

2012 ANNUAL REPORT
Dated as of March 31, 2013

This report has been prepared in compliance with the Public Authorities Reform Act of 2009. It is not intended to be a substitute for, or to replace the Suffolk Tobacco Asset Securitization Corporation's (herein referred to as either "STASC" or the "Corporation") Financial Statements prepared as of December 31, 2012.

1. The Corporation's mission statement is as follows:

The Suffolk Tobacco Asset Securitization Corporation ("STASC" or "Corporation") is a not-for-profit local development corporation organized under the Not-For-Profit Corporation Law of the State of New York. The Corporation was formed exclusively for the purpose of acquiring from the County of Suffolk any and all of the right, title and interest in Tobacco Settlement Revenues ("TSR"s) of the County under the Master Settlement Agreement ("MSA") and the Decree and Final Judgment (the "Decree") with respect to tobacco-related litigation among various settling states and participating tobacco product manufacturers.

The STASC is legally separate and distinct from Suffolk County. The purpose of the STASC is to collect receipts from the tobacco settlement to service its debt in connection with the issuance of bonds that were made as part of the transaction.

2. Operations and Accomplishments.

During 2012, the Corporation received sufficient TSRs to make the required debt service payments and a Turbo Principal Payment of \$95,000 against its Series 2008 Bonds.

On April 5, 2012, the Corporation issued \$38,375,000 of Tobacco Settlement Asset-Backed Bonds, Series 2012 ("Series 2012 Bonds") pursuant to the Indenture, dated as of March 1, 2012 (the "2012 Indenture") between the Corporation and The Bank of New York Mellon, as Trustee (the "Trustee"). The Series 2012 Bonds are comprised of two series – the Series 2012A Bonds in the principal amount of \$3,740,000, which are federally taxable fixed amortization bonds (the "Series 2012A Bonds"), and the Series 2012B Bonds in the principal amount of \$34,635,000, which are tax-exempt fixed amortization bonds (the "Series 2012B Bonds"). The Corporation used the proceeds from the Series 2012 Bonds to: (i) fund a Liquidity Reserve Account for the Series 2012 Senior Bonds for \$3,025,163; (ii) pay the costs of issuance of the Series 2012 Bonds; (iii) fund interest on the Series 2012 Bonds through the December 1, 2012 payment; and (iv) pay amounts to the Residual Trust as registered owner of the Residual Certificate.

3. A summary of the Corporation's financial activity for the year ending 2012 are as follows:

Condensed Statement of Net Position (Deficit)
As of December 31,

	<u>2012</u>
Assets	
Current and other assets	\$ 22,040,041
Deferred charges, net	<u>224,586,876</u>
Total Assets	<u>246,626,917</u>
Liabilities	
Current liabilities	2,659,458
Non-current liabilities	<u>301,180,867</u>
Total Liabilities	<u>303,840,325</u>
Net Position (Deficit)	
Restricted	21,863,649
Unrestricted	<u>(79,077,057)</u>
Total Net Position (Deficit)	<u>\$ (57,213,408)</u>

Condensed Statement of Activities

	<u>Year ended December 31, 2012</u>
General Revenues	
Interest on investments	\$ 865,597
Tobacco settlement revenue	<u>18,758,798</u>
Total General Revenues	<u>19,624,395</u>
Expenses	
General government support	84,244
Transfer to residual trust	12,005,631
Amortization of deferred charge	5,281,594
Interest on debt	<u>18,081,243</u>
Total Expenses	<u>35,452,712</u>
Increase in Net Deficit	(15,828,317)
Net Position (Deficit) at Beginning of Year	<u>(41,385,091)</u>
Net Position (Deficit) at End of Year	<u><u>\$(57,213,408)</u></u>

Summary of long-term obligations is as follows:

	Balance 1/1/12	Increases	Reductions	Balance 12/31/12
Bonds	\$228,221,863	\$38,375,000	\$(1,540,000)	\$265,056,863
Plus: accreted interest	30,419,497	9,661,527		40,081,024
Plus: premiums		725,822	(21,631)	704,191
Less: unamortized deferred discounts	(3,613,760)		155,695	(3,458,065)
Total bonds	<u>\$255,027,600</u>	<u>\$48,762,349</u>	<u>\$(1,405,936)</u>	<u>\$302,384,013</u>

4. Bonds of the Corporation outstanding as of December 31, 2012.

Bonds - Tobacco Settlement Asset-Backed Bonds issued in 2008 and 2012 for the purchase of future rights to TSRs are secured by a pledge of revenues to be derived from TSR receipts after the deduction of the amounts necessary to pay all operating charges. Principal and interest paid on these bonds in 2012 totaled \$8,785,715. Interest on select Series 2008 Bonds and Series 2012 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code.

Any additional pledged revenues received above the required debt service payments for the Series 2008 Bonds are used to turbo redeem the outstanding bonds. Any additional pledged revenues received above the required debt service payments for the Series 2012 Bonds are transferred to the 2012 Residual Trust. The Corporation received sufficient TSRs to make the required debt service payment of \$7,515,569 and a Turbo Principal Payment of \$95,000 against its Series 2008 Bonds during 2012.

For the Series 2008 Bonds, pledged revenues consist of a portion of the TSRs equal to 36% of the annual payments received by the Corporation through December 31, 2012, and 75% thereafter and like percentages of any lump sum payment made in lieu of such annual payments. Pledged revenue received in 2012 amounted to \$6,753,167, or 89% of total principal and interest payments made on the 2008 Series Bonds during the year.

For the Series 2012 Bonds, pledged revenues consist of a portion of the TSRs equal to 64% of TSRs received by the Corporation through December 31, 2012, 25% of TSRs received thereafter, 100% of TSRs representing amounts withheld or deposited in the Disputed Payments Account under the MSA before August 21, 2008, regardless of when such amounts are received, and 100% of all TSRs paid to Corporation after all amounts due under the 2008 Indenture have been paid, or otherwise provided for.

Payments with respect to the Series 2008 Bonds and Series 2012 Bonds are dependent upon receipt of TSRs. The Series 2008 Bonds are special obligations of the Corporation payable solely from the pledged revenues, the 2008 Liquidity Reserve Account, and other funds and accounts under the 2008 Indenture. The Series 2012 Bonds are special obligations of the Corporation payable solely from the pledged revenues, the 2012 Liquidity Reserve Account, and other funds and accounts under the 2012 Indenture. The Corporation has no other assets available for the payment of the Series 2008 Bonds and Series 2012 Bonds.

The amount of TSRs received is dependent on many factors, including future domestic cigarette consumption, the financial capability of the Participating Manufacturers (the "PMs"), litigation affecting the MSA and related legislation, enforcement of state legislation related to the MSA and the tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, which may be material.

Description	Original Date Issued	Original Amount	Interest Rate	Maturity Date	Amount Outstanding
2008A	08/21/08	\$ 9,765,000	4.000 - 5.000%	6/1/12-6/1/18	\$ 5,815,000
2008B (2028)	08/21/08	40,045,000	5.375%	6/1/2028	37,525,000
2008B (2048)	08/21/08	62,295,000	6.000%	6/1/2048	62,295,000
2008C	08/21/08	107,671,781	6.625%	6/1/2044	107,671,781
2008D	08/21/08	13,375,082	8.000%	6/1/2048	13,375,082
2012A	03/29/12	3,740,000	1.830 - 3.320%	6/1/13-6/1/16	3,740,000
2012B	03/29/12	34,635,000	4.000 - 5.000%	6/1/16-6/1/37	34,635,000
					<u>\$265,056,863</u>

For 2012, the aggregate Master Settlement Agreement ("MSA") payment was 2% higher than the amount in 2011. This increase was primarily due to additional amounts being released to the states that related to prior years.

On the date of issuance, Standard & Poors assigned a rating of A to the Series 2012A bonds, a rating of A to the Series 2012B Bonds maturing June 1, 2016 through June 1, 2022, a rating of A- to the Series 2012B Bonds maturing June 1, 2023 through June 2032, a rating of A- to the Series 2012B Bond maturing on June 1, 2032, and a rating of BBB+ to the Series 2012B Bond maturing on June 1, 2037.

The Corporation's bond ratings, as assigned by Fitch Ratings, remained stable for the Series 2008A Current Interest Serial Bonds at BBB+, which are due in multiple increments through 2018. The Corporation's \$40,045,000 Series 2008B Current Interest Turbo Term Bonds, due on June 1, 2028, decreased from BBB- to BB, with a negative outlook during 2012. The Corporation's \$62,295,000 Series 2008B Current Interest Turbo Term Bonds, due June 1, 2048, and \$107,671,781 Series 2008C Convertible Capital Appreciation Turbo Term Bonds, due on June 1, 2044, decreased from BB+ to B+ with a negative outlook during 2012. Lastly, the Corporation's \$13,375,082 Series 2008D Convertible Capital Appreciation Turbo Term Bonds, due June 1, 2048, decreased during 2012 from B+ to B with a negative outlook.

5. The Corporation's compensation schedule.
The Corporation had no employees.

6. Projects undertaken by the Corporation during 2012.
The Corporation did not undertake any projects during 2012.

Pursuant to a 2012 Purchase and Sale Agreement dated as of March 1, 2012 (the "2012 TSR Purchase Agreement") between the County, as seller, and the Corporation, as purchaser, the County will sell to the Corporation on the Closing Date all of the right, title and interest of the County in the Pledged TSRs paid or payable to the County under the MSA and the Consent Decree (the "2008 Ownership Interest"), including the County's right to be paid certain Annual Payments to be made by cigarette manufacturers under the MSA, which amounts are no longer subject to the lien of the 2008 Indenture and are held by the County as beneficial owner of the 2008 Residual Certificate. The consideration paid by the Corporation to the County for such acquisition consisted of \$34,214,911 in cash, all of which was paid into residual trust for the benefit of the County. The Corporation funded such consideration from the proceeds of its Tobacco Settlement Asset-Backed Bonds, Series 2012 ("Series 2012 Bonds") pursuant to the 2012 Indenture, dated as of March 1, 2012.

7. Real property owned and or disposed of by the Corporation.
The Corporation did not own or sell any real property during 2012 and does not currently own any real property.

CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER OF SUFFOLK TOBACCO ASSET SECURITIZATION CORPORATION

The undersigned chief executive officer and chief financial officer of Suffolk Tobacco Asset Securitization Corporation, a local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York, hereby certify, pursuant to subdivision 3 of Section 2800 of the Public Authorities Law, as follows:

The financial information provided within the Annual Report of the Suffolk Tobacco Asset Securitization Corporation (the "Corporation"), dated as of March 31, 2013 (the "Annual Report"), is based upon audited financial statements and to the best of our knowledge, is accurate, correct and does not contain any untrue statement of material fact. The Annual Report does not omit any material fact which, if omitted, would cause the report to be misleading in the light of the circumstances under which the report and any such statements made therein are made. The Annual Report fairly represents in all material respects the financial condition and results of operations of the Corporation as of, and for, the periods presented in said report. IN WITNESS WHEREOF, the undersigned chief executive officer and chief financial officer have executed this Certificate as of this 31st day of March, 2013.

President/CEO


Treasurer/CFO 4/8/2013