non-U.S. persons in a private offering pursuant to the exemptions from the registration requirements of the Securities Act contained in Rule 144A and Regulation S thereunder. The aggregate net cash proceeds from the sale of the 5.75% Senior Secured Notes were approximately \$855,500 after deducting the initial purchaser's discount and estimated expenses and fees in connection with the offering. We used the net cash proceeds from the 5.75% Senior Secured Notes offering, together with cash on hand, to redeem all of our outstanding 6.125% Senior Secured Notes due 2025, including accrued interest and premium thereon, on January 28, 2021.

The 5.75% Senior Secured Notes pay interest on a semi-annual basis at a rate of 5.75% per year and mature on the earlier of February 1, 2029 and the date that is 91 days before the final stated maturity date of our 10.5% Senior Notes due 2026 ("10.5% Senior Notes") if such 10.5% Senior Notes have not been repurchased and cancelled or refinanced by such date. Prior to February 1, 2024, we may redeem some or all of the 5.75% Senior Secured Notes at any time at a make-whole redemption price. On or after February 1, 2024, we may redeem some or all of the 5.75% Senior Secured Notes at a premium that will decrease over time, plus accrued and unpaid interest, if any, to the redemption date. In addition, any time prior to February 1, 2024, we may redeem up to 40% of the aggregate outstanding amount of the 5.75% Senior Secured Notes with the net proceeds of certain equity offerings at 105.75% of the aggregate principal amount of the 5.75% Senior Secured Notes, plus accrued and unpaid interest, if any, to the redemption date, if at least 60% of the aggregate principal amount of the 5.75% Senior Secured Notes originally issued remains outstanding after such redemption, and the redemption occurs within 90 days of the closing of such equity offering. In the event of a change of control, as defined in the indenture governing the 5.75% Senior Secured Notes (the "2029 Indenture"), each holder of the 5.75% Senior Secured Notes may require the Company to repurchase some or all of its 5.75% Senior Secured Notes at a repurchase price equal to 101% of their aggregate principal amount plus accrued and unpaid interest, if any, to the date of purchase. If the Company sells certain assets and does not apply the proceeds as required pursuant to the 2029 Indenture, it must offer to repurchase the 5.75% Senior Secured Notes at the prices listed in the 2029 Indenture.

The 5.75% Senior Secured Notes are fully and unconditionally guaranteed, subject to certain customary automatic release provisions, on a joint and several basis by all of our wholly-owned domestic subsidiaries that are engaged in the conduct of our cigarette businesses, which subsidiaries, as of the issuance date of the 5.75% Senior Secured Notes, were also guarantors under our outstanding 10.5% Senior Notes. The 5.75% Senior Secured Notes are not guaranteed by New Valley LLC, or any of our subsidiaries engaged in our real estate business conducted through our subsidiary, New Valley LLC. The guarantees provided by certain of the guarantors are secured by first priority or second priority security interests in certain collateral of such guarantors pursuant to security and pledge agreements, subject to certain permitted liens and exceptions as further described in the 2029 Indenture and the security documents relating thereto. Vector Group Ltd does not provide any security for the 5.75% Senior Secured Notes.

The 2029 Indenture contains covenants that restrict the payment of dividends if our consolidated earnings before interest, taxes, depreciation and amortization (“Consolidated EBITDA”), as defined in the 2029 Indenture, for the most recently ended four full quarters is less than \$75,000. The 2029 Indenture also restricts the incurrence of debt if our Leverage Ratio and our Secured Leverage Ratio, each as defined in the 2029 Indenture, exceed 3.0 to 1.0 and 1.5 to 1.0, respectively. Our Leverage Ratio is defined in the 2029 Indenture as the ratio of our and our guaranteeing subsidiaries’ total debt less the fair market value of our cash, investment securities and long-term investments to Consolidated EBITDA, as defined in the 2029 Indenture. Our Secured Leverage Ratio is defined in the 2029 Indenture in the same manner as the Leverage Ratio, except that secured indebtedness is substituted for indebtedness. The following table summarizes the requirements of these financial test and the extent to which we would have satisfied these requirements had the 2029 Indenture been in effect as of June 30, 2021.

Covenant	Indenture Requirement	June 30, 2021
Consolidated EBITDA, as defined	\$75,000	\$411,838
Leverage ratio, as defined	<3.0 to 1	2.10 to 1
Secured leverage ratio, as defined	<1.5 to 1	0.79 to 1

As of June 30, 2021, we were in compliance with all debt covenants related to the 2029 Indenture.

10.5% Senior Notes due 2026. On November 2, 2018 and November 18, 2019, respectively, we sold \$325,000 and \$230,000, respectively, in aggregate principal amount of our 10.5% Senior Notes to qualified institutional buyers and non-U.S. persons pursuant to the exemptions from the registration requirements of the Securities Act contained in Rule 144A and Regulation S thereunder. The 10.5% Senior Secured Notes due 2026 are guaranteed by all of our wholly owned domestic subsidiaries that are engaged in the conduct of our cigarette business and DER Holdings LLC.

The indenture governing our 10.5% Senior Notes due 2026 (the “2026 Indenture”) contains covenants that restrict the payment of dividends and certain other distributions subject to certain exceptions, including exceptions for (1) dividends and other distributions in an amount up to 50% of our consolidated net income, plus certain specified proceeds received by the Company, if no event of default has occurred, and we are in compliance with a Fixed Charge Coverage Ratio (as defined in the 2026 Indenture) of at least 2.0 to 1.0, and (2) dividends and other distributions in an unlimited amount, if no event of default has occurred and we are in compliance with a Net Leverage Ratio (as defined in the 2026 Indenture) no greater than 4.0 to 1.0. As a result, absent an event of default, we can pay dividends if the Net Leverage ratio is below 4.0 to 1.0, regardless of the value of the Fixed Charge Coverage Ratio at the time. The 2026 Indenture also restricts our ability to incur debt if our Fixed Charge Coverage Ratio is less than 2.0 to 1.0, and restricts our ability to secure debt to the extent doing so would cause our Secured Leverage Ratio (as defined in the 2026 Indenture) to exceed 3.75 to 1.0, unless the 10.5% Senior Notes are secured on an equal and ratable basis. In addition, the 2026 Indenture restricts our ability to spin-off or transfer New Valley and its subsidiaries as a whole, or DER Holdings LLC and its subsidiaries (including Douglas Elliman) as a whole, unless (1) such spin-off or transfer complies with the covenants restricting mergers and asset sales, or (2) our Net Leverage Ratio is no greater than 4.0 to 1.0. Our Fixed Charge Coverage Ratio is defined in the 2026 Indenture as the ratio of our Consolidated EBITDA to our Fixed Charges (each as defined in the 2026 Indenture). Our Net Leverage Ratio is defined in the 2026 Indenture as the ratio of our and our guaranteeing subsidiaries’ total debt less our cash, cash equivalents, and the fair market value of our investment securities, long-term investments, investments in real estate, net, and investments in real estate ventures, to Consolidated EBITDA, as defined in the 2026 Indenture. Our Secured Leverage Ratio is defined in the 2026 Indenture as the ratio of our and our guaranteeing subsidiaries’ total secured debt, to Consolidated EBITDA, as defined in the 2026 Indenture. The following table summarizes the requirements of these financial test and the extent to which we satisfied these requirements as of June 30, 2021.

Covenant	Indenture Requirement	June 30, 2021
Consolidated EBITDA, as defined	N/A	\$438,502
Fixed charge coverage ratio, as defined	>2.0 to 1	4.01 to 1
Net leverage ratio, as defined	<4.0 to 1	1.46 to 1
Secured leverage ratio, as defined	<3.75 to 1	1.99 to 1

As of June 30, 2021 and December 31, 2020, we were in compliance with all of the debt covenants related to the 2026 Indenture.

Guarantor Summarized Financial Information. Vector Group Ltd. (the “Issuer”) and its wholly-owned domestic subsidiaries that are engaged in the conduct of its cigarette business (the “Subsidiary Guarantors”) have filed a shelf registration

statement for the offering of debt and equity securities on a delayed or continuous basis and we are including this condensed consolidating financial information in connection therewith. Any such debt securities may be issued by us and guaranteed by our Subsidiary Guarantors. New Valley and any of its subsidiaries, other than DER Holdings LLC (the “Nonguarantor Subsidiaries”) will not guarantee any such debt securities. Both the Subsidiary Guarantors and the Nonguarantor Subsidiaries are wholly-owned by the Issuer. The Condensed Consolidating Balance Sheets as of June 30, 2021 and the related Condensed Consolidating Statements of Operations for the six months ended June 30, 2021 of the Issuer, Subsidiary Guarantors and Nonguarantor Subsidiaries are set forth in Exhibit 99.2.

Presented herein are the Summarized Combined Balance Sheets as of June 30, 2021 and December 31, 2020 and the related Summarized Combined Statements of Operations for the six months ended June 30, 2021 for the Issuer and the Subsidiary Guarantors (collectively, the “Obligor Group”). The summarized combined financial information is presented after the elimination of: (i) intercompany transactions and balances among the Obligor Group, and (ii) equity in earnings from and investments in the Nonguarantor Subsidiaries.

Summarized Combined Balance Sheets:

	June 30, 2021	December 31, 2020
Assets:		
Current assets	\$ 605,478	\$ 515,082
Noncurrent assets	262,690	264,041
Intercompany receivables from Nonguarantor Subsidiaries	1,835	2,040
Liabilities:		
Current liabilities	256,488	193,125
Noncurrent liabilities	1,529,714	1,521,293

Summarized Combined Statements of Operations:

	Six Months Ended June 30,	
	2021	2020
Revenues	\$ 598,004	\$ 599,818
Cost of sales	370,176	411,357
Operating income	169,776	136,375
Net income	73,798	123,668

Liggett Credit Facility and Liggett Term Loan Under Credit Facility. On March 22, 2021, Liggett, Maple and Vector Tobacco entered into the Amendment with Wells Fargo, as agent and lender.

The Amendment amended the existing credit agreement to, among other things, (i) add Vector Tobacco as a borrower under the Credit Agreement, (ii) extend the maturity of the Credit Agreement to March 22, 2026, and (iii) increase the amount of the maximum credit line thereunder from \$60,000 to \$90,000. As of June 30, 2021, there was no outstanding balance under the Credit Agreement. Availability as determined under the Credit Agreement was approximately \$84,600 based on eligible collateral at June 30, 2021. At June 30, 2021, Liggett was in compliance with all covenants under the Credit Agreement; Liggett’s EBITDA, as defined, were \$362,521 for the last twelve months ended June 30, 2021.

Anticipated Liquidity Obligations. We and our subsidiaries have significant indebtedness and debt service obligations. As of June 30, 2021, we and our subsidiaries had total outstanding indebtedness of approximately \$1,448,900. Of this amount, \$875,000 comprised of the outstanding amount under our 5.75% Senior Secured Notes due 2029, and \$555,000 comprised of the outstanding amount under our 10.5% Senior Notes due 2026. There is a risk that we will not be able to generate sufficient funds to repay our debt. If we cannot service our fixed charges, it would have a material adverse effect on our business and results of operations.

We currently believe that our tobacco and real estate segments will generate positive cash flow and will continue to be able to sustain their operations in 2021 without any significant liquidity concerns.

In order to meet the above liquidity requirements as well as other anticipated liquidity needs in the normal course of business, we had cash and cash equivalents of approximately \$490,400, investment securities at fair value of approximately \$157,001, long-term investments with an estimated value of approximately \$55,400, including in-transit redemptions, and availability under Liggett's credit facility of approximately \$84,600 at June 30, 2021. Management currently anticipates that these amounts, as well as expected cash flows from our operations, proceeds from public and/or private debt and equity financing to the extent available, management fees and other payments from subsidiaries should be sufficient to meet our liquidity needs over the next 12 months.

We continue to evaluate our capital structure and current market conditions related to our capital structure. Depending on market conditions, we may utilize our cash, investment securities and long-term investments to repurchase our 10.5% Senior Notes due 2026 in open-market purchases or privately negotiated transactions.

There can be no assurance that we would be able to continue to issue debt at a lower interest rate than our historical borrowing levels in the future and, in the event we pursue any capital markets activities, our ability to complete any debt or equity offering would be subject to market conditions.

Furthermore, we may access the capital markets to refinance our 10.5% Senior Notes due 2026. We are able to redeem such bonds at price of 105.3% on November 1, 2021 and the redemption price declines to 102.625% on November 1, 2022 and 100% on November 1, 2023. There can be no assurance that we would be able to continue to issue debt at a lower interest rate than our historical borrowing levels in the future and, in the event we pursue any capital markets activities, our ability to complete any debt or equity offering would be subject to market conditions.

We may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit our liquidity otherwise available.

Market Risk

We are exposed to market risks principally from fluctuations in interest rates, foreign currency exchange rates and equity prices. We seek to minimize these risks through our regular operating and financing activities and our long-term investment strategy. Our market risk management procedures cover all market risk sensitive financial instruments.

As of June 30, 2021, approximately \$18,800 of our outstanding debt at face value had variable interest rates determined by various interest rate indices, which increases the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our variable rate borrowings, which could adversely affect our cash flows. As of June 30, 2021, there was no outstanding balance on the Liggett Credit Facility which also has variable interest rates. As of June 30, 2021, we had no interest rate caps or swaps. Based on a hypothetical 100 basis point increase or decrease in interest rates (1%), our annual interest expense could increase or decrease by approximately \$200.

We held debt securities available for sale totaling \$108,489 and convertible trading debt securities totaling \$2,481 as of June 30, 2021. See Note 6 to our condensed consolidated financial statements. Adverse market conditions could have a significant impact on the value of these investments.

On a quarterly basis, we evaluate our debt securities available for sale and equity securities without readily determinable fair values that do not qualify for the NAV practical expedient to determine whether an impairment has occurred. If so, we also make a determination if such impairment is considered temporary or other-than-temporary. We believe that the assessment of temporary or other-than-temporary impairment is facts-and-circumstances driven. The impairment indicators that are taken into consideration as part of our analysis include (a) a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee, (b) a significant adverse change in the regulatory, economic, or technological environment of the investee, (c) a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates, and (d) factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

Equity Security Price Risk

As of June 30, 2021, we held various investments in equity securities with a total fair value of \$81,565, of which \$48,512 represents equity securities at fair value and \$33,053 represents long-term investment securities at fair value. The latter securities represent long-term investments in various investment partnerships. These investments are illiquid and their ultimate

realization is subject to the performance of the underlying entities. See Note 6 to our condensed consolidated financial statements, respectively, for more details on equity securities at fair value and long-term investment securities at fair value. The impact to our condensed consolidated statements of operations related to equity securities fluctuates based on changes in their fair value.

We record changes in the fair value of equity securities in net income. To the extent that we continue to hold equity securities, our operating results may fluctuate significantly. Based on our equity securities held as of June 30, 2021, a hypothetical decrease of 10% in the price of these equity securities would reduce the fair value of the investments and, accordingly, our net income by approximately \$8,157.

New Accounting Pronouncements

Refer to Note 1, *Summary of Significant Accounting Policies*, to our financial statements for further information on New Accounting Pronouncements.

Legislation and Regulation

There are no material changes from the Legislation and Regulation section set forth in Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” of our Annual Report on Form 10-K for the year ended December 31, 2020, except as set forth below:

Menthol and Flavorings

The Tobacco Products Scientific Advisory Committee (“TPSAC”) completed its review of the use of menthol in cigarettes and issued a report with recommendations to the U.S. Food and Drug Administration (“FDA”) in March 2011. The report stated that “removal of menthol cigarettes from the marketplace would benefit public health in the United States,” but did not expressly recommend that FDA ban menthol cigarettes. In July 2013, FDA made available its preliminary scientific evaluation (“PSE”) of public health issues related to the use of menthol in cigarettes, in which it concluded that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. FDA also issued and accepted public comment on an Advance Notice of Proposed Rulemaking (“ANPR”) seeking input related to potential regulatory options it might consider in determining what future regulatory action, if any, it believes is warranted. A decision by FDA to ban menthol in tobacco products could have a material adverse effect on us. In July 2014, the federal district court for the District of Columbia ruled on cross-motions for summary judgment in a lawsuit brought by several cigarette manufacturers against FDA challenging the composition of the TPSAC. The district court granted, in part, the manufacturers’ motion for summary judgment, ordering FDA to reconstitute the TPSAC and barring the agency from relying in any manner on the March 2011 TPSAC report on menthol. FDA appealed the decision to the U.S. Court of Appeals for the District of Columbia Circuit. In January 2016, the D.C. Circuit vacated the district court’s decision due to the manufacturers’ lack of standing and lifted the prohibition on FDA relying on the March 2011 TPSAC report. The D.C. Circuit’s decision does not preclude future challenges if FDA ultimately relies on the March 2011 TPSAC report to restrict or ban menthol in cigarettes.

In July 2017, FDA announced a comprehensive plan for Tobacco and Nicotine Regulation. As part of this comprehensive plan, FDA announced its intent to issue an ANPR requesting public stakeholder input on the impact of flavors (including menthol) on increased initiation among youth and young adults, as well as assisting adult smokers to switch to potentially less harmful forms of nicotine delivery. FDA issued this ANPR on March 21, 2018, seeking comments, data, research results, or other information about, among other things, how flavors attract youth to initiate tobacco product use and about whether and how certain flavors may help adult cigarette smokers reduce cigarette use and switch to potentially less harmful products. In the ANPR, FDA stated that potential regulatory actions include, but are not limited to, tobacco product standards and restrictions on the sale and distribution of tobacco products with flavors.

On April 29, 2021, FDA announced that it intends to propose a rule prohibiting menthol as a characterizing flavor in cigarettes by the end of April 2022. FDA indicated that the proposed rule will be one of the agency’s highest priorities. The public would have at minimum 60 days to provide comments on the proposed rule and, if FDA decides to proceed, it would then draft and publish a final rule. The rulemaking process could take many months or years and once a final rule is published it ordinarily would not be expected to take effect until at least one year after the date of publication. For the twelve months ended June 30, 2021, approximately 19% of our cigarette unit sales were menthol flavored. We cannot predict how a tobacco product standard or a restriction on the sale and distribution of tobacco products with menthol, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

In December 2019, Massachusetts enacted a ban on the sale of menthol cigarettes effective June 1, 2020. Although certain municipalities throughout the United States have banned the sale of menthol cigarettes, Massachusetts is the first state to do so.

We cannot predict how the menthol ban in Massachusetts will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry. We also cannot predict whether other states will enact similar bans on the sale of menthol cigarettes.

On March 18, 2020, FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. This rule requires each cigarette package and advertisement to bear one of eleven textual warning statements accompanied by a corresponding graphic image covering 50% of the area of the front and rear panels of cigarette packages and at least 20% of the area at the top of cigarette advertisements. The rule establishes marketing requirements that include the random and equal display and distribution of the required warnings for cigarette packages and quarterly rotation of the required warnings for cigarette advertisements. The final rule provided for an effective date of June 18, 2021, 15 months after issuance of the final rule. The inclusion of new warnings and rotation requirements pursuant to the final rule would likely increase Liggett's production costs. On April 3, 2020, Liggett, along with other tobacco companies, commenced an action against the FDA in the United States District Court, District of Texas (Tyler Division) challenging the legality of the graphic warning final rule. On May 21, 2021, the court granted a motion to postpone the effective date of the final rule to July 13, 2022.

FDA requires each tobacco manufacturer to submit a plan providing for the random and equal display and distribution of the required warnings on cigarette packaging and the quarterly rotation of the required warnings in cigarette advertising. FDA must review and approve the plan prior to implementation. Liggett and Vector Tobacco each submitted a plan to FDA and these plans were approved by FDA on April 30, 2021.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains "forward-looking statements" within the meaning of the federal securities law. Forward-looking statements include information relating to our intent, belief or current expectations, primarily with respect to, but not limited to:

- economic outlook,
- capital expenditures,
- cost reduction,
- legislation and regulations,
- cash flows,
- operating performance,
- litigation, and
- related industry developments (including trends affecting our business, financial condition and results of operations).

We identify forward-looking statements in this report by using words or phrases such as "anticipate", "believe", "continue", "could", "believe," "estimate", "expect," "intend", "may be," "objective", "opportunistically", "plan", "potential", "predict", "project", "prospects", "seek" or "will be" and similar words or phrases or their negatives.

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

- general economic and market conditions and any changes therein, due to acts of war and terrorism or otherwise,
- governmental regulations and policies,
- adverse changes in global, national, regional and local economic and market conditions, including those related to pandemics and health crises, such as the outbreak of COVID-19, which began in 2020, as well as the impact of associated variants of COVID-19,
- impact of legislation on our results of operations and product costs, i.e. the impact of federal legislation providing for regulation of tobacco products by FDA,

- impact of substantial increases in federal, state and local excise taxes,
- uncertainty related to product liability and other tobacco-related litigations including the *Engle* progeny cases pending in Florida and other individual and class action cases where certain plaintiffs have alleged compensatory and punitive damage amounts ranging into the hundreds of million and even billions of dollars,
- potential additional payment obligations for us under the MSA and other settlement agreements with the states;
- significant changes in the price, availability or quality of tobacco, other raw materials or component parts, including as a result of the COVID-19 pandemic,
- the timing and extent of COVID-19 vaccine administration,
- the duration of the COVID-19 pandemic,
- adult smoker purchasing behavior of those who receive the COVID-19 vaccine,
- potential dilution to our holders of or common stock as a result of issuances of additional shares of common stock to fund our financial obligations and other financing activities,
- effects of industry competition,
- impact of business combinations, including acquisitions and divestitures, both internally for us and externally in the tobacco industry,
- the impacts of the Tax Cuts and Jobs Act of 2017, including the deductibility of interest expense and the impact of the markets on our Real Estate segment,
- the impacts of future income tax legislation in the U.S., including the impact of the markets on our Real Estate segment,
- failure to properly use and protect client and employee information and data, and
- the effect of a material breach of security or other performance issues of any of the Company's or its vendors' systems.

Further information on the risks and uncertainties to our business include the risk factors discussed above in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and under Item 1A, “*Risk Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission.

Although we believe the expectations reflected in these forward-looking statements are based on reasonable assumptions, there is a risk that these expectations will not be attained and that any deviations will be material. The forward-looking statements speak only as of the date they are made.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk” is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective.

There have not been any changes in our internal control over financial reporting that occurred during the second quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 9, incorporated herein by reference, to our condensed consolidated financial statements included elsewhere in this report which contains a general description of certain legal proceedings to which our company, or its subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1 for additional information regarding the pending smoking-related legal proceedings to which Liggett or us is a party. A copy of Exhibit 99.1 will be furnished without charge upon written request to us at our principal executive offices, 4400 Biscayne Boulevard, 10th Floor, Miami, Florida 33137, Attn. Investor Relations.

Item 1A. Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2020, except as set forth below:

FDA Regulation under the Family Smoking Prevention and Tobacco Control Act may adversely affect our sales and operating profit.

In June 2009, the Family Smoking Prevention and Tobacco Control Act (“TCA”) became law. The TCA grants FDA broad authority over the manufacture, sale, marketing and packaging of tobacco products, although FDA is prohibited from banning all cigarettes or all smokeless tobacco products. For a more complete discussion of the TCA, see Item 1. Business. Legislation and Regulation.

In July 2017, FDA announced a comprehensive plan for tobacco and nicotine regulation, proposing an increased focus on the impact of flavors (including menthol) and on reducing the level of nicotine in tobacco. On April 29, 2021, FDA announced that it intends to issue a proposed rule to prohibit menthol as a characterizing flavor in cigarettes within the next year. FDA indicated that the proposed rule will be one of the agency’s highest priorities. The rule making process could take many months or years and once a final rule is published it ordinarily would not be expected to take effect until at least one year after the date of publication. For the last twelve months ended June 30, 2021, approximately 19% of our cigarette unit sales were menthol flavored. Regulations under the TCA that restrict or prohibit the sale of menthol flavored cigarettes would reduce the demand for our cigarettes and may have an adverse effect on our business and results of operations. We cannot predict how a tobacco product standard or a restriction on the sale and distribution of tobacco products with menthol, if ultimately issued by FDA, will impact product sales, whether it will have a material adverse effect on Liggett or Vector Tobacco, or whether it will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry

As part of the comprehensive plan announced in July 2017, FDA said it would focus on nicotine addiction, with the goal of lowering nicotine levels in combustible cigarettes through a product standard developed through notice and comment rule making, which FDA announced in March 2018. See Item 1. Business. Legislation and Regulation. At this time, we cannot predict the specific regulations FDA will enact, the timeframe for such regulations, or the effect of such regulations. The rule making process could take years and once a final rule is issued it typically does not take effect for at least one year. We cannot predict how a nicotine tobacco product standard, if ultimately issued by FDA, would impact product sales, whether it would have a material adverse effect on Liggett or Vector Tobacco, or whether it would impact Liggett and Vector Tobacco to a greater degree than other companies in the industry.

In April 2018, FDA announced a change in its process for reviewing “provisional” substantial equivalence applications. See Item 1. Business. Legislation and Regulation for additional information on the substantial equivalence process. Vector Tobacco received a letter from FDA in April 2018 advising that FDA does not intend to conduct further review of Vector Tobacco’s remaining applications, with certain “conditions” (as described under Item 1. Business. Legislation and Regulation). Liggett received a letter from FDA in May 2018 advising that FDA does not intend to conduct further review for certain applications, also with certain “conditions” (as described under Item 1. Business. Legislation and Regulation). FDA has not indicated whether the applications relating to Liggett’s other products, not covered by that May 2018 letter, would proceed through FDA review. We cannot predict whether FDA will deem Liggett’s outstanding applications to be sufficient to support determinations of substantial equivalence for the products covered by these substantial equivalence reports. It is possible that FDA could determine that some, or all, of these products are “not substantially equivalent” to a preexisting tobacco product, as

the agency has already done for 20 of Liggett's applications. NSE orders for other cigarette styles may require us to stop the sale of the applicable cigarettes and other cigarette styles and could have a material adverse effect on us.

On March 18, 2020, FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. This rule requires each cigarette package and advertisement to bear one of eleven textual warning statements accompanied by a corresponding graphic image covering 50% of the area of the front and rear panels of cigarette packages and at least 20% of the area at the top of cigarette advertisements. The rule establishes marketing requirements that include the random and equal display and distribution of the required warnings for cigarette packages and quarterly rotation of the required warnings for cigarette advertisements. The final rule provided for an effective date of June 18, 2021, 15 months after issuance of the final rule. The inclusion of new warnings and rotation requirements pursuant to the final rule would likely increase Liggett's production costs. On April 3, 2020, Liggett, along with other tobacco companies, commenced an action against the FDA in the United States District Court, District of Texas (Tyler Division) challenging the legality of the graphic warning final rule. On May 8, 2020, the court issued an updated scheduling order and granted a joint motion to postpone the effective date of the final rule by 120 days to October 16, 2021. The court subsequently postponed the effective date to July 14, 2022.

We cannot predict whether the court will further delay the effective date and/or determine that some or all of the proposed textual and/or graphic warnings, or proposed prominence of the warnings, violate the First Amendment, Administrative Procedure Act, or other legal requirements, or what the impact of such a court ruling would have on the compliance timeline or requirements imposed on industry.

It is likely that the TCA and further regulatory efforts by FDA could result in a decrease in cigarette sales in the United States, including sales of Liggett's and Vector Tobacco's brands. Compliance and related costs are not possible to predict and depend substantially on the future requirements imposed by FDA under the law. Costs, however, could be substantial and could have a material adverse effect on the companies' financial condition, results of operations, and cash flows. In addition, FDA has a number of investigatory and enforcement tools available to it. Failure to comply with the law and with FDA regulatory requirements could result in significant financial penalties and could have a material adverse effect on the business, financial condition and results of operation of both Liggett and Vector Tobacco. At present, we are not able to predict whether the law will impact Liggett and Vector Tobacco to a greater degree than other companies in the industry, thus affecting our competitive position.

Maintaining the integrity of our computer systems and protecting confidential information and personal identifying information has become increasingly costly, as cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats and incidents can range from uncoordinated individual attempts that gain unauthorized access to information technology systems both internally and externally, to sophisticated and targeted measures known as advanced persistent threats, directed at the Company and its affiliated agents. In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and intellectual property, and personally identifiable information of our tobacco and real estate customers. Additionally, we increasingly rely on third-party data storage providers, including cloud storage solution providers. The secure processing, maintenance and transmission of this information are critical to our operations and with respect to information collected and stored by our third-party service providers, we are reliant upon their security procedures. Our systems and the confidential information on them may also be compromised by employee misconduct or employee error. We and our third-party service providers have experienced, and expect to continue to experience, these types of internal and external threats and incidents, which can result, and have resulted, in the misappropriation and unavailability of critical data and confidential or proprietary information (our own and that of third parties, including personally identifiable information) and the disruption of business operations. Depending on their nature and scope, these incidents could potentially also result in the destruction or corruption of such data and information. Our business interruption insurance may be insufficient to compensate us for losses that may occur. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of the services we provide to our customers, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations. Developments in the laws and regulations governing the handling and transmission of personal identifying information in the United States may require us to devote more resources to protecting such information, which could in turn adversely affect our results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No equity securities of ours which were not registered under the Securities Act have been issued or sold by us during the three months ended June 30, 2021.

Issuer Purchase of Equity Securities

Our purchase of our common stock during the three months ended June 30, 2021 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2021	—	\$ — ⁽¹⁾	—	—
May 1 to May 31, 2021	42,029	14.48	—	—
June 1 to June 30, 2021	—	—	—	—
Total	42,029	\$ 14.48	—	—

⁽¹⁾ Delivery of shares to us in payment of tax withholding in connection with several employees' vesting in restricted stock. The shares were immediately canceled.

Item 6. Exhibits:

- [10.1](#) Vector Group Ltd. Amended and Restated 2014 Management Incentive Plan.
- [10.2](#) Restricted Shares Award Agreement Pursuant to the Vector Group Ltd. Amended and Restated 2014 Management Incentive Plan.
- [10.3](#) Performance-based Restricted Shares Award Agreement Pursuant to the Vector Group Ltd. Amended and Restated 2014 Management Incentive Plan.
- *[22](#) List of Subsidiary Guarantors (incorporated by reference to Exhibit 22 of Vector's Form 10-K for the year ended December 31, 2020).
- [31.1](#) Certification of Chief Executive Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- [31.2](#) Certification of Chief Financial Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- [32.1](#) Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- [32.2](#) Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- [99.1](#) Material Legal Proceedings.
- [99.2](#) Condensed Consolidating Financial Statements of Vector Group Ltd.
- 101.INS** XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH** Inline XBRL Taxonomy Extension Schema
- 101.CAL** Inline XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF** Inline XBRL Taxonomy Extension Definition Linkbase
- 101.LAB** Inline XBRL Taxonomy Extension Label Linkbase
- 101.PRE** Inline XBRL Taxonomy Extension Presentation Linkbase
- 104** Cover Page Interactive Data File (the cover page tabs are embedded within the Inline XBRL document).

* Incorporated by reference

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

VECTOR GROUP LTD.
(Registrant)

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

Date: August 6, 2021

VECTOR GROUP LTD.
AMENDED & RESTATED 2014 MANAGEMENT INCENTIVE PLAN
(as amended May 25, 2021)

1. **Establishment, Purpose and Duration.** Vector Group Ltd. (referred to below as the “Company”) previously established an incentive compensation plan to be known as the 2014 Management Incentive Plan. The 2014 Management Incentive Plan was originally adopted by the Company’s Board on February 26, 2014 (the “Effective Date”), and approved by the Company’s stockholders on May 16, 2014. The 2014 Management Incentive Plan is hereby amended as the Amended & Restated 2014 Management Incentive Plan (the “Plan”), effective as of May 25, 2021. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units, Performance Share Awards, Other Stock-Based Awards and Cash-Based Awards. The purpose of the Plan is to attract and retain Employees, Non-Employee Directors, and Consultants and to provide additional incentives for these persons consistent with the long-term success of the Company’s business. Unless sooner terminated as provided herein, the Plan shall terminate ten (10) years from the Effective Date. After the Plan is terminated, no further Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan’s terms and conditions.

2. **Definitions.** As used in the Plan, the following terms shall be defined as set forth below:

2.1 **“Act”** means the Securities Exchange Act of the 1934, as amended.

2.2 **“Affiliate”** means any corporation or any other entity (including, but not limited to, a partnership) that is affiliated with the Company through stock ownership or otherwise. For avoidance of doubt, an Affiliate shall include a Subsidiary.

2.3 **“Award” or “Awards”** means, individually or collectively, except where referring to a particular category of grant under the Plan, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Shares, Restricted Stock Units, Performance Share Awards, Cash-Based Awards, or Other Stock-Based Awards, in each case subject to the terms of the Plan.

2.4 **“Award Agreement”** means an agreement, certificate, resolution or other form of writing or other evidence approved by the Committee which sets forth the terms and conditions of an Award. An Award Agreement may be in an electronic medium, may be limited to a notation on the Company’s books and records and, if approved by the Committee, need not be signed by a representative of the Company or a Participant.

2.5 **“Base Price”** means the price to be used as the basis for determining the Spread upon the exercise of a Stock Appreciation Right.

2.6 **“Beneficial Owner” or “Beneficial Ownership”** shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Act.

2.7 **“Board”** means the Board of Directors of the Company.

2.8 **“Cash-Based Award”** means an Award granted to a Participant as described in Section 11.

2.9 “**Change in Control**” shall have the meaning given to it in Section 13.3.

2.10 “**Code**” means the Internal Revenue Code of 1986, as amended from time to time.

2.11 “**Committee**” means the committee of the Board described in Section 4.

2.12 “**Consultant**” means any natural person, including an advisor, engaged by the Company or any Subsidiary to render bona fide services to such entity (other than in connection with the offer or sale of securities in a capital-raising transaction or to promote or maintain a market for the Company’s securities).

2.13 “**Company**” means Vector Group Ltd. or its successor.

2.14 “**Covered Employee**” shall have the meaning given to it under Section 14.1.

2.15 “**Deferred Stock Unit**” means an Award that is vested on the Grant Date and entitles the recipient to receive Shares after a designated period of time. Deferred Stock Units shall be subject to such restrictions and conditions as set forth in the Award Agreement, which shall be consistent with the provisions for Restricted Stock Units set forth in Section 8 below except for the requirement to have a Restricted Period or Performance Goals.

2.16 “**Effective Date**” shall have the meaning set forth in Section 1 above.

2.17 “**Employee**” means any person designated as an employee of the Company, any of its Affiliates, and/or any of its or their Subsidiaries on the payroll records thereof.

2.18 “**Executive Officer**” means an “executive officer” of the Company as defined by Rule 3b-7 under the Act. To the extent that the Board takes action to designate the persons who are the “executive officers” of the Company, the persons so designated (and no others) shall be deemed to be the “executive officers” of the Company for all purposes of the Plan.

2.19 “**Family Member**” means a Participant’s spouse, parents, children and grandchildren.

2.20 “**Fair Market Value**” means a price that is based on the opening, closing, actual, high, low, or average selling prices of a Share reported on the New York Stock Exchange or other established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next succeeding trading day, an average of trading days or on any other basis consistent with the requirements of the stock rights exemption under Section 409A of the Code using actual transactions involving Shares, as determined by the Committee in its discretion. In the event Shares are not publicly traded at the time a determination of their value is required to be made hereunder, the determination of their Fair Market Value shall be made by the Committee in such manner as it deems appropriate. Such definition(s) of Fair Market Value shall be specified in each Award Agreement and may differ depending on whether Fair Market Value is in reference to the grant, exercise, vesting, settlement, or payout of an Award; provided, however, that upon a broker-assisted exercise of an Option, the Fair Market Value shall be the price at which the Shares are sold by the broker.

2.21 “**Grant Date**” means the date specified by the Committee on which a grant of an Award shall become effective, which shall not be earlier than the date on which the Committee takes action with respect thereto.

2.22 **“Incentive Stock Option”** means any Option that is intended to qualify as an “incentive stock option” under Section 422 of the Code or any successor provision.

2.23 **“Non-Employee Director”** means a member of the Board who is not an Employee.

2.24 **“Nonqualified Stock Option”** means an Option that is not intended to qualify as an Incentive Stock Option.

2.25 **“Option”** means any option to purchase Shares granted under Section 5.

2.26 **“Option Price”** means the purchase price payable upon the exercise of an Option.

2.27 **“Other Stock-Based Awards”** means an equity-based or equity-related Award not otherwise described by the terms of this Plan granted under Section 10.

2.28 **“Participant”** means an Employee, Non-Employee Director or a Consultant who is selected by the Committee to receive benefits under the Plan, provided that only Employees shall be eligible to receive grants of Incentive Stock Options.

2.29 **“Performance-Based Awards”** means Restricted Shares, Restricted Stock Units, Performance Share Awards or Cash-Based Awards granted to a Covered Employee that are designated by the Committee as being intended to qualify as “performance-based compensation” under Section 162(m) of the Code.

2.30 **“Performance Cycle”** means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a grantee’s right to and the payment of a Restricted Share Award, Restricted Stock Unit, Performance Share Award or Cash-Based Award. A Performance Cycle shall not be less than 12 months.

2.31 **“Performance Criteria”** means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant with respect to the Performance Cycle for a Performance-Based Award. The Performance Criteria may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual Covered Employee or an organizational level specified by the Committee, including, but not limited to, a Subsidiary or unit, division, group of the Company or a Subsidiary. Performance Criteria may be measured on an absolute or relative basis, including but not limited to performance as measured against a group of peer companies or by a financial market index.

2.32 **“Performance Goals”** means, with respect to a Restricted Share Award, a Restricted Stock Unit Award, a Performance Share Award or a Cash-Based Award, the specific goal or goals established in writing by the Committee for the Performance Cycle applicable to such Award. Performance Goals with respect to a Performance-Based Award granted to a Covered Employee shall only be based upon one or more Performance Criteria as permitted under Section 14.

2.33 **“Performance Share Award”** means an Award denominated in either Shares or share units granted pursuant to Section 9.

2.34 **“Plan”** shall have the meaning set forth in Section 1 above.

2.35 “**Restricted Period**” means a period of time established under Section 8 with respect to Restricted Stock Units.

2.36 “**Restricted Shares**” means Shares granted under Section 7 subject to a substantial risk of forfeiture.

2.37 “**Restricted Stock Units**” means an Award pursuant to Section 8 of the right to receive Shares at the end of a specified period.

2.38 “**Share Authorization**” means the maximum number of Shares available for grant under the Plan, as described in Section 3.

2.39 “**Shares**” means the common stock of the Company.

2.40 “**Spread**” means, in the case of a Stock Appreciation Right, the amount by which the Fair Market Value on the date when any such right is exercised exceeds the Base Price specified in such right.

2.41 “**Stock Appreciation Right**” means a right granted under Section 6.

2.42 “**Subcommittee**” means the Performance-Based Compensation Subcommittee of the Board of Directors of the Company which shall be composed of at least two directors who are “outside directors” as defined for purposes of section 162(m) of the Code and “non-employee” directors as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

2.43 “**Subsidiary**” means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, a proprietary interest of more than fifty percent (50%) by reason of stock ownership or otherwise.

2.44 “**Substitute Award**” means any Award granted or issued to a Participant in assumption or substitution of either outstanding awards or the right or obligation to make future awards by an entity acquired by the Company or a Subsidiary or with which the Company or a Subsidiary combines.

2.45 “**Unrestricted Shares**” means a grant of Shares free of any Restricted Period, Performance Goals or any substantial risk of forfeiture. Unrestricted Shares may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to an Employee.

3. **Award Limits Under the Plan.**

3.1 **Number of Shares Reserved for Awards.**

(a) Subject to adjustments as provided in Section 12, the Share Authorization shall be: 10,000,000 Shares.

(b) No individual Participant may receive in any calendar year equity Awards exceeding 2,000,000 underlying Shares. In addition, during the term of the Plan, no individual Participant may receive equity Awards exceeding one-half of the maximum number of shares of Common Stock in respect of which equity Awards may be granted or paid out under the Plan.

(c) Subject to the limits set forth in Section 3.1(a) on the number of Shares that may be granted in the aggregate under the Plan, a Non-Employee Director may not receive Awards exceeding 25,000 Shares in any calendar year, plus any unused limit from a prior year.

3.2 Share Usage.

(a) Any Shares related to Awards that terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, are settled in cash in lieu of Shares, or are exchanged with the Committee's permission, prior to the issuance of Shares, for Awards not involving Shares, shall be available again for grant under the Plan. In addition, Restricted Shares that are forfeited shall again be available for grant under the Plan.

(b) The full number of Nonqualified Stock Options, Incentive Stock Options and Stock Appreciation Rights granted that are to be settled by the issuance of Shares shall be counted against the number of Shares available for award under the Plan, regardless of the number of Shares actually issued upon settlement of any such Award.

(c) Any Shares withheld to satisfy tax withholding obligations on an Award issued under the Plan, Shares tendered to pay the exercise price of an Award under the Plan, and Shares repurchased on the open market with the proceeds of an Option exercise will not be eligible to be again available for grant under the Plan.

(d) Substitute Awards shall not be counted against the Shares available for granting Awards under the Plan.

3.3 Cash-Based Award Limit. The maximum aggregate amount awarded or credited with respect to a Cash-Based Award to any Covered Employee in any calendar year that is subject to a Performance Cycle that is twelve (12) months or more may not exceed five million dollars (\$5,000,000).

4. Plan Administration.

4.1 Board Committee Administration. The Plan shall be administered by the Compensation Committee appointed by the Board from among its members, provided that the full Board may at any time act as the Committee. In the case of Awards intended to be deductible under Section 162(m) of the Code, references in this Plan to the Committee shall mean the Subcommittee, unless the functions of the Subcommittee have been assumed by the Committee. The interpretation and construction by the Committee of any provision of the Plan or of any Award Agreement and any determination by the Committee pursuant to any provision of the Plan or any such agreement, notification or document shall be final and conclusive. No member of the Committee or the Subcommittee shall be liable to any person for any such action taken or determination made in good faith.

4.2 Terms and Conditions of Awards. The Committee shall have final discretion, responsibility, and authority to:

- (a) grant Awards;
- (b) determine the Participants to whom and the times at which Awards shall be granted;
- (c) determine the type and number of Awards to be granted, the number of Shares to which an Award may relate, and the applicable terms, conditions, and restrictions, including the length of time for which any restriction shall remain in effect;
- (d) establish and administer Performance Goals and Performance Cycles relating to any Award;
- (e) determine the rights of Participants with respect to an Award upon termination of employment or service as a director;
- (f) determine whether, to what extent, and under what circumstances an Award may be settled, cancelled, forfeited, exchanged, or surrendered;
- (g) accelerate the vesting of an Award;
- (h) interpret the terms and provisions of Award Agreements;

(i) provide for forfeiture of outstanding Awards and recapture of realized gains and other realized value in such events as determined by the Committee; and

(j) make all other determinations deemed necessary or advisable for the administration of the Plan.

The Committee may solicit recommendations from the Company's Chief Executive Officer with respect to the grant of Awards under the Plan. The Committee (or, as permitted under Section 4.3, the Company's Chief Executive Officer) shall determine the terms and conditions of each Award at the time of grant. No Participant or any other person shall have any claim to be granted an Award under the Plan at any time, and the Company is not obligated to extend uniform treatment to Participants under the Plan. The terms and conditions of Awards need not be the same with respect to each Participant.

4.3 Committee Delegation. The Committee may delegate to the Company's Chief Executive Officer the authority to grant Awards to Participants who are not Non-Employee Directors or Executive Officers and to interpret and administer Awards for such Non-Employee Directors and Executive Officers. Any such delegation shall be subject to the limitations of Section 157(c) of the Delaware General Corporate Law. The Committee may also delegate the authority to grant Awards to any subcommittee(s) consisting of members of the Board.

4.4 Awards to Non-Employee Directors. Notwithstanding any other provision of the Plan to the contrary, all Awards to Non-Employee Directors must be authorized by the Board.

4.5 Employee's Service as Non-Employee Director or Consultant. An Employee who receives an Award, terminates employment, and immediately thereafter begins performing service as a Non-Employee Director or Consultant shall have such service treated as service as an Employee for purposes of the Award. The previous sentence shall not apply when (a) the Award is an Incentive Stock Option or (b) prohibited by law.

5. Options. The Committee may authorize grants to Participants of Options to purchase Shares upon such terms and conditions as the Committee may determine in accordance with the following provisions:

5.1 Number of Shares. Each grant shall specify the number of Shares to which it pertains.

5.2 Option Price. Each grant shall specify an Option Price per Share, which shall be equal to or greater than the Fair Market Value per Share on the Grant Date, except in the case of Substitute Awards as provided in Section 12. In the event of Awards that are contingent on stockholder approval of the Plan, the Committee shall provide for adjustment to the Option Price or Base Price to ensure that that price is not lower than the closing selling price of a Share reported on the New York Stock Exchange on the date of stockholder approval of the Plan.

5.3 Consideration. Each grant shall specify the form of consideration to be paid in satisfaction of the Option Price and the manner of payment of such consideration, which may include in the Committee's sole discretion: (a) cash in the form of currency or check or other cash equivalent acceptable to the Company, (b) non-forfeitable, unrestricted Shares owned by the Participant which have a value at the time of exercise that is equal to the Option Price, (c) a reduction in Shares issuable upon exercise which have a value at the time of exercise that is equal to the Option Price (a "net exercise"), (d) to the extent permitted by applicable law, the proceeds of sale from a broker-assisted cashless exercise, (e) any other legal consideration that the Committee may deem appropriate on such basis as the Committee may determine in accordance with the Plan or (f) any combination of the foregoing. For the avoidance of doubt, Participants who receive Options to purchase Shares shall have no legal right to own or receive Shares withheld from delivery upon exercise pursuant to Section 5.3(c), and otherwise shall have no rights in respect of such Shares whether as a stockholder or otherwise.

5.4 **Vesting.** Any grant may specify (a) a waiting period or periods before Options shall become exercisable and (b) permissible dates or periods on or during which Options shall be exercisable, and any grant may provide for the earlier exercise of such rights in the event of a termination of employment. Vesting may be further conditioned upon the attainment of Performance Goals established by the Committee.

5.5 **Dividend Equivalents and Other Ownership Rights.** During the period prior to exercise of an Option, the Participant shall not have any right to transfer any rights under the subject Award and shall not have any rights of ownership in the Shares underlying the Option, including the right to vote such Shares, but the Committee may on or after the Grant Date authorize the payment of dividend equivalents on such Shares in cash or securities (including securities of another issuer) on a current, deferred or contingent basis with respect to any or all dividends or other distributions paid by the Company. Unless otherwise provided by the Committee, any dividend equivalents paid or adjustments made with respect to dividends paid in Shares shall be subject to the same restrictions as the underlying Award.

5.6 **Provisions Governing ISOs.** Options granted under the Plan may be Incentive Stock Options, Nonqualified Stock Options or a combination of the foregoing, provided that only Nonqualified Stock Options may be granted to Non-Employee Directors. Each grant shall specify whether (or the extent to which) the Option is an Incentive Stock Option or a Nonqualified Stock Option. Notwithstanding any such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under all plans of the Company) exceeds \$100,000, such Options shall be treated as Nonqualified Stock Options. Options failing to qualify as Incentive Stock Options for any reason will be treated as Nonqualified Stock Options, rather than being forfeited.

5.7 **Exercise Period.**

(a) Subject to Section 18.9, no Option granted under the Plan may be exercised more than ten years from the Grant Date.

(b) If the Fair Market Value exceeds the Option Price on the last day that an Option may be exercised under an Award Agreement, the affected Participant shall be deemed to have exercised the vested portion of such Option in a net exercise under Section 5.3(c) above without the requirement of any further action.

5.8 **Award Agreement.** Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with the Plan.

6. **Stock Appreciation Rights.** The Committee may authorize grants to Participants of Stock Appreciation Rights. A Stock Appreciation Right is the right of the Participant to receive from the Company an amount, which shall be determined by the Committee and shall be expressed as a percentage (not exceeding 100 percent) of the Spread at the time of the exercise of such right. Any grant of Stock Appreciation Rights under the Plan shall be upon such terms and conditions as the Committee may determine in accordance with the following provisions:

6.1 **Payment in Cash or Shares.** Any grant may specify that the amount payable upon the exercise of a Stock Appreciation Right will be paid by the Company in cash, Shares or any combination thereof or may grant to the Participant or reserve to the Committee the right to elect among those alternatives.

6.2 **Vesting.** Any grant may specify (a) a waiting period or periods before Stock Appreciation Rights shall become exercisable and (b) permissible dates or periods on or during which Stock Appreciation Rights shall be

exercisable, and any grant may provide for the earlier exercise of such rights in the event of a termination of employment. Vesting may be further conditioned upon the attainment of Performance Goals established by the Committee.

6.3 **Exercise Period.** Subject to Section 18.9, no Stock Appreciation Right granted under the Plan may be exercised more than ten years from the Grant Date. If a Spread exists on the last day that a Stock Appreciation Right may be exercised under an Award Agreement, the affected Participant shall be deemed to have exercised the vested portion of such Stock Appreciation Right without the requirement of any further action.

6.4 **Award Agreement.** Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with the Plan.

7. **Restricted Shares.** The Committee may authorize grants to Participants of Restricted Shares upon such terms and conditions as the Committee may determine in accordance with the following provisions:

7.1 **Transfer of Shares.** Each grant shall constitute an immediate transfer of the ownership of Shares to the Participant in consideration of the performance of services, subject to the substantial risk of forfeiture and restrictions on transfer hereinafter referred to.

7.2 **Consideration.** To the extent permitted by Delaware law, each grant may be made without additional consideration from the Participant or in consideration of a payment by the Participant that is less than the Fair Market Value on the Grant Date.

7.3 **Substantial Risk of Forfeiture.** Each grant shall provide that the Restricted Shares covered thereby shall be subject to a “substantial risk of forfeiture” within the meaning of Section 83 of the Code for a period to be determined by the Committee on the Grant Date, and any grant or sale may provide for the earlier termination of such risk of forfeiture in the event of a termination of employment.

7.4 **Dividend, Voting and Other Ownership Rights.** During the period for which a substantial risk of forfeiture is to continue, the Participant shall not have any right to transfer any rights under the subject Award but the Participant shall have voting and other ownership rights (except for any rights to a liquidating distribution). The Committee may on or after the Grant Date authorize the payment of dividend equivalents on such Restricted Shares in cash or securities (including securities of another issuer) on a current, deferred or contingent basis with respect to any or all dividends or other distributions paid by the Company. Unless otherwise provided by the Committee, any dividend equivalents paid or adjustments made respect to dividends or other distributions paid in Shares shall be subject to the same restrictions as the underlying Award.

7.5 **Performance-Based Restricted Shares.** Any grant or the vesting thereof may be further conditioned upon the attainment of Performance Goals established by the Committee in accordance with the applicable provisions of Section 9 regarding Performance Share Awards and, if any such Award is intended to be a Performance-Based Award, in accordance with the provisions of Section 14.

7.6 **Award Agreement; Certificates.** Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with the Plan. Unless otherwise directed by the Committee, all certificates representing Restricted Shares, together with a stock power that shall be endorsed in

blank by the Participant with respect to such Shares, shall be held in custody by the Company until all restrictions thereon lapse.

8. **Restricted Stock Units.** The Committee may authorize grants of Restricted Stock Units to Participants upon such terms and conditions as the Committee may determine in accordance with the following provisions:

8.1 **Restricted Period.** Each grant shall provide that the Restricted Stock Units covered thereby shall be subject to a Restricted Period, which shall be fixed by the Committee on the Grant Date, and any grant or sale may provide for the earlier termination of such period in the event of a termination of employment.

8.2 **Dividend Equivalents and Other Ownership Rights.** During the Restricted Period, the Participant shall not have any right to transfer any rights under the subject Award and shall not have any rights of ownership in the Shares underlying the Restricted Stock Units, including the right to vote such Shares, but the Committee may on or after the Grant Date authorize the payment of dividend equivalents on such shares in cash or securities (including securities of another issuer) on a current, deferred or contingent basis with respect to any or all dividends or other distributions paid by the Company. Unless otherwise provided by the Committee, any dividend equivalents paid or adjustments made with respect to dividends paid in Shares shall be subject to the same restrictions as the underlying Award.

8.3 **Performance-Based Restricted Share Units.** Any grant or the vesting thereof may be further conditioned upon the attainment of Performance Goals established by the Committee in accordance with the applicable provisions of Section 9 regarding Performance Share Awards and, if any such Award is intended to be a Performance-Based Award, in accordance with the provisions of Section 14.

8.4 **Award Agreement.** Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with the Plan.

9. **Performance Share Awards.** The Committee shall determine whether and to whom Performance Share Awards shall be granted and such terms, limitations and conditions as it deems appropriate in its sole discretion in accordance with the following provisions:

9.1 **Number of Performance Share Awards.** Each grant shall specify the number of Shares or share units to which it pertains, which may be subject to adjustment to reflect changes in compensation or other factors.

9.2 **Performance Cycle.** The Performance Cycle with respect to each Performance Share Award shall be determined by the Committee and set forth in the Award Agreement and may be subject to earlier termination in the event of a termination of employment.

9.3 **Performance Goals.** Each grant shall specify the Performance Goals that are to be achieved by the Participant and a formula for determining the amount of any payment to be made if the Performance Goals are achieved.

9.4 **Payment of Performance Share Awards.** Each grant shall specify the time and manner of payment of Performance Share Awards that shall have been earned.

9.5 **Dividend Equivalents and Other Ownership Rights.** Prior to payment of a Performance Share Award, the Participant shall not have any right to transfer any rights under the subject Award and shall not have any rights of ownership in the Shares underlying the Award, including the right to vote such Shares, but the Committee may on or after the Grant Date authorize the payment of dividend equivalents on such Shares in cash or securities (including securities of another issuer) on a current, deferred or contingent basis with respect to any or all dividends or other distributions paid by the Company. Unless otherwise provided by the Committee, any dividend equivalents paid or adjustments made with respect to dividends paid in Shares shall be subject to the same restrictions as the underlying Award.

9.6 **Adjustments.** If the Committee determines after the Performance Goals have been established that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Performance Goals unsuitable, the Committee shall have sole discretion to modify such Performance Goals, in whole or in part, as the Committee deems appropriate and equitable. The Committee shall also have the right in its sole discretion to increase or decrease the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Cycle. The provisions of this Section 9.6 shall not apply with respect to Performance-Based Awards and any adjustments with respect to such Awards shall be made solely to the extent permitted under Section 14.4.

9.7 **Award Agreement.** Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with the Plan.

9.8 **Performance-Based Awards.** Notwithstanding anything to the contrary in this Section 9, Performance Share Awards granted to Covered Employees that are intended to be Performance-Based Awards shall only be granted, administered and paid in compliance with all the requirements for Performance-Based Awards set forth in Section 14 below.

10. **Other Equity Awards.** The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of the Plan (including the grant or offer for sale of unrestricted Shares and grant of Deferred Stock Units) in such amounts and subject to such terms and conditions, as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

11. **Cash-Based Awards.** The Committee may, in its sole discretion, grant Cash-Based Awards to Executive Officers and key employees in such amounts and upon such terms, and subject to such conditions, as the Committee shall determine at the time of grant. The Committee shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Committee shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Committee. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and shall be made in cash. Notwithstanding anything to the contrary in this Section 11, all Cash-Based Awards that are Performance-Based Awards shall only be granted, administered and paid in compliance with all the requirements for Executive Officer Awards set forth in Section 14 below.

12. **Adjustments.** The Committee shall make or provide for such adjustments in the (a) aggregate and per-person limitations specified in Section 3, (b) number of Shares covered by outstanding Awards, (c) Option Price or

Base Price applicable to outstanding Options and Stock Appreciation Rights, and (d) kind of shares available for grant and covered by outstanding Awards (including shares of another issuer), as the Committee in its sole discretion may in good faith determine to be equitably required in order to prevent dilution or enlargement of the rights of Participants that would otherwise result from (x) any stock dividend, stock split, combination or exchange of Shares, recapitalization, extraordinary cash dividend, or other change in the capital structure of the Company, (y) any merger, consolidation, spin-off, spin-out, split-off, split-up, reorganization, partial or complete liquidation or other distribution of assets (other than a normal cash dividend), issuance of rights or warrants to purchase securities, or (z) any other corporate transaction or event having an effect similar to any of the foregoing. However, in the event that such transaction or event results in the distribution to the Company's stockholders of securities of another issuer, the Committee may provide with respect to any Award that includes the right to dividend equivalents that, instead of an adjustment to that Award, that holder of such Award will receive the number of securities of the other issuer that they would have been entitled to if they held the Shares underlying their Award. In addition, in the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Awards under the Plan such alternative consideration as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the cancellation or surrender of all Awards so replaced. In the case of Substitute Awards, the Committee may make such adjustments, not inconsistent with the terms of the Plan, in the terms of Awards as it shall deem appropriate in order to achieve reasonable comparability or other equitable relationship between the assumed awards and the Awards granted under the Plan as so adjusted.

13. *Change in Control.*

13.1 **General Rule.** Except as otherwise provided in an Award Agreement, in the event of a Change in Control, the Committee may, but shall not be obligated to do any one or more of the following, in each case without Participant consent: (a) accelerate, vest or cause the restrictions to lapse with respect to, all or any portion of an Award, (b) cancel Awards for a cash payment equal to their fair value (as determined in the sole discretion of the Committee) which, in the case of Options and Stock Appreciation Rights, shall be deemed to be equal to the excess, if any, of the consideration to be paid in connection with the Change in Control to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights) over the aggregate Option Price (in the case of Options) or Base Price (in the case of Stock Appreciation Rights), (c) provide for the issuance of replacement awards that will substantially preserve the otherwise applicable terms of any affected Awards previously granted hereunder as determined by the Committee in its sole discretion, (d) terminate Options without providing accelerated vesting or (e) take any other action with respect to the Awards the Committee deems appropriate. For avoidance of doubt, the treatment of Awards upon a Change in Control may vary among Participants and Types of Awards in the Committee's sole discretion.

13.2 **Settlement of Awards Subject to Performance Goals Upon a Change in Control.** Awards subject to satisfying a Performance Goal or Goals shall be settled upon a Change in Control. The settlement amount shall be determined by the Committee in its sole discretion based upon the extent to which the Performance Goals for any such Awards have been achieved after evaluating actual performance from the start of the Performance Cycle until the date of the Change in Control and the level of performance anticipated with respect to such Performance Goals as of the date of the Change in Control.

13.3 **Change in Control** shall mean the earliest to occur of the following events:

(a) Any holder acquires Beneficial Ownership 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 holder, would result in such holder 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 (a), a holder shall not be deemed to have made an acquisition of Voting Securities if such holder: (i) 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; (ii) acquires the Voting Securities directly from the Company; (iii) 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 holder; (iv) is the Company or any corporation or other holder 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 subparagraphs (c)(i)(1)-(3) below); or

(b) The individuals who, as of January 1, 2014 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 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

(c) Stockholder approval of:

(i) A merger, share exchange, 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 holder (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 these subparagraphs (c)(i)(1)-(3) shall be referred to as a "Non-Control Transaction");

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

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

Notwithstanding the foregoing, 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.

14. Requirements for Performance-Based Awards

14.1 In General. Any Executive Officer or other key employee providing services to the Company and/or its Subsidiaries and Affiliates and who is selected by the Committee (hereinafter referred to as a “Covered Employee”) may be granted one or more Performance-Based Awards in the form of a Restricted Stock Award, Restricted Stock Units, Performance Share Award, Other Stock-Based Award and/or Cash-Based Award payable upon the attainment of Performance Goals that are established by the Committee and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Committee, as permitted under this Section 14. For the avoidance of doubt, a Covered Employee may receive as Performance-Based Awards a Cash-Based Award subject to Performance Cycle that is twelve months and a Cash-Based Award subject to a Performance Cycle that is more than twelve months in the same calendar year. The Committee shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. Each Performance-Based Award shall also comply with the provisions set forth below.

14.2 Grant Procedure. With respect to each Performance-Based Award, the Committee shall select, within the first 90 days of a Performance Cycle, the Performance Criteria for such grant and the Performance Goals with respect to each Performance Criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-Based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The Performance Criteria established by the Committee may be (but need not be) different for each Performance Cycle and different Performance Goals may be applicable to Performance-Based Awards to different Covered Employees. The Committee shall designate whether an Award granted to an Executive Officer or key employee is intended to be a Performance-Based Award at the time of grant. Notwithstanding anything to the contrary in the Plan, the Committee shall have no obligation to grant any Award in the form of “performance-based compensation” under Section 162(m) of the Code.

14.3 Permissible Performance Criteria. The Committee will establish Performance Criteria for a Performance-Based Award. These criteria may include, but is not limited to, one or a combination of the following financial and non-financial metrics, with respect to the entire Company or a business unit:

Financial Metrics:

- net sales or revenue;
- unit sales;
- return measures (including, but not limited to, return on invested capital, assets, net assets, capital, equity and sales);
- gross or net profit margin;
- operating expense ratios;
- operating expense targets;
- productivity ratios;
- operating income or earnings;
- gross or operating margins;
- adjusted earnings before or after taxes, interest, depreciation and/or amortization;

- net earnings or net income (before or after taxes);
- earnings per share;
- cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment);
- funds from operations or similar measures, capital expenditures;
- share price (including, but not limited to, growth measures and total stockholder return);
- appreciation in the fair market value or book value of the Shares;
- cash dividends declared per Share;
- stockholder returns, dividends and other distributions;
- economic value added (net operating profit after tax minus the sum of capital multiplied by the cost of the capital);
- debt to equity ratio;

- debt levels;
- budget achievement;
- expense reduction or cost savings; and
- operating margins.

Non-financial Metrics:

- quantitative measures of customer satisfaction;
- quantitative measures of employee satisfaction/engagement;
- market share and/or new or expanded market penetration;
- acquisitions, strategic transactions or business expansion;
- product line diversification;

- employee retention/attrition;

- safety;

- productivity improvements; and

- inventory control/efficiency.

14.4 Permitted Adjustments. The Committee, in its discretion, may measure performance against Performance Goals under a Performance-Based Award by taking one or more of the following actions: (a) excluding each of following items: (i) any unusual or extraordinary corporate item, transaction or development restructuring and/or other nonrecurring and/or extraordinary charges (as reported in the Company's financial statements for the Performance Cycle), (ii) exchange rate effects, as applicable, for non-U.S. dollar denominated operating earnings, (iii) the effects to any statutory adjustments to corporate tax rates, (iv) the impact of discontinued operations, (v) losses from discontinued operations, (vi) restatements and other unplanned special charges such as acquisitions and acquisition expenses (including, without limitation, expenses relating to goodwill and other intangible assets), (vi) divestitures, (vii) expenses for restructuring, productivity initiatives or new business initiatives, (viii) impairment of tangible or intangible assets, (ix) litigation or claim judgments or settlements, (x) non-operating items, (xi) stock offerings and effects of other financing activities, (xii) stock repurchases, (xiii) strategic loan loss provisions and (b) not adjusting for changes in accounting principles. Any such action with respect to a Performance-Based Award must be taken by the Committee within the first ninety (90) days applicable to the Performance Cycle or such later time as may be permitted under Section 162(m) of the Code.

14.5 Certification of Performance Goals and Payment. Following the completion of a Performance Cycle, the Committee shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-Based Awards earned for the Performance Cycle. The Committee shall then determine the actual size of each Covered Employee's Performance-Based Award, and, in doing so with respect to a Cash-Based Award, may reduce or eliminate the amount of such Award if, in its sole judgment, such reduction or elimination is appropriate.

14.6 Interpretation. All Performance-Based Awards and the provisions hereunder applicable to such Awards shall be interpreted consistent with the requirements of Section 162(m).

15. Withholding.

15.1 **Tax Withholding.** The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the maximum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan prior to making any payments hereunder.

15.2 **Share Withholding.** With respect to withholding required upon the exercise of Options or Stock Appreciation Rights, upon the lapse of restrictions on Restricted Shares and Restricted Stock Units, or upon the achievement of performance goals related to Performance Share Awards, or any other taxable event arising as a result of an Award granted hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the maximum statutory total tax that could be imposed on the transaction. All such elections shall be irrevocable, made in writing or electronically, and signed or acknowledged electronically by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

16. **Certain Terminations of Employment, Hardship and Approved Leaves of Absence.** Notwithstanding any other provision of the Plan to the contrary, in the event of a Participant's termination of employment (including by reason of death, disability or retirement) or in the event of hardship or other special circumstances, the Committee may in its sole discretion take any action that it deems to be equitable under the circumstances or in the best interests of the Company, including, without limitation, waiving or modifying any limitation or requirement with respect to any Award under the Plan. The Committee shall have the discretion to determine whether and to what extent the vesting of Awards shall be tolled during any leave of absence, paid or unpaid; provided however, that in the event of military leave, vesting shall toll during any unpaid portion of such leave, provided that, upon a Participant's returning from military leave (under conditions that would entitle him or her to protection upon such return under the Uniform Services Employment and Reemployment Rights Act), he or she shall be given vesting credit with respect to the Award to the same extent as would have applied had the Participant continued to provide services to the Company throughout the leave on the same terms as he or she was providing services immediately prior to such leave. Any actions taken by the Committee shall be taken consistent with the requirements of Section 409A of the Code and, with respect to Performance-Based Awards, Section 162(m) of the Code.

17. **Authorization of Sub-Plans.** The Committee may from time to time establish one or more sub-plans under the Plan for purposes of satisfying applicable blue sky, securities, and/or tax laws of various jurisdictions. The Committee shall establish such sub-plans by adopting supplements to the Plan containing (a) such limitations as the Committee deems necessary or desirable, and (b) such additional terms and conditions not otherwise inconsistent with the Plan as the Committee shall deem necessary or desirable. All sub-plans adopted by the Committee shall be deemed to be part of the Plan, but each sub-plan shall apply only to Participants within the affected jurisdiction and the Company shall not be required to provide copies of any sub-plans to Participants in any jurisdiction which is not the subject of such sub-plan.

18. **Amendments and Other Matters.**

18.1 **Plan Amendments.** The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan at any time. Notwithstanding the foregoing, no amendments shall be effective without approval of the Company's stockholders if (a) stockholder approval of the amendment is then required pursuant to the Code, the rules of the primary stock exchange or stock market on which the Shares are then

traded, applicable U.S. state corporate laws or regulations, applicable U.S. federal laws or regulations, and the applicable laws of any foreign country or jurisdiction where Awards are, or shall be, granted under the Plan, or (b) such amendment would (i) modify Section 18.4, (ii) materially increase benefits accruing to Participants, (iii) increase the aggregate number of Shares issued or issuable under the Plan, (iv) increase any limitation set forth on the number of Shares which may be issued or the aggregate value of Awards or the per-person limits under Section 3 except as provided in Section 12, (v) modify the eligibility requirements for Participants in the Plan, or (vi) reduce the minimum Option Price and Base Price as set forth in Sections 5 and 6, respectively. Notwithstanding any other provision of the Plan to the contrary, except as provided in Section 18.8, no termination, suspension or amendment of the Plan may adversely affect any outstanding Award without the consent of the affected Participant.

18.2 Award Deferrals. The Committee may permit Participants to elect to defer the issuance of Shares or the settlement of Awards in cash under the Plan pursuant to such rules, procedures or programs as it may establish for purposes of the Plan. However, any Award deferrals which the Committee permits must comply with the provisions of Section 22 and the requirements of Section 409A of the Code.

18.3 Conditional Awards. The Committee may condition the grant of any award or combination of Awards under the Plan on the surrender or deferral by the Participant of his or her right to receive a cash bonus or other compensation otherwise payable by the Company or any Affiliate to the Participant, provided that any such grant must comply with the provisions of Section 22 and the requirements of Section 409A of the Code.

18.4 Repricing. The terms of outstanding Awards may not be amended to reduce the Option Price of outstanding Options or Base Price of outstanding Stock Appreciation Rights or cancel outstanding Options or Stock Appreciation Rights in exchange for cash, other Awards or Options or Stock Appreciation Rights with an Option Price or Base Price that is less than the Option Price or Base Price of the original Options or Stock Appreciation Rights without stockholder approval, provided that nothing herein shall prevent the Committee from taking any action provided for in Section 12 above.

18.5 No Employment Rights. Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries to terminate any Participant's employment or service on the Board or to the Company at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his employment or service as a director for any specified period of time. Neither an Award nor any benefits arising under the Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries and, accordingly, subject to Section 18.1, the Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates, and/or its Subsidiaries.

18.6 Tax Qualification. To the extent that any provision of the Plan would prevent any Option that was intended to qualify under particular provisions of the Code from so qualifying, such provision of the Plan shall be null and void with respect to such Option, provided that such provision shall remain in effect with respect to other Options, and there shall be no further effect on any provision of the Plan.

18.7 Leave of Absence or Transfer. A transfer between the Company and any Affiliate or between Affiliates, or a leave of absence duly authorized by the Company, shall not be deemed to be a termination of employment. Periods of time while on a duly authorized leave of absence shall be disregarded for purposes of determining whether a Participant has satisfied a Restricted Period or Performance Cycle under an Award.

18.8 Amendments to Comply with Laws, Regulations or Rules. Notwithstanding any other provision of the Plan or any Award Agreement to the contrary, in its sole and absolute discretion and without the consent of any Participant, the Board may amend the Plan, and the Committee may amend any Award Agreement, to take effect retroactively or otherwise as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A of the Code.

18.9 Tolling. In the event a Participant is prevented from exercising an Option or the Company is unable to settle an Award due to either any trading restrictions applicable to the Company's Shares, the Participant's physical infirmity or administrative error by the Company relied upon and not caused by the Participant, then unless otherwise determined by the Committee, the length of time applicable to any such restriction, condition or event shall toll any exercise period (i) until such restriction lapses, (ii) until the Participant (or his representative) is able to exercise the Award or (iii) until such error is corrected, as applicable.

18.10 No Duty to Inform Regarding Exercise Rights. Neither the Company, any Affiliate, the Committee nor the Board shall have any duty to inform a Participant of the pending expiration of the period in which a Stock Appreciation right may be exercised or in which an Option may be exercised.

19. Issuance of Shares; Fractional Shares.

19.1 Form for Issuing Shares; Legends. Shares may be issued on a certificated or uncertificated basis. Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

19.2 Delivery of Title. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to: (i) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and (ii) completing any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

19.3 Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

19.4 Investment Representations. The Committee may require any individual receiving Shares pursuant to an Award under the Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute such Shares,

19.5 Fractional Shares. The Company shall not be required to issue any fractional Shares pursuant to the Plan. The Committee may provide for the elimination of fractions or for the settlement thereof in cash.

20. Limitations Period. Any person who believes he or she is being denied any benefit or right under the Plan may file a written claim with the Committee. Any claim must be delivered to the Committee within forty-five (45) days of the specific event giving rise to the claim. Untimely claims will not be processed and shall be deemed denied. The Committee, or its designated agent, will notify the Participant of its decision in writing as soon as administratively practicable. Claims not responded to by the Committee in writing within ninety (90) days of the

date the written claim is delivered to the Committee shall be deemed denied. The Committee's decision shall be final, conclusive and binding on all persons. No lawsuit relating to the Plan may be filed before a written claim is filed with the Committee and is denied or deemed denied, and any lawsuit must be filed within one year of such denial or deemed denial or be forever barred. The venue for any lawsuit shall be Wilmington, Delaware.

21. **Governing Law.** The validity, construction and effect of the Plan and any Award hereunder will be determined in accordance with the State of Delaware except to the extent governed by applicable federal law.

22. **Compliance with Section 409A.**

22.1 **In General.** The Plan is intended to be administered in a manner consistent with the requirements, where applicable, of Section 409A. For avoidance of doubt, Stock Options and Stock Appreciation Rights are intended to qualify for the stock rights exemptions from Section 409A. Where reasonably possible and practicable, the Plan shall be administered in a manner to avoid the imposition on Participants of immediate tax recognition and additional taxes pursuant to such Section 409A. Notwithstanding the foregoing, neither the Company nor the Committee shall have any liability to any person in the event Section 409A applies to any such Award in a manner that results in adverse tax consequences for the Participant or any of his or her transferees.

22.2 **Elective Deferrals.** No elective deferrals or re-deferrals other than in regard to Restricted Stock Units are permitted under the Plan.

22.3 **Applicable Requirements.** To the extent any of the Awards granted under the Plan are deemed "deferred compensation" and hence subject to Section 409A, the following rules shall apply to such Awards:

(a) **Mandatory Deferrals.** If the Company decides that the payment of compensation under the Plan shall be deferred within the meaning of Section 409A, then, except as provided under Treas. Reg. Section 1.409A-1(b)(4)(ii), on granting of the Award to which such compensation payment relates, the Company shall specify the date(s) at which such compensation will be paid in the Award Agreement.

(b) **Initial Deferral Elections.** For Awards of RSUs where the Committee provides the opportunity to elect the timing and form of the payment of the underlying Shares at some future time once any requirements have been satisfied, the Participant must make his or her initial deferral election for such Award in accordance with the requirements of Section 409A, i.e., within thirty (30) days of first becoming eligible to receive such award or prior to the start of the year in which the Award is granted to the Participant, in each case pursuant to the requirements of Section 409A and Treas. Reg. Section 1.409A-2.

(c) **Subsequent Deferral Elections.** To the extent the Company or Committee decides to permit compensation subject to Section 409A to be re-deferred pursuant to Treas. Reg. Section 1.409A-2(b), then the following conditions must be met: (i) such election will not take effect until at least 12 months after the date on which it is made; (ii) in the case of an election not related to a payment on account of disability, death or an unforeseeable emergency, the payment with respect to which such election is made must be deferred for a period of not less than five years from the date such payment would otherwise have been paid; and (iii) any election related to a payment at a specified time or pursuant to a fixed schedule (within the meaning of Treas. Reg. Section 1.409A-3(a)(4)) must be made not less than 12 months before the date the payment is scheduled to be paid.

(d) **Timing of Payments.** Payment(s) of compensation that is subject to Section 409A shall only be made upon an event or at a time set forth in Treas. Reg. Section 1.409A-3, i.e., the Participant's separation from service, the Participant's becoming disabled, the Participant's death, at a time or a fixed schedule specified in the Plan or an Award Agreement, a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, or the occurrence of an unforeseeable emergency.

(e) **Certain Delayed Payments.** Notwithstanding the foregoing, to the extent an amount was intended to be paid such that it would have qualified as a short-term deferral under Section 409A and the applicable regulations, then such payment is or could be delayed if the requirements of Treas. Reg. 1.409A-1(b)(4)(ii) are met.

(f) **Acceleration of Payment.** Any payment made under the Plan to which Section 409A applies may not be accelerated, except in accordance with Treas. Reg. 1.409A-3(j)(4), i.e., upon a Participant's separation from service, the Participant becoming disabled, the Participant's death, a change of ownership or effective control, or in the ownership of a substantial portion of the assets, or upon an unforeseeable emergency (all as detailed in Treas. Reg. Section 1.409A-3(a)).

(g) **Payments upon a Change in Control.** Notwithstanding any provision of the Plan to the contrary, to the extent an Award subject to Section 409A shall be deemed to be vested or restrictions lapse, expire or terminate upon the occurrence of a Change in Control and such Change in Control does not constitute a "change in the ownership or effective control" or a "change in the ownership of a substantial portion of the assets" of the Company within the meaning of Section 409A(a)(2)(A)(v), then even though such Award may be deemed to be vested or restrictions lapse, expire or terminate upon the occurrence of the Change in Control or any other provision of the Plan, payment will be made, to the extent necessary to comply with the provisions of Section 409A, to the Participant on the earliest of (i) the Participant's "separation from service" with the Company (determined in accordance with Section 409A), (ii) the date payment otherwise would have been made pursuant to the regular payment terms of the Award in the absence of any provisions in the Plan to the contrary (provided such date is permissible under Section 409A) or (iii) the Participant's death.

(h) **Payments to Specified Employees.** Payments due to a Participant who is a "specified employee" within the meaning of Section 409A on account of the Participant's "separation from service" with the Company (determined in accordance with Section 409A) shall be made on the date that is six months after the date of the Participant's separation from service or, if earlier, the Participant's date of death.

22.4 Deferrals to Preserve Deductibility under Section 162(m). The Committee may postpone the exercising of Awards, the issuance or delivery of Shares under any Award or any action permitted under the Plan to prevent the Company or any Affiliate from being denied a Federal income tax deduction with respect to any Award other than an ISO as a result of Section 162(m) in accordance with IRS regulations. In such case, payment of such deferred amounts must be made as soon as reasonably practicable following the first date on which the Company and/or Affiliate anticipates or reasonably should anticipate that, if the payment were made on such date, the Company's and/or Subsidiary's deduction with respect to such payment would no longer be restricted due to the application of Section 162(m).

22.5 Determining "Controlled Group". In order to determine for purposes of Section 409A whether a Participant or eligible individual is employed by a member of the Company's controlled group of corporations under Section 414(b) of the Code (or by a member of a group of trades or businesses under common control with the Company under Section 414(c) of the Code) and, therefore, whether the Shares that are or have been purchased by or awarded under the Plan to the Participant are shares of "service recipient" stock within the meaning of Section 409A, a Participant or eligible employee of a Subsidiary shall be considered employed by the Company's controlled group (or by a member of a group of trades or businesses under common control with the Company, as applicable). Notwithstanding the above, to the extent that the Company finds that legitimate business criteria exist within the meaning of Treas. Reg. Section 1.409A-1(b)(5)(iii)(E)(1), then, solely for purposes of this Section 22.5, "at least 50 percent" in the definition of "Subsidiary" shall instead be "at least 20 percent".

23. Transferability.

23.1 **Transfer Restrictions.** Except as provided in Sections 23.2 and 23.4, no Award granted under the Plan shall be transferable by a Participant other than upon death by will or the laws of descent and distribution, and Options and Stock Appreciation Rights shall be exercisable during a Participant's lifetime only by the Participant or, in the event of the Participant's legal incapacity, by his guardian or legal representative acting in a fiduciary capacity on behalf of the Participant under state law. Any attempt to transfer an Award in violation of the Plan shall render such Award null and void.

23.2 **Limited Transfer Rights.** The Committee may expressly provide in an Award Agreement that a Participant may transfer such Award (other than an Incentive Stock Option), in whole or in part, to a Family Member, a trust for the exclusive benefit of Family Members, a partnership or other entity in which all the beneficial owners are Family Members, or any other entity affiliated with the Participant that may be approved by the Committee. Subsequent transfers of Awards shall be prohibited except in accordance with this Section 23.2. All terms and conditions of the Award, including provisions relating to the termination of the Participant's employment or service with the Company or a Subsidiary, shall continue to apply following a transfer made in accordance with this Section 23.2.

23.3 **Additional Restrictions on Transfer.** Any Award made under the Plan may provide that all or any part of the Shares that are to be issued or transferred by the Company upon exercise, vesting or settlement shall be subject to further restrictions upon transfer.

23.4 **Domestic Relations Orders.** Notwithstanding the foregoing provisions of this Section 23, any Award made under the Plan may be transferred as necessary to fulfill any domestic relations order as defined in Section 414(p)(1)(B) of the Code.

24. **Forfeiture and Recoupment.** Without limiting in any way the generality of the Committee's power to specify any terms and conditions of an Award consistent with law, and for greater clarity, the Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award, including any payment of Shares received upon exercise or in satisfaction of an Award under the Plan shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions, without limit as to time. Such events shall include, but not be limited to, failure to accept the terms of the Award Agreement, termination of service under certain or all circumstances, violation of material Company policies, misstatement of financial or other material information about the Company, fraud, misconduct, breach of noncompetition, confidentiality, nonsolicitation, noninterference, corporate property protection, or other agreements that may apply to the Participant, or other conduct by the Participant that the Committee determines is detrimental to the business or reputation of the Company and its Affiliates, including facts and circumstances discovered after termination of service. Awards granted under the Plan shall be subject to any compensation recovery policy or minimum stock holding period requirement as may be adopted or amended by the Company from time to time.

25. **No Constraint on Corporate Action.** Nothing in the Plan shall be construed to: (i) limit, impair, or otherwise affect the Company's or an Affiliate's or a Subsidiary's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or, (ii) limit the right or power of the Company or an Affiliate or a Subsidiary to take any action which such entity deems to be necessary or appropriate.

26. **Effect of Disposition of Operating Unit.** If the Company or any of its Affiliates diminishes or eliminates ownership interests in any operating unit of the Company or any of its Affiliates so that such operating unit ceases to be majority owned by the Company or any of its Affiliates then, with respect to Awards held by Participants who subsequent to such event will not be Employees, the Committee may, to the extent consistent with Section 409A (if applicable), take any of the actions described in Section 13.1 with respect to a Change in Control. If the Committee takes no special action with respect to any disposition of a facility or an operating unit, then the Participant shall be deemed to have terminated his or her employment with the Company and its Subsidiaries and Affiliates and the terms and conditions of the Award Agreement and the other terms and conditions of the Plan shall control.

27. **Indemnification.** Subject to requirements of applicable state law, each individual who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company to whom authority was delegated in accordance with Section 3, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf, unless such loss, cost, liability, or expense is a result of his own willful misconduct or except as expressly provided by statute. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled under the Company's Certificate of Incorporation or by-laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

28. **Non-exclusivity of the Plan.** The adoption of the Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

29. **Miscellaneous.**

29.1 **Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

29.2 **Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

29.3 **Requirements of Law.** The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

29.4 **Successors.** All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

29.5 **Payment Following a Participant's Death.** Any remaining vested rights or benefits under the Plan upon a Participant's death shall be paid or provided to the Participant's legal spouse or, if no such spouse survives the Participant, to the Participant's estate.

29.6 **Rights as a Stockholder.** Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

RESTRICTED SHARES AWARD AGREEMENT**PURSUANT TO THE****VECTOR GROUP LTD.****AMENDED & RESTATED 2014 MANAGEMENT INCENTIVE PLAN**

THIS AGREEMENT (the "Agreement"), made as of [Grant Date] ("Grant Date"), by and between Vector Group Ltd., a Delaware Corporation, with its principal office at 4400 Biscayne Boulevard, 10th Floor, Miami, FL 33137 (the "Company"), and [Participant] (the "Participant").

WHEREAS, the Board of Directors of the Company (the "Board") originally adopted the Vector Group Ltd. 2014 Management Incentive Plan on March 10, 2014 (approved by the stockholders of the Company on May 16, 2014) and subsequently amended and restated such plan as the Vector Group Ltd. Amended & Restated 2014 Management Incentive Plan on May 25, 2021 (as such plan may be amended from time to time, the "Plan");

WHEREAS, the Plan provides that the Company, through the Compensation Committee of the Board (the "Committee"), can grant awards of Restricted Shares to Employees, Non-Employee Directors and Consultants who provide services to the Company; and

WHEREAS, subject to the terms and conditions of this Agreement and the Plan, the Committee has determined that Participant, an Employee of the Company, shall be awarded Restricted Shares in the amount set forth below and subject to the terms, conditions and restrictions set forth herein.

NOW, THEREFORE, the Company and the Participant each agree as follows:

1. **Grant of Restricted Shares.** Subject to the terms, conditions and restrictions of the Plan and this Agreement, the Company hereby grants to the Participant [Amount of] Restricted Shares effective as of the Grant Date. For the avoidance of doubt, the Participant is being granted the Restricted Shares at the closing price as of the Grant Date of \$[Price] and on the same terms as were approved by the Committee on such date, and, accordingly, the Participant shall be entitled to all rights of a holder of shares of common stock of the Company ("Common Stock") set forth in Section 4 hereof as of the Grant Date. Pursuant to the Plan and Section 2 of this Agreement, the Restricted Shares are subject to certain restrictions, some of which shall expire in accordance with the provisions of the Plan and Section 2 hereof. A book entry in Participant's name evidencing the Restricted Shares will be made with the Company or its designated agent until such Restricted Shares are released to the Participant or forfeited in accordance with this Agreement. Unless otherwise provided herein, capitalized terms used herein that are not defined herein shall have the meanings attributable thereto in the Plan.

2. **Vesting.** (a) Except as otherwise provided in Sections 2(b) and 3 hereof, the Restricted Shares shall become vested in the following percentages and at the following times, subject to the Participant's continued employment or engagement with the Company through and on the applicable Vesting Date:

Percentage of Restricted Shares
[Vesting Schedule]

Vesting Date
[Vesting Dates]

There shall be no proportionate or partial vesting of the Restricted Shares in or during the months, days or periods prior to each Vesting Date, and all vesting of the Restricted Shares shall occur only on the applicable Vesting Date. Upon the termination or cessation of the Participant's employment or engagement with the Company, other than a Without Cause Termination or a Good Reason Termination, any portion of the Restricted Shares which is not yet then vested shall automatically and without notice terminate, be forfeited and be and become null and void except as otherwise provided herein.

(b) Notwithstanding any other term or provision of this Agreement, in the event that an Acceleration Event (as defined below) occurs, the Restricted Shares subject to this Agreement shall become immediately fully vested as of the date of the Acceleration Event. For purposes of this Agreement, an "Acceleration Event" shall mean the first to occur of any of the following: (i) a Change in Control (as defined below) provided that the Participant's employment or engagement with the Company and its Related Entities continues through and on the date of such Change in Control; or (ii) the Participant's employment or engagement with the Company and its Related Entities terminates through either a Without Cause Termination or a Good Reason Termination (as such quoted terms are defined below).

(c) For purposes of this Agreement, "Change in Control" shall be as defined in Section 13.3 of the Plan.

(d) For purposes of this Agreement, (i) a "Without Cause Termination" shall mean a termination of the Participant's employment by the Company or a subsidiary thereof other than for Cause (as defined below) or as a result of the Participant's death or disability, (ii) a "Good Reason Termination" shall mean a termination of the Participant's employment by the Participant for "good reason" pursuant to and in accordance with the Participant's written employment agreement with the Company or a subsidiary thereof (if any) on the date hereof, and (iii) "Cause" shall mean (x) the Participant's willful misconduct or gross negligence in the performance of his or her duties for the Company or a subsidiary thereof that is not cured by the Participant within thirty (30) days after his or her receipt of written notice from the Company or such subsidiary (as applicable); (y) the Participant's conviction of, or plea of guilty or *nolo contendere* to, a crime relating to the Company or a subsidiary thereof or any felony; or (z) a material breach by the Participant of the Participant's employment agreement, offer letter or other offer arrangement with the Company or a subsidiary, or any other material written agreement entered into between the Participant and the Company or any subsidiary thereof (if any) that is not cured by the Participant within thirty (30) days after his or her receipt of written notice from the Company or such subsidiary (as applicable).

3. **Effect of Vesting; Forfeiture.**

(a) Upon the vesting of any Restricted Shares, such vested Restricted Shares will no longer be subject to forfeiture as provided in this Agreement. Promptly after vesting, the Company will deliver to the Participant the Restricted Shares that have vested subject to applicable tax withholding obligations pursuant to Section 10.

(b) If the Participant's employment or engagement with the Company and the Related Entities is terminated for any reason other than a Without Cause Termination or a Good Reason Termination, the Participant shall automatically forfeit any unvested Restricted Shares and the Company shall acquire such unvested Restricted Shares for the amount paid by the Participant for such Restricted Shares (or, if no amount was paid by the Participant for such Restricted Shares, then the Company shall acquire such Restricted Shares for no consideration). The Committee shall have the power and authority to enforce on behalf of the Company any rights of the Company under this Agreement in the event of the Participant's forfeiture of the Restricted Shares pursuant to this Section 3.

4. **Rights as a Holder of Restricted Shares.** From and after the Grant Date, the Participant shall have, with respect to the Restricted Shares (whether vested or unvested), all of the rights of a holder of shares of Common Stock of the Company, including, without limitation, the right to vote the shares, to receive and retain all regular cash dividends payable to holders of shares of record on and after the Grant Date (although such dividends will be treated, to the extent required by applicable law, as additional compensation for tax purposes), and to exercise all other rights, powers and privileges of a holder of shares with respect to the Restricted Shares; provided, that, to the extent the Company issues a dividend in the form of shares or other property, such shares or other property shall be subject to the same restrictions that are then applicable to the Restricted Shares under the Plan and this Agreement and such restrictions shall expire at the same time as the restrictions on the Restricted Shares expire. Participant shall not be required to repay any dividends received with respect to Restricted Shares that are subsequently forfeited prior to vesting.

5. **Taxes; Section 83(b) Election.** The Participant acknowledges that (i) no later than the earlier of (x) the date on which any Restricted Shares shall have become vested or (y) the date on which the Participant makes a Section 83(b) election (if he or she so chooses to make such an election), the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any Federal, state or local or other taxes of any kind required by law to be withheld with respect to any Restricted Shares which shall have become so vested; (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any Federal, state or local or other taxes of any kind required by law to be withheld with respect to any Restricted Shares which shall have become so vested, including that the Company may, but shall not be required to, sell a number of Restricted Shares sufficient to cover applicable withholding taxes; and (iii) in the event that the Participant does not satisfy (i) above on a timely basis, the Company may, but shall not be required to, pay such required withholding and, to the extent permitted by applicable law,

treat such amount as a demand loan to the Participant at the maximum rate permitted by law, with such loan, at the Company's sole discretion and provided the Company so notifies the Participant within thirty (30) days of the making of the loan, secured by the Restricted Shares and any failure by the Participant to pay the loan upon demand shall entitle the Company to all of the rights at law of a creditor secured by the Restricted Shares. The Company may hold as security any certificates representing any Restricted Shares and, upon demand of the Company, the Participant shall deliver to the Company any certificates in his or her possession representing the Restricted Shares together with a stock power duly endorsed in blank. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Code, and any corresponding provisions of state tax laws, if the Participant wishes to utilize such election.

6. **No Obligation to Continue Employment.** This Agreement is not an agreement of employment. Neither the execution of this Agreement nor the issuance of the Restricted Shares hereunder constitute an agreement by the Company or any Related Entity thereof to employ or to continue to employ the Participant during the entire, or any portion of, the term of this Agreement, including but not limited to any period during which any Restricted Shares are outstanding.

7. **Legend.** In the event that a certificate evidencing the Restricted Shares is issued, the certificate representing the Restricted Shares shall have endorsed thereon the following legends:

(a) "THE ANTICIPATION, ALIENATION, ATTACHMENT, SALE, TRANSFER, ASSIGNMENT, PLEDGE, ENCUMBRANCE OR CHARGE OF THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF VECTOR GROUP LTD. (THE "COMPANY") AMENDED & RESTATED 2014 MANAGEMENT INCENTIVE PLAN ORIGINALLY ADOPTED BY THE COMPANY'S BOARD OF DIRECTORS ON MARCH 10, 2014 (APPROVED BY THE STOCKHOLDERS OF THE COMPANY ON MAY 16, 2014) (AS SUCH PLAN MAY BE AMENDED FROM TIME TO TIME, THE "PLAN") AND AMENDED AND RESTATED ON MAY 25, 2021 AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE COMPANY DATED AS OF [GRANT DATE]. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY."

(b) Any legend required to be placed thereon by applicable blue sky laws of any state.

Notwithstanding the foregoing, in no event shall the Company be obligated to issue a certificate representing the Restricted Shares prior to vesting as set forth in Section 2 hereof.

8. **Power of Attorney.** The Company, its successors and assigns, is hereby appointed the attorney-in-fact, with full power of substitution, of the Participant for the purpose

of carrying out the provisions of this Agreement and taking any action and executing any instruments which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest. The Company, as attorney-in-fact for the Participant, may in the name and stead of the Participant, make and execute all conveyances, assignments and transfers of the Restricted Shares provided for herein, and the Participant hereby ratifies and confirms that which the Company, as said attorney-in-fact, shall do by virtue hereof. Nevertheless, the Participant shall, if so requested by the Company, execute and deliver to the Company all such instruments as may, in the judgment of the Company, be advisable for this purpose.

9. **Transferability.** Unless otherwise determined by the Committee, the Restricted Shares shall not be subject to a Transfer (as defined below), otherwise than by will or under the applicable laws of descent and distribution, unless and until the shares become vested under Section 2 hereof. The terms of this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Participant. Except as otherwise permitted pursuant to the first sentence of this Section 9, any attempt to effect a Transfer of any Restricted Shares shall be void *ab initio*. For purposes of this Agreement, “Transfer” shall mean any sale, transfer, encumbrance, gift, donation, assignment, pledge, hypothecation, or other disposition, whether similar or dissimilar to those previously enumerated, whether voluntary or involuntary, and including, but not limited to, any disposition by operation of law, by court order, by judicial process, or by foreclosure, levy or attachment.

10. **Tax Withholding.** Upon each vesting of the Restricted Shares, the Company shall withhold shares of Common Stock having a Fair Market Value (as defined in the Plan) on the date the tax is to be determined equal to the maximum statutory amount to satisfy any federal, state or local taxes required by law to be withheld as a result of such vesting.

11. **Miscellaneous.**

(a) This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, personal legal representatives, successors, trustees, administrators, distributes, devisees and legatees. The Company may assign to, and require, any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree in writing to perform this Agreement. Notwithstanding the foregoing, the Participant may not assign this Agreement or any of the Participant’s rights, interest or obligations hereunder.

(b) This award of Restricted Shares shall not affect in any way the right or power of the Board or stockholders of the Company to make or authorize an adjustment, recapitalization or other change in the capital structure or the business of the Company, any merger or consolidation of the Company or subsidiaries, any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Shares, the dissolution or liquidation of the Company, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding.

(c) The Participant agrees that the award of the Restricted Shares hereunder is special incentive compensation and that, with the exception of dividends paid thereon, will not be taken into account as “salary”, “Base Salary” (as defined in the Participant’s employment agreement), “compensation” or “bonus” in determining the amount of any matching payment under the Liggett Vector Brands Savings Plan or any other pension, retirement or profit-sharing plan of the Company or subsidiary thereof or any life insurance, disability or other benefit plan of the Company or subsidiary thereof.

(d) No modification or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by the party against whom it is sought to be enforced.

(e) This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one contract, and such execution may be evidenced by electronic means pursuant to any procedures established by the Company for electronic acceptance.

(f) The failure of any party hereto at any time to require performance by another party of any provision of this Agreement shall not affect the right of such party to require performance of that provision, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right under this Agreement.

(g) The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

(h) All notices, consents, requests, approvals, instructions and other communications provided for herein shall be in writing and validly given or made when delivered, or on the second succeeding business day after being mailed by registered or certified mail, whichever is earlier, to the persons entitled or required to receive the same, at the addresses set forth at the heading of this Agreement or to such other address as either party may designate by like notice. Notices to the Company shall be addressed to Vector Group Ltd. at 4400 Biscayne Boulevard, 10th Floor, Miami, Florida 33137, Attn: Marc N. Bell, Senior Vice President, General Counsel and Secretary.

(i) This Agreement shall be construed and interpreted 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).

12. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted thereunder and as may be in effect from time to time. The Plan is incorporated herein by reference. A copy of the Plan has been delivered to the Participant. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. This

Agreement contains the entire understanding of the parties with respect to the subject matter hereof (other than any other documents expressly contemplated herein or in the Plan) and supersedes any prior agreements between the Company and the Participant.

[signature page(s) follow]

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

VECTOR GROUP LTD.

By: _____
Name: [Name of Officer]
Title: [Title of Officer]

Participant:

[Participant]

PERFORMANCE-BASED RESTRICTED SHARES AWARD AGREEMENT**PURSUANT TO THE****VECTOR GROUP LTD.****AMENDED & RESTATED 2014 MANAGEMENT INCENTIVE PLAN**

THIS AGREEMENT (the "Agreement"), made as of [Grant Date] ("Grant Date"), by and between Vector Group Ltd., a Delaware Corporation, with its principal office at 4400 Biscayne Boulevard, 10th Floor, Miami, FL 33137 (the "Company"), and [Participant] (the "Participant").

WHEREAS, the Board of Directors of the Company (the "Board") originally adopted the Vector Group Ltd. 2014 Management Incentive Plan on March 10, 2014 (approved by the stockholders of the Company on May 16, 2014) and subsequently amended and restated such plan as the Vector Group Ltd. Amended & Restated 2014 Management Incentive Plan on May 25, 2021 (as such plan may be amended from time to time, the "Plan");

WHEREAS, the Plan provides that the Company, through the Compensation Committee of the Board (the "Committee"), can grant awards of Restricted Shares to Employees, Non-Employee Directors and Consultants who provide services to the Company; and

WHEREAS, subject to the terms and conditions of this Agreement and the Plan, the Committee has determined that Participant, an Employee of the Company, shall be awarded Restricted Shares in the amount set forth below and subject to the terms, conditions and restrictions set forth herein.

NOW, THEREFORE, the Company and the Participant each agree as follows:

1. **Grant of Restricted Shares.** Subject to the terms, conditions and restrictions of the Plan and this Agreement, the Company hereby grants to the Participant [Amount of] Restricted Shares effective as of the Grant Date. For the avoidance of doubt, the Participant is being granted the Restricted Shares at the closing price as of the Grant Date of \$[Price] and on the same terms as were approved by the Committee on such date, and, accordingly, the Participant shall be entitled to all rights of a holder of shares of common stock of the Company ("Common Stock") set forth in Section 4 hereof as of the Grant Date. Pursuant to the Plan and Section 2 of this Agreement, the Restricted Shares are subject to certain restrictions, some of which shall expire in accordance with the provisions of the Plan and Section 2 hereof. A book entry in Participant's name evidencing the Restricted Shares will be made with the Company or its designated agent until such Restricted Shares are released to the Participant or forfeited in accordance with this Agreement. Unless otherwise provided herein, capitalized terms used herein that are not defined herein shall have the meanings attributable thereto in the Plan.

2. **Vesting.** (a) Except as otherwise provided in Sections 2(b) and 3 hereof, the Restricted Shares shall become vested in the following percentages and at the following times subject to both (i) satisfying the target for [Performance Criteria] (as defined below) on the applicable Vesting Date and (ii) Participant's continued employment or engagement with the Company through and on the applicable Vesting Date:

<u>Vesting Date</u>	<u>Number of Vested Shares (Cumulative)</u>
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[Vesting Dates]	[Vesting Schedule]
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[Description of Performance Criteria]

There shall be no proportionate or partial vesting of the Restricted Shares in or during the months, days or periods prior to each Vesting Date, and all vesting of the Restricted Shares shall occur only on the applicable Vesting Date. Upon the termination or cessation of the Participant's employment or engagement with the Company, other than a Without Cause Termination or a Good Reason Termination, any portion of the Restricted Shares which is not yet then vested shall automatically and without notice terminate, be forfeited and be and become null and void except as otherwise provided herein.

(b) Notwithstanding any other term or provision of this Agreement, (i) the Restricted Shares subject to this Agreement shall become immediately fully vested as of the date of a Change in Control (as defined below) provided that the Participant's employment or engagement with the Company and its Related Entities continues through and on the date of such Change in Control; and (ii) the requirement to be continuously employed on any future Vesting Date shall be waived in the event the Participant's employment or engagement with the Company and its Related Entities terminates through either a Without Cause Termination or a Good Reason Termination (as such quoted terms are defined below), in which case vesting will continue to be subject to achievement of the applicable level of [Performance Metric].

(c) For purposes of this Agreement, "Change in Control" shall be as defined in Section 13.3 of the Plan.

(d) For purposes of this Agreement, (i) a "Without Cause Termination" shall mean a termination of the Participant's employment by the Company or a subsidiary thereof other than for Cause (as defined below) or as a result of the Participant's death or disability, (ii) a "Good Reason Termination" shall mean a termination of the Participant's employment by the Participant for "good reason" pursuant to and in accordance with the Participant's written employment agreement with the Company or a subsidiary thereof (if any) on the date hereof, and (iii) "Cause" shall mean (x) the Participant's willful misconduct or gross negligence in the performance of his or her duties for the Company or a subsidiary thereof that is not cured by the Participant within thirty (30) days after his or her receipt of written notice from the Company or such subsidiary (as applicable); (y) the Participant's conviction of, or plea of guilty or *nolo contendere* to, a crime relating to the Company or a subsidiary thereof or any felony; or (z) a material breach by the Participant of the Participant's employment agreement, offer letter or

other offer arrangement with the Company or a subsidiary, or any other material written agreement entered into between the Participant and the Company or any subsidiary thereof (if any) that is not cured by the Participant within thirty (30) days after his or her receipt of written notice from the Company or such subsidiary (as applicable).

3. **Effect of Vesting; Forfeiture.**

(a) Upon the vesting of any Restricted Shares, such vested Restricted Shares will no longer be subject to forfeiture as provided in this Agreement. Promptly after vesting, the Company will deliver to the Participant the Restricted Shares that have vested subject to applicable tax withholding obligations pursuant to Section 10.

(b) If the Participant's employment or engagement with the Company and the Related Entities is terminated for any reason other than a Without Cause Termination or a Good Reason Termination, the Participant shall automatically forfeit any unvested Restricted Shares and the Company shall acquire such unvested Restricted Shares for the amount paid by the Participant for such Restricted Shares (or, if no amount was paid by the Participant for such Restricted Shares, then the Company shall acquire such Restricted Shares for no consideration). The Committee shall have the power and authority to enforce on behalf of the Company any rights of the Company under this Agreement in the event of the Participant's forfeiture of the Restricted Shares pursuant to this Section 3.

4. **Rights as a Holder of Restricted Shares.** From and after the Grant Date, the Participant shall have, with respect to the Restricted Shares (whether vested or unvested), all of the rights of a holder of shares of Common Stock of the Company, including, without limitation, the right to vote the shares, and to exercise all other rights, powers and privileges of a holder of shares with respect to the Restricted Shares; provided that the Participant shall be entitled to receive and retain dividends and distributions payable on the Restricted Shares (and with a record on and after the Grant Date) only if the Restricted Shares on which they are paid are subsequently vested. Any such dividend or other distribution shall be paid to the Participant as soon as reasonably practicable after the underlying Restricted Shares have become vested. No interest shall be paid on any dividends or other distributions.

5. **Taxes; Section 83(b) Election.** The Participant acknowledges that (i) no later than the earlier of (x) the date on which any Restricted Shares shall have become vested or (y) the date on which the Participant makes a Section 83(b) election (if he or she so chooses to make such an election), the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any Federal, state or local or other taxes of any kind required by law to be withheld with respect to any Restricted Shares which shall have become so vested; (ii) the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Participant any Federal, state or local or other taxes of any kind required by law to be withheld with respect to any Restricted Shares which shall have become so vested, including that the Company may, but shall not be required to, sell a number of Restricted Shares sufficient to cover applicable withholding taxes; and (iii) in the event that the Participant does not satisfy (i) above on a timely basis, the Company may, but shall

not be required to, pay such required withholding and, to the extent permitted by applicable law, treat such amount as a demand loan to the Participant at the maximum rate permitted by law, with such loan, at the Company's sole discretion and provided the Company so notifies the Participant within thirty (30) days of the making of the loan, secured by the Restricted Shares and any failure by the Participant to pay the loan upon demand shall entitle the Company to all of the rights at law of a creditor secured by the Restricted Shares. The Company may hold as security any certificates representing any Restricted Shares and, upon demand of the Company, the Participant shall deliver to the Company any certificates in his or her possession representing the Restricted Shares together with a stock power duly endorsed in blank. The Participant also acknowledges that it is his or her sole responsibility, and not the Company's, to file timely and properly any election under Section 83(b) of the Code, and any corresponding provisions of state tax laws, if the Participant wishes to utilize such election.

6. **No Obligation to Continue Employment.** This Agreement is not an agreement of employment. Neither the execution of this Agreement nor the issuance of the Restricted Shares hereunder constitute an agreement by the Company or any Related Entity thereof to employ or to continue to employ the Participant during the entire, or any portion of, the term of this Agreement, including but not limited to any period during which any Restricted Shares are outstanding.

7. **Legend.** In the event that a certificate evidencing the Restricted Shares is issued, the certificate representing the Restricted Shares shall have endorsed thereon the following legends:

(a) "THE ANTICIPATION, ALIENATION, ATTACHMENT, SALE, TRANSFER, ASSIGNMENT, PLEDGE, ENCUMBRANCE OR CHARGE OF THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF VECTOR GROUP LTD. (THE "COMPANY") AMENDED & RESTATED 2014 MANAGEMENT INCENTIVE PLAN ORIGINALLY ADOPTED BY THE COMPANY'S BOARD OF DIRECTORS ON MARCH 10, 2014 (APPROVED BY THE STOCKHOLDERS OF THE COMPANY ON MAY 16, 2014) (AS SUCH PLAN MAY BE AMENDED FROM TIME TO TIME, THE "PLAN") AND AMENDED AND RESTATED ON MAY 25, 2021 AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE COMPANY DATED AS OF [GRANT DATE]. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY."

(b) Any legend required to be placed thereon by applicable blue sky laws of any state.

Notwithstanding the foregoing, in no event shall the Company be obligated to issue a certificate representing the Restricted Shares prior to vesting as set forth in Section 2 hereof.

8. **Power of Attorney.** The Company, its successors and assigns, is hereby appointed the attorney-in-fact, with full power of substitution, of the Participant for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest. The Company, as attorney-in-fact for the Participant, may in the name and stead of the Participant, make and execute all conveyances, assignments and transfers of the Restricted Shares provided for herein, and the Participant hereby ratifies and confirms that which the Company, as said attorney-in-fact, shall do by virtue hereof. Nevertheless, the Participant shall, if so requested by the Company, execute and deliver to the Company all such instruments as may, in the judgment of the Company, be advisable for this purpose.

9. **Transferability.** Unless otherwise determined by the Committee, the Restricted Shares shall not be subject to a Transfer (as defined below), otherwise than by will or under the applicable laws of descent and distribution, unless and until the shares become vested under Section 2 hereof. The terms of this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Participant. Except as otherwise permitted pursuant to the first sentence of this Section 9, any attempt to effect a Transfer of any Restricted Shares shall be void *ab initio*. For purposes of this Agreement, "Transfer" shall mean any sale, transfer, encumbrance, gift, donation, assignment, pledge, hypothecation, or other disposition, whether similar or dissimilar to those previously enumerated, whether voluntary or involuntary, and including, but not limited to, any disposition by operation of law, by court order, by judicial process, or by foreclosure, levy or attachment.

10. **Tax Withholding.** Upon each vesting of the Restricted Shares, the Company shall withhold shares of Common Stock having a Fair Market Value (as defined in the Plan) on the date the tax is to be determined equal to the maximum statutory amount to satisfy any federal, state or local taxes required by law to be withheld as a result of such vesting.

11. **Miscellaneous.**

(a) This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, personal legal representatives, successors, trustees, administrators, distributes, devisees and legatees. The Company may assign to, and require, any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree in writing to perform this Agreement. Notwithstanding the foregoing, the Participant may not assign this Agreement or any of the Participant's rights, interest or obligations hereunder.

(b) This award of Restricted Shares shall not affect in any way the right or power of the Board or stockholders of the Company to make or authorize an adjustment, recapitalization or other change in the capital structure or the business of the Company, any merger or consolidation of the Company or subsidiaries, any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Shares, the dissolution or

liquidation of the Company, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding.

(c) The Participant agrees that the award of the Restricted Shares hereunder is special incentive compensation and that, with the exception of dividends paid thereon, will not be taken into account as “salary”, “Base Salary” (as defined in the Participant’s employment agreement), “compensation” or “bonus” in determining the amount of any matching payment under the Liggett Vector Brands Savings Plan or any other pension, retirement or profit-sharing plan of the Company or subsidiary thereof or any life insurance, disability or other benefit plan of the Company or subsidiary thereof.

(d) No modification or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by the party against whom it is sought to be enforced.

(e) This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one contract, and such execution may be evidenced by electronic means pursuant to any procedures established by the Company for electronic acceptance.

(f) The failure of any party hereto at any time to require performance by another party of any provision of this Agreement shall not affect the right of such party to require performance of that provision, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right under this Agreement.

(g) The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

(h) All notices, consents, requests, approvals, instructions and other communications provided for herein shall be in writing and validly given or made when delivered, or on the second succeeding business day after being mailed by registered or certified mail, whichever is earlier, to the persons entitled or required to receive the same, at the addresses set forth at the heading of this Agreement or to such other address as either party may designate by like notice. Notices to the Company shall be addressed to Vector Group Ltd. at 4400 Biscayne Boulevard, 10th Floor, Miami, Florida 33137, Attn: Marc N. Bell, Senior Vice President, General Counsel and Secretary.

(i) This Agreement shall be construed and interpreted 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).

12. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted thereunder and as may be in effect from time to time. The Plan is incorporated herein by

reference. A copy of the Plan has been delivered to the Participant. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof (other than any other documents expressly contemplated herein or in the Plan) and supersedes any prior agreements between the Company and the Participant.

[signature page(s) follow]

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

VECTOR GROUP LTD.

By: _____

Name: [Name of Officer]

Title: [Title of Officer]

Participant:

[Participant]

RULE 13a-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Howard M. Lorber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

RULE 13a-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, J. Bryant Kirkland III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vector Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ J. Bryant Kirkland III

J. Bryant Kirkland III

Senior Vice President, Treasurer and Chief Financial Officer

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard M. Lorber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2021

/s/ Howard M. Lorber

Howard M. Lorber

President and Chief Executive Officer

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of Vector Group Ltd. (the "Company") on Form 10-Q for the quarter ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Bryant Kirkland III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2021

/s/ J. Bryant Kirkland III

J. Bryant Kirkland III

Senior Vice President, Treasurer and Chief Financial Officer

I. INDIVIDUAL CASES

A. Engle Progeny Cases.

Pursuant to the Florida Supreme Court's ruling in *Engle v. Liggett Group Inc.*, which decertified the *Engle* class on a prospective basis, former class members had until January 2008 to file individual lawsuits. Lawsuits by individuals requesting the benefit of the *Engle* ruling are referred to as the "*Engle* progeny" cases. Liggett has resolved the claims of all but 38 *Engle* progeny plaintiffs. For more information on the *Engle* case and on the settlement, see "Note 9. Contingencies."

(i) Engle Progeny Cases with trial dates through June 30, 2022.

Alvarez v. R.J. Reynolds, et al., Case No. 07-30302, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 09/17/07). One individual suing as personal representative of the estate and survivors of a deceased smoker. The case is scheduled for trial during the three week trial period starting 01/10/22.

(ii) Post-Trial Engle Progeny Cases.

None.

B. Other Individual Cases.

Florida

Baluja v. Philip Morris USA Inc., et al., Case No. 20-CA-017956, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 10/27/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Barnes, et al. v. Philip Morris USA Inc., et al., Case No. 20-CA-000870, Circuit Court of the 8th Judicial Circuit, Alachua County (case filed 03/24/2020). Two individuals suing.

Baron, et al. v. Philip Morris USA Inc., et al., Case No. 17-CA-023133, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/21/17). Two individuals suing. The case is set for trial during the trial period starting 07/06/21.

Bennett, et al. v. Philip Morris USA Inc., et al., Case No. 17-CA-023046, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/20/17). Three individuals suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 04/04/22.

Bennett v. R.J. Reynolds Tobacco Company, et al., Case No. 20-30196, Circuit Court of the 7th Judicial Circuit, Volusia County (case filed 02/27/2020). One individual suing on behalf of the estate and survivors of a deceased smoker. Vector Group was sued, but Liggett was not named as a defendant.

Broughton v. Philip Morris USA Inc., et al., Case No. 18-CA-007187, Circuit Court of the 13th Judicial Circuit, Hillsborough County (case filed 07/25/18). One individual suing.

Bullock v. R.J. Reynolds Tobacco Company, et al., Case No. 19-028814, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 09/30/19). One individual suing.

Carmichael. et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 20-025134, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 11/20/2020). Two individuals suing.

Cellini v. Philip Morris USA, Inc., et al., Case No. 20-CA-011084, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 07/08/2020). One individual suing.

Cole v. R.J. Reynolds Tobacco Company, et al., Case No. 19-000265, Circuit Court of the 6th Judicial Circuit, Pinellas County (case filed 01/11/19). One individual suing.

Cowart v. Liggett Group Inc., et al., Case No. 98-01483-CA, Circuit Court of the 4th Judicial Circuit, Duval County (case filed 03/16/98). One individual suing. Liggett is the only defendant in this case. The case is dormant.

Craig v. Philip Morris USA Inc., et al., Case No. 21-CA-008337, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 04/23/2021). One individual suing on behalf of the estate and survivors of a deceased smoker.

Cravens v. Philip Morris USA Inc., et al., Case No. 19-CA-002944, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Cunningham v. R.J. Reynolds Tobacco Company, et al., Case No. 17-CA-000293, Circuit Court of the 19th Judicial Circuit, St. Lucie County (case filed 02/20/17). One individual suing on behalf of the estate and survivors of a deceased smoker.

Cupp v. Philip Morris USA Inc., et al., Case No. 17-CA-020257, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 11/06/17). One individual suing. The case is set for trial in 03/22.

DaSilva, et al. v. Philip Morris USA Inc., et al., Case No. 17-CA-022955, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 12/19/17). Two individuals suing.

Davis v. R.J. Reynolds Tobacco Company, et al., Case No. 19-CA-001182, Circuit Court of the 12th Judicial Circuit, Manatee County (case filed 03/19/19). One individual suing.

Feld v. Philip Morris USA Inc., et al., Case No. 17-CA-020119, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 11/03/17). One individual suing. The case is set for trial during the trial period starting 02/07/22.

Gonzalez v. Philip Morris USA Inc., et al., Case No. 18-36558, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 11/03/17). One individual suing.

Griffin v. R.J. Reynolds Tobacco Company, et al., Case No. 19-015066, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/17/19). One individual suing.

Harcourt v. Philip Morris USA Inc., et al., Case No. 17-CA-0202979, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 11/07/17). One individual suing.

Harper, et al. v. Liggett Group LLC, et al., Case No. 2021-013250-CA-01, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 06/17/2021). Two individuals suing.

Johnson v. R.J. Reynolds Tobacco Company, et al., Case No. 20-CA-000635, Circuit Court of the 2nd Judicial Circuit, Gadsden County (case filed 08/25/2020). One individual suing on behalf of the estate and survivors of a deceased smoker and for her own personal injuries.

Kenney v. Philip Morris USA Inc., et al., Case No. 20-CA-018169, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 10/30/2020). One individual suing.

Koedam v. Philip Morris USA Inc., et al., Case No. 19-CA-002970, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 01/03/2020). One individual suing.

Lane, et al. v. Philip Morris USA Inc., et al., Case No. 17-011591, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 06/16/17). Two individuals suing. The case is set for trial during the trial period starting 05/31/22.

McMakin v. R.J. Reynolds Tobacco Company, et al., Case No. 20-30329, Circuit Court of the 7th Judicial Circuit, Volusia County, (case filed 03/30/2020). One individual suing on behalf of the estate and survivors of two deceased smokers. Vector Group is a named defendant, but, not Liggett.

Mendez v. Philip Morris USA Inc., et al., Case No. 18-042377, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 12/21/18). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial in 11/21.

Moon v. Philip Morris USA Inc., et al., Case No. 19-CA-002941, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Nicholson, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 20-014354, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 07/08/2020). Two individuals suing.

Ochoa, et al. v. R.J. Reynolds Tobacco Company, et al., Case No. 20-0233114, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 10/28/2020). Two individuals suing.

Perez-Gell v. Philip Morris USA Inc., et al., Case No. 19-016287, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/30/19). One individual suing.

Roney v. Philip Morris USA Inc., et al., Case No. 19-CA-002943, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Royal v. Philip Morris USA Inc., et al., Case No. 17-CA-020204, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 10/16/17). One individual suing.

Santana v. Philip Morris USA Inc., et al., Case No. 19-37329, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 01/03/20). One individual suing.

Schnitzer v. Philip Morris USA Inc., et al., Case No. 18-026537, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 08/06/18). One individual suing on behalf of the estate and survivors of a deceased smoker.

Schoene v. R.J. Reynolds Tobacco Company, et al., Case No. 21-004689, Circuit Court of the 17th Judicial Circuit, Broward County (case filed 03/05/2021). One individual suing.

Siders v. Philip Morris USA Inc., et al., Case No. 19-CA-002942, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/30/19). One individual suing.

Smith v. Philip Morris USA Inc., et al., Case No. 20-008481, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 04/16/20). One individual suing on behalf of the estate and survivors of a deceased smoker.

Sweet v. Philip Morris USA Inc., et al., Case No. 19-001243, Circuit Court of the 2nd Judicial Circuit, Leon County (case filed 12/23/19). One individual suing.

Taylor v. Philip Morris USA Inc., et al., Case No. 19-CA-255, Circuit Court of the 2nd Judicial Circuit, Wakulla County (case filed 12/18/19). One individual suing.

Tozzi, Jr. v. Philip Morris USA Inc., et al., Case No. 20-CA-018210, Court of the 17th Judicial Circuit, Broward County (case filed 10/30/2020). One individual suing.

Voglio v. R.J. Reynolds Tobacco Company, et al., Case No. 18-CA-000640, Circuit Court of the 19th Judicial Circuit, Martin County (case filed 08/29/18). One individual suing on behalf of the estate and survivors of a deceased smoker.

Watson v. R.J. Reynolds Tobacco Company, et al., Case No. 20-CA-009690-O, Circuit Court of the 9th Judicial Circuit, Orange County (case filed 09/25/2020). One individual suing.

Whitehurst v. Philip Morris USA Inc., et al., Case No. 19-016282, Circuit Court of the 11th Judicial Circuit, Miami-Dade County (case filed 05/30/19). One individual suing.

Hawaii

Ricapor-Hall v. Philip Morris USA Inc., et al., Case No. 1CCV-21-0000334, Circuit Court, First Circuit (case filed 03/16/2021). One individual suing.

Illinois

Akers, et al. v. Philip Morris USA Inc., et al., Case No. 2019-L-011779, Circuit Court of Cook County, Illinois (case filed 10/24/19). Two individuals suing.

Anderson J. v. Philip Morris USA Inc., et al., Case No. 2021-L-003338, Circuit Court of Cook County, Illinois (case filed 03/29/2021). One individual suing.

Bukowski, et al. v. Philip Morris USA, Inc., et al., Case No. 2019-L-010529, Circuit Court of Cook County, Illinois (case filed 09/24/19). Two individuals suing.

Cielsa v. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-005195, Circuit Court of Cook County, Illinois (case filed 05/20/2021). One individual suing.

Demir v. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-004375, Circuit Court of Cook County, Illinois (case filed 04/28/2021). One individual suing.

Dispenza, et al. v. Philip Morris USA Inc., et al., Case No. 2020-L-008496, Circuit Court of Cook County, Illinois (case filed 08/12/2020). Two individuals suing.

Jones v. Philip Morris USA Inc., et al., Case No. 1:20-cv-03349, United States District Court, Northern District of Illinois (case filed 05/04/20). One individual suing.

Jordan vs. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-000670, Circuit Court of Cook County, Illinois (case filed 01/20/2021). One individual suing.

Mitchell v. Philip Morris USA Inc., et al., Case No. 2018-L-011336, Circuit Court of Cook County, Illinois (case filed 10/22/18). One individual suing.

Porter v. R.J. Reynolds Tobacco Company, et al., Case No. 2021-L-003418, Circuit Court of Cook County, Illinois (case filed 03/31/2021). One individual suing.

Prescott v. Philip Morris USA Inc., et al., Case No. 2018-L-003905, Circuit Court of Cook County, Illinois (case filed 04/17/18). One individual suing on behalf of the estate and survivors of a deceased smoker.

Smith v. Philip Morris USA Inc., et al., Case No. 2018-L-008907, Circuit Court of Cook County, Illinois (case filed 08/16/18). One individual suing.

Stoklosa v. Philip Morris USA Inc., et al., Case No. 2019-L012409, Circuit Court of Cook County, Illinois (case filed 11/15/19). One individual suing.

Stone v. Philip Morris USA Inc., et al., Case No. 2020-L-008635, Circuit Court of Cook County, Illinois (case filed 08/17/20). One individual suing on behalf of the estate and survivors of a deceased smoker.

Louisiana

Oser v. The American Tobacco Co., et al., Case No. 97-9293, Circuit Court of the Civil District Court, Parish of Orleans (case filed 05/27/97). One individual suing. There has been no recent activity in this case.

Reese, et al. v. R. J. Reynolds, et al., Case No. 2003-12761, Circuit Court of the 22nd Judicial District Court, St. Tammany Parish (case filed 06/10/03). Five individuals suing. There has been no recent activity in this case.

Nevada

Camacho, et al. v. Philip Morris USA Inc., et al., Case No. A-19-807650C, District Court, Clark County, Nevada, (case filed 12/30/19). Two individuals suing.

Clark v. Philip Morris USA Inc., et al., Case No. A-19-802987C, District Court, Clark County, Nevada, (case filed 10/04/19). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 09/22.

Geist v. Philip Morris USA Inc., et al., Case No. A-19-807653C, District Court, Clark County, Nevada, (case filed 12/30/19). One individual suing on behalf of the estate and survivors of a deceased smoker. The case is set for trial during the trial period starting 03/14/22.

Kelly, et al. v. Philip Morris USA Inc., et al., Case No. A-20-820112-C, District Court, Clark County, Nevada (case filed 08/25/20). Two individuals suing.

Rowan v. Philip Morris USA Inc., et al., Case No. A-20-811091C, District Court, Clark County, Nevada, (case filed 02/25/20). One individual suing as personal representative of the estate and survivors of a deceased smoker.

Speed v. Philip Morris USA Inc., et al., Case No. A-20-819040-C, District Court, Clark County, Nevada, (case filed 08/04/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Tully, et al. v. Philip Morris USA Inc., et al., Case No. A-19-807657C, District Court, Clark County, Nevada, (case filed 12/30/19). Two individuals suing. The case is set for trial during the trial period starting 05/23/22.

New Mexico

Duran v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01683, 1st Judicial District, Santa Fe County, New Mexico (case filed 08/04/2020). One individual suing.

Grace v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01689, 1st Judicial District, Santa Fe County, New Mexico (case filed 08/05/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Lopez, H. v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01686, 1st Judicial District, Santa Fe County, New Mexico (case filed 08/04/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Lopez, T. v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01688, 1st Judicial District, Santa Fe County, New Mexico (case filed 08/05/2020). One individual suing on behalf of the estate and survivors of a deceased smoker.

Martinez, et al. v. RJ Reynolds Tobacco Company, et al., Case No. D-0101-CV-2020-01691, 1st Judicial District, Santa Fe County, New Mexico (case filed 08/05/2020). Two individuals suing.

II. CLASS ACTION CASES

Parsons, et al. v. A C & S Inc., et al., Case No. 00-C-7000, First Judicial Circuit, West Virginia, Ohio County (case filed 02/09/98). This purported class action is brought on behalf of plaintiff and all West Virginia residents who allegedly have claims arising from their exposure to cigarette smoke and asbestos fibers. The operative complaint seeks to recover unspecified compensatory and punitive damages on behalf of the putative class. The case is stayed as a result of the December 2000 bankruptcy petitions filed by three defendants (Nitral Liquidators, Inc., Desseaux Corporation of North America and Armstrong World Industries).

Young, et al. v. American Brands Inc., et al., Case No. 97-19984cv, Civil District Court, Louisiana, Orleans Parish (case filed 11/12/97). This purported personal injury class action is brought on behalf of plaintiff and all similarly situated residents in Louisiana who, though not themselves cigarette smokers, were exposed to secondhand smoke from cigarettes that were manufactured by the defendants, including Liggett, and suffered injury as a result of that exposure. The plaintiffs seek an unspecified amount of compensatory and punitive damages. No class certification hearing has been held. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co.*

III. HEALTH CARE COST RECOVERY ACTIONS

Crow Creek Sioux Tribe v. The American Tobacco Company, et al., Case No. cv-97-09-082, Tribal Court of the Crow Creek Sioux Tribe, South Dakota (case filed 09/26/97). The plaintiff seeks to recover actual and punitive damages, restitution, funding of a clinical cessation program, funding of a corrective public education program and disgorgement of unjust profits from alleged sales to minors. The case is dormant.

Vector Group Ltd.
Condensed Consolidating Financial Statements
June 30, 2021
(in thousands of dollars)

Presented herein are Condensed Consolidating Balance Sheet as of June 30, 2021 and the related Condensed Consolidating Statements of Operations for the six months ended June 30, 2021 of Vector Group Ltd. (Parent/Issuer), the guarantor subsidiaries (Subsidiary Guarantors) and the subsidiaries that are not guarantors (Subsidiary Non-Guarantors).

CONDENSED CONSOLIDATING BALANCE SHEETS

	June 30, 2021				
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments	Consolidated Vector Group Ltd.
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 214,407	\$ 108,261	\$ 167,722	\$ —	\$ 490,390
Investment securities at fair value	157,001	—	—	—	157,001
Accounts receivable - trade, net	—	25,011	26,452	—	51,463
Intercompany receivables	1,835	—	—	(1,835)	—
Inventories	—	93,161	—	—	93,161
Income taxes receivable, net	716	—	—	(716)	—
Other current assets	1,152	5,769	39,250	—	46,171
Total current assets	375,111	232,202	233,424	(2,551)	838,186
Property, plant and equipment, net	427	24,648	47,729	—	72,804
Investments in real estate, net	—	—	9,608	—	9,608
Long-term investment securities at fair value	51,996	—	3,366	—	55,362
Investments in real estate ventures	—	—	76,192	—	76,192
Operating lease right-of-use assets	5,336	5,289	127,432	—	138,057
Investments in consolidated subsidiaries	455,557	237,914	—	(693,471)	—
Goodwill and other intangible assets, net	—	107,511	99,986	—	207,497
Other assets	16,186	51,297	31,188	—	98,671
Total assets	\$ 904,613	\$ 658,861	\$ 628,925	\$ (696,022)	\$ 1,496,377
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:					
Current liabilities:					
Current portion of notes payable and long-term debt	\$ —	\$ 12,526	\$ 12,532	\$ (12,500)	\$ 12,558
Intercompany payables	—	95	1,740	(1,835)	—
Income taxes payable, net	—	13,899	651	(716)	13,834
Current payments due under the Master Settlement Agreement	—	89,488	—	—	89,488
Current operating lease liability	1,687	1,438	23,500	—	26,625
Other current liabilities	43,473	93,882	86,185	(42)	223,498
Total current liabilities	45,160	211,328	124,608	(15,093)	366,003
Notes payable, long-term debt and other obligations, less current portion	1,396,510	6,301	6,266	(6,250)	1,402,827
Non-current employee benefits	57,967	8,862	—	—	66,829
Deferred income taxes, net	(8,810)	24,171	21,241	—	36,602
Non-current operating lease liability	5,069	4,367	135,051	—	144,487
Other liabilities, including litigation accruals and payments due under the Master Settlement Agreement	762	34,515	40,919	(4,522)	71,674
Total liabilities	1,496,658	289,544	328,085	(25,865)	2,088,422
Commitments and contingencies					
Stockholders' (deficiency) equity attributed to Vector Group Ltd.	(592,045)	369,317	300,840	(670,157)	(592,045)
Total stockholders' (deficiency) equity	(592,045)	369,317	300,840	(670,157)	(592,045)
Total liabilities and stockholders' deficiency	\$ 904,613	\$ 658,861	\$ 628,925	\$ (696,022)	\$ 1,496,377

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Six Months Ended June 30, 2021					Consolidated Vector Group Ltd.
	Parent/ Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Consolidating Adjustments		
Revenues	\$ —	\$ 598,004	\$ 675,718	\$ (429)	\$ 1,273,293	
Expenses:						
Cost of sales	—	370,176	493,776	—	863,952	
Operating, selling, administrative and general expenses	21,330	36,717	124,439	(429)	182,057	
Litigation settlement and judgment expense	—	5	—	—	5	
Management fee expense	—	6,483	—	(6,483)	—	
Operating (loss) income	(21,330)	184,623	57,503	6,483	227,279	
Other income (expenses):						
Interest expense	(55,647)	(1,214)	(75)	70	(56,866)	
Loss on extinguishment of debt	(21,362)	—	—	—	(21,362)	
Equity in earnings from real estate ventures	—	—	18,274	—	18,274	
Equity in earnings from investments	1,518	—	—	—	1,518	
Equity in earnings (losses) in consolidated subsidiaries	189,466	57,084	—	(246,550)	—	
Management fee income	6,483	—	—	(6,483)	—	
Other, net	10,778	577	(3,023)	—	8,332	
Income before provision for income taxes	109,906	241,070	72,679	(246,480)	177,175	
Income tax benefit (expense)	15,356	(46,054)	(21,215)	—	(51,913)	
Net income	125,262	195,016	51,464	(246,480)	125,262	
Net income attributed to Vector Group Ltd.	\$ 125,262	\$ 195,016	\$ 51,464	\$ (246,480)	\$ 125,262	
Comprehensive income attributed to Vector Group Ltd.	\$ 125,738	\$ 195,245	\$ 51,464	\$ (246,709)	\$ 125,738	