UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF NEW YORK

In Re

NATIVE WHOLESALE SUPPLY COMPANY

Debtor

Case No. 11-14009-CLB
Chapter 11

AMENDED JOINT CONSENSUAL DISCLOSURE STATEMENT FOR JOINT CONSENSUAL PLAN OF REORGANIZATION OF NATIVE WHOLESALE SUPPLY COMPANY, AND THE STATES[1]

Dated: Buffalo, New York
June 13, 2014

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[1] The "States" are all signatories to the Tobacco Master Settlement Agreement that are appearing herein collectively through their counsel at the National Association of Attorneys General.

I. INTRODUCTION

The Debtor and Debtor-in-Possession, Native Wholesale Supply Company ("NWS" or "Debtor") and the States (the Debtor and the States are collectively referred to as the "Plan Proponents") hereby provide this Amended Joint Consensual Disclosure Statement for its proposed Joint Consensual Plan of Reorganization (the "Disclosure Statement"), including all attached and/or accompanying exhibits, which are incorporated herein as an integral part hereof, to the holders of all claims against the Debtor and all other parties in interest, pursuant to Section 1125 of Title 11 of the United States Code, 11 U.S.C. Section 101, et. seq. (the "Bankruptcy Code").

A. Purpose of the Disclosure Statement.

The purpose of this Disclosure Statement is to provide parties asserting claims against the Debtor with information regarding the treatment of their claims under the proposed Amended Joint Consensual Plan of Reorganization (the "Plan"). More particularly, this Disclosure Statement should provide parties whose claims are impaired under the Plan with adequate information to make an informed and prudent judgment when voting on the Plan.

This Disclosure Statement sets forth certain information regarding the Debtor's pre-petition history, why the Debtor filed Chapter 11, and significant events that have occurred in this Chapter 11 case. This Disclosure Statement also describes the Plan, certain alternatives to the Plan, certain effects of the confirmation of the Plan, and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement outlines the confirmation process and the voting procedures that holders of claims in impaired classes must follow for the votes to be counted.

This Disclosure Statement is not intended to replace a careful review of the Plan. Rather, it is submitted as an aid and supplement to the review of the Plan and in an effort to explain the terms and implications of the Plan. Every effort has been made to fully explain the various aspects of the Plan because it affects all claimants. However, you are urged to review the Plan and this Disclosure Statement with your respective counsel.

B. Disclaimer.

All creditors are advised and encouraged to read this Disclosure Statement and the Plan in their entirety before voting to accept or reject the Plan.

The information contained in this Disclosure Statement is based upon the representations made by the Debtor in the chapter 11 petition, schedules, lists and other documents filed with the Bankruptcy Court, as well as other documents and business records obtained and/or maintained by the Debtor and provided to counsel for the Debtor. The information contained in this Disclosure Statement is believed by the Debtor to be accurate, but it has not been subjected to a certified audit or review. Therefore, no representations or warranties are made as to its accuracy or completeness. Portions of this Disclosure Statement constitute summaries of orders of the Bankruptcy Court and various pleadings, motions, applications, schedules and other documents which are on file with the Bankruptcy Court and which may be examined at the Office of the Bankruptcy Court Clerk, U.S. Bankruptcy Court, Olympic Towers, 300 Pearl Street, Suite 250, Buffalo, New York 14202.

This Disclosure Statement has been prepared in accordance with the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure, and not necessarily in accordance with federal or state securities law or other law.

This Disclosure Statement shall not be construed as advice on the tax or other legal effects of the reorganization as to holders of claims against the Debtor. Creditors and parties in interest should consult independent legal counsel or tax advisors on any questions or concerns regarding tax or other legal consequences of the Plan.

Certain information contained in this Disclosure Statement is forward looking and contains estimates, assumptions and projections that may be materially different from actual future results. Except as otherwise specifically stated herein, this Disclosure Statement does not reflect any events that may occur after the date hereof and that may have a material impact on the information contained in this Disclosure Statement.

NO REPRESENTATIONS CONCERNING THE DEBTOR, PARTICULARLY AS TO FUTURE BUSINESS OPERATIONS OR THE VALUE OF THE DEBTOR'S ASSETS, ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

C. Definitions.

Unless otherwise defined, all capitalized terms contained in this Disclosure Statement shall have the same meaning applied to such terms in the Bankruptcy Code and the Plan.

II. VOTING AND CONFIRMATION PROCEDURES

The Plan is the method by which the Debtor satisfies the claims of its creditors. Whether the Debtor implements the Plan depends upon the acceptance of the Plan by creditors and the Bankruptcy Court's confirmation of the Plan.

A. Creditors Eligible to Vote.

This Disclosure Statement is being transmitted to all creditors of the Debtor. However, the Bankruptcy Code provides that only those classes of creditors whose claims are "impaired" under the Plan will be entitled to vote on acceptance or rejection of

the Plan. Generally, (and subject to the specific provisions of section 1124 of the Bankruptcy Code), a class is "impaired" if the Plan modifies the legal, equitable or contractual rights of the claims of that class. Unimpaired classes are deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Therefore, the Debtor is not required to solicit the votes of those unimpaired classes. In determining the acceptances of the Plan, votes will be counted only if submitted by the holder of an Allowed Claim. Holders of Disputed Claims are not entitled to vote on the Plan unless they request, pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure, that the Bankruptcy Court temporarily allow their claim in appropriate amounts solely for the purpose of enabling such holders to vote on the Plan.

B. Notice to Claimants.

The Bankruptcy Court has approved this Disclosure Statement as containing information of a kind and in sufficient detail to enable holders of claims against the Debtor to make an informed judgment with respect to the acceptance or rejection of the Plan. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A VERIFICATION OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN, NOR DOES IT CONSTITUTE AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

ALL HOLDERS OF CLAIMS AGAINST THE DEBTOR ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS EXHIBITS CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR REJECT THE PLAN. THIS DISCLOSURE STATEMENT CONTAINS

IMPORTANT INFORMATION ABOUT THE PLAN, CONSIDERATIONS PERTINENT TO ACCEPTANCE OR REJECTION OF THE PLAN, AND DEVELOPMENTS CONCERNING THE CHAPTER 11 CASE.

THIS DISCLOSURE STATEMENT IS THE ONLY DOCUMENT AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED BY THE DEBTOR IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN. No solicitations of votes may be made except after distribution of this Disclosure Statement, and no person has been authorized to distribute any information concerning the Debtor or its Plan other than the information contained herein.

C. Solicitation Package.

Accompanying this Disclosure Statement are copies of the following: (1) the Plan; (2) the notice of, among other things, the time for submitting ballots to accept or reject the Plan, the date, time and place of the confirmation hearing for the Plan, and the time for filing objections to confirmation of the Plan (the "Notice"); and (3) a ballot, instructions and return envelope to be used in voting to accept or reject the Plan. IF ANY OF THESE ITEMS ARE MISSING, PLEASE CONTACT THE UNDERSIGNED COUNSEL FOR THE DEBTOR IMMEDIATELY.

D. Voting Procedures, Ballots and Voting Deadline.

After careful review of the Plan, this Disclosure Statement and the detailed instructions accompanying the attached ballot (see Exhibit A), please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed ballot. Please complete and sign your original ballot (copies will not be accepted) and return it in the envelope provided.

IN ORDER FOR YOUR VOTE TO BE COUNTED, THE BALLOT MUST BE PROPERLY COMPLETED IN ACCORDANCE WITH THE VOTING INSTRUCTIONS AND RECEIVED NOT LATER THAN JULY 25, 2014 BY THE U.S. BANKRUPTCY COURT, WESTERN DISTRICT OF NEW YORK, OLYMPIC TOWERS, 300 PEARL STREET, BUFFALO, NEW YORK 14202. Any late filed ballots may not be counted.

Whether or not a creditor votes on the Plan, each creditor will be bound by the terms and treatment set forth in the Plan if the Plan is confirmed by the Bankruptcy Court. Except to the extent otherwise ordered by the Bankruptcy Court, a creditor who does not vote will not be included in the calculation of votes in connection with confirmation of the Plan.

E. Confirmation of the Plan.

The Bankruptcy Court may confirm the Plan only if it determines that the Plan complies with the requirements of Chapter 11 of the Bankruptcy Code. The Bankruptcy Court must determine that this Disclosure Statement concerning the Plan is adequate and includes information concerning all payments made or promised by the Debtor in connection with the Plan. The Bankruptcy Court must determine that the Plan is proposed in good faith and not by any means forbidden by law, and under Rule 3020(b)(2), the Bankruptcy Court may do so without receiving evidence if no objection is timely filed.

In particular, the Bankruptcy Code requires the Bankruptcy Court to find, among other things, that (1) the Plan has been accepted by the requisite votes of all classes of impaired claims namely, two-thirds in dollar amount of allowed claims and greater than one-half in number of allowed claims unless approval will be sought under section

1129(b) of the Bankruptcy Code in spite of the dissent of one or more such classes; (2) the Plan is feasible, which means that after confirmation, the Debtor will be able to perform its obligations under the Plan and continue to operate without further financial reorganization or liquidation; and (3) the Plan is in the best interests of the holders of all claims, which means that such holders will receive at least as much under the Plan as they would in a liquidation under Chapter 7 of the Bankruptcy Code. The Bankruptcy Court must find that all conditions mentioned above are met before it can confirm the Plan. Thus, even if all classes of impaired claims vote for the Plan, the Bankruptcy Court must make an independent finding that the Plan conforms to the Bankruptcy Code requirements.

F. Confirmation Hearing.

THE BANKRUPTCY COURT HAS SET JULY 28, 2014 AT 1:00 P.M. AS THE DATE AND TIME OF THE HEARING ON CONFIRMATION AND OBJECTIONS TO THE PLAN (the "Confirmation Hearing"). OBJECTIONS TO CONFIRMATION OF THE PLAN WILL BE ALLOWED UP TO THE TIME OF THE CONFIRMATION HEARING.

The Confirmation Hearing will be held at the U.S. Bankruptcy Court, Western District of New York, Part II, Third Floor, Olympic Towers, 300 Pearl Street, Buffalo, New York 14202. At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan satisfies the various requirements of the Bankruptcy Code, including whether the Plan is feasible and whether it is in the best interests of the creditors. The Bankruptcy Court will also consider the votes for acceptance or rejection of the Plan by the parties entitled to vote. The Debtor reserves the right, pursuant to section 1126(e), to request the Bankruptcy Court to strike any acceptance or rejection of the Plan by any

claimant as not being in good faith. Creditors and parties in interest may attend the Confirmation Hearing. The Confirmation Hearing may be adjourned from time to time without further notice except for in-court announcements.

G. Recommendation.

THE PLAN PROPONENTS BELIEVE THAT THE PLAN PROVIDES THE GREATEST POSSIBLE RECOVERY TO ALL CREDITORS. THE PLAN PROPONENTS BELIEVE THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF ALL CREDITORS AND RECOMMEND THAT ALL CREDITORS VOTE TO ACCEPT THE PLAN.

III. HISTORY OF THE DEBTOR.

A. Formation and Growth of the Debtor's Business.

Native Wholesale Supply Company ("NWS" or the "Debtor") is a corporation chartered by the Sac and Fox Tribe of Oklahoma and maintains its offices on the Seneca Cattaraugus Indian Territory in Gowanda which is within the geographic boundaries of Western New York. NWS is engaged in the business of importing cigarettes and other tobacco products from Native Americans in Canada and selling them to Indian Nations and Tribes within the United States. The tobacco products the Debtor imports are manufactured by Grand River Enterprises Six Nations, Ltd. ("GRE") on the Grand River Reservation in Ontario, Canada.

The Debtor was formed on February 25, 2000. Its sales grew with each subsequent year of operation. The year prior to the Petition, the annual sales were at a level of approximately $200,000,000 and it has continued at that level for the majority of the Chapter 11 administration period. It currently has only four employees, having

restructured its business during the pendency of its Chapter 11 proceeding so that the marketing function it had previously performed is performed by the manufacturer at a fixed cost to the Debtor.

B. Bankruptcy Filing Was Triggered by Dispute with USDA.

The Debtor's Chapter 11 filing was triggered by an unfavorable decision rendered by Judge John Curtin in a lawsuit by the United States Department of Agriculture ("USDA") against the Debtor. Based upon the Curtin decision, the USDA was poised to enter judgment against NWS for assessments made by the USDA against the Debtor pursuant to the Fair and Equitable Tobacco Reform Act of 2004 ("FETRA") and the Tobacco Transition Payment Program ("TTPP"). The Debtor was forced to file its bankruptcy case to avoid the entry and execution of what would have been a judgment in excess of $43,000,000. Under the Plan, the USDA's total prepetition claim is $45,539,114.30 (the "USDA Prepetition Claim"), $24,866,757.38 of which the USDA asserts is entitled to priority under 11 U.S.C. §507(a)(8)(E)(ii) ("USDA Priority Claim").

C. The Chapter 11 Case.

(1) Commencement.

The Debtor filed a voluntary petition under the provisions of Chapter 11 of the United States Bankruptcy Code on November 21, 2011. The Debtor's schedules and statement of financial affairs were filed on December 13, 2011.

(2) Cash Collateral.

At the time of the Debtor's bankruptcy filing, the Debtor's debt to GRE was approximately $19,200,000. Of this amount, only about $9 million represents existing liabilities; the balance are contingent liabilities that are not allowable claims under the Bankruptcy Code unless and until GRE is called upon to actually satisfy such

amounts. All of the Debtor's indebtedness to GRE is secured by a blanket lien in all of the Debtor's assets. In order to continue using its cash and to continue doing business post-petition, the Debtor entered into an agreement with GRE which permitted it to use the proceeds of its accounts receivable and inventory. Under the Cash Collateral Agreement, GRE was given a continuing postpetition lien in the same assets it held pre-petition, to the same extent and priority as GRE held as of the Petition Date. An order allowing the Debtor temporary use of cash collateral was entered on the Petition Date, with a final order entered on December 13, 2011, after notice and a hearing. GRE is the only secured creditor of the Debtor and it continues to sell the tobacco products to the Debtor that the Debtor imports and sells in Indian Country.

(3) The Professionals.

On the Petition Date, the Debtor was defending lawsuits in the States of California, Oklahoma, Idaho and New Mexico. During the post-petition administration period, a lawsuit was commenced by the State of New York. Accordingly, in addition to bankruptcy counsel and accountants, as well as counsel most familiar with the Debtor's operations, complex bond issues and its business model, it was necessary for the Debtor to employ counsel to continue to or to begin their legal work in defending the Debtor in these respective lawsuits. The law firms and the accountants for whom the Debtor obtained employment approval orders and their respective fee awards in this case are as follows:

Name	Description	Date Approved	Fees and Expenses Awarded	Total Fees and Expenses Received
Gross, Shuman, Brizdle & Gilfillan, P.C.	General Bankruptcy Counsel	12/20/11	$191,098.35 $4,375.46 $70,632.45 $1,547.83 $123,559.50 $1,614.43 $43,749.60 $137.94 $67,384.40 $1,258.58	$195,473.81 $72,180.28 $125,173.93 $43,887.54 $68,642.98
Law Offices of Leonard Violi, LLC	Special Counsel	2/6/12	$20,000.00 $233.61 $30,000.00 $2,181.59	$20,233.61 $32,181.59
Windels Marx Lane & Mittendorf, LLP	Special Counsel	12/19/11	$8,022.00	$8,022.00
Jaeckle Fleischmann & Mugel, LLP	Special Counsel	12/20/11	$3,262.00	$1,518.00
Fredericks Peebles & Morgan LLP	Special Counsel – California	1/10/12	$25,000.00 $200,000.00 $17,526.92 $115,552.00 $16,964.03	$25,000.00 $217,526.92
Eberle, Berlin, Kading, Turnbow & McKlveen, Chartered	Special Counsel – Idaho	2/9/12	$20,776.50 $64.29	$20,840.79
Phillips Murrah, P.C.	Special Counsel – Oklahoma	6/21/12	_____	_____
Cuddy & McCarthy, LLP	Special Counsel – New Mexico	5/31/13	_____	_____
Gable & Gotwals, P.C.	Special Counsel	5/16/13	$166,323.00 $6,122.42	$172,445.42
Webster Szanyi LLP	Special Counsel	6/10/13	$58,628.25 $2,287.77 $11,864.25 $13.98 $12,946.50 $272.47	$60,916.02 $11,878.23 $13,218.97
Mengel Metzger Barr & Co. LLP	Accountants	12/20/11	$64,981.25 $34,943.75	$64,981.25 $34,943.75

(4) Bond Issues.

As stated above, the Debtor is engaged in the business of importing cigarettes and other tobacco products from Canada (the "Goods") and selling them to Indian Nations and Tribes within the United States. In order to import the Goods, U.S. Customs and Border Protection ("U.S. Customs") requires importers such as the Debtor to post bonds or other security for protection of the revenue in the form of customs duties payable to the United States on the importation of product subject to such customs duties. The purpose of the customs bond is to protect the pecuniary interests of the United States in connection with importation of Goods.

The Debtor's customs bond was jeopardized at and around the Petition Date when U.S. Customs notified the Debtor that it needed to increase its existing $9,300,000 bond and replace it with one in the amount of $12,400,000 due to the increase in the Debtor's sales/importation figures. Although the Debtor recognized the need for an increase in the bond amount, U.S. Customs was requiring that the $9,300,000 bond stay in place for six months while it liquidated the entries brought into the country on that bond while simultaneously requiring that a new and increased bond in the amount of $12,400,000 also be maintained. This practice is commonly referred to as bond "stacking". The Debtor simply did not have sufficient collateral to secure $21,700,000 worth of bonds. After many attempts to resolve this critical issue after the Petition Date, the Debtor started an adversary proceeding seeking an injunction against U.S. Customs (A.P. No. 11-1123). A temporary restraining order was issued and the bond issue was resolved by allowing the Debtor to increase the bond amount by $3,100,000, for a total of $12,400,000 and U.S. Customs accelerated the liquidation of the old entries.

The Debtor's customs bond was threatened again the following year during the latter part of 2012, when the Debtor's bonding company, Capitol Indemnity Corporation ("CIC"), sought relief from the automatic stay to notify the Debtor of the termination of CIC's bonds. In an effort to satisfy the bonding company, the Debtor obtained Bankruptcy Court authorization to increase the collateral securing the customs bonds. In the end, however, CIC terminated its bonds with the Debtor, forcing the Debtor to engage an alternate bonding company, Great American Alliance Ins. Co. The transition from one bond to the other required the Debtor, with assistance of U.S. Customs, to accelerate the liquidation of import entries under a bond of CIC which would allow CIC to release collateral being held by it for use in the collateralization of its new bond. As a result of the liquidation of the entries and the consequent delay in releasing the collateral to the new bonding company, the Debtor actually had to stop all importing for approximately two months. Although it was still able to obtain additional inventory through another importer, such purchases had a lower profit margin than those obtained directly from GRE. Obviously, this negatively impacted the Debtor's business, but only temporarily.

(5) Creditors.

This case is basically a three party case – the Debtor, the USDA and the States. Thus it made abundant sense for the three main parties to reach agreement as to how each creditor will be paid and when. The result is the Plan being proposed, which generally provides as follows with respect to each of the three main creditors of the Debtor:

a. USDA: As described in Section III. B. hereof, the Debtor's bankruptcy case was triggered by an unfavorable ruling of District Court Judge John

Curtin that would have resulted in the entry and execution of a judgment against the Debtor in an amount in excess of $43,000,000 for unpaid assessments made by the USDA against the Debtor under FETRA and TTPP. In connection with the resolution of this case, the Debtor and the USDA have stipulated that the total amount of the USDA Claim is $45,539,114.30, $24,866,757.38 of which has priority under 11 U.S.C. 507(a)(8)(E). Under the Plan, within thirty (30) days after the Effective Date, the Debtor will be required to pay $3,000,000 to the USDA in partial satisfaction of the USDA Priority Claim. The Debtor has made all its TTPP payments on a current basis throughout the Chapter 11 case and its continued payment of its TTPP payments on a current basis after confirmation of the Plan is a requirement under the Plan. The balance of the USDA Priority Claim and the USDA Prepetition Claim (which is an unsecured claim) will be paid as described in Section V of this Disclosure Statement.

b. The States – California, New Mexico, Idaho, Oklahoma and New York: Each of California, New Mexico, Idaho, Oklahoma, and New York has a lawsuit pending against the Debtor or had a suit pending as of the Petition Date. Except for the New York Litigation, the lawsuits were commenced prior to the filing of the Debtor's bankruptcy case. The Idaho state court determined that the appeal pending before it was excepted from the automatic stay by the police and regulatory exception in Section 362(b)(4). In March of 2012, California, New Mexico, and Oklahoma, sought and obtained an order from the Bankruptcy Court modifying the automatic stay to permit the Prepetition actions to continue. No relief was necessary to commence the New York Litigation with respect to postpetition violations and New York's suit currently does not contain any allegations with respect to Prepetition sales by the Debtor. Although

judgments have been entered in the suits involving Idaho, and Oklahoma, no Final Order has yet been obtained by any of the States with respect to any of the lawsuits. The Plan is designed to pay only Allowed Claims in accordance with the priority scheme of the Bankruptcy Code. The States' claims, if Allowed by virtue of a Final Order in their respective lawsuits, will include Prepetition Unsecured Claims and/or Postpetition Administrative Expense Claims, depending on whether the claims arose in connection with the Debtor's Prepetition sales activities or Postpetition sales activities. Below is a list of the State and the types of claim(s) that would likely result if that State successfully obtained a Final Order.

i. California

Because the State of California has alleged that there were continuing violations during the Postpetition time frame, the Debtor and California have agreed that if California prevails in the California Litigation, in addition to a Prepetition Claim related to the Debtor's Prepetition sales, it would also hold an Administrative Expense Claim in the amount of $350,000 with respect to the penalties sought by California with respect to those Postpetition sales. In addition, California may also seek an award of attorneys' fees and costs in connection with amounts expended since the Petition Date in connection with such litigation.

Under the Plan, the Debtor has agreed to hold $350,000 in a separate escrow account for the California Administrative Expense Claim to be paid to California if California prevails in the California Litigation and obtains a Final Order awarding penalties, attorneys' fees and/or costs in that amount or more pursuant to the terms of the California Escrow Agreement ("California Escrow Agreement") annexed as Exhibit E to the Creditor Escrow Agreement, which is annexed to the Plan as Exhibit A.

Any remaining Administrative Expense Claim and any Prepetition Claim of California, if California obtains a Final Order, will be an Allowed Unsecured Claim, which claims will be paid from the Creditor Escrow Account as further described in Section V of this Disclosure Statement.

ii. Oklahoma

In its lawsuit brought with respect to Prepetition sales activity by the Debtor, Oklahoma obtained a judgment in the amount of $47,767,795.20, on May 9, 2013 (exclusive of costs, interest, and attorneys fees) at the trial court level, which was affirmed on appeal by the Supreme Court of the State of Oklahoma on June 10, 2014 (the "Oklahoma Judgment"). If Oklahoma obtains a Final Order sustaining all or any part of the Oklahoma Judgment, that amount will be paid first from the Oklahoma Reserve and the balance from the Creditor Escrow Account further described in Section V of this Disclosure Statement.

iii. Idaho and New Mexico.

The lawsuits commenced by Idaho and New Mexico involved only Prepetition sales activity of the Debtor and the Debtor. The Unsecured Prepetition Claims of Idaho in the amount of $263,765.07 and New Mexico in the amount of $1,068.24 have been placed in the Class 4, which claims will be paid 30 days after the Effective Date of the Plan, without any admission of liability. Payment of the claims in Class 4 does not constitute an acknowledgment by the Debtor of any facts alleged in connection with such claims or that the Debtor is legally obligated to satisfy such claims.

iv. New York

New York's case currently includes only allegations relating to Postpetition sales by the Debtor, but it is expected that, after confirmation of the Plan, New York will amend its complaint to include allegations relating to the Debtor's Prepetition Sales. Accordingly, if New York is successful, it will have both a Prepetition Unsecured Claim for Prepetition sales and an Administrative Expense Claim related to Postpetition sales. Such claims of New York will be paid from the Creditor Escrow Account as set forth in Section V of this Disclosure Statement.

(6) Proof of Claim Bar Dates.

a. Creditor Bar Date: A claims bar date of February 10, 2012 was set by the Bankruptcy Court, by which creditors, other than Governmental Units, were required to file proofs of claim.

b. Governmental Unit Claims Bar Date: The Governmental Unit Claims Bar Date, the date by which Governmental Units were required to file proofs of claim, was set for April 8, 2013.

(7) Significant Events During the Chapter 11.

a. The Customs Bond "Stacking" Problem Presented and Resolved: In December of 2011, the Customs Bond "stacking" issue discussed in Section III(c)(4) was resolved favorably for the Debtor at the outset of the case.

b. States Obtain Relief From the Automatic Stay: In March, 2012, the States of California, New Mexico, and Oklahoma sought and obtained relief from the automatic stay to continue the Prepetition lawsuits.

c. Conditional Dismissal of the Case: In September, 2012 the Debtor reached an agreement in principle with the USDA which, upon certain conditions, appeared to have paved the way for the Debtor to exit its Chapter 11 case, especially since the States of California, New Mexico, and Oklahoma, had obtained relief from the automatic stay to proceed with their respective lawsuits. Accordingly, the Debtor made its first motion to dismiss the Chapter 11 case, and the Bankruptcy Court conditionally dismissed the case by an order dated September 27, 2012. The Court's dismissal of the case was conditioned upon the Debtor paying all outstanding United States Trustee's fees and establishing a reserve/escrow account for the benefit of the State of California containing $350,000, the agreed amount of the State of California's potential Administrative Expense Claim in the California Litigation. As it turned out, the Debtor did not complete the conditions necessary for dismissal in order to stay in bankruptcy because two major events occurred which would have destroyed the Debtor's business, but for the existence of its pending bankruptcy case and the protection afforded by the automatic stay. These events were (a) the nonrenewal of the Debtor's customs bond by its surety (see discussion of same in Section III(C)(4) hereof) and (b) the entry of the Oklahoma Judgment in the amount of approximately $47,700,000.

d. Oklahoma Judgment: After the Customs Bond issue was resolved and the dismissal documents were in final form and dismissal of the case was imminent, the State of Oklahoma obtained a judgment against the Debtor in the approximate amount of $47,700,000 at the trial court level, which was affirmed on appeal to the Supreme Court of the State of Oklahoma on June 10, 2014 (defined herein as the "Oklahoma Judgment"). If the Chapter 11 case had been dismissed, this massive judgment could

have been executed upon unless the Debtor obtained a bond in the amount of the judgment, which it could not afford. The Debtor clearly needed the continued protection afforded by the automatic stay to allow it to resolve this issue.

From April to early May, 2013, the Debtor tried but failed to obtain an agreement from the Attorney General's Office for the State of Oklahoma to stay the enforcement of judgment pending the Debtor's appeal of the judgment, in exchange for a nonrefundable deposit (nonrefundable even if the Debtor ultimately won in Oklahoma). The agreement offered but refused by the Attorney General's Office would have afforded the Debtor a stay outside of bankruptcy and dismissal could have been effectuated without harm to the Debtor.

The only remaining option left to the Debtor was to move in Oklahoma state court for a reduction in the bond required to be posted pending its appeal. At the bond hearing on that motion on June 21, 2013, the Court reduced the amount of the bond that would need to be posted pending appeal to $1 million, an amount the Debtor will be able to afford. Now that judgment has been entered in the Oklahoma Litigation, a bond is no longer required; instead, a reserve in the amount of $1 million (the Oklahoma Reserve) will be held in the Creditor Escrow Account to be used to satisfy any Final Order obtained by Oklahoma.

e. New York Litigation: In March of 2013, the State of New York commenced its lawsuit against the Debtor in the District Court for the Eastern District of New York seeking to recover damages for alleged violations of the New York tax law. This action is being pursued with respect to alleged violations of several state and federal statutes during the Postpetition period. In view of the existence of the automatic stay

with respect to the Prepetition period, the State of New York is not currently pursuing litigation with respect to the Debtor's Prepetition sales that allegedly violated the same statutes, but such litigation is expected to be commenced after the confirmation of the Plan.

f. Conditional Order of Dismissal Vacated: In August, 2013, the States sought and obtained an order of the Bankruptcy Court vacating the Court's conditional order of dismissal and the Debtor, the States and the United States started the process of negotiating the terms of the Plan.

IV. FINANCIAL INFORMATION AND THE VALUE OF THE DEBTOR'S ASSETS

A. The Debtor's Assets.

The Debtor's principal assets are its cash, accounts receivable and inventory. It also has some miscellaneous automobiles, office equipment and a forklift. As of February 28, 2014, the assets of the Debtor were as follows:

(1)	**Cash**			
	a.	M&T Operating Account	$9,665,563.16	
	b.	M&T Money Market Account	11,211.09	
	c.	M&T Payroll Account	11,472.22	
	d.	M&T Deduction Account	1,464.32	
	e.	M&T Letter of Credit Account	2,008,424.32	
	f.	M&T Letter of Credit II Account	1,103,990.86	
	g.	M&T CA Escrow Account	350,665.14	
				19,202,791.11
(2)	**Accounts Receivable***			18,019,999.46
(3)	**Other Current Assets**			
	a.	Tax Stamps	102,600.00	
	b.	Inventory	3,186,840.59	
				3,289,440.59
(4)	**Fixed Assets (Equipment less depreciation)**			373,691.61

(5) Other Assets

a.	Employee Loan	92,083.12	
b.	Surety Deposits	1,100,000.00	
			1,192,083.12
	TOTAL ASSETS		$42,078,005.89

*Many of these Accounts Receivable are stale and should be discounted accordingly – see discussion in IV Section B and V Section B(9) of this Disclosure Statement.

B. Liquidation Analysis.

In a liquidation, GRE, the Debtor's only secured creditor, would be entitled to the amount of its claim, which, at most, would be $19,200,000. Its claim would be Allowed only up to the existing liability of approximately $9 million; any claims above that amount would be Allowed only to the extent that GRE was actually required to satisfy any of those contingent liabilities. Thereafter, the USDA, would assert a priority claim of $24,866,757.38. These two claims alone represent approximately $34 million dollars. While that is less than the stated value of the Debtor's assets, of the stated $18 million in accounts receivable, at least 50% do not reflect accounts making current payments and there are serious questions about their collectability. As a result, a more accurate statement of the value of the existing assets is approximately $33 million; the liquidation value thereof would likely be substantially less than that figure. The probable result is that only the secured creditor, GRE and, to an extent, the United States would receive any payment on their claims. Therefore, use of revenues generated from the Debtor's continued operations is expected to provide a greater payment to creditors over time than if the Debtor were liquidated.

Approval of this Disclosure Statement by the Bankruptcy Court does not constitute a finding by the Bankruptcy Court that the Debtor's opinion of the value of its

assets is accurate. Creditors are not precluded from raising conflicting evidence regarding the value of the Debtor's assets.

V. PLAN OF REORGANIZATION

The following is a summary of the Plan. This summary should not be relied on for voting purposes. Creditors are urged to read the entire Plan and to consult with their legal counsel to fully understand the Plan. Prior to the filing of the Plan and Disclosure Statement, the Debtor established a Plan Funding Account at M&T and deposited therein $5.5 million on February 4, 2014 and an additional $500,000 was deposited therein on February 14, 2014. An additional $500,000 will be deposited in the Plan Funding Account on each succeeding 15th day of each month (or the first business day after the 15th) beginning in March, 2014 until the Plan is confirmed. Funds contained in the Plan Funding Account will be used to pay $3,000,000 to the USDA on the USDA Priority Claim. The remaining money in the Plan Funding Account shall be transferred to the Creditor Escrow Account established under the terms of the Plan to be administered by a Creditor Escrow Agent on the Effective Date. The Effective Date of the Plan will be the date upon which the Confirmation Order has become a Final Order and upon which all of the conditions precedent to the Plan have been fully satisfied or effectively waived. The Debtor estimates that assuming there is no stay of or appeal from the Confirmation Order, the Effective Date will be within not more than fourteen (14) days of the Confirmation Date. The Plan designates the various Classes of creditors as "Impaired" or "Unimpaired" Claims. The treatment provided for Allowed Claims under the Plan is in full settlement, satisfaction and discharge of all such claims.

A. Classification and Treatment of Classified Claims.

For purposes of the Plan, Allowed Claims will be placed in the following Classes and will receive the following treatment:

(1) The Allowed USDA Priority Claim.

The USDA Priority Claim in the amount of $24,866,757.38 is not subject to classification, pursuant to 11 U.S.C. 1123(a)(1). This claim is partially secured to the extent of the USDA's allocated share of the amounts held in the Creditor Escrow Account as determined under Section 7.1 of the Plan.

Under the terms of the Plan, the Debtor will pay the USDA $3,000,000 within thirty (30) days after the Effective Date of the Plan to be applied to the USDA Priority Claim. The balance of the USDA Priority Claim will be paid from the Creditor Escrow Account in accordance with the priorities set forth in Section 7.1 of the Plan.

(2) <u>Class 1.</u> Allowed Secured Claim. Class 1 is Impaired.

This Class consists of the Allowed Secured Claim of GRE which had a claim on the Petition Date in the approximate amount of $9,000,000 (and any additional amount of the contingent liabilities currently asserted by GRE against the Debtor that GRE has satisfied during the term of the Plan). GRE's claim is secured by a blanket lien on all of the assets of the Debtor. GRE has agreed, by virtue of the forbearance and subordination agreement annexed to the Plan as Exhibit C (the "Forbearance Agreement"), to forbear from exercising its rights as a secured creditor for so long as the Debtor complies with its obligations under the Plan. GRE has further agreed that, even in the event of a default under the Plan, it will not contest any of the payments theretofore made under the Plan and will not contend in any legal or equitable proceeding of any nature that it is entitled to recovery or payment of any of the funds then held in the

California Escrow Account; the Debtor's funds, to the extent of $3 million (plus accrued interest thereon) securing the Debtor's Surety Bonds; the Plan Funding Account; or the Creditor Escrow Account. Payments by the Debtor to GRE on its Allowed Secured Claim will be permitted on a limited basis under the terms of the Forbearance Agreement entered into between GRE and the USDA and the States annexed to the Plan as Exhibit C. This is only a general description of the Forbearance Agreement; its actual terms are controlling over any contrary provision in this Disclosure Statement or the Plan.

(3) Class 2. Allowed Administrative Expense Claims Of California and New York. Class 2 is impaired.

a. California Administrative Expense Claim. An Allowed California Administrative Expense Claim will arise only if California obtains a favorable Final Order in the California Litigation with respect to its Administrative Expense Claim in whole or in part. This Administrative Expense Claim is secured to the extent of $350,000, an amount which will be deposited by the Debtor in a segregated escrow account for the benefit of the State of California for the California Administrative Expense Claim (the "California Escrow") on the Effective Date pursuant to the terms of the California Escrow Agreement entered into by the Debtor, the State of California and the Escrow Agent. A copy of the California Escrow Agreement is annexed as Exhibit E to the Creditor Escrow Agreement, which is annexed to the Plan as Exhibit A.

Upon entry of a Final Order in the California Litigation, any amounts owed thereunder with respect to the Debtor's Postpetition sales, shall be paid over in accordance with the provisions of Section 7.1 of the Plan. If California does not obtain a favorable Final Order in the California Litigation or prevails in an amount less

than $350,000, any unused portion of the funds in the California Escrow Account not used to satisfy that Final Order shall be paid to the Creditor Escrow Account.

b. New York Administrative Expense Claim. An Allowed New York Administrative Expense Claim will arise only if and to the extent New York obtains a favorable Final Order in the New York Litigation with respect to its Administrative Expense Claim. This is a Disputed Administrative Claim that will become an Allowed Administrative Expense Claim if and to the extent the State of New York prevails in the New York Litigation and obtains a Final Order against the Debtor that an Administrative Expense Claim is owing by the Debtor to the State of New York. This claim, if allowed, will be paid from the Creditor Escrow Account in accordance with the priorities set forth in Section 7.1 of the Plan and described in Section E below.

(4) Class 3. Allowed Non-Priority Claims. This Class is impaired and consists of the following:

a. The Allowed Unsecured Non-Priority Tax Claim of the USDA in the Amount of $20,672,386.92 arising as a result of conduct by the Debtor occurring more than three years prior to the Petition Date, inclusive of interest. This is an Allowed Claim and will be paid in accordance with the priorities set forth in Sections 7.1 of the Plan and as described in Section E below.

b. The California Unsecured Prepetition Claim, if any, arising from Prepetition sales by the Debtor, which will become an Allowed Claim upon, and to the extent of the entry of a favorable Final Order in the California Litigation and will be paid in the order of priorities set forth in Section 7.1 of the Plan and as described in Section E below.

c. The Oklahoma Prepetition Claim, if any, arising from Prepetition sales, which will become an Allowed Claim, upon, and to the extent of the entry of a favorable Final Order in the Oklahoma Litigation. The first $1 million of any such Claim shall be secured by the Oklahoma Reserve; the balance of any such Claim is unsecured and will be paid in the order of priorities set forth in Section 7.1 of the Plan and as described in Section E below.

d. The New Mexico Prepetition Unsecured Claim, if any, arising from Prepetition sales by the Debtor, which will become an Allowed Claim, upon and to the extent of the entry of a favorable Final Order in the New Mexico Litigation and will be paid in the order of priorities set forth in Section 7.1 of the Plan and as described in Section E below.

e. The New York Prepetition Unsecured Claim, if any, arising from Prepetition sales by the Debtor, which will become an Allowed Claim, upon and to the extent of the entry of a favorable Final Order in the New York Litigation and will be paid in the order of priorities set forth in Section 7.1 of the Plan and as described in Section E below.

(5) Class 4. (Convenience Class) Class 4 is unimpaired.

a. Creditors with Claims Listed on Schedule F (i) not indicated as contingent, unliquidated or disputed or (ii) as to which the Debtor has not objected by the objection deadlines contained in Section 1 hereof or (iii) which otherwise become Allowed Claims, but excluding Claims falling within Classes 1, 2 or 3.

b. The Idaho Prepetition Unsecured Claim, which the Debtor agrees are Allowed Claims in the amount of $256,779.27 (inclusive of interest through the

Petition Date) in Case No. CV-OC-0815228, and in the amount of $6,985.80 (inclusive of interest through the Petition Date) in Case No. 08-CV-396-S-EJL.

c. The New Mexico Prepetition Unsecured Claim, arising from Prepetition sales in the amount of $1,068.24 based on a default judgment entered on December 18, 2006, which the Debtor agrees is an Allowed Claim.

Creditors with Allowed claims scheduled in Class 4 hold Claims that will be paid by the Debtor within thirty (30) days after the Effective Date of the Plan. Payment of the claims in Class 4 will not constitute an acknowledgment by the Debtor of any facts alleged in connection with such claims or that the Debtor is legally obligated to satisfy such claims.

(6) Class 5. Class 5 consists of the Interest of the Debtor principal, Arthur Montour.

B. Plan Funding: Establishing Creditor Escrow Account Administered by the Creditor Escrow Agent.

(1) Payments to creditors in Class 4 will be paid directly by the Debtor within 30 days after the Effective Date of the Plan. Payments for Administrative Expense Claims owed to parties other than the States will also be paid directly by the Debtor in accordance with Section 2.2 of the Plan.

(2) Payment for Classes 2 and 3 when they become Allowed Claims will be paid from the Creditor Escrow Account upon the rendering of a Final Order in the New York Litigation as described in Section 7.1 of the Plan.

(3) Creditor Escrow Account. The Creditor Escrow Account will be established by the terms of the Plan to receive deposits from the Debtor and will be

administered by the Creditor Escrow Agent pursuant to the terms of the Creditor Escrow Agreement annexed to the Plan as Exhibit A.

(4) Debtor's Plan Payments. Any money remaining in the Plan Funding Account after making the $3 million payment to the USDA, shall be deposited in the Creditor Escrow Account on the Effective Date. In addition, the Debtor shall deposit into the Creditor Escrow Account a Monthly Deposit (as calculated below in B(5)) on the fifteenth day of each month (or on the first business day following the fifteenth day of the month) of every month as set forth in B(5) below commencing on the first business day on or after the fifteenth of the month following the Effective Date, and on the first business day on or after the fifteenth of the month each and every month thereafter until the Debtor has paid the Creditor Escrow Agent a sufficient amount to pay all Allowed Claims in full and to provide reserves for all Disputed Claims as provided in Article 7.1(c) of the Plan. Under the Plan, the Debtor is required to send Notice to NAAG and the USDA of its making the Monthly Deposit within three (3) business days after making the Monthly Deposit and to providing a copy of the deposit receipt with such notice.

(5) Plan Payments Amount. The Monthly Deposit shall be in the amount of $500,000 per month beginning in November, 2013. Beginning on January 15, 2015, and on each succeeding January 15, that amount shall be increased by 1% each year over the amount being paid during the prior calendar year; i.e., on January 15, 2015, the Monthly Deposit amount shall be $505,000 and on January 15, 2016, the amount shall be $510,050, etc.

(6) Oklahoma Reserve. Under the Plan, the Debtor is required to create the Oklahoma Reserve within the Creditor Escrow Account. If Oklahoma receives a Final

Order in the Oklahoma Litigation in an amount equal to or greater than the amount of funds held in the Oklahoma Reserve, Oklahoma will be entitled to payment of the Oklahoma ReserveIf the Final Order in the Oklahoma Litigation results in a determination that Oklahoma is owed less than the $1,000,000 in the Oklahoma Reserve, any amounts of that Reserve not paid over to Oklahoma will remain in the Creditor Escrow Account and will be available for payments to other parties under Section 7.1 of the Plan.

(7) California Escrow Account. If the Final Order in the California Litigation results in a determination that California is owed less for its Administrative Expense Claim than the $350,000 being held in the California Escrow, any remaining balance in the California Escrow, following the determination made under Section 9.5 of the Plan, shall be paid into to the Creditor Escrow Account.

(8) Amounts Released in Connection with Surety Accounts Held to Secure Federal Excise Tax Payments. At such time, if any, as the Debtor is no longer subject to the requirement to maintain some or all of its Surety Bonds, the Debtor shall move immediately to take all necessary steps to terminate those Surety Bonds, including seeking review and liquidation of all pending entries by the Customs Service. After that process is completed, the amount of any collateral of the Debtor securing any such Surety Bonds (subject to any reduction needed to pay for any federal excise taxes owed at that time, but including any interest earned on such collateral while being held to secure the Surety Bonds) that is no longer required to be held will be added to the Creditor Escrow Account, provided however, that the amount of the current or replacement Surety Bonds to which this transfer of collateral requirement applies (and which are subject to the

Forbearance Agreement) shall not exceed the $3 million of such Surety Bonds currently maintained by the Debtor, and further provided that should the Debtor replace any Surety Bonds secured by its funds with Surety Bonds secured by GRE during the term of the Plan, the collateral supporting any such replaced Surety Bonds (and the interest earnings thereon) shall be immediately added to the Creditor Escrow Account upon its release. The United States shall not assert any right to have the amount of any such collateral applied to any amounts owed on the USDA Prepetition Claim, except as provided in Section 7.1 of the Plan. Nothing in this paragraph shall be construed as a release by the United States of any claim against any surety or non-debtor third party. As provided in the Forbearance Agreement, nothing in the section shall require transfer of any collateral provided by GRE to obtain any Surety Bonds for the Debtor to the Creditor Escrow Account.

(9) Under the terms of the Plan, the Debtor agrees that to the extent it obtains any recoveries on certain accounts receivable identified on Exhibit E annexed to the Plan as a "Stale Accounts Receivable", it will add two thirds of any such amounts (net of expenses, fees and disbursements incurred in the recovery of any such Stale Accounts Receivable) to the Creditor Escrow Account.

C. Other Plan Provisions.

(1) Interest Rate on Allowed Claim of the USDA. The federal judgment rate of interest as of the Effective Date. Interest will start to accrue on the Allowed USDA Claim on the Effective Date.

(2) **Interest Rate on the States' Claims.** Upon the entry of a Final Order, interest will begin to run on the later of the date the Claim becomes an Allowed Claim or the Effective Date and shall be compounded quarterly. Interest shall accrue

(3) a) on the Oklahoma Prepetition Claim

i. at the rate of 3% if the Final Order judgment amount is $10,000,000 or less;

ii. at the rate of 2% if the Final Order judgment amount is between $10,000,000 and $20,000,000; and

iii. at the rate of 1% if the Final Order judgment amount exceeds $20,000,000.

b) on the claims of all other States at the rate of 3%.

(4) **Officer's Salary; Non-Ordinary Course Expenses.** Arthur Montour's salary shall not exceed $20,000 per month. During the term of the Plan, no additional or different benefits may be paid to Mr. Montour than those currently being paid. No dividends, distributions, loans, or other payments may be made to Mr. Montour during the Plan term, apart from his salary as determined hereunder and any allowed benefit. Further, the Debtor shall only incur expenses (including but not limited to capital expenses) that are part of the ordinary, necessary, and reasonable costs of operating its current business of importing and distributing tobacco products.

(5) **Annual Travel and Entertainment Expense Limitation.** The Debtor shall spend no more than 36,000 annually on Travel and Entertainment expenses as those expenses have been accounted and categorized in the Debtor's Monthly Operating Reports filed with the Bankruptcy Court, so long as there are any Allowed Claims or Administrative Expense Claims not paid in full under the terms of the Plan.

(6) Forbearance and Subordination of GRE. Pursuant to the Forbearance Agreement entered into by GRE and the Plan Proponents, GRE has agreed to forbear from enforcing its security interest or requiring the Debtor to make any payment on its Secured Claim (except in limited circumstances) and shall subordinate its security interest to the Allowed Claimants for so long as there is any amount outstanding on any Allowed Claim under the Plan. The Forbearance Agreement is annexed to the Plan as Exhibit C.

(7) Taxes. The Debtor shall be required to stay current on the payment of all its taxes, including its obligations under the Fair and Equitable Tobacco Reform Act of 2004 and the Tobacco Transition Payment Program ("Tax").

(8) Events of Default: Payment Default. The following shall constitute events of default under the Plan:

a. The Debtor fails to:

i. make any Monthly Deposit to the Creditor Escrow Account

ii. give Notice of the Monthly Deposit to NAAG and USDA as required under the Plan

iii. make current Tax payments required under this Plan

iv. provide a Quarterly Financial Report pursuant to the requirements of paragraph 9.10 of the Plan

within ten (10) days of when such Monthly Deposit, Notice, Tax Payment or Quarterly Financial Report is due, and such default is not cured within ten (10) business days of the Debtor's and counsel's receipt of Notice sent by certified mail, return receipt requested from any Plan Proponent or their respective counsel asserting that there has been such a default (with such uncured defaults being referred to herein as a "Payment Default"); or

b. The Debtor fails to make or submit a Monthly Deposit, Tax Payment, or Quarterly Financial Report or give Notice thereof within ten (10) days of when due more than three times in any twelve (12) month period (a "Recurring Default"), whether or not such failure is cured within the time period set our in subparagraph (a).

c. The Debtor provides any materially false information regarding the Debtor's operations during the case or after confirmation (whether in discovery or in the Monthly or Quarterly Operating Reports or otherwise) (a "False Statement Default"). With respect to determining whether a False Statement Default has occurred, either the States or the United States may give Notice and evidence of the provision of any materially false information. Within ten days of either the States or the United States giving notice of an asserted False Statement Default, the Debtor may make a motion requesting that the Court issue an order finding either that (i) no materially false information has been provided or (ii) that the materially false information was not provided with knowledge of its falseness or with a conscious disregard for the accuracy of the information shown to be materially false. Unless the Debtor makes a timely motion and the Court issues an order finding either that (i) no materially false information has occurred or (ii) that the materially false information was not provided with knowledge of its falseness or with a conscious disregard for the accuracy of the information shown to be materially false, a False Statement Default shall be deemed to have occurred.

d. Upon the occurrence of any of Payment Defaults, Recurring Defaults or False Statement Defaults, the Plan Proponents shall automatically have access to the remedies under Paragraph 9.16 of the Plan.

(9) Events of Default: Other Defaults. The occurrence of the following shall constitute an "Other Default" under the Plan:

a. The payment of funds to Arthur Montour not authorized or contemplated by the Plan;

b. The expenditure of funds by the Debtor that are not authorized or contemplated by Section 9.8(b) of the Plan;

c. The payment of funds to GRE on its Secured Claim in violation of the terms of the Plan and/or the Forbearance Agreement; or

d. The payment of funds in excess of $36,000 annually (measured from the Effective Date) on Travel and Entertainment expenses not authorized by the Plan.

e. The failure to comply with the obligations set out herein with respect to the Oklahoma Reserve and the California Escrow Account.

f. Any other failure of the Debtor to comply with the Confirmation Order or subsequent order of the Bankruptcy Court.

(10) Resolution of Other Defaults.

a. Upon the occurrence of an Other Default, the States and the United States, either individually or jointly, shall give Notice to the Debtor of the Other Default. After receiving Notice of an Other Default, the Debtor must cure the Other Default in thirty (30) days after receiving the notice unless it gives Notice that it disputes that an Other Default has occurred. If the Debtor fails to cure the Other Default or to give Notice that it disputes that the Other Default has occurred within thirty (30) days, the States or the United States shall have access to the remedies described in paragraph 9.16 of the Plan and set forth in paragraph C(12) below.

b. If the Debtor disputes that an Other Default has occurred, the Debtor must give Notice to the States or the United States that it disputes that an Other Default has occurred and an explanation of the basis of its dispute within 10 days of receiving Notice of the Other Default. Upon receiving the Debtor's notice, the States or the United States may, within ten (10) days of receiving Notice of the Debtor's dispute and upon Notice to the other Plan Proponents and the United States, move to reopen the Bankruptcy Case and request that the Debtor be ordered to cure the Other Default. If the Court finds that an Other Default has occurred and the Debtor fails to cure the Other Default within thirty (30) days of the Court's ruling, the States or the United States shall have access to the remedies described in paragraph 9.16 of the Plan and as set forth in paragraph C(12) below.

(11) Waiver of Defaults. The States or the United States may, in their sole discretion, and with the unanimous consent of any State or the United States that have not been paid in full at that time, choose to waive any default or to request the Bankruptcy Court to use its powers under Plan provision 9.17(e) (a Waiver"), rather than exercise their remedies under Plan provision paragraph 9.16, by giving Notice to the Debtor of the decision to provide such a Waiver. The decision to provide a Waiver for any specific occurrence of Default shall not be a waiver with respect to any future event of Default.

(12) Remedies Available After Uncured Default. If a Payment Default occurs, or an Other Default occurs and is not cured according to the provisions of paragraph 9.14 of the Plan or waived under paragraph 9.15 of the Plan, the States or the United States and other parties in interest shall be permitted to enforce all rights and exercise all remedies available under state or other applicable law, including the

Bankruptcy Code, against the Debtor and its property subject only to the provisions of the Creditor Escrow Agreement and this Plan with respect to the allocation of any funds held in the Creditor Escrow Account or to be added thereto, and the Forbearance Agreement. Such rights include the right to complete any litigation, to obtain injunctive relief, to pursue immediate collection of any and all amounts then owing or later determined to be owing by the Debtor, whether for Claims or Administrative Expense Claims, or to request conversion of the case to Chapter 7. As more fully described in the Forbearance Agreement, GRE may exercise its rights as a secured creditor if such an uncured default occurs, but may not contest any payments made heretofore under the Plan or the use of funds in the Creditor Escrow Account.

(13) Retention of Jurisdiction. Under the Plan, the Bankruptcy Court will retain such jurisdiction of the present chapter 11 proceedings as is legally permissible pursuant to all applicable provisions of the Bankruptcy Code, Rules, and other applicable law for all purposes, including, without limitation, the following:

a. to hear and adjudicate objections to Claims and Interests and any other issues relating to the allowance, payment and priority of Claims and Interests except to the extent such issues are being litigated elsewhere pursuant to the provisions of the Plan;

b. to hear, adjudicate and authorize payment of Administrative Expense Claims and compensation under Section 330 of the Bankruptcy Code;

c. to hear and adjudicate the validity and allowance of any Claims resulting from the rejection of an Executory Contracts or Unexpired Leases;

d. to hear and adjudicate all controversies arising from the provisions of the Plan;

e. to construe and take any action to enforce and execute the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

f. to issue such orders as may be necessary for the implementation, execution, performance and consummation of the Plan;

g. to protect the property of the estate reverting in the Debtor from Claims against and interference with such property, including actions to quiet title to such property based upon the terms and provisions of the Plan;

h. to hear and adjudicate all applications, motions, adversary proceedings, lawsuits, contested matters or any other litigated matters related to these chapter 11 proceedings, whether commenced before or after the Effective Date, except to the extent such matters are being heard in other forums pursuant to the provisions of the Plan;

i. to modify the Plan pursuant to the Bankruptcy Code, to remedy any defect or omission in the Plan, or to reconcile any inconsistency in the Plan so as to carry out its intent and purposes;

j. to hear and adjudicate whether a Final Order has been achieved;

k. to hear and adjudicate whether the asserted Classification of a Claim provided for in a Final Order is accurate;

l. to issue injunctions or to take such other actions as may be necessary or appropriate to avoid interference with the Plan or its execution or implementation by any person or party;

m. to hear and adjudicate any other matter not inconsistent with the Bankruptcy Code and the Plan; and

n. to enter a final decree closing the present chapter 11 proceedings.

The Plan provides that nothing in the jurisdictional section described will be construed to grant the Bankruptcy Court jurisdiction over any action or contested matter against the United States, its agencies, or its officers arising out of or related to any laws or matters listed or otherwise described in section 1581 of Title 28 of the United States Code. The Debtor also agrees under the Plan that the exclusive forum for any such action or contested matter is the United States Court of International Trade.

(14) Ex Parte Motion to Reopen the Bankruptcy Case. In the event that Bankruptcy Court involvement is required to resolve any issue addressed in this Plan, its enforcement or interpretation, by the terms of this Plan, the Plan Proponents and the United States are authorized, singly or collectively, to file an Ex Parte Motion to reopen the Bankruptcy Case.

D. Plan Litigation Trustee

(1) Plan Litigation Trustee Under the Plan. Under the Plan, on or before the Effective Date, the Debtor shall execute the Plan Litigation Trustee Agreement annexed to the Plan as Exhibit B with the Plan Litigation Trustee. On the Effective Date, the Debtor shall transfer to the Plan Litigation Trustee all of its rights, title and interest to pursue all Recovery Actions. The Debtor will cooperate with the Plan Litigation Trustee's investigation of the Recovery Actions, including by promptly making all requested relevant documents available at reasonable places and times, and providing the

Debtor's personnel, including but not limited to Arthur Montour, as requested by the Trustee for questions and/or depositions at mutually agreed reasonable places and times.

(2) **The Recovery Actions.** Pursuant to the Plan Litigation Trustee Agreement, the Plan Litigation Trustee will investigate and assert, if appropriate, claims to avoid Prepetition transfers to Arthur Montour pursuant to paragraph 6.5 of the Plan.

(3) **Funding the Expenses of the Plan Litigation Trust.** In accordance with the Plan Litigation Trustee Agreement attached to the Plan as Exhibit B, the expenses of the Plan Litigation Trustee shall be funded initially with a $50,000 advance from the first Monthly Deposit made after the Effective Date. Any additional costs or expenses above the initial advance shall be provided by the Plan Litigation Trustee at his own expense. The Plan Litigation Trustee shall be paid attorneys' fees on a contingent basis based upon the net amount of recovery, if any from any Recovery Actions.

(4) **Transfer of Cash Assets to Creditor Escrow Account.** Upon final resolution of the Recovery Actions, and after accounting for and paying all expenses of the Plan Litigation Trustee in pursuing any Recovery Actions. the Plan Liquidation Trustee shall deposit all Cash held by him (including any amounts from the initial $50,000 deposit not used in the litigation) in the Creditor Escrow Account.

E. Order of Priorities in Plan Payments. Except with respect to disbursement of the Oklahoma Reserve as provided for above, there will be no Plan disbursements from the Creditor Escrow Account until there is a Final Order in the New York Litigation. After there is a Final Order in the New York Litigation, the Creditor Escrow Agent shall make an initial Distribution within twenty (20) days thereafter. Subsequent distributions shall be made on a quarterly basis.

(1) If New York prevails in the New York Litigation (with respect to its Administrative Expense Claim) and obtains a Final Order directing payment in excess of what is then on deposit in the Creditor Escrow Account, 85% of the funds on deposit or thereafter deposited in the Creditor Escrow Account shall be paid by the Creditor Escrow Agent to New York as the holder of an Allowed Administrative Expense Claim (Class 3b) and the remaining 15% of the funds on deposit or thereafter deposited in the Creditor Escrow Account shall be paid *pro rata* to the United States for its Allowed Priority USDA Tax Claim, and to California to the extent that its holds an Allowed California Administrative Expense Claim that exceeds the amount held in the California Escrow Account (the "Excess California Administrative Expense Claim"). If California does not yet hold an Allowed California Administrative Expense Claim at such time as payments commence under this section, the entire 15% shall be paid to the United States until such date, if any, that California does hold an Allowed Administrative Expense Claim that would trigger *pro rata* payment under this section. If New York loses the New York Litigation or wins the New York Litigation but for an amount less than the balance in the Creditor Escrow Account, or at such time as payments are made to New York and other creditors according to the formula set forth above in an amount equal to the Allowed New York Administrative Expense Claim as determined in the New York Litigation, all funds then remaining on deposit in the Creditor Escrow Account and all subsequent Monthly Deposits into the Creditor Escrow Account shall be paid *pro rata* to the USDA for the USDA Priority Claim and to California for the California Excess Administrative Expense Claim until those claims are paid in full.

(2) Upon completion of payments to the USDA Priority Claim and the California Excess Administrative Expense Claim, all subsequent Monthly Deposits shall be distributed Pro-Rata amongst the States with Allowed Prepetition Claims and the USDA with respect to its Allowed Non-Priority Claim until all such claims are paid in full. Any State that does not have an Allowed Claim at the time when Pro-Rata distributions commence will not receive payments from the Creditor Escrow Account until such time as it holds an Allowed Claim, at which time its Allowed Claim will be added to the balances remaining for payments to the other States and the USDA and will be entitled to share Pro-Rata in the distributions from the Creditor Escrow Account from that point forward. If any State still has a pending Disputed Claim at the time all other amounts are paid hereunder, that State may request that the Court order that a reserve be established in the maximum amount of its Disputed Claim and that Monthly Deposits be required to be continued to the Creditor Escrow Account until that reserve is fully funded. Such Claim will be paid from the Creditor Escrow Account when and to the extent that a Final Order is entered providing for payment of such claim, and the Final Order is reviewed and the Claim is allowed for payment under Paragraph 9.5. No reserve need be established for a claim unless there is filed and pending litigation at the time the reserve is requested.

(3) If, and only if, all Allowed Claims are paid in full and all Disputed Claims for which reserves have been determined are fully provided for with funds retained in the Creditor Escrow Account, then all funds remaining in the Creditor Escrow Account, other than the funds reserved for payment of Disputed Claims, shall be returned to the Debtor and no further Monthly Deposits will be required. If a reserve has been provided for one

or more of the Disputed Claims and Final Orders are obtained disallowing the Disputed Claim(s) in whole or in part, the balance of the reserve not needed to satisfy those Disputed Claims shall then be returned to the Debtor and the Creditor Escrow Account shall be terminated.

THE FOREGOING IS ONLY A SUMMARY OF THE ESSENTIAL PROVISIONS OF THE PLAN. CREDITORS ARE ADVISED TO REVIEW THE PLAN CAREFULLY.

VI. MANAGEMENT OF THE REORGANIZED ENTITY

Following confirmation of the Plan, the Debtor will continue to be managed by the current management team, consisting of Arthur A. Montour and Earl Hill. Arthur Montour, the 100% stockholder of the Debtor, will continue to receive his monthly salary of $20,000. The other employees shall continue to be paid their current rate of salary and benefits, with annual reviews and increases in pay and benefits for such employees to be determined and within the discretion of management.

VII. TAX CONSEQUENCES OF THE PLAN

The Plan may have tax consequences to the Debtor and to the holders of Claims.

NO OPINION OF COUNSEL HAS BEEN SOUGHT OR OBTAINED WITH RESPECT TO ANY TAX CONSEQUENCES OF THE PLAN AND NO TAX OPINION IS GIVEN BY THIS DISCLOSURE STATEMENT. NO RULINGS OR DETERMINATIONS OF THE INTERNAL REVENUE SERVICE ("IRS") OR ANY OTHER TAX AUTHORITIES HAVE BEEN OBTAINED OR SOUGHT WITH RESPECT TO THE PLAN, AND NOTHING HEREIN IS BINDING UPON THE IRS OR OTHER TAX AUTHORITIES.

No representations are made regarding the particular tax consequences of the Plan to any holder of a Claim. The tax consequences of the Plan to holders of Claims are in many cases uncertain and may vary depending on the holder's individual circumstances. Each holder of a Claim is strongly urged to consult its own tax advisor regarding the federal, state, local and foreign tax consequences of the transactions described herein and in the Plan.

VIII. FINANCIAL STATEMENTS

A. Forecasted Statement of Net Income.

The Debtor continues to operate its business of importing tobacco products from Canada. The Debtor believes that income from the operation of the business will be sufficient to fund the Plan. Attached as Exhibit A is a projected statement of net income (loss) for the next ten (10) years. This forecast is the Debtor's best estimate of its future income. As with all projections and forecasts, actual figures may differ significantly from the estimated figures in the projected statements. Moreover, although the States are Plan Proponents, they have had no role in preparing the projections annexed hereto as Exhibit A and they express no opinion about the validity of the projections or the feasibility of the Plan payments described herein.

B. Feasibility of the Plan

The projections contained within Exhibit A demonstrate the feasibility of the Debtor's ability to make the Monthly Deposit and stay current with its other obligations and to make the proposed payments to all Allowed Claimants over time. If one or more of the contingent claims of the States are defeated, the duration of the Plan will be shortened. Conversely, the Plan's duration will be indefinite if all of the contingent claims become Allowed Claims or Allowed Administrative Expense Claims. The Plan

proponents recognize that the Plan is a vehicle to receive payments if their respective lawsuits are successful.

IX. BEST INTERESTS OF CREDITORS

Notwithstanding acceptance of the Plan by creditors, the Bankruptcy Court must independently determine that this Plan is in the best interest of all classes of claims. The "best interest" test requires that the Bankruptcy Court find that the Plan provides to each member of each impaired class of claims a recovery which has a present value that is at least equal to the present value of the distribution which each class member would receive from the Debtor's estate if the estate were liquidated under Chapter 7 on the Effective Date. The Plan Proponents believe that the proposed consensual Plan is in the best interest of all creditors and passes this test.

Under Chapter 7, a secured creditor whose claim is fully secured would be entitled to payment, including interest, from the proceeds of the sale of its collateral. Unless its Claim is nonrecourse, a secured creditor whose collateral is insufficient to pay its Claim in full would be entitled to assert an unsecured claim for its deficiency. Claims entitled to priority under the Bankruptcy Code would be paid in full before any distribution to general unsecured creditors. Only the funds, if any, remaining after payment of secured claims and priority claims would be distributed pro rata to general unsecured creditors. In this case, as set forth in Section IV of this Disclosure Statement, the total value of the Debtor's assets, even at fair market value, is enough only to pay the secured creditor, GRE, its $9,000,000 Allowed Secured Claim and the USDA Priority Claim, which calculation does not even include the substantial Chapter 11 administration expenses anticipated. Unsecured creditors in this case would certainly receive nothing.

Moreover, the Plan Proponents believe that liquidation under Chapter 7 would result in substantial diminution of the value of the Debtor's estate because of additional administrative expenses arising from the appointment of a trustee and attorneys, accountants and other professionals to assist such trustee; additional expenses and claims, some of which would be entitled to priority, that would arise by reason of the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtor's operations; and failure to realize the far greater going concern value of the Debtor's assets.

Creditors will receive at least as much under this Plan as they would if the case were to be converted to a case under Chapter 7 and the Debtor's assets were liquidated by a Chapter 7 Trustee. In particular, the unsecured creditors will receive more under the Plan than they would if the case were converted to Chapter 7. As stated above, in a Chapter 7 liquidation, a majority of the proceeds of the sale of the Debtor's assets would be consumed by liens, administrative expense claims, and the costs of sale, such that unsecured creditors would receive nothing.

X. CONCLUSION

The Debtor AND the States submit that the Plan complies in all respects with Chapter 11 of the Bankruptcy Code and recommend that creditors who are entitled to vote on the Plan, vote to accept the Plan.

Dated: Buffalo, New York
June 13, 2014

Respectfully submitted,

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