

# Exhibit B

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7

8 UNITED STATES BANKRUPTCY COURT  
9 NORTHERN DISTRICT OF CALIFORNIA  
10 SANTA ROSA DIVISION

11 In re

12 DEERFIELD RANCH WINERY, LLC,

13 Debtor.

Case No. 15-10150-AJ

Chapter 11

Judge: Hon. Alan Jaroslovsky

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**DEBTOR'S DISCLOSURE STATEMENT**

16

*To Accompany Plan of Reorganization Dated ~~October 30~~ November 10, 2015*

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1 **I. INTRODUCTION**

2 Deerfield Ranch Winery, LLC, the debtor and debtor-in-possession in the above captioned  
3 Chapter 11 reorganization case (“Deerfield” or the “Debtor”), has filed its Plan of Reorganization  
4 dated ~~October 30~~ November 9, 2015 (the “Plan”).

5 This Disclosure Statement explains the circumstances leading to Deerfield’s bankruptcy  
6 filing, the nature of the Debtor’s business and the Debtor’s expectations for its business going  
7 forward, the Plan and its means of implementation, and the available alternatives to the Plan. The  
8 Court has determined that this Disclosure Statement contains sufficient information to enable  
9 creditors to make an informed judgment about the Plan.<sup>1</sup> As described herein, Deerfield believes  
10 that acceptance and confirmation of this Plan will provide the greatest return to creditors and  
11 equity, and is superior to any available alternative.

12 The Plan is the product of a Settlement between Deerfield; its primary secured lender,  
13 ~~Rabobank~~ Rabobank N.A. (“Rabobank”); and the Official Committee of Unsecured Creditors in this  
14 case (the “Committee”). Through the Settlement, Deerfield, Rabobank, and the Committee  
15 reached agreement on terms for treatment of the Rabobank debt in a consensual plan. **The Plan is**  
16 **therefore the result of the good faith efforts of both the Debtor and Rabobank to reach agreement**  
17 **on reasonable terms, rather than engaging in litigation.**

18 In general, the Plan provides for payment of general unsecured claims over a two-year  
19 period, with interest. Rabobank will be paid through a restructured note that matures in five years.  
20 Priority claims and other secured claims will be paid on or within 30 days of the effective date.  
21 The Plan also provides for ownership of the business to be retained by the current equity holders.  
22 Although this treatment is described below, creditors and equity holders should review the Plan  
23 itself. Treatment of creditors and equity holders under Deerfield’s proposed Plan is described in  
24 more detail below.

25 \_\_\_\_\_  
26 <sup>1</sup> This statement will be true when the Disclosure Statement is submitted to creditors in connection with  
27 the solicitation of ballots; it is not true as of the date this Disclosure Statement has been filed with the  
28 Court. If this Disclosure Statement is approved by the Court, this footnote will be removed prior to  
circulation to creditors.

1  
2  
3 **II. SUMMARY OF PLAN TREATMENT**

4 The following is a brief summary of classes of creditors and interest holders under the  
5 proposed Plan, and the treatment of each provided for in the Plan.

6 <b>Class</b>	<b>Creditors / Interest Holders</b>	<b>Treatment</b>	
7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	Unclassified Administrative Claims	Bankruptcy professionals and other administrative claimants	Paid in full on Effective Date (estimated December 31, 2015).
Unclassified Priority Tax Claims	Taxing authorities	Paid in full on Effective Date (estimated December 31, 2015).	
Class 1A	Sonoma County real property tax debt	Paid in full over five years, with interest at the legal rate.	
Class 1B	Rabobank secured claim	Claim fixed at \$11.75 million, paid over five years, with monthly payment of interest at the greater of 5% or LIBOR plus 3.5%. Annual principal payments starting at \$150,000 in 2016 and increasing to \$550,000 in 2019. Payment in full no later than the maturity date of December 31, 2020.	
Class 1C	Other secured claims (Grape Growers)	Paid in full on or before January 31, 2016.	
Class 2	Priority Claims	Paid in full on Effective Date (estimated December 31, 2015).	
Class 3A	General Unsecured Claims	Payment in full, with quarterly payments over two years, with amortized interest at 3%.	
Class 3B	Deferred Unsecured Claims of Deerfield Managers	Payment of interest only at 3% with payment of the balance following payment of all other claims.	
Class 4A	Equity Interests defined as "Class-A Units" in the Deerfield LLC Operating Agreement	Preserved intact, but deferred dividend payments are converted to additional units.	
Class 4B	General Equity Interests	Preserved intact.	

1 **III. CONFIRMATION PROCEDURE**

2 **A. Right to Vote on the Plan**

3 The Bankruptcy Code provides that only holders of claims or interests that are impaired  
4 under the terms of a Chapter 11 plan, and that are not deemed to have automatically rejected the  
5 Plan, are entitled to vote on to accept or reject the Plan. Holders of claims or interests in classes  
6 that are not impaired are conclusively assumed to accept the Plan and not entitled to vote.

7 With respect to the proposed Plan, holders of Claims in Class 2 (priority Claims) and  
8 Interests in Class 4B (equity interests) are conclusively presumed to have accepted the Plan and  
9 are not entitled to vote on the Plan. Holders of Claims or Interests in Classes 1A, 1B, 1C (secured  
10 claims), 3A (general unsecured Claims), 3B (voluntarily deferred unsecured Claims), and 4A  
11 (preferred equity Interests) are impaired and are entitled to vote to accept or reject the Plan.

12 **A. Acceptance or Rejection of the Plan and Cramdown**

13 As provided in the Bankruptcy Code, a class of Claims accepts the Plan if creditors in that  
14 class that hold at least two-thirds in dollar amount, and more than one-half in number, of the total  
15 of Claims in that Class cast ballots vote to accept the Plan. A class of equity Interests accepts the  
16 Plan if creditors in that class that hold at least two-thirds in dollar amount of the total of Interests  
17 in that Class cast ballots vote to accept the Plan. If a class of Claims or Interests does not accept  
18 the Plan, that Class is deemed to have rejected it.

19 If a Class of Claims or Interests rejects the Plan, the Debtor has the right, and intends, to  
20 request confirmation of the Plan nonetheless, pursuant to § 1129(b) of the Bankruptcy Code,  
21 known as a “cramdown.” Section 1129(b) permits the confirmation of a plan notwithstanding the  
22 rejection by one or more impaired classes of claims or equity interests if the plan does not  
23 “discriminate unfairly” and is “fair and equitable” with respect to each non-accepting class. The  
24 Debtor believes that the Plan meets these requirements.

25 The Plan provides for payment in full of all Claims, over a relatively short period. The  
26 Debtor believes that this is a better result than if its assets were liquidated under Chapter 7 of the  
27 Bankruptcy Code. Further, all equity holders retain their ownership interests through the Plan.  
28 Therefore, the Debtor believes that after carefully reviewing the Plan and this Disclosure

1 Statement, each holder of a Claim or Interest that is entitled to vote with respect to the Plan should  
2 vote to accept the Plan.

3 **B. Voting Instructions**

4 If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose  
5 of voting on the Plan.<sup>2</sup> Your Ballot must be returned to the following address by the deadline  
6 specified on the Ballot:

7 Deerfield Plan of Reorganization  
8 c/o McNutt Law Group LLP  
9 219 9<sup>th</sup> Street  
10 San Francisco, CA 94103

11 If you are a creditor or equity holder entitled to vote on the Plan and did not receive a  
12 Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the  
13 procedures for voting on the Plan, please call Carol Snell, at the Debtor's counsel,  
14 at (415) 995-8475.

14 **C. Confirmation Hearing**

15 Pursuant to § 1128 of the Bankruptcy Code, the Confirmation Hearing will be commenced  
16 on the date set forth in the notice provided with this Disclosure Statement, before the Honorable  
17 Alan Jaroslovsky, United States Bankruptcy Judge, at the United States Bankruptcy Court for the  
18 Northern District of California, Santa Rosa Division, 99 South "E" Street, Santa Rosa, California.  
19 The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served  
20 and filed so that they are received on or before the deadline stated in such notice. The  
21 Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without  
22 further notice except for the announcement of the adjournment date at the Confirmation Hearing.

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26 <sup>2</sup> Ballots will be enclosed when the Plan and Disclosure Statement are mailed out for voting. If this  
27 Disclosure Statement is approved by the Court, this footnote will be removed prior to circulation to  
28 creditors.



1 **IV. BACKGROUND OF DEERFIELD**

2 **A. Deerfield Ranch Winery**

3 Deerfield Ranch Winery is an award-winning winery located in the heart of the Sonoma  
4 Valley, founded by Robert and Paulette J. (“P.J.”) Rex. Specializing in blended wines, Deerfield’s  
5 winemakers carefully craft some 20 different wines in small lots from specially selected Sonoma  
6 vineyards. Deerfield purchases grapes for its wines from approximately 27 Sonoma County  
7 vineyards. Annual production totals approximately 30,000 cases, including both Deerfield brands  
8 and the winery’s substantial custom-crush business, which includes approximately 12 small  
9 family-owned wineries.<sup>3</sup> Although issues with Rabobank necessitated filing this case, the winery  
10 operations are strong, profitable, and growing.

11 Deerfield Ranch Winery has a long history. The head winemaker, Robert Rex, is now on  
12 his forty-third consecutive vintage as a winemaker, having starting in 1972. Deerfield Ranch  
13 Winery was founded in 1982, when Mr. Rex and his wife, P.J., moved into their home, which was  
14 the original winery and is located on the ridge above the current winery. The Rexes began selling  
15 wine under the “Deerfield” name in 1984.

16 Deerfield Ranch Winery, LLC was formed in 1999, in order to provide for expansion of  
17 the business by selling membership units to investors. The winery LLC is owned by 87 members.  
18 The Rexes have been the Managing Members since the LLC was formed.

19 The current winery property was acquired in 2000, as the beginning of a substantial  
20 expansion of the Deerfield Ranch Winery. The Deerfield estate is approximately 47 acres, located  
21 in Kenwood, California. Approximately seven acres are planted in biodynamically farmed  
22 vineyards. The property includes 14 acres of wetlands which are being restored by the winery and  
23 provide valuable natural habitat. The original Deerfield Ranch, acquired in 1982, is now the  
24 residence of the Rexes. The LLC leases office space and warehouse space at the Rex residence.

25 \_\_\_\_\_  
26 <sup>3</sup> Production may be somewhat lower in the 2015 year. In order to address the extraordinary costs  
27 of the Chapter 11 case, Deerfield is significantly cutting back its 2015 vintage, and bridging the  
28 gap with its substantial reserves from prior vintages.

1 The winery property includes a 23,000 square-foot wine cave, with a capacity for 2,500 barrels.  
2 The winery tasting room and retail sales are located in a grand room in the center of the cave.  
3 There is also a modern production facility, located in a barn-style building adjacent to the cave.

4 Production at the new winery began with the 2005 harvest, and the winery opened to the  
5 public in 2008 after Deerfield completed construction of a required left hand turn lane on  
6 Highway 12. Since the winery opened, revenues and gross profits have generally improved from  
7 year to year. During the same period, Deerfield has grown from Robert and P.J. to 22 employees  
8 supporting numerous families.

9 **B. Construction of the Winery**

10 After Deerfield acquired the current property in 2000, planting of the estate vineyards and  
11 construction of the winery began almost immediately. The first harvest from the vineyards was in  
12 2005.

13 Construction almost immediately faced a major set-back in connection with a Sonoma  
14 County permit requirement that the winery construct a left turn lane on Highway 12 before the  
15 winery could open to the public. Construction of the turn lane was originally estimated to cost  
16 approximately \$300,000 and take six months. Under the jurisdiction of Cal-Trans, the project  
17 took almost five years, and cost the winery approximately \$1.75 million. The real cost to the  
18 winery, including lost sales over the years the winery could not open to the public, is estimated to  
19 have been as much as \$8 million.

20 The total cost of the land and improvements for the Deerfield property was approximately  
21 \$16 million. Costs resulting from the long delay due to the left turn lane added another \$6.6  
22 million, primarily in lost sales. In addition to the turn lane, construction included Deerfield's  
23 modern, state-of-the art production facility and the magnificent caves and tasting room. The  
24 winery and tasting room opened to the public in 2008.

25 **C. The Rabobank Loans**

26 The cost of construction was funded in part through the sale of member equity, various  
27 bridge loans, loans from members, and construction loans. In 2007, Deerfield approached  
28 Rabobank for ~~a long term~~ an \$11 million loan to pay off the existing debt and provide additional

1 capital. ~~Although Deerfield sought an \$11 million term loan~~After review, Rabobank ultimately  
2 informed Deerfield that it ~~would~~could only provide an \$8 million term loan, because of the  
3 downturn in the market. This was in late 2008, in the early stages of the Great Recession, when  
4 the banking system was on the verge of collapse and the credit market had virtually dried up.  
5 Rabobank offered to provide the other \$3 million of needed financing in the form of a line of  
6 credit, secured by Deerfield's inventory and accounts receivable borrowing base, which would  
7 come due in 2010. Although Deerfield had concerns about its ability to repay the line of credit,  
8 there was no viable alternative in the late 2008 credit market. Deerfield entered into the loan  
9 agreements with Rabobank for the \$8 million term loan and \$3 million line of credit (together, the  
10 "Rabobank Loans") at the end of 2008.

## 11 12 **V. FACTORS LEADING TO THE BANKRUPTCY FILING**

### 13 **A. Deerfield's Secured Loan Obligations**

14 During the first year of the Rabobank Loans, in 2009, Deerfield made all regular monthly  
15 payments in a timely fashion. ~~In January 2010, however, Deerfield, but~~ was ~~unable~~not able to  
16 make a \$206,000 principal payment ~~of \$206,000,~~that was due in December 2009. This was the  
17 first of several large annual principal payments required on the \$8 million term loan. ~~Because the~~  
18 ~~winery could not support these large principal payments, Deerfield's management sought a~~  
19 ~~modification of the loans to amortize the principal payments. Rabobank was not willing to enter~~  
20 ~~into such a modification.~~As a result, Deerfield and Rabobank entered into a ~~series of short term~~  
21 ~~amendments over the next four years, amending maturity and~~modification extending the time for  
22 payment ~~dates under the Rabobank Loans.~~

23 ~~Although Deerfield made substantial principal payments, the~~of this initial principal  
24 payment, and dividing it into two sums of a \$100,000 and \$106,000. This was the first of a  
25 number of modifications ~~eventually consolidated multiple balloon payments into one that~~  
26 Rabobank provided during the following four years, which variously extended both the annual  
27 principal payments under the term loan, and the maturity date of the line of credit. Through these  
28 modifications, Deerfield also agreed to release any claims against Rabobank.

1 During this time, Deerfield was also unable to make payments for secured property taxes  
2 due to the County of Sonoma, resulting in a total past due property tax obligation of approximately  
3 \$754,800.

4 Under the modified payment terms of the Rabobank loans, a principal payment of  
5 \$567,000, was due on December 31, 2013. This would have been followed by a pay-off maturity  
6 of the \$3 million line of credit, as extended by Rabobank, three months later. Deerfield could not  
7 pay these amounts on this schedule was not able to make the December 31 payment. As a result,  
8 Rabobank exercised its rights under the loan documents and filed a judicial foreclosure action (the  
9 “State Court Action”).

10 **B. — The State Court Litigation and Receiver**

11 Rabobank filed the State Court Action in February 2014. In May 2014, in order to end the  
12 ongoing and substantial costs of litigation and to provide an opportunity to seek refinancing,  
13 Deerfield and Rabobank entered into a stipulation with Rabobank in the State Court Action (the  
14 “Rabobank Stipulation”), in an effort to resolve the situation and find a way to allow  
15 refinancing of the Rabobank loans. The Rabobank Stipulation required a payment of \$138,000,  
16 which was made, and provided for a six-month period to seek refinancing, after which a receiver  
17 would be appointed. The Rabobank Stipulation again provided for a release of all claims against  
18 Rabobank. The hope was that this time would allow Deerfield to refinance the Rabobank loans.  
19 Unfortunately, under the circumstances, it Deerfield was impossible not able to obtain conventional  
20 financing refinance. After a 30-day extension of the forbearance period, John Hawkins was  
21 appointed as receiver on December 4, 2014 (the “Receiver”), pursuant to the terms of the  
22 Rabobank Stipulation.

23 The Rabobank Stipulation provided that unless required a payment of \$252,000 payment  
24 was made by on January 31, 2015, Rabobank would be free to foreclose, in lieu of the Receiver  
25 continuing to market the property. There was no way that Deerfield could reasonably make this  
26 payment, as. Unfortunately, making the payment would have left Deerfield unable to pay its  
27 other debts as they came due. Therefore the payment was not made, leaving open the possibility  
28 of foreclosure. After careful consideration, Deerfield’s managers determined that the only

1 responsible action in order to protect the rights of all creditors and equity holders was filing the  
2 instant bankruptcy petition.

## 3 4 **VI. THE BANKRUPTCY CASE AND RABOBANK SETTLEMENT**

5 Deerfield filed a voluntary petition in this Court for relief under Chapter 11 of the  
6 Bankruptcy Code on February 13, 2015 (the “Petition Date”). Deerfield has continued to operate  
7 its business as debtor-in-possession since the Petition Date.

### 8 **A. The Committee**

9 In Chapter 11 cases, the Office of the United States Trustee (the “US Trustee”) is  
10 authorized to appoint a committee to represent the interests of unsecured creditors. On March 16,  
11 2015, the US Trustee appointed the Creditors Committee. The following persons were designated  
12 as members of the Creditors Committee: Yannick Rousseau, of Tonnellerie de Jarnac USA, Inc., a  
13 supplier of barrels; Michael Topolos, of Topolos Vineyards LLC, who manages Deerfield’s  
14 vineyards on a contract basis; and David Estes of Wood Valley Road, LLC, a grape grower. The  
15 Creditors Committee retained the law firm of Pachulski Stang Zhiel & Jones as its legal counsel.

### 16 **B. The Rabobank Settlement**

17 Before Deerfield could reasonably enter into meaningful negotiations with Rabobank or  
18 the Creditors Committee, it was necessary to prepare thorough, transparent financial models  
19 reflecting expected revenues and expenses over the next seven years. This was a detailed and  
20 time-consuming task, but once completed served as the basis for negotiations with Rabobank, and  
21 for the Settlement. Rather than filing and seeking approval of its plan without creditor input,  
22 Deerfield provided a draft plan to Rabobank and the Creditors Committee in order to engage in a  
23 dialog regarding the terms of the plan, and to determine whether filing a consensual plan  
24 supported by Rabobank would be possible.

25 On August 27, 2015, Deerfield, Rabobank, and the Creditors Committee participated in a  
26 settlement conference conducted by Judge Carlson of the Northern District Bankruptcy Court, in  
27 an effort to resolve disputes regarding the terms of Deerfield’s proposed plan of reorganization.  
28 After extensive negotiations, the parties agreed to the principal terms of a consensual plan of

1 reorganization, which are reflected in the Plan.

## 2 3 **VII. THE DEERFIELD BUSINESS AND ITS CONTINUED OPERATIONS**

4 Deerfield is a highly respected, ~~profitable~~ business with a very high likelihood of a  
5 successful reorganization, despite its financial troubles ~~with the Rabobank loans leading into this~~  
6 ~~case~~. Since opening to the public in 2008, the winery business has grown steadily, ~~despite being~~  
7 ~~hampered by the banking relationship~~. Deerfield was profitable in 2012 and 2013, even after debt  
8 service, ~~including the substantial annual payments that were required by Rabobank~~. Net profit  
9 was \$100,000 on \$3.1 million in revenue in 2012, and \$125,000 on \$3.4 million in 2013. During  
10 the past three years EBITDA has been \$972,000 in 2012, \$1.2 million in 2013, and \$767,000 in  
11 2014. ~~Even with the debt service and the punishing additional expenses associated with being~~  
12 ~~assigned to special assets, Deerfield has had a generally positive bottom line~~. Without the \$84,687  
13 in extraordinary costs associated with the foreclosure action and receivership in 2014, adjusted  
14 EBITDA was \$850,000, meaning that net profit would have been \$77,000 without these  
15 ~~extraordinary~~ costs.

16 Sale of Deerfield Ranch Winery labeled wine is the core of Deerfield's business,  
17 representing about 60% of total revenue. These high-end wines are all hand-crafted at the winery  
18 by Robert Rex and the winemaking team, and for the most part retail between \$24 and \$85 a  
19 bottle, with a few limited bottlings at higher price points. Deerfield wines are extremely well  
20 regarded, and have won more than 365 awards, including 8 best of show, 32 best of class, and 88  
21 gold or double gold medals. In the same period, Deerfield has had 28 wines rated over 90 points.  
22 Deerfield produces about 15,000 cases per year, much of which is sold under the Deerfield Ranch  
23 Winery brand. A portion of the Deerfield wine produced also goes into the winery's successful  
24 @Wine brand and Deerfield's private label wine program.

25 In addition to production of its own wines, Deerfield has an active custom-crush business  
26 with approximately 12 custom crush and alternating proprietor clients. Deerfield typically makes  
27 between 12,000 and 20,000 cases of wine for custom-crush clients each year. This provides  
28 substantial additional revenue and shorter-term cash flow, in excess of \$300,000 per year.

1 The Debtor's historical performance prior to the bankruptcy case is described above, and is  
2 further described in more detail in the Declaration of Robert Rex in Support of First Day Motions,  
3 which was filed on February 13, 2015, and is Docket Number 7 on the Court's online docket.  
4 During 2015, Deerfield has continued to experience strong sales. Pursuant to the Bankruptcy  
5 Code, Deerfield has filed regular monthly operating reports with the Court, describing both its  
6 monthly results and cumulative results since the February 13, 2015 petition date. The most recent  
7 report, for the month of August, was filed on October 23, 2015, and is Docket Number 146 on the  
8 Court's docket. The September report will be filed within a week of distribution of this Disclosure  
9 Statement. A copy of any of the above-referenced documents can be obtained from the Court, or  
10 by contacting Debtor's counsel.

11 Deerfield has prepared financial projections for the five-year period of the Plan, which are  
12 attached hereto as **Exhibit A** (the "Projections"). Deerfield believes that the Projections are  
13 conservative and achievable.<sup>4</sup>

14 ///

15 ///

16 ///

## 17 **VIII. PLAN OF REORGANIZATION**

### 18 **A. Payment of Administrative Claims**

19 Debts incurred after the commencement of a bankruptcy case are generally referred to as  
20 "administrative claims" or "administrative expenses." In order to confirm a plan of  
21 reorganization, all administrative expenses must be paid promptly after confirmation of the plan,  
22 in cash and in full. In general, administrative claims fall into two categories: the allowed fees of  
23 attorneys and other professionals employed by the estate, and other obligations of the business  
24 resulting from the ordinary course of its operations.

25 Professional fees are entitled to priority as administrative expenses only to the extent that

26 \_\_\_\_\_

27 <sup>4</sup> The Projections are subject to the limitations and risk factors set forth in Section XI, below.

28



1 they are approved by the Bankruptcy Court. On July 24, the Bankruptcy Court approved on an  
2 interim basis compensation for Deerfield's counsel in the amount of \$163,278.28, which amount  
3 has been paid. Estimated additional professional fees through confirmation of the Plan are shown  
4 in the table below.<sup>5</sup>

5

6 Professional	Description	Estimate
7 McNutt Law Group	Debtor's Bankruptcy Counsel	\$195,000
8 Jigsaw Advisors	Debtor's Financial Advisor	\$167,000
9 Pachulski Stang	Creditors Committee Counsel	\$37,500
	Total	\$399,500

10

11 Administrative expense priority is also afforded to other debts incurred by the Debtor in  
12 the course of operating during the bankruptcy case, whether in ordinary course of operating the  
13 business, or in connection to the case itself (e.g., quarterly fees due to the U.S. Trustee). To the  
14 extent any U.S. Trustee quarterly fees are due and unpaid as of the Plan effective date, they will be  
15 entitled to administrative priority and paid: [on or before the effective date](#). Because the business is  
16 paying its post-petition bills in the ordinary course, it is not clear that there will be any expenses of  
17 operation from the period of the Chapter 11 case that are due and remain unpaid at the time of  
18 confirmation.<sup>6</sup> To the extent that there are, they will be entitled to administrative expense priority.

19 **B. Treatment of Creditor and Equity Classes**

20 The Plan has a total of six classes of creditors and equity holders. The classes and their  
21 treatment are summarized below.

22

23

24 <sup>5</sup> The amounts shown are as estimated by Deerfield and the professionals involved. Actual  
25 amounts incurred may be materially different, as may the amounts ultimately approved by the  
Bankruptcy Court.

26 <sup>6</sup> Costs for purchase of grapes are normally paid over the year following harvest. There will  
27 therefore be payments to growers for the fall 2015 harvest that will be unpaid but not yet due as of  
confirmation. These will be paid in accordance with the Debtor's contracts with these growers.

28



1           1.       Class 1A (Sonoma County Secured Claims)

2           Class 1A consists of the claims of Sonoma County for unpaid real property taxes, which  
3 are secured by statutory property tax liens on Deerfield’s real property. The past-due amounts  
4 total approximately \$565,800 in unpaid taxes and \$189,000 in interest and fees.

5           Under the Plan, Sonoma County will received payment in full over five years, together  
6 with interest at the statutory rate required pursuant to §511 of the Bankruptcy Code, which is  
7 understood to be 18% per year simple interest. The County will retain the liens that it holds as a  
8 matter of state law to secure payment of its claims. The payments on the Class 1A Claims will  
9 consist of five annual payments, each consisting of one-fifth of the principal amount of the  
10 allowed Class 1A Claims, plus interest through the payment date, with such payments  
11 commencing on April 15, 2016. Successive annual payments will be due on April 15 of 2017  
12 through 2020.

13           Real property taxes not yet due as of the Effective Date will be paid when due.

14           The Plan also provides that upon sale or refinance of any parcel of Deerfield property, the  
15 unpaid portion of the allowed Sonoma County claims attributable to the sold parcel shall be paid  
16 in full, in exchange for which the lien as to that parcel shall be released.

17           Sonoma County’s claim for past due real property taxes is impaired, and Sonoma County  
18 is entitled to vote on the Plan.

19           2.       Class 1B (Rabobank Secured Claim)

20           Class 1B consists of the secured claim held by Rabobank, secured by a deed of trust  
21 encumbering all of the Debtor’s real property, as well as other security interests encumbering  
22 substantially all of the Debtor’s assets. Rabobank’s claim is impaired and Rabobank is entitled to  
23 vote under the Plan.

24           Rabobank’s treatment under the Plan is as provided in the Settlement. Rabobank will  
25 receive a new promissory note and other loan documents (the “New Note” and “New Credit  
26 Documents”) that amend and restructure the existing loan documents (collectively, the  
27 “Restructured Credit Documents). The New Credit Documents will be filed with the Court as part  
28

1 of Supplemental Plan Documents prior to the hearing on confirmation of the Plan. All parties are  
2 encouraged to review the Supplemental Plan Documents prior to voting on the Plan.

3 The Plan fixes the amount of the Class 1B Claim at \$11,750,000, inclusive of all interest,  
4 fees, penalties or any other amounts that might be charged under the existing loan documents.  
5 This amount will also be the initial principal balance of the New Note.

6 The Restructured Credit Documents will provide for payment of the Class 1B claim over a  
7 period of five years, with a term beginning January 1, 2016, and maturing on December 31, 2020.  
8 The New Note will carry interest at the greater of (i) LIBOR plus 3.5%, or (ii) 5%. Because  
9 LIBOR is currently less than 1%, it is likely that the rate of interest in effect for much of the five-  
10 year term will be 5%. Deerfield will pay monthly interest on the New Note. In addition to  
11 monthly payment of interest, the Restructured Credit Documents will require yearly payments of  
12 principal in the following amounts: \$150,000 in 2016; \$200,000 in 2017; \$400,000 in 2018; and  
13 \$550,000 in 2019. These principal payments will be due on December 15 of each year (provided  
14 that the Debtor will not be in default if the payment is made by December 31).

15 The entire outstanding balance of the Class 1B Claim will be due and payable on  
16 December 31, 2020.

17 Deerfield will make additional yearly principal payments to the extent yearly wine sales  
18 exceed the financial Projections attached hereto. These payments, to the extent any payment is  
19 required, will be due in June, based on the sales for the preceding year. The first such payment  
20 would therefore be due in June 2017, for the 2016 year. The amount of the payment, to the extent  
21 such a payment is required, will be 20% of the amount by which actual sales of bottled and bulk  
22 wine exceeded Projections, as shown on Deerfield's year-end financial statements.

23 The obligations under the Restructured Credit Documents will be secured by all collateral  
24 currently securing the Class 1B Claim, as more specifically provided in the Restructured Credit  
25 Documents.

26 The Restructured Credit Documents will also require the Restructured Debtor to retain a  
27 professional financial advisor. The initial financial advisor will be Jigsaw Advisors, LLC, the  
28 principal individual of which is Bill Brinkman. Jigsaw Advisors is currently employed in this

1 bankruptcy case as the Debtor's financial advisors, under terms that provide for hourly  
2 compensation at Jigsaw Advisor's standard hourly rates. It is expected that Jigsaw Advisors will  
3 be employed on the same or substantially similar terms by the Reorganized Debtor, although as  
4 will all professionals employed after the effective date, the terms are subject to negotiation  
5 between the Reorganized Debtor and the respective professional. To the extent that Jigsaw  
6 Advisors ceases to be employed as the Reorganized Debtor's financial advisors, the Restructured  
7 Credit Documents will provide that the Reorganized Debtor will retain a replacement financial  
8 advisor acceptable to Rabobank.

9 A further essential element of the treatment of Rabobank is the remedy available in the  
10 event of a Material Default (as defined in the Plan and the Restructured Credit Documents) on  
11 Deerfield's obligations to Rabobank. In the event of a Material Default, Rabobank will be  
12 allowed to immediately obtain appointment of a liquidating trustee, who will be tasked with  
13 selling the business. In the event that a liquidating trustee is appointed, and does not successfully  
14 sell the business within two years, Rabobank would be entitled to foreclose.

15 Deerfield does not anticipate circumstances that would lead it to default under the  
16 Restructured Credit Documents and trigger the liquidating trustee remedy. Should the unexpected  
17 occur, however, the liquidating trustee process would halt payments to all creditors pending a sale,  
18 and it is not clear what creditors or equity holders would receive from the liquidating trust. As  
19 provided in the Plan, the liquidating trust documents would specifically task the liquidating trustee  
20 with maximizing value for all creditors. Provisions for selection and compensation of the  
21 liquidating trustee will as provided in the Liquidating Trust Agreement, which will be filed as a  
22 part of the Supplemental Plan Documents to be filed prior to the confirmation date. The  
23 liquidating trustee and any professionals employed by the liquidating trustee would be  
24 compensated by out of the assets of the Reorganized Debtor.

25 As described in the Plan, the Restructured Credit Documents will provide for a broad  
26 release of any and all claims of the Debtor or the bankruptcy estate against Rabobank.  
27 Notwithstanding this release provision, the Debtor is not aware of any claims that could be  
28 asserted against Rabobank.

1           3.       Class 1C (Secured Claims)

2           Class 1C consists of all other pre-petition secured claims. The Class 1C claims consist  
3 primarily of the claims of grape growers that are secured by statutory producers liens. The  
4 principal amounts of the grower claims are being paid prior to Plan Confirmation, pursuant to the  
5 Bankruptcy Court's order dated November ~~20~~04, 2015.

6           Pursuant to the Plan, unpaid Class 1C claims will be paid in full on or before January 31,  
7 2016, with interest at a rate of 5% per year. On payment, any and all liens secured such claims  
8 will be released and discharged.

9           The unpaid Class 1C grower claims will therefore consist primarily of the right to post-  
10 petition interest incurred on the claims prior to payment of the principal balance. Class 1C is  
11 impaired, and is entitled to vote.

12           4.       Class 2 (Priority Claims)

13           Class 2 consists of unsecured claims that are entitled to priority under the Bankruptcy  
14 Code, and not otherwise classified under the Plan. Certain claims are entitled to priority of  
15 payment under the Bankruptcy Code, including some types of tax debt, and employee wage  
16 claims. As of the filing date, Deerfield had priority claim obligations to various taxing authorities  
17 and to its employees. Through "first day" orders entered shortly after the filing of the case, the  
18 Bankruptcy Court approved payment of all employee wage claims, other than those of Deerfield's  
19 managers. The Bankruptcy Court also approved payment in the ordinary course of tax  
20 obligations. As a result the remaining priority claim obligations are (1) the pre-petition wages and  
21 reimbursement claims owed to Deerfield's managers, and (2) certain disputed penalty claims  
22 asserted by the Franchise Tax Board.

23           Because Deerfield was generally current on its payroll, the priority claim for pre-petition  
24 wages of the managers is only the amount owed for the pay period immediately prior to filing of  
25 the petition.

26           The Franchise Tax Board asserts a priority claim in the amount of approximately \$28,000  
27 for certain penalties associated with the alleged failure of Deerfield to file tax returns for two  
28 years. Deerfield believes that the returns in question were in fact timely filed, and therefore

1 intends to object to this claim. To the extent the claim is allowed, Deerfield has sufficient cash to  
2 pay it on the Effective Date or promptly after allowance.

3 The Plan proposes to pay in full as of the Effective Date the allowed amount of all priority  
4 claims. The Class 2 claims are therefore unimpaired, and not entitled to vote on the Plan.

5 5. Class 3A (General Unsecured Claims)

6 Class 3A consists of the claims of general unsecured creditors (other than certain  
7 unsecured claims of Deerfield's managers, which are treated in Class 3B).

8 The Plan provides for Class 3A general unsecured creditors to receive payment in full, in  
9 eight equal quarterly payments, with amortized interest, commencing April 15, 2016. The unpaid  
10 balance of the general unsecured claims will accrue interest from and after the petition date, at 3%  
11 per year.

12 The Class 3A claims are impaired, and are therefore entitled to vote on the Plan.

13 6. Class 3B (Management Unsecured Claims)

14 Class 3B consists of certain unsecured claims of Deerfield's management. These claims  
15 arise from operating loans made to Deerfield by its managing members in order to address critical  
16 cash needs of the business. The managing members funded these loans primarily by taking out  
17 secured loans on their home. The amount of the Class 3B claims is approximately \$442,758.40.

18 The holders of the Class 3B claims have voluntarily agreed to receive payment on a  
19 delayed schedule, after other claims, in order to facilitate the Plan. The Plan therefore provides  
20 that the holders of the Class 3B claims will received payment of interest only on a monthly basis  
21 from and after the Effective Date, with payment of the balance on or before January 31, 2021.  
22 The interest on the Class 3B claims shall be 3% simple interest. The Plan further provides that in  
23 no event shall the holders of the Class 3B claims receive any payment unless all other payments  
24 required under the Plan are current.

25 The Class 3B claims are impaired, and are therefore entitled to vote on the Plan.

26 7. Class 4A (Defined Return Equity)

27 Class 4A consists of certain equity interests in the Debtor which are described as "Class-A  
28 Units" in Deerfield's Operating Agreement. Deerfield has only two types of equity interests:

1 Class-A Units and regular Units. While most of the equity in the business is in the form of regular  
2 Units, there are a limited number of Class-A Units, held by approximately twelve equity holders.  
3 The Operating Agreement provided for the holders of the Class-A Units to receive regular cash  
4 distributions. Class 4A includes both the original interests and the accrued deferred payments on  
5 account of those interests.

6 The Plan provides that the holders of the Class 4A Interests will retain the Class-A Units  
7 they currently own. In addition, all deferred payments to holders of Class-A Units will be  
8 converted to Class-A Units at a value of \$12,500 per unit, rounded down to the nearest whole unit.  
9 The Plan provides for modification of the Operating Agreement such that Class-A Units will no  
10 longer pay dividends. Deerfield believes this is necessary in order fund the payment of creditors  
11 under the Plan.

12 The Operating Agreement will also provide that the Class-A Units will, post-confirmation,  
13 have a position of retirement senior to regular equity. This means that at the request of a holder of  
14 Class-A Units, the company will endeavor to sell that holder's Class-A Units to other members or  
15 potential investors in preference to regular units held by other members. This is intended to allow  
16 the holders of Class-A Units a means to liquidate their equity more quickly in the event that they  
17 wish to do so.

18 The specific revisions to the Operating Agreement in connection with the Plan are as set  
19 forth in the Plan.

20 The Class 4A Interests are impaired, and are therefore entitled to vote on the Plan.

21 8. Class 4B (Equity)

22 Class 4B consists of all equity interests in the Deerfield, except those described in Class  
23 4A. In other words, it is all of the regular membership interests in Deerfield.

24 The Plan provides for all holders of Class 4B claims to retain their equity interests. The  
25 Class 4B claims are therefore unimpaired, and not entitled to vote on the Plan.

26 **C. Executory Contracts**

27 The Bankruptcy Code classifies contracts as to which further performance is due from both  
28 sides as "executory." Over the course of the bankruptcy case or under its plan of reorganization, a

1 debtor must “assume” or “reject” all executory contracts. In order to assume a contract, the  
2 debtor must cure all defaults and thereafter comply with the contract according to its terms. If a  
3 contract is rejected, performance on both sides ordinarily terminates and the other party is entitled  
4 to assert a claim for damages, which will be treated as a general unsecured pre-bankruptcy claim;  
5 i.e., a Class 3A claim.

6 In this case, the Debtor does not have many material executory contracts. Grower  
7 contracts are generally treated on a year-by-year basis. As of confirmation, any grower contracts  
8 for the 2015 harvest year will generally not be executory, but will simply be a payment obligation  
9 of Deerfield. To the extent that Deerfield has multi-year grower contracts, it reserves the right to  
10 add such contracts to the list of assumed contracts set forth in the Plan, or to separately file  
11 motions seeking authorization to assume.

12 The Operating Agreement, to the extent that it is considered an Executory Contract, will be  
13 assumed as modified by the Plan. *Although the Debtor reserves the right to seek assumption of*  
14 *other executory contracts, the Plan currently does not contemplate assumption of any other*  
15 *contracts.*

16 The Plan provides that contracts not expressly treated under the plan will be deemed  
17 rejected. This would give rise to a claim for damages resulting from rejection; however, Deerfield  
18 believes that to the extent any contracts are rejected, the damages would not be material.

## 20 **IX. IMPLEMENTATION OF THE PLAN**

### 21 **A. Revesting Subject to Plan**

22 On the Effective Date, all property will revert in the Reorganized Debtor, free and clear of  
23 claims and liens, except as specified in the Plan (which, among other things, preserves the liens of  
24 Rabobank, Sonoma County, and growers secured by agricultural producer liens). From and after  
25 the Effective Date, the Reorganized Debtor will be able to freely use or transfer its cash and assets,  
26 enforce its rights and exercise its powers, and otherwise conduct its business in its unfettered  
27 discretion, subject only to the requirements of the Plan, the Restructured Credit Documents, and  
28 otherwise applicable non-bankruptcy law.

1 **B. Bankruptcy Transition and Procedure**

2 Matters subject to the Court’s retained jurisdiction will be initiated and prosecuted  
3 following the Effective Date substantially in the same manner as they would be prior to the  
4 Effective Date. Notice of post-Confirmation matters will be given to the Reorganized Debtor, the  
5 US Trustee, Rabobank, and persons who request notice in writing *after* the Confirmation Date.  
6 The Creditors Committee will be dissolved as of the Effective Date, or as soon thereafter as  
7 practicable. Deerfield will file quarterly reports and continue to pay US Trustee fees after the  
8 Confirmation Date and until entry of the Final Decree, pursuant to and consistent with applicable  
9 law, including 28 U.S.C. §1930.<sup>7</sup>

10 The Plan anticipates that Deerfield will close the bankruptcy case as soon as reasonably  
11 possible after the Effective Date. The Plan also provides, however, that the Case may be reopened  
12 on the request of the holder of the Class 1B Claim for the purpose of seeking appointment of a  
13 liquidating trustee if the Reorganized Debtor defaults, as discussed with regard to the treatment of  
14 the Class 1B Claims.

15 ///

16 ///

17 **C. Management and Corporate Matters**

18 P.J. Rex and Robert Rex will continue to be the Managing Members of the Reorganized  
19 Debtor, pursuant to its LLC operating agreement (the “Operating Agreement”). Currently, P.J.  
20 Rex receives a salary of \$75,000 per year as Managing Member and general manager, and Robert  
21 Rex receives a salary of \$100,000 per year as Managing Member and head winemaker. The  
22 Managing Members will continue to receive their regular salaries from the Reorganized Debtor.

23 The Operating Agreement will remain in force, but will be modified by the Plan as  
24 follows:

25 (a) The sections governing “Class-A Units,” will be modified as described

26 \_\_\_\_\_

27 <sup>7</sup> If the case were reopened for any reason, quarterly fees and reporting would also be required in  
28 the reopened case, pursuant to the Bankruptcy Code.



1 above regarding treatment of Class 4A equity.

2 (b) Section 3.3.1 of the Operating Agreement, which governs sale of additional  
3 units, will be amended in order to allow for sale additional membership units in order to raise  
4 capital.

5 **D. Objections to Claims**

6 The Plan provides that any person may object to a Claim treated under the Plan by filing an  
7 objection with the Bankruptcy Court and serving it on the Debtor and the claimant no later than  
8 five days before the date set for the Confirmation Hearing. The Debtor and Reorganized Debtor  
9 may object to a Claim at any time. If an objection is filed, the Claim will be treated as a Disputed  
10 Claim, and will not receive any distribution until the objection is resolved.

11 Any Claim that is not timely filed by the applicable Claims Bar Date, as defined in the  
12 Plan, will be disallowed.

13 Any amendment to an otherwise timely filed proof of claim must be filed on or before the  
14 Effective Date.

15 **E. Co-Obligor Claims**

16 The Plan includes “Co-Obligor Claims” provisions, which essentially provide that a debt  
17 of the Debtor which could also be asserted as a claim against another person, such as a guarantor  
18 (a “Related Claim”) shall be asserted only against the Debtor as long as the Reorganized Debtor is  
19 in compliance with the terms of the Plan. The merits of the claim will be determined by  
20 disposition of the Related Claim, avoiding unnecessary and duplicative litigation. *The Debtor is*  
21 *not presently aware of any such Co-Obligor claims, other than the claims of Rabobank against*  
22 *guarantors of the Rabobank debt. These provisions of the Plan would, however, apply to any*  
23 *other Co-Obligor claims asserted by other parties.*

24 If the Related Claim is Allowed, the creditor may not assert a claim based on the same debt  
25 (a “Co-Obligor Claim”) against any other person (a “Co-Obligor”, including officers, directors,  
26 guarantors, etc.) for a suspension period that corresponds with the term provided for payment of  
27 the Related Claim in the Plan. If, as anticipated, the Related Claim is paid in full under the Plan,  
28 the Co-Obligor Claim will be dismissed (since it has been paid in full).

1 If the Related Claim is discharged or disallowed, the claimant will not be permitted to  
2 pursue the Co-Obligor Claim, thereby preventing duplicative litigation related to the same issues,  
3 and the cost of indemnity claims against the estate. These provisions assure the claimant is  
4 provided a full and fair chance to recover on claims against the Debtor, but protect the  
5 Reorganized Debtor from the disruption of indemnity claims and duplicative litigation. [The Plan](#)  
6 [also provides any statute of limitations applicable to a Co-Obligor Claim will be tolled during the](#)  
7 [suspension period, in order to protect the creditor's claim against the Co-Obligor from expiration](#)  
8 [as the result of a statute of limitations while the right to pursue it is suspended.](#)

9 The premise of these provisions is that creditors are only entitled to be paid in full once,  
10 and that the Plan provides an appropriate and efficient means of paying all creditors.

11 **F. Discharge**

12 The Plan provides for a broad discharge of all claims that are not timely asserted in the  
13 bankruptcy case, or which are asserted and disallowed by the Bankruptcy Court. The Plan  
14 prohibits efforts to pursue collection on discharged claims.

15 **G. Releases**

16 The Plan provides for a broad release of any and all claims or defenses that might be  
17 asserted against Rabobank and its affiliates. As described in the Plan, the Debtor's release of  
18 Rabobank will be more fully described in the loan documents, which will be filed as a supplement  
19 to the Plan. These releases do not extend to any obligations under the Plan. [As described above,](#)  
20 [although the Plan and Restructured Credit Documents provide for a broad release of any claims](#)  
21 [against Rabobank, the Debtor is not aware of any claims against Rabobank.](#)

22  
23 **X. ALTERNATIVES TO THE PROPOSED PLAN**

24 **A. Going Concern Sale in Chapter 11**

25 Deerfield believes that any sale at this time would be depressed by the event of the Chapter  
26 11 case, and the nature of a bankruptcy sale. Further, Deerfield believes that purchasers would  
27 value the winery based on predictable and established operating results. Normally this requires at  
28 least a 12-month history of operations. Although the winery has successfully operated through the

1 bankruptcy case, and has in fact increased revenues over the prior year, operation in a Chapter 11  
2 case inherently involves substantial extraordinary costs and business disruption. As a  
3 consequence, a sale during bankruptcy would result in a depressed sale price that would not give  
4 full value to Deerfield's creditors and equity holders.

5 **B. Liquidation**

6 Deerfield believes that a liquidation of its assets ~~would be unreasonable, and entirely~~  
7 ~~ineffective in realizing value for its stakeholders.~~through conversion of its case to Chapter 7 would  
8 be less favorable for creditors and equity holders than the treatment provided in the Plan. The  
9 primary asset in a liquidation would be Deerfield's real property, which could be expected to  
10 command a lower price in a liquidation scenario than as part of an operating and successful  
11 winery. The liquidation value of the real estate, with improvements, is estimated to be  
12 approximately \$13,000,000, based on the most recent appraisal.<sup>8</sup> The liquidation value of all other  
13 assets is estimated to be approximately \$4,470,000, of which \$370,000 is estimated cash on hand.

14 The amount that might be recovered from Deerfield's non-real estate assets in a Chapter 7  
15 liquidation is highly uncertain, at best. A substantial part of the non-real estate value of Deerfield  
16 is its wine inventory. In a Chapter 7 liquidation, much of the value of this inventory would be  
17 lost, because wine has substantially less value when sold outside the ordinary course. Deerfield's  
18 estimate of the liquidation value of its assets is shown in summary attached hereto as **Exhibit B.**<sup>9</sup>

19 Recoveries from liquidation would be paid to claimants based on the priorities provided in  
20 the Bankruptcy Code and other applicable law. Because Rabobank asserts a security interest in  
21 substantially all assets of the Debtor, funds from liquidation would be available to pay other  
22 creditors only after payment in full of the Rabobank Claims. The County of Sonoma has a  
23

24 <sup>8</sup> Deerfield believes the fair market value as part of the operating winery is considerably higher,  
25 based on market conditions, comparable transactions, and recent indications from potential buyers  
26 and investors. Nevertheless, in estimating liquidation value, Deerfield believes the most recent  
27 appraisal is appropriate.

28 <sup>9</sup> The Bankruptcy Code does allow a Chapter 7 trustee to seek Court approval to operate a  
business, which would allow the trustee to attempt to sell the business as a going concern.

1 secured claim for unpaid real estate tax liabilities of approximately \$750,000. Rabobank's proof  
2 of claim filed with the Court asserts a balance of approximately \$11,428,000, however, this does  
3 not include post-petition attorney's fees, which could be expected to exceed \$200,000. Deerfield  
4 therefore expects that secured claims in liquidation would be not less than \$12,387,000.<sup>10</sup> Priority  
5 claims would also be paid in full before any payments to general unsecured creditors. Scheduled  
6 priority claims were approximately \$41,000, although this amount would be reduced by payments  
7 authorized to employees at the beginning of the case. Administrative claims arising during the  
8 Chapter 11 case from operation of the business and from professional fees would also be entitled  
9 to priority. As set forth above, unpaid Chapter 11 professional fees are estimated to be  
10 approximately \$400,000. Total secured and priority claims in a Chapter 7 are therefore estimated  
11 to be not less than \$12,828,000.

12 Any funds from liquidation, after payment of secured and priority claims, and costs of  
13 administration of the Chapter 7 case, would be distributed pro rata among general unsecured  
14 creditors. Total scheduled unsecured claims are approximately \$802,000, of which approximately  
15 \$442,000 are the unsecured claims of management for operating loans made to the company.  
16 While the managers have agreed to subordinate their claims in the plan, it is not clear whether they  
17 would do so in a Chapter 7. The Debtors best estimate is that payment of unsecured creditors in  
18 full would therefore require that the Chapter 7 liquidation result in approximately \$13,630,000,  
19 after costs of sale and other Chapter 7 administrative costs.

20 Based on Deerfield's best estimates, it is likely that a Chapter 7 liquidation would result in  
21 sufficient funds to pay a substantial part, or all, of the unsecured debt. There is, however,  
22 ~~substantial~~ uncertainty. The liquidation values shown above would have to be discounted by the  
23 costs of sale and the costs of Chapter 7 administration, ~~both of which could be substantial~~. The  
24 cessation of operations in a Chapter 7 ~~would~~ could also ~~significantly~~ increase claims as a result of  
25 \_\_\_\_\_

26 <sup>10</sup> As of the petition date, Deerfield had other secured claims of approximately \$217,000, primarily  
27 for claims owed to grape growers. The Court has authorized payment of the grower claims, so this  
28 amount is not included in this liquidation analysis.

1 unpaid liabilities at the time of cessation of operations that otherwise would have been paid in the  
2 ordinary course, and some of these claims would be for post-petition obligations and therefore  
3 entitled to administrative priority.

4 It is also uncertain when unsecured creditors might be paid in a Chapter 7 liquidation. Sale  
5 of the real property and other assets would likely require a ~~substantial~~ marketing period of three to  
6 six months. Including other issues of administration, Deerfield estimates that it would be between  
7 nine and twelve months before unsecured creditors would receive any payment in a liquidation,  
8 and ~~there is a significant chance~~ possible that the time would be longer.

9 Deerfield believes that a Chapter 7 liquidation would involve ~~substantial~~ uncertainty for  
10 unsecured creditors. Further, even to the extent it did result in full payment, it would not be a  
11 more favorable result than the payment in full with interest provided by the Plan. While creditors  
12 would be entitled to interest in a Chapter 7, to the extent liquidation resulted in sufficient funds to  
13 pay all claims in full, that interest is generally paid at the federal funds rate, which is currently less  
14 than one percent per year.

15 In addition, a Chapter 7 liquidation would ~~likely~~ be uncertain in terms of any return ~~very~~  
16 ~~little, if anything,~~ to equity holders. Deerfield believes that the ownership interests retained by  
17 equity holders under the Plan are of greater value than any ~~minimal, and highly~~ speculative,  
18 amounts that might be paid to equity in a ~~litigation~~ liquidation.

### 19 C. Non-Consensual Plan

20 The other alternative to the Plan would be a non-consensual plan, with regards to the  
21 treatment of Rabobank. The most substantial benefit that might be obtained in a non-consensual  
22 plan would be a deferred maturity date. It is highly uncertain, however, whether Deerfield would  
23 be able to obtain confirmation of a plan that deferred the maturity date substantially longer than  
24 the five years provided by the Plan. A non-consensual plan might also provide for a reduced  
25 interest rate or lower payments of principal, but it is again highly uncertain whether these results  
26 could be obtained.

27 The Plan also provides for fixing the Rabobank claim at \$11,750,000, inclusive of pre-  
28 confirmation interest, fees and charges, attorneys' fees, and any other amounts. It is possible in a

1 non-consensual plan that the total allowable amount of Rabobank's claim might be determined to  
2 be a smaller amount. It is unlikely, however, that the amount would be found to be substantially  
3 lower, and there is a significant likelihood that the allowable amount would be higher, especially  
4 considering additional fees that would be incurred by Rabobank's counsel and added to the  
5 amount of its claim in connection with a contested plan.

6 Finally to the extent that Deerfield had colorable claims against Rabobank, those would be  
7 preserved. Deerfield believes, however, that ~~prosecution~~ *this is not a material benefit. As set forth*  
8 *above, Deerfield signed multiple modification agreements, and the Rabobank Stipulation, that*  
9 *provide broad releases* of any claims against Rabobank ~~would~~. Deerfield is not aware of any  
10 *claims that could be unrealistic in terms of likelihood of success and cost.* *pursued against*  
11 *Rabobank.*

12 Rabobank would likely object vigorously to any non-consensual plan, and there can be no  
13 certainty that Deerfield would prevail. Regardless, Deerfield believes that the costs would almost  
14 certainly exceed any benefit. *Rabobank has worked in good faith to reach agreement on terms*  
15 *with Deerfield, and Deerfield believes that the result is clearly preferable to a contested plan for all*  
16 *creditors and equity holders.*

17 **D. Conclusion**

18 For the reasons presented above, Deerfield does not believe that any of the available  
19 alternatives represent a preferable alternative to confirmation of the Plan for Creditors or equity  
20 holders.

21 ///

22 ///

23 ///

24 ///

25 **XI. OTHER ISSUES**

26 **A. Feasibility of the Plan**

27 The Bankruptcy Code requires that Deerfield demonstrate that confirmation of the Plan is  
28 not likely to be followed by liquidation or the need for further reorganization. Deerfield believes

1 that it will be able to perform all of its obligations under the Plan in a timely manner, and that the  
2 Plan is therefore feasible.

3 A summary of Deerfield's updated financial Projections through 2020 are attached hereto.  
4 Although the Projections are subject to various assumptions and risk factors, Deerfield believes  
5 that they are reasonable and achievable. Deerfield has endeavored to be conservative with regard  
6 to the assumptions that inform the Projections. In order to be conservative, Deerfield used what it  
7 believes to be at the bottom end of the range of reasonable estimated revenue growth.

8 Based on these Projections, Deerfield believes that the payments provided in the Plan are  
9 feasible. The Projections reflect the ability to make all payments required under the plan, through  
10 the term of the New Note, from operating cash flows. The final balance due to Rabobank at the  
11 maturity date of the New Note is estimated to be approximately \$10,450,000. The Projections  
12 reflect that, after available funds from operations at the end of 2020, a total of approximately  
13 \$9,665,017, will need to be raised to pay off the loan balance to Rabobank, as shown in the lower  
14 left corner of the Cash Flow Analytics on page two of the Projections. It is Deerfield's  
15 expectation that this amount can reasonably be raised through a refinance or sale of the business,  
16 prior to the maturity date.

17 The Projections are subject to a number of qualifications and assumptions, as set forth in  
18 the footnotes to the Projections. The Projections should be read in conjunction with these  
19 assumptions and qualifications, as well as the risk factors set forth in this Disclosure Statement, as  
20 they may affect the financial feasibility of the Plan.

21 THE PROJECTIONS ARE PRESENTED SOLELY FOR THE PURPOSE OF  
22 PROVIDING "ADEQUATE INFORMATION" UNDER SECTION 1125 OF THE  
23 BANKRUPTCY CODE TO ENABLE THE HOLDERS OF CLAIMS AND INTERESTS IN  
24 VOTING CLASSES TO MAKE AN INFORMED JUDGMENT ABOUT THE PLAN AND  
25 SHOULD NOT BE USED OR RELIED UPON FOR BY ANY OTHER ENTITY OR FOR ANY  
26 OTHER PURPOSE, INCLUDING THE PURCHASE OR SALE OF CLAIMS, SECURITIES OR  
27 EQUITY INTERESTS IN DEERFIELD OR THE REORGANIZED DEBTORS.

28

1           MANY FACTORS COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR  
2 ACHIEVEMENTS OF THE REORGANIZED DEBTOR TO BE MATERIALLY DIFFERENT  
3 FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS THAT MAY BE  
4 EXPRESSED OR IMPLIED BY THE PROJECTIONS. SHOULD ONE OR MORE OF THESE  
5 RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD ANY ASSUMPTIONS  
6 UNDERLYING THE PROJECTIONS PROVE INCORRECT, ACTUAL RESULTS COULD  
7 VARY MATERIALLY FROM THOSE SET FORTH IN THE PROJECTIONS. DEERFIELD  
8 DOES NOT INTEND, AND DOES NOT ASSUME ANY DUTY OR OBLIGATION, TO  
9 UPDATE OR REVISE THE PROJECTIONS, WHETHER AS THE RESULT OF NEW  
10 INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS OTHERWISE  
11 REQUIRED BY LAW.

12           THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TO COMPLYING  
13 WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED  
14 BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS NOR IN  
15 ACCORDANCE WITH GAAP. THE PROJECTIONS HAVE NOT BEEN EXAMINED OR  
16 COMPILED BY INDEPENDENT AUDITORS OR ACCOUNTANTS.

17 **B.     Risk Factors**

18           There are a number of risk factors to be considered in weighing the prospect that Deerfield  
19 will successfully complete its payments under the Plan. In addition to the risks inherently  
20 associated with any business, the following factors should be considered.

21           First, Deerfield could default on obligations to Rabobank prior to the date provided for  
22 final payment of unsecured creditors. In that event, Rabobank could exercise its rights to require a  
23 appointment of a liquidating trustee. This would likely halt payments to all creditors pending  
24 completion of a sale by the liquidating trustee. If the liquidating trustee failed to sell the business,  
25 it could lead to foreclosure by Rabobank.

26           Second, Deerfield's business is very closely tied to the success of the California wine  
27 industry as a whole. In recent years, the California wine industry has experienced a substantial  
28 overall upward trend, which is likely tied to the overall economic recovery. Were general



1 economic conditions to deteriorate substantially, Deerfield’s ability to perform under the Plan  
2 would be less certain.

3 Third, Deerfield is an agricultural business, and therefore could be susceptible to climate or  
4 other conditions affecting grape production in the region.

5 **C. Tax Consequences**

6 This Disclosure Statement does not purport to provide tax advice. Creditors and equity  
7 holders should consult their own tax advisors regarding any questions as to tax implications of the  
8 Plan. The following statement is intended only to provide a general discussion for the purposes of  
9 evaluating the Plan, but should not be relied upon as definitive for any particular person.

10 It is Deerfield’s best estimate that confirmation of the Plan will generally be tax neutral for  
11 creditors and the Debtor.

12 1. Tax Treatment of Creditors

13 All creditors are to be paid in full under the Plan. The payments to be made under the Plan  
14 will therefore likely have the same tax attributes they would have had if timely paid outside the  
15 bankruptcy case, except for changes regarding timing of payment. To the extent that creditors  
16 holding claims against Deerfield are cash-basis tax payers, the distributions from Deerfield will  
17 most likely constitute income in the year received, as opposed to the year in which they were due  
18 to be received. To the extent that creditors are accrual-basis tax payers and have written off their  
19 claims against Deerfield, the distributions under the Plan will likely constitute taxable income. To  
20 the extent that creditors holding claims against Deerfield are accrual-basis tax payers and paid  
21 taxes on their claims against Deerfield in the year that payment was due, the distributions from  
22 Deerfield will likely not constitute taxable income in the year received.

23 2. Tax Treatment of Equity Holders

24 Equity holders will retain their limited liability company membership interests in the  
25 Deerfield. Deerfield therefore expects that confirmation of the Plan will be largely tax neutral for  
26 equity holders, although they are strongly advised to contact their own tax advisors. With regard  
27 to holders of “Class-A Membership Units,” there may be some tax consequences associated with  
28 the conversion of the accrued obligations to additional membership units.

1 **D. Remedies on Default**

2 In addition to the specific remedies provided to Rabobank in the event of a default on the  
3 secured obligations, all creditors will have the remedies provided by the Bankruptcy Code and  
4 state law in the event of a default by the Debtor on its obligations under the Plan. These would  
5 generally include reopening the case, seeking conversion to Chapter 7, and/or pursuing any  
6 available remedies in state court.

7  
8 **XII. CONCLUSION**

9 As a result of its current operating profitability, Deerfield believes that the Plan will pay all  
10 unsecured Creditors in full within approximately two years, with interest. The Plan also preserves  
11 the ownership interests and value of the business for its equity holders. Deerfield urges all  
12 creditors and equity holders to vote in favor of the Plan.

13  
14 DATED: ~~October 30~~ November 10, 2015 McNUTT LAW GROUP LLP

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16 By:                     /s/ Shane J. Moses                      
17 Shane J. Moses  
18 Attorneys for DEBTOR  
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