UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF NEW YORK

In Re

NATIVE WHOLESALE SUPPLY COMPANY

Debtor

Case No. 11-14009-CLB
Chapter 11

DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION OF NATIVE WHOLESALE SUPPLY COMPANY

Dated: Buffalo, New York
January 31, 2014

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I. INTRODUCTION

The Debtor and Debtor-in-Possession, Native Wholesale Supply Company ("NWS" or "Debtor"), hereby provides this Disclosure Statement for its proposed 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 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.

On _____, 2014, the Bankruptcy Court 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 **4:30 P.M. ON _____, 2014**, AT 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 _____, **2014** AS THE DATE BY WHICH ALL WRITTEN OBJECTIONS TO CONFIRMATION OF THE PLAN MUST BE FILED WITH THE BANKRUPTCY COURT AND SERVED UPON THE

UNDERSIGNED COUNSEL FOR THE DEBTOR. IN ADDITION, THE BANKRUPTCY COURT HAS SET _____, 2014 AT _____ AS THE DATE AND TIME OF THE HEARING ON CONFIRMATION AND OBJECTIONS TO THE PLAN (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 DEBTOR BELIEVES THAT THE PLAN PROVIDES THE GREATEST POSSIBLE RECOVERY TO ALL CREDITORS. THE DEBTOR BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF ALL CREDITORS AND RECOMMENDS 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 Debtor's business model is based on the resale of its products in Indian Country throughout 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 transferred the marketing aspect of its business to GRE during the pendency of its Chapter 11 proceeding.

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 in the amount of $43,131,307.41 ("USDA Claim"). This sum was 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.

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, most of which was either disputed (and is now resolved) or contingent in nature. All GRE indebtedness 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 on the Seneca Nation territory.

(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	$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	$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 maintaining the new and increased bond in the amount of $12,400,000. 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. 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. A major effort to reach a consensual plan was made by the Debtor, the States and the USDA, but was not achieved by the January 31, 2014 deadline. Accordingly, the Debtor is proposing its own plan. The Debtor has not ruled out the possibility that it can ultimately reach agreement with the States and the USDA and modify its Plan as a joint consensual plan. Presently, however, the instant Plan is 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. The Debtor and the USDA has or will have stipulated that the total amount of the USDA

Claim is $43,131,307.41, $24,592,693.32 of which has priority under 11 U.S.C. §507(a)(8)(E)(iii) (the "Priority Portion of the USDA Claim"). Under the Plan, within thirty (30) days after the Effective Date, the Debtor will be required to pay $3,000,000 on the Priority Portion of the USDA 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 Priority Portion of the USDA Claim and the Unsecured Portion of the USDA 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 the States has a lawsuit pending against the Debtor. Except for the New York Litigation, the lawsuits were commenced prior to the filing of the Debtor's bankruptcy case. In March of 2012, the States with Prepetition actions then pending sought and obtained an order 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). No Final Order has 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. Some of the States' claims, if allowed by virtue of a Final Order in its respective lawsuit, will include Prepetition Unsecured Claims and 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. <u>California</u>

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.

Under the Plan, the Debtor has agreed to hold $350,000 in a separate escrow account for the California Administrative Expense Claim if California prevails in the California Litigation and obtains a Final Order. The remaining Prepetition Claim, if California obtains a Final Order, will be an Allowed Unsecured Claim paid on a Pro Rata basis with other Allowed Prepetition Unsecured Claims.

ii. New Mexico, Idaho and Oklahoma

Each of the lawsuits commenced by New Mexico, Idaho and Oklahoma involve only Prepetition sales activity by the Debtor and therefore any claim allowed for any of these sales, if they succeed in their lawsuit and obtain a Final Order, will be paid as further described in Section V of this Disclosure Statement.

iii. New York

Like California, upon obtaining a Final Order, New York will have both a Prepetition Unsecured Claim for Prepetition sales and an Administrative Expense Claim related to Postpetition sales.

The manner, method and priority of paying the foregoing State claims, when and if allowed, is set forth in Section V of this Disclosure Statement, which provides a description of the Plan.

(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 through NAAG 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 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 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 summary judgment in favor of the State of Oklahoma in the Oklahoma Litigation 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 $47.7 million judgment against the Debtor on March 29, 2013. 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.

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. While New York is not stayed from continuing the action for tax violations which occurred Postpetition, it is

anticipated that New York will seek an amendment of its complaint to include Pre-Petition tax violations after the automatic stay with respect to the same after the Effective Date.

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 December 31, 2013, the assets of the Debtor were as follows:

(1)	**Cash**			
	a.	M&T Operating Account	3,194,222.16	
	b.	M&T Money Market Account	1,310,084.85	
	c.	M&T Payroll Account	4,525.25	
	d.	M&T Deduction Account	1,464.32	
	e.	M&T Letter of Credit Account	2,007,126.15	
	f.	M&T Letter of Credit II Account	1,103,277.28	
	g.	M&T CA Escrow Account	350,438.50	
				7,971,138.50
(2)	**Accounts Receivable**			19,732,915.96
(3)	**Other Current Assets**			
	a.	Tax Stamps	102,600.00	
	b.	Inventory	2,363,554.00	
	c.	Undeposited Funds	1,719,030.00	
				4,185,184.00
(4)	**Fixed Assets (Equipment less depreciation)**			436,289.00
(5)	**Other Assets**			
	a.	Employee Loan	92,083.12	
	b.	Surety Deposits	1,100,000.00	
				1,192,083.12

TOTAL ASSETS	$33,517,611.00

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. Thereafter, the USDA, would have a priority claim of $24,866,757.38 and an unsecured claim in the amount of $20,672,386.92. These claims alone exceed the total value of the Debtor's assets, whether valued on a going concern or liquidation basis.

The States and the United States, who are jointly proposing the Plan, recognize that payment on their claims or potential claims can only occur if the Debtor continues to operate and generate revenue.

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 Debtor's Plan of Reorganization. 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. Except for an initial payment directly from the Debtor of $3,000,000 to the USDA on its Priority Claim and payment in full of small, undisputed allowed claims as well as Allowed Administrative Claims within thirty (30) days after the Effective Date, the Plan contemplates establishment of a Creditor Escrow Account to be administered by a Creditor Escrow Agent for the repayment of Allowed Claims in the order of priority established by the Bankruptcy Code. 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 Plan will take effect approximately fourteen (14) to sixty (60) days after 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 Tax 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.

The USDA shall have an allowed Unsecured Section 507(a)(8) Priority Tax Claim in the amount of $24,866,757.38 (inclusive of interest). Under the terms of the Plan, the Debtor will pay the USDA $3,000,000 to be applied to its Class 2 claim within 30 days after the Effective Date of the Plan. The balance of this claim 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 D below.

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

This Class consists of the claim of GRE which had a claim on the Petition Date in the approximate amount of $19,200,000 comprised of an undisputed $9,000,000 claim and $10,200,000 in contingent liabilities for various contested claims asserted against GRE for which

GRE claims a right over against the Debtor, all of which is secured by a blanket lien in all of the assets of the Debtor. Although GRE will retain all its legal, contractual and equitable rights and is impaired under the Plan, GRE has agreed, by virtue of the forbearance and subordination agreement annexed to the Plan as Exhibit C, to forbear from exercising any of 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 Debtor's funds then held in the California Escrow Account, the Debtor's funds securing the Oklahoma Bond and the Debtor's Surety Bonds, or the Creditor Escrow Account.

(3) Class 2. Allowed Administrative Expense Claims Of California and New York. Class 3 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 have been deposited by the Debtor in a segregated escrow account for the benefit of the State of California for the California Administrative Expense Claim.

Upon entry of a Final Order in the California Litigation, any amounts owed thereunder for 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 into 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 4. 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 and provisions contained in Sections 7.1 of this Plan.

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 from the Creditor Escrow Account in the order of priorities set forth in Section 7.1 of the Plan.

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 Bond; the balance of any such Claim is unsecured.

d. The Idaho Prepetition Unsecured Claims, 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 Final Order in the Idaho Litigation granting recovery to Idaho from the Debtor on account of Prepetition Activities of the Debtor.

e. 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.

f. 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.

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

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, excluding Claims falling within Classes 1, 2 or 3.

Creditors with Allowed claims scheduled in Class 4 hold Claims will be paid by the Debtor within thirty (30) days after the Effective Date of the Plan.

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

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

(1) The Plan will be funded directly by the Debtor on certain claims within thirty (30) days after the Effective Date of the Plan where indicated in the Plan; otherwise, the remaining claims 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.

(2) Creditor Escrow Account. The Creditor Escrow Account will be established by the terms of the Plan 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.

(3) Debtor's Plan Payments. The Debtor shall deposit into the Creditor Escrow Account in the initial monthly deposit amount of $500,000 on the first business day of every month as set forth in B(5) below (the "Monthly Deposit"), commencing on the first business day of the month following the Effective Date, and on the first business day of the month each and every month thereafter until the Debtor has paid the Plan Trustee a sufficient amount to pay all Allowed Claims in full.

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

(5) Oklahoma Bond. Under the Plan, the Debtor is required to obtain the Oklahoma Bond within ten (10) business days after the Effective Date. If the Final Order in the Oklahoma Litigation results in a determination that Oklahoma is owed less than the $1,000,000 in the Oklahoma Bond, any amounts of that Bond not paid over to Oklahoma will be paid over to the Creditor Escrow Account.

(6) 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 Account, any remaining balance in that Escrow Account, following the determination made under Section 9.4 of the Plan, shall be paid into to the Creditor Escrow Account.

(7) Amounts Released in Connection with Surety Accounts Held to Secure Federal Excise Tax Payments. At such time, if any, as the Debtor ceases its operations and is no longer subject to the requirement to maintain surety bonds, securing its obligation to make federal excise tax payments on the tobacco products it distributes, the Debtor shall move immediately to take all necessary steps to terminate those bonds, including seeking expedited review and liquidation of all pending entries by the Customs Service. After that process is completed, all collateral of the Debtor securing any such bonds (subject to any reduction needed to pay for any federal excise taxes owed at that time) will be added to the Creditor Escrow Account. The United States agrees to relinquish any claim to have such funds applied to any amounts owed on its Claims, and GRE agrees that it will not seek to have such funds applied to its Secured Claims.

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

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

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

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

(3) Officer's Salary. 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.

(4) 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 not paid in full under the terms of the Plan.

(5) Forbearance and Subordination of GRE. Pursuant to the forbearance and subordination agreement annexed to the Plan as Exhibit C, GRE has agreed to forbear from enforcing its security interest and requiring the Debtor to make any payment on its Secured Claim and has also subordinated its security interest to the Allowed Claimants for so long as there is any amount outstanding on any Allowed Claim under the Plan.

(6) 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").

(7) Events of Default: Payment Default. The following shall constitute events of default hereunder:

a. The Debtor fails to:

i. make any Monthly Deposit to the Creditor Escrow Account

ii. make current Tax payments required under this Plan

iii. provide a Quarterly Financial Report pursuant to the requirements of paragraph 9.9 of the Plan

within ten (10) days of when such Monthly Deposit, Tax payment, Notice, 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 creditor or

party in interest 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. Upon the occurrence of any of Payment Defaults, such creditor or other party shall automatically have access to the remedies under Paragraph 9.15 of the Plan.

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

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

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

c. 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.

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

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

(9) Resolution of Other Defaults.

a. Upon the occurrence of an Other Default, the creditors, 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 within thirty (30) days or does not provide Notice that it disputes the occurrence of the Other Default, all creditors shall have access to the remedies described in paragraph 9.15 of the Plan and set forth in paragraph C(11) below.

b. If the Debtor disputes that an Other Default has occurred, the Debtor must give Notice to all creditors 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 creditors may, within ten (10) days of receiving Notice of the Debtor's dispute and upon Notice to the other Plan Proponents, 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 creditors shall have access to the remedies described in paragraph 9.15 of the Plan and as set forth in paragraph C(11) below.

(10) Waiver of Defaults. Any creditor of the Debtor may, in its sole discretion, and with the unanimous consent of all other creditors 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 9.16(e) (a Waiver"), rather than exercise their remedies under Plan provision paragraph 9.15, 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.

(11) 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 9.13 of the Plan, or waived under paragraph 9.14 of the Plan, all creditors 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 the Plan with respect to the allocation of any funds held in the Creditor Escrow Account or to be added thereto. 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 Expenses, or to request conversion of the case to Chapter 7. Pursuant to the Forbearance Agreement annexed to the Plan as Exhibit C, 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.

(12) 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 Expenses 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 after 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.

Nothing in this Paragraph shall 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 agrees that the exclusive forum for any such action or contested matter is the United States Court of International Trade.

(13) Ex Parte Motion to Reopen the Bankruptcy Case. In the event that any creditor requires Bankruptcy Court involvement in any issue addressed in this Plan, its enforcement or interpretation, by the terms of the Plan, such creditor will be authorized to file an Ex Parte Motion to reopen the Bankruptcy Case.

D. Establishment of Plan Litigation Trust

(1) Establishment of the Plan Litigation Trust Under the Plan. Under the Plan, on or before the Effective Date, the Debtor shall execute the Plan Litigation Trust 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 Trust all of its rights, title and interest in all Recovery Actions.

(2) Purpose of the Plan Litigation Trust. The Plan Litigation Trust shall be established for the sole purpose of liquidating its assets, in accordance with Treasury Regulation section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business.

(3) Funding the Expenses of the Plan Litigation Trust. In accordance with the Plan Litigation Trust Agreement, the expenses of the Plan Litigation Trust shall be funded from the proceeds of any recovery the Plan Litigation Trustee is able to procure from pursuing the Recovery Actions, pursuant to the Plan Litigation Trustee Agreement with the Plan Litigation Trustee. The Plan Litigation Trust shall be funded initially with a $50,000 advance from the first Monthly Deposit. 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.

(4) Transfer of Cash Assets to Creditor Escrow Account. Upon final resolution of the Recovery Action, and after accounting for and paying all expenses of the Plan Litigation

Trust in accordance with the Plan Litigation Trust Agreement including that amounts, if any, expended above and beyond the initial advance, the Plan Liquidation Trustee shall deposit all Cash held by the Plan Litigation Trust in the Creditor Escrow Account.

(5) Termination. Under the Plan, the Plan Litigation Trust will terminate no later than the fifth (5th) anniversary of the Effective Date, provided, however, that, on or prior to such termination, the Bankruptcy Court, upon motion by a party in interest, may extend the term of the Plan Litigation Trust for a fixed period if it is necessary to facilitate or complete the liquidation of the Recovery Actions. Notwithstanding the foregoing, additional extensions can be obtained so long as Bankruptcy Court approval is obtained at least six (6) months prior to the expiration of each previously extended term; provided, however, that the aggregate of all such extensions shall not exceed an additional five (5) years, unless the Plan Litigation Trustee receives a favorable ruling from the IRS that any further extension would not adversely affect the status of the Liquidating Trust as a grantor trust for federal income tax purposes. Nothing herein shall extend the deadline otherwise applicable for the commencement of any action under §§544, 547, 548, 549 and/or 550 of the Bankruptcy Code.

E. Order of Priorities in Plan Payments. 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 distributions 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, and there are no pending Other States Administrative Expense Claim(s), New York, as the holder of an Allowed Administrative Expense Claim (Class 3b) and the remaining creditors with Allowed Claims shall determine as

among themselves how to divide and pay out the money then on deposit thereof in the Creditor Escrow Account. 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 payments are made to New York and other creditors according to the formula reached among them as described above in an amount equal to the New York Administrative Claim and any Other States' Administrative Claims as determined in the New York Litigation, and any Other States' Litigation, all funds remaining on deposit in the Creditor Escrow Account and all subsequent Monthly Deposits into the Creditor Escrow Account shall be paid to the USDA and applied to the USDA Priority Claim until that claim is paid in full.

(2) Upon completion of payments to the USDA Priority Claim, all subsequent Monthly Deposits shall be distributed Pro-Rata amongst the States with Allowed Prepetition Claims and the USDA with respect to its Non-Priority Claim until 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 has 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. If any State 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. 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.

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 importation of 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.

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 Debtor encourages creditors to recognize the Plan as a vehicle to receive payments on their respective claims.

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.

The Debtor believes 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. 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 priority portion of the USDA Claim such that unsecured creditors would receive nothing.

X. CONCLUSION

The Debtor submits 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
January 31, 2014

Respectfully submitted,

NATIVE WHOLESALE SUPPLY COMPANY

By: s/ Arthur Montour, Jr.
Arthur Montour, Jr.
Title: President

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