



March 1, 2018

Dear Member:

As you know, the Cooperative has been defending itself against two overlapping class action lawsuits. These suits have been going on since 2005 and we have spent millions of dollars in litigation expense trying to resolve both of them. As we have stated previously and published in our annual reports, every dollar of litigation expense reduces patronage-dollar for dollar.

The first class action lawsuit is called *Lewis, et al. v. Flue-Cured Tobacco Cooperative Stabilization Corp.* and we will refer to this lawsuit as the Fisher/Lewis case. The Lewis case was filed in North Carolina State Court.

The second class action lawsuit is called *Speaks, et al. v. U.S. Tobacco Cooperative Inc.* and was filed in Federal Court. We will refer to this lawsuit as the Speaks case.

The class members in the Fisher/Lewis and Speaks cases are essentially identical, and include all current or former members of the Cooperative, as well as their heirs, assigns, representatives, etc. In both cases, the plaintiffs were trying to force the Cooperative to distribute a substantial portion of its financial reserve. These plaintiffs claimed that the Cooperative does not have any legitimate business purpose after the Federal Price Support program ended in 2004. The plaintiffs in the Speaks case were also seeking to dissolve the Cooperative.

On February 20, 2018, Chief Judge Dever granted final approval of a class action settlement in the Speaks case. In that order, Judge Dever also ENJOINED all class members from pursuing any related claims in a separate forum, which includes the Fisher/Lewis case. Thus, apart from approximately 90 people who individually opted out of the Speaks settlement, Judge Dever's order enjoins the Fisher/Lewis case and should hopefully bring us close to ending years upon years of litigation, litigation expense, and patronage deductions.

Judge Dever's order and final judgment can be viewed in the news section on the Company's website: <http://www.usleaf.com/news/>.

Judge Dever's order is very long and very detailed. Some highlights include:

- The Court finds the \$24 million settlement is "fair, reasonable, and adequate." (Order, page 3.)
- "Dr. Harrison, plaintiffs' expert in Fisher/Lewis, testified that plaintiffs' counsel in Fisher/Lewis has not asked him to analyze what portion of the Cooperative's reserves are unreasonable, an issue that is at the very core of the Fisher/Lewis case. At the fairness hearing, plaintiffs' counsel in Fisher/Lewis . . . confirmed the he had not yet asked Dr. Harrison, or any other expert, to opine on what 'reasonable' reserves would be for the Cooperative and to explain the rationale for any such expert opinion. When [the] court then asked plaintiffs' counsel in Fisher/Lewis how he could know that Dr. Harrison would not

ultimately opine that the Cooperative's reserves are reasonable, he contended that he could not know for sure, but felt that Dr. Harrison ultimately would opine that some portion of the Cooperative's reserves was unreasonable. For a case that has been pending in state court since 2005, these answers concerning an issue at the core of the Fisher/Lewis action are astonishing." (Order, pages 26-27) (citations omitted).

- "Moreover, from its inception, the Cooperative's By-laws provided it with the express power to establish and maintain reserves. Furthermore, the depositions of the named representatives in the Fisher/Lewis case, and objector, Pender Farms, confirm that they have long understood the broad scope of the Cooperative's power to retain reserves and that the Cooperative had fully disclosed to its members for decades that it was retaining reserves." (Order, pages 49-50) (citations omitted).
- "In *Rigby v. Flue-Cured Tobacco Cooperative Stabilization Corporation*, a group of plaintiffs brought nearly identical claims against the Cooperative in Georgia state court, including a claim for forced distribution of the Cooperative's reserves. The trial court held that, under North Carolina law, directors of Cooperatives generally do not owe fiduciary duties to individual members, and no special circumstances existed between the plaintiffs and the Cooperative to give rise to a fiduciary relationship. The Georgia Court of Appeals affirmed this holding under both Georgia and North Carolina law, noting that there was no 'special confidence' between the Cooperative and its members that would warrant imposition of fiduciary duties." (Order, page 52) (citations omitted).
- "As for the anticipated duration and expense of additional litigation, this factor weighs in favor of settlement. Proceeding to trial and through final appeal would take substantial time and resources, and the likelihood of recovery is small in light of the weakness of the plaintiffs' case on the merits." (Order, pages 57-58.)
- "As for the merits of the objections, none of the objections address the strength of plaintiffs' claims on the merits or adequately explain how class members can recover anything approaching \$24 million if this case proceeds to final judgment and final appeal. Moreover, many of the objections use similar language or similar forms, which is evidence that some of the objections are the product of 'an organized campaign.'" (Order, page 58) (citations omitted).
- "Dr. Harrison also testified that he was not informed of the Cooperative's successful litigation in Rigby. Having thoroughly reviewed the record in this case, [the] court seriously doubts that plaintiffs in Fisher/Lewis or plaintiffs in Speaks could prove that the Cooperative's reserves are unreasonable." (Order, pages 72-73) (citations omitted).

So, what does all of this mean for you as a member of the Cooperative and a member of the settlement class and where do we go from here?

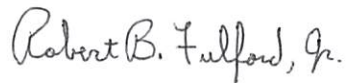
The Cooperative is ready and prepared to begin making payments per Judge Dever's order and the approved settlement. These payments will be distributed over a 5-year period. Virtually the only thing that can hold this up is an appeal to the 4th circuit court of appeals.

Objectors to the settlement have 30 days in which to file an appeal. If that happens, all payments will be delayed until a ruling by the appellate court. Of course, the Cooperative would also aggressively defend against an appeal, which means incurring additional litigation expense to the detriment of patronage.

At this time we direct you to the settlement website: <https://fluecuredtobaccosettlement.com>. If you would like to file a claim, you can do so from the website or by calling 866-458-3207 and requesting that a claim form be mailed to you. If you have any questions about filling out the claim form, you can call the Claims Administrator at 1-866-458-3207 or visit the website for answers to frequently asked questions. Claims must be filed by May 26, 2018.

After nearly 13 years of class action lawsuits, your Cooperative is anxious to close the chapter on that part of its history and we look forward to continuing to work for the benefit of our members and our industry.

Respectfully,

A handwritten signature in cursive script that reads "Robert B. Fulford, Jr.".

Robert B. Fulford, Jr.
CEO and President