



Flue-Cured Tobacco...

SCOOP

...A newsletter from
Flue-Cured Tobacco Cooperative
Stabilization Corporation
www.ustobaccofarmer.com

To our Members...

I would like to take the time to apologize for the lapse in publishing our newsletter. Our last published newsletter was the Second Quarter 2004 issue. Since then, a lot has happened at your Cooperative:

- Purchased and operated Timberlake facility
- Cooperative offered Exclusive/Non-Exclusive Contracts
- Albert Johnson elected President
- First post buyout marketing season

I think that the future looks bright for U.S. flue-cured tobacco now that our tobacco is more competitively priced in the international market. We have seen increased amounts of interest from current and former customers. Recently, we made a large sale of U.S. flue-cured tobacco to the Chinese market. I look forward to explaining the sale in more detail later in this newsletter.

Sincerely,

Arnold Hamm
General Manager/CEO/
Secretary

Flue-Cured Cooperative Sells Tobacco to China!

Flue-Cured Tobacco Cooperative sold 13.8 million pounds of tobacco to CNTIEGC, the import arm of the Peoples Republic Of China's State Tobacco Monopoly Administration (STMA). The purchase is valued at approximately \$35.3 million. We believe the total flue-cured tobacco purchased from the United States to be approximately 17.6 million pounds.

Board Members and staff of the Flue-Cured Tobacco Cooperative hosted the 20 member buying delegation in mid October. The buying team was impressed with the tour of our Timberlake processing and manufacturing facility. Following the tour, the delegation viewed samples of tobacco.

After viewing tobacco at our Timberlake facility, the delegation selected 9.1 million pounds from existing stock and 4.7 million pounds of the 2005 crop. The tobacco will be shipped before the end of February,

2006. The delegation took representative samples of tobacco at our Tobacco Growers Services storage facility in Fuquay-Varina. A member of the delegation representing Sichuan Entry-Exit Inspection and Quarantine Bureau of The People's Republic Of China analyzed samples for blue mold at the North Carolina Department of Agriculture & Consumer Services, Blue Ridge Road Laboratory Facility. The delegation also sampled tobacco from other leaf dealers and manufacturers while in North Carolina.

Flue-Cured Tobacco Cooperative hosted a special dinner for the delegation at the State Farmers Market Restaurant in Raleigh on Tuesday, October 18, 2005. President Albert Johnson made a few brief remarks.

Chinese tobacco officials have indicated that China will continue to buy and increase purchases of U.S. flue-cured tobacco.

On Saturday, October 29, 2005, Flue-Cured Cooperative Stabilization Corporation's Board of Directors, processing and sales staff along with several contract farmers, held a meeting with Chinese tobacco officials to discuss quality issues and purchase indications for 2006.



Chinese Tobacco Officials at Tobacco Growers Services in Fuquay-Varina, NC

Flue-Cured Tobacco Cooperative Stabilization Corporation is the grower owned and supported cooperative that serves flue-cured tobacco growers in Virginia, North Carolina, South Carolina, Georgia, Alabama and Florida.

President

Albert Johnson

Vice Presidents

Kenneth Dasher
D. Lamar DeLoach
Andrew Q. Shepherd
Jimmy Pate

General Manager

Arnold Hamm

DIRECTORS

District 1 Kenneth Dasher
Live Oak,
Florida

District 2 D. Lamar DeLoach
Statesboro,
Georgia

District 3 Albert M. Johnson
Galivants Ferry,
South Carolina

District 4 James C. Pate
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District 5 Keith Beavers
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District 7 Keith Parrish
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USFCTG Admitted to MSA

US Flue-Cured Tobacco Growers (USFCTG), our Timberlake processing and manufacturing facility, was admitted to the Master Settlement Agreement on June 3, 2005. Preparations have been made for the development of cigarette blends. Packaging supplies have been procured for cigarette production. While some manufacturing has occurred, we expect cigarette production to significantly increase in November.

Brands such as Traffic and Kick are now beginning to enter the market. The brand Creston is being manufactured as a controlled label for Food City. Shortly, we will begin manufacturing the brands, Passport and Fact. We expect Fact to do extremely well in the export market. In the very near future, USFCTG will begin to manufacture a roll-your-own brand, 1839. Plans are to also manufacture 1839 as a cigarette. These will be high quality products manufactured from U.S. flue-cured and burley tobacco, in addition to a small amount of turkish tobacco.

Recently, USFCTG entered into an agreement with Premier Manufacturing Inc. to manufacture the brands: First Class, Shield, and Ultra Buy. Also, USFCTG entered into an agreement with Wellstone Filters to begin manufacturing the brand Wellstone. Both agreements are pending Master Settlement Agreement approval.

Timberlake Facility Ahead of Projections

Currently, the Flue-Cured Tobacco Cooperative is ahead of its financial projections for the Timberlake facility. Tight budgeting, and sales of stem by-products, cut rag and cigarettes have made this possible.

Status of Pending Litigation

1) On November 3, 2005, the Preliminary Settlement Hearing with the Honorable John Jolly presiding was held in Raleigh, N.C.

2) The Honorable John Jolly listened to arguments regarding the proposed settlement of Lewis, et.al. v Flue Cured Tobacco Cooperative Stabilization Corporation.

a) The judge has taken the motion to preliminary settlement approval under advisement and is expected to rule on the motion after Thanksgiving.

3) If the proposed settlement is preliminarily approved by the court, a detailed written notice will be mailed to current and former members.

a) The judge will allow ample time for the class members to study the proposal, ask questions and to decide whether or not to object to the settlement or exclude themselves from the settlement.

b) Below are excerpts of a joint press release issued on September 23, 2005 that describes the settlement generally.

Proposed Lawsuit Settlement in the Lewis case

Attorneys for the parties in an action pending in Wake County Superior Court, Lewis, et al v. Flue Cured Tobacco Cooperative Stabilization Corporation, announced the proposed settlement of a lawsuit in which tobacco farmers sought class action status on behalf of all present and former members of Stabilization since its creation in 1946. The plaintiffs had asked the Court to dissolve Stabilization or order a distribution of its assets.

The proposed settlement must be approved by the Court. The parties

have requested that the Court certify a Settlement Class for purposes of the Settlement, consisting of all persons and entities that were shareholders or members of Stabilization at any time from June 1, 1946 to the present. If the Settlement is approved, it will resolve claims of Class Members against Stabilization in all outstanding lawsuits. The proposed settlement provides for: (1) the establishment of a Settlement Fund, from which payments will be made to Class Members who produced flue-cured tobacco between 1985-2005; (2) the redemption of Certificates of Interest issued by Stabilization in connection with the sale of tobacco crops from 1967-1973; (3) book allocations to Eligible Class Members of Stabilization's paid-in capital; (4) clarification of the conditions of continued membership in Stabilization.

A Settlement Fund, in the minimum amount of \$50 million, will be created from the sale of tobacco "ceded" to Stabilization by the USDA as a result of the end of the Federal Tobacco Program. Payments will be made from the Settlement Fund to current and former members who produced and sold flue-cured tobacco between 1985 and 2005, based on the pounds of tobacco sold by each member and the number of years the member actively participated in Stabilization during that twenty-year period. Stabilization will also redeem Certificates of Interest issued in connection with the sale of tobacco crops from the 1967-1973 crop years for all holders who file a timely redemption application.

In addition to the cash payments provided by the Settlement, Stabilization will make an allocation in its books and records of approximately \$110 million of paid-in capital to Stabilization members who paid No Net Cost assessment fees during the 1982-1984 crop years. Stabilization will make a further book allocation of approximately \$102 million of retained earnings to members who produced

and sold flue-cured tobacco between 1985 and 2005, based on the pounds of tobacco sold by each member and the number of years the member actively participated in Stabilization during that twenty year period.

Dennis T. Worley, an attorney for the plaintiffs, said "The Settlement provides substantial benefits for tobacco farmers who have patronized Stabilization over the years." In addition he said "the benefits provided in the Settlement do not depend on a grower's current membership status. With the end of the Federal Tobacco Program, a majority of the remaining tobacco farmers will be growing under direct contracts for cigarette manufacturers or leaf dealers, and will not be as dependent upon the activities of Stabilization as they were before the end of the program. There are other farmers, however, who continue to look to Stabilization to provide marketing alternatives. We believe the Settlement fairly addresses and protects the interests of all farmers."

Donald H. Tucker, Jr., attorney for Stabilization, said that his client was pleased at the prospect of having this litigation terminated, while providing substantial benefits to both current and former members of Stabilization. "This co-op has been very successful in protecting the interests of tobacco farmers, both large and small, for almost sixty years. This settlement, if approved, will insure that Stabilization can continue to serve its historical role of providing marketing opportunities for its members, and also allow it to focus on new initiatives for the benefit of flue-cured tobacco growers. Stabilization's Board believed that a resolution of this litigation, which will disburse money and allocate interests to those farmers who helped contribute to the co-op's success, was the right thing to do."

William Robert Cherry, an attorney for the plaintiffs, believes that farmers would have faced a difficult legal battle through the courts. "We believe we

have achieved, through this Settlement, significant benefits and protection for our farmers," Cherry said. "The Settlement will distribute money to farmers that is not necessary for Stabilization's ongoing efforts, and will provide protection and certainty for members in the event the co-op is dissolved in the future."

A detailed notice describing all of the provisions and conditions of the Settlement will be sent to Class Members if the Settlement is preliminarily approved by the court. The Parties will ask the Court to schedule a final hearing to approve the Settlement within several months after preliminary approval is obtained.

Most class members will not need to do anything to receive benefits under the Settlement, Gary K. Shipman, an attorney for the farmers, said. "We have been able to identify, by name and address, a substantial majority of those tobacco farmers who are eligible to participate in the Settlement Fund. These members or their heirs will simply receive a check without having to file a formal claim," explained Shipman. For those members holding a Certificate of Interest, a simple form will have to be filled out and submitted to Stabilization in order for the certificates to be redeemed. "The application process is straightforward and is designed to get money into the hands of eligible members as quickly as possible," said Tucker.

If the proposed settlement receives preliminary approval, and prior to any hearing, Class members will have an opportunity to "opt out" (elect to exclude themselves) from the Settlement, or to object to the Settlement by following the procedures described in the Class Notice. The Class Notice will also provide Class Members with a toll free number and a website address through which they can obtain additional information about the Settlement.

Auction Committee Working on Plans for 2006

The Stabilization Board Auction Committee is currently working with staff to develop plans for the 2006 marketing season.

Ways are being studied to ensure that only people who actually produce tobacco are issued Exclusive and Non-Exclusive Marketing Agreements. Careful thought is being given to pricing and grading of tobacco.

The Board of Directors and Staff are keenly aware of the viability of tobacco farmers in light of the increased cost of production. The Board hopes to offer Exclusive Marketing Agreements for 2006 by early to mid-December. Non Exclusive agreements will be offered this winter.

Watch for upcoming notification of grower meeting dates and locations for the latest information.

Why Is China Important?

- 1) China is the single largest user of tobacco in the world.
- 2) China's cigarette market is 99% Virginia blend which uses 100% flue-cured tobacco.

In the recent past, China has purchased 110 million pounds of flue-cured tobacco from Zimbabwe and Brazil. Chinese tobacco officials like Zimbabwean and Brazilian tobacco to blend with their own to get the type of style and taste they want. China is looking to replace Zimbabwe as a source of flue-cured tobacco. Their assessment is that Zimbabwe will not have any meaningful supply of flue-cured tobacco until changes are made. China already purchases as much Brazilian tobacco as they need.

China is proceeding on a trial basis to replace Zimbabwe's tobacco with U.S. flue-cured

tobacco. **This is our opportunity.** We have to plan carefully. This is a growth market that can help begin to turn around years of decreased US flue-cured production. Our competitors have taken away a lot of our market share, but with decreased prices due to the National Tobacco Quota Buyout, U.S. flue-cured tobacco is much more competitive on the international market. We have to take every advantage to capture this vast market that is opening up.

There are 300 million smokers in China versus 50 million in the United States. China smokers consumed 2.4 trillion sticks last year of which 99% are made with 100% flue-cured tobacco.

Flue-Cured Tobacco Cooperative Stabilization Corporation would like to wish everyone a happy and safe holiday season!