STATEMENT OF DERRICK TAYLOR

Hello, I am Derrick Taylor, and I am the CEO of Xcaliber. I am also the son of one of Xcaliber's founders. I started with the company 10 years ago as an Assistant to the Sales Manager. Before Xcaliber I built and ran a smoke shop, worked in retail, and worked in distribution. You could say that I grew up in this industry. As the CEO, my responsibilities are pretty varied and involve personnel decisions, handling large accounts, chain accounts, and contract negotiations. I like to think that I have my hand on the pulse of the company, right down to knowing how our machines are operating.

I am personally and unfortunately very familiar with Korean imports. KT&G first came across my radar when they launched TIMELESS TIME. This was big news in Oklahoma, where Xcaliber is located. KT&G began by distributing out of Oklahoma. They came in super cheap, several dollars per carton under our price. And, this was right in our backyard.

When KT&G came in with THIS – they did the same thing as they had done with TIME, but just cheaper. And this time they launched the product with more of a national focus. It was an "oh no" type of moment, where we were wondering, "where is this going to go? How big is this going to get?" We knew that they'd sell a lot with those low prices. We now know that they have and will continue to buy market share. They're competing on price. There is no brand equity or awareness in the 4th tier. It is about one thing: price. And now KT&G is leveraging relationships. They're getting in to the big accounts.

It is important to understand the regional nature of this industry, although this is quickly changing. For whatever reason, when KT&G started in the United States they started in Oklahoma. Their first product was CARNIVAL, which they now oddly boast in their newest advertising was somehow "Born in Oklahoma."

For the period from 2016 to 2018, our shipments in our core region decreased by 20% as we lost sales to KT&G. We've now tried to move

nationally. We were – and still are to a certain extent – heavily dependent on Missouri. But, this can make us vulnerable. So, after seeing the loss of shipments over that 3 year period, we started to market outside of our traditional region of sales. But, so has KT&G.

KT&G has invested in a new major facility in Dallas. So we're not just threatened in our traditional region – they now threaten our sales throughout the country.

KT&G is impacting our business on a daily basis. Every Thursday I sign the checks for the business. I personally sign every check. Every quarter, we have to send checks for rebates. And, the number and amounts of those checks are getting larger, as we are forced to pay larger rebates just to compete with KT&G's unfairly low prices. Wholesalers are calling us to say KT&G is willing to give us "X" price for so long. So then, we have to increase our rebates. Or the wholesalers state that KT&G is willing to pre-pay rebates. So, we have to decrease price again. Although we're trying to get national contracts, KT&G is always part of

those discussions, too. The bottom line is this: if we met KT&G's price, we'd be selling at up to a $2.00 loss per carton in some states. KT&G tends to come into new regions like a tornado, dropping prices, and blanketing an area with ads and product. And again, they make it all about price, which is the most important factor to customers.

We're dying on the vine. We need a positive cash flow to grow our business. We need to try to increase prices to cover the cost of doing business. But then we'll lose volume. If this continues, we'll stop growing because the price decreases caused by KT&G will potentially put us in an untenable position for the future of our business.

If, however, relief is given, prices can recover, and we can grow at a healthy pace. Our business is important to the town where we work. Pryor, Oklahoma, is a small town of about 10,000 people. Everyone in Pryor knows at least someone who works at Xcaliber. These are good paying jobs and we offer good benefits. We've always tried to take care

of our people – some of the workers are like family. Some of them have been with us since the beginning – 18 years.

So, that's the reason I'm here today. Without relief from dumped Korean products, our company will continue to be injured. And Korean imports are continuing to increase and they're doing so at lower and lower prices. This is a real threat to my company.

But if we're given relief, we can continue to grow, invest in our plant and our people, but this requires a healthy cash flow – which we do not have today.

Thank you. I'll be happy to answer any questions that I can.