IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
AMARILLO DIVISION

IN RE:	§	
	§	
FRIENDSHIP DAIRIES	§	BANKRUPTCY NO. 12-20405
	§	
Debtor	§	
	§	
	§	Chapter 11
	§	
	§	

FIRST AMENDED DISCLOSURE STATEMENT

I. INTRODUCTION

Friendship Dairies ("Debtor"), a general partnership, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. § 101 *et seq.* (the "Bankruptcy Code") in the United States Bankruptcy Court for the Northern District of Texas, Amarillo Division, on August 6, 2012 (the "Petition Date"). Since that time, the Debtor has operated as a Debtor-in-Possession pursuant to the provisions of 11 U.S.C. §§ 1107 and 1108. Debtor operates a commercial dairy and related farming enterprise.

A. THE PLAN

Friendship Dairies has submitted a proposed Plan of Reorganization (the "Plan"), the form of which is attached as **Exhibit 1.** Capitalized terms, not otherwise expressly defined, are defined in Article I of the Plan.

B. PURPOSE OF DISCLOSURE STATEMENT:

This Disclosure Statement is distributed pursuant to the provisions of § 1125 of the Bankruptcy Code which requires that there be submitted to holders of claims against the Debtor, a copy of any Plan, or a summary of such Plan, and a written Disclosure Statement containing information adequate to enable creditors and other interested parties to make an informed judgment regarding the Plan, if their acceptance of the Plan is being solicited. The Disclosure Statement must be approved by the Bankruptcy Court after notice and hearing, prior to the solicitation of acceptance votes of creditors or interest holders.

NO REPRESENTATIONS CONCERNING THE DEBTOR, THE VALUE OF ITS PROPERTY, OR THE VALUE OF ANY BENEFITS OFFERED TO THE HOLDERS OF CLAIMS IN CONNECTION WITH THE PLAN ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. YOU SHOULD NOT RELY UPON ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE THAT ARE CONTRARY TO INFORMATION CONTAINED IN THIS DOCUMENT, AND ANY SUCH REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR DEBTOR, J. BENNETT WHITE, J. BENNETT WHITE, P.C., P. O. BOX 6250, TYLER, TX 75711.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF, UNLESS ANOTHER TIME IS SPECIFIED HEREIN, AND NEITHER THE DELIVERY OF THIS STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION HEREWITH SHALL, UNDER ANY CIRCUMSTANCE, CREATE ANY IMPLICATION THAT THERE HAS NOT BEEN A CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE HEREOF.

EXCEPT WHERE EXPRESSLY NOTED OTHERWISE, THE STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE MADE BY THE DEBTOR AND REPRESENT THE VIEWS, CHARACTERIZATIONS, AND ALLEGATIONS OF THE DEBTOR. THE APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT IS NOT A DETERMINATION OF THE CORRECTNESS OR ACCURACY OF ANY STATEMENT CONTAINED HEREIN.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN INDEPENDENTLY AUDITED AND IS BASED, IN PART, UPON RECORDS KEPT BY DEBTOR'S PERSONNEL AND UPON INFORMATION PREPARED OR SUPPLIED BY PARTIES OTHER THAN THE DEBTOR. CONSEQUENTLY, THE DEBTOR IS UNABLE TO WARRANT THAT ALL OF THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO BE ACCURATE.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

THE APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE COURT OF THE PLAN OF REORGANIZATION, NOR DOES SUCH APPROVAL CONSTITUTE A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

C. BRIEF EXPLANATION OF CHAPTER 11:

Chapter 11 (11 U.S.C. § 101 *et seq.*) is the principal reorganization chapter of the Bankruptcy Code. Pursuant to Chapter 11, a Debtor is able to either attempt to reorganize its business for the benefit of itself, its creditors, and other parties in interest, or to effect a controlled liquidation that may realize a higher value for the assets sold than would be the case in a Chapter 7 liquidation. Confirmation of a Plan is a principal purpose of a Chapter 11 reorganization case. A Plan sets forth the means for satisfying, to the extent possible, claims against a Debtor.

After a Chapter 11 Plan has been filed in a proceeding, the holders of claims against or an interest in a Debtor whose claims or interests will be adversely affected by the Plan must be given the opportunity to vote to accept or reject the Plan. In an effort to insure that those parties with an opportunity to vote possess sufficient information to make an informed judgment about the proposed Plan, § 1125 of the Bankruptcy Code requires disclosure of adequate information prior to the time during which the Debtor, creditors, and other parties in interest may solicit acceptances or rejections of the proposed Plan. This Disclosure Statement is presented to the holders of claims against or interests in the Debtor in order to satisfy the requirements of § 1125 of the Bankruptcy Code.

The Bankruptcy Code provides that claimants and interest holders are to be grouped into "classes" under a plan, and that they will vote to accept or reject a plan by class. While bankruptcy courts have expressed various methods to be used in classifying claimants, a general rule of thumb is that creditors and interest holders with similar legal rights are placed together in the same class. For example, all Creditors entitled to priority under the Bankruptcy Code might

be placed in one class, while all creditors holding general unsecured claims might be placed in a separate class.

Chapter 11 does not require that each holder of a claim against the Debtor vote in favor of the Plan in order for the Court to confirm the Plan. The Plan, however, must be accepted by at least one class of claims. The Plan is deemed accepted by a class of claims if the Plan is accepted by a majority in number and two-thirds in dollar amount of the claims of such class actually voting in connection with the Plan. If all classes of claims and interests accept the Plan, the Bankruptcy Court may refuse to confirm the Plan if either the Plan or the Debtor fails to comply with all applicable provisions of the Bankruptcy Code, the Plan has not been proposed in good faith or by lawful means, or for other reasons set forth in § 1129 of the Bankruptcy Code.

Conversely, the Bankruptcy Court may confirm the Plan even though less than all of the classes of claims and interests accept the Plan. The circumstances under which the Bankruptcy Court may confirm the Plan over the objection of one or more classes of claims or interests are set forth in § 1129(b) of the Bankruptcy Code and, among other requirements, include the requirement that the Bankruptcy Court find, with respect to each class that does not accept the Plan, that the Plan does not discriminate unfairly against such class, is fair and equitable to such class, and generally that the value to be distributed to the members of such class will not be less than the amounts that holders of claims or interests in such class would receive if the Debtor liquidated under Chapter 7 of the Bankruptcy Code. The Debtor will seek confirmation of the Plan under § 1129(b) of the Bankruptcy Code if less than all classes accept the Plan.

Confirmation of the Chapter 11 Plan discharges the Debtor from all its debts which arose prior to confirmation except as provided in the Plan, the Order of Confirmation, or § 1141(d) of the Bankruptcy Code. Confirmation of the Chapter 11 Plan makes the Plan binding upon the

Debtor, its creditors, and all parties regardless of whether or not they have accepted the Plan of Reorganization.

D. FILING PROOFS OF CLAIM OR INTEREST

In order to participate in the payments and other distributions specified in the Plan, a Creditor must have an Allowed Claim against, or Interest in, the Debtor. An Allowed Claim is generally established by filing a Proof of Claim or Interest.

A Proof of Claim or Proof of Interest is deemed filed for any Claim or Interest that appears in the Schedules that were filed in the case, except for those Claims or Interests scheduled as disputed, contingent, unliquidated, or in an unknown amount.

Claims or Interests that are unscheduled, or that are scheduled as disputed, contingent, or unliquidated, or which vary in amount from the amount scheduled by the Debtor, shall be recognized and allowed only if a Proof of Claim or Interest is timely filed. The deadline for filing proofs of claim by non-governmental claimants is November 29, 2012.

E. CONFIRMATION HEARING ON THE PLAN

Section 1128(a) of the Bankruptcy Code requires the Court, after notice, to hold a hearing on confirmation of a plan of reorganization. The Court will schedule the Confirmation Hearing on the Plan before the Honorable Robert L. Jones, United States Bankruptcy Judge, in the courtroom of the United States Bankruptcy Court, 624 S. Polk St., Room 100, Amarillo, TX 79101.

Section 1128(b) of the Bankruptcy Code provides that a party-in-interest may object to confirmation of the Plan. Any objection to confirmation of the Plan must be in writing. Written objections to confirmation of the Plan, if any, must be filed with the Court and a copy of such written objection must be actually received by counsel for the Debtor seven (7) days prior to the

confirmation hearing. Objections that are not timely filed and actually received by the Debtor's counsel will not be considered by the Court.

II. NATURE AND HISTORY OF THE DEBTOR[1]

Friendship Dairies was formed as a general partnership by Jakob VanDerweg and Patrick VanAdrichem in November 2006, combining their respective dairy herds that had been running jointly on a 2,800 cow facility that is now known as Friendship I. In 2007 and 2008, Friendship Dairies tripled in size by building Friendship II and III and expanded its farming operation from 166 to 3,640 irrigated acres. At that time, Friendship Dairies' real estate was financed by a twenty (20) year loan from McFinney Agri-Finance, LLC, serviced by its attorney-in-fact, AgStar Financial Services, FLCA. However, Friendship Dairies' livestock and working capital was financed by New Frontier Bank, which failed in 2009. Upon the failure of New Frontier Bank, Friendship Dairies' loans were sold by the Federal Deposit Insurance Corporation and were eventually acquired by Frontier Capital Group, Ltd.

At its peak, Friendship Dairies' milking herd had over 7,000 adult cattle. However, in 2011, it sold 800 heifers to raise cash. This left a shortfall of replacement heifers in the system and the dairy did not have the cash flow to enable it to purchase the necessary replacements from third parties. Hence, the herd contracted. As of October 31, 2012, Friendship had only 6,316 adult cows, although its young stock numbers had grown to 5,120, which represents a full complement of replacements. The heifers are fairly uniformly spread between birth and maturity, so there is currently a steady supply of replacements for the adult herd.

[1] In conjunction with its efforts to reorganize, Friendship Dairies, along with its Official Creditors Committee, retained the services of Raymond Hunter, Ph.D., to analyze and evaluate the dairy and farming operation. Dr. Hunter issued his formal report on January 11, 2013 (the "Hunter Report"). Much of the narrative in Articles II, III, and IV of this disclosure statement is taken from Dr. Hunter's report.

III. CIRCUMSTANCES LEADING TO CHAPTER 11 FILING

While 2007 was a very profitable year, it turned out to be the perfectly wrong time to start expanding a dairy. Friendship Dairies was building its herd with livestock priced at the peak of the market, much of the high milk price of 2008 was offset by high feed costs and the start-up costs of the new unit, and in 2009, just as the herd reached peak milk production, milk prices collapsed and livestock values crashed.

The sale of the New Frontier Bank loans gave Friendship the opportunity to negotiate a potential reduction in its indebtedness. Unfortunately, the collapse in livestock values meant that Friendship Dairies was unable to demonstrate the equity needed to bridge the gap between the payoff level negotiated with the purchasers of the New Frontier Bank loan and the amount of replacement debt that would be offered by a new lender. Hence, with having to pay down its livestock and operating debt as opposed to having a revolving loan, the dairy was positioned on a path that had a high probability of failure. This was compounded by two years of drought that reduced Friendship's in-house forage production and raised the price of feed commodities that it bought from third party suppliers.

Once Friendship Dairies expanded, the increased needs of the larger business outpaced management's ability to develop and to implement effective solutions. One consequence of Friendship Dairies' management's preoccupation with financial survival is that only limited attention was devoted to developing a second tier of quality employees. The Hunter Report notes that management's unfamiliarity with the realities of supervising a substantial commercial enterprise was manifested in lax physical and financial record-keeping. Like many owner-operator managed businesses, Friendship Dairies' management regarded the financial reports required by its lenders primarily as an obligation to comply with loan covenants. In performing

its duties as a debtor-in-possession working with legal counsel and qualified consultants toward a successful reorganization, Friendship Dairies' management has developed a much greater familiarity with how financial reports can serve as a useful management tool.

By the summer of 2012, Friendship Dairies had exhausted all available sources of working capital and had invested substantial resources in its farming crop. Having been placed on COD by virtually all of its major vendors, the debt service required by its loan facilities consumed such a large portion of its monthly revenue that it became unable to sustain its operations from existing cash flow. Thus, this bankruptcy case became necessary to provide an opportunity to restructure its debt burden and to accumulate the capital needed to sustain its operations going forward.

IV. EVALUATION OF THE DEBTOR

A. HERD CONDITION AND PERFORMANCE

The underlying genetics of the Friendship Dairies herd are good and the herd is fundamentally healthy. The animals are not afraid of strangers, indicating the Friendship Dairies' employees have good animal handling skills.

Udder health of the herd was once a problem, with the herd's somatic cell count in the Fall of 2011 averaging 300,000+. This has improved and the somatic cell count for the three months August to October, 2012 averaged an acceptable 220,000, with November, 2012 showing further progress to 195,000. In recent months, Friendship Dairies has been recognized by its milk purchaser, Lone Star Milk Producers, as having one of the lowest somatic cell counts among its entire membership.

Another major concern has been the impact on the dairy herd from numerous feed ration changes due to a drought-induced shortage of forage and cash constraints of purchasing suitable

and consistent forage from third-parties. Moreover, Friendship Dairies lacks the feed management software often utilized to monitor the formulation of the feed ration and to effectively manage silage and grain inventories. However, acquisition and implementation of feed management software is intended as soon as possible. Also, stabilization of the feed ration has produced steadily increasing daily milk production throughout the entire Chapter 11 proceeding.

Friendship Dairies' culling is up-to-date and, unlike many herds entering bankruptcy, there were not excess cull cows being held for the purpose of giving an illusion of maintaining herd size.

From May to December, 2011, Friendship Dairies' death rate was a very commendable 7% and its replacement rate (culls plus deaths combined) was 31%, both on an annualized basis. Death rate from January to October, 2012 was at an annualized level of 12%, which is about average for a West Texas herd in an open lot facility, but the overall combined death and cull rate in 2012 ran at an annualized rate of 47%. After a milk test in early November, 2012, an additional 274 cows were culled. Therefore, the replacement rate for the full year of 2012 was likely to remain close to 47%. At present, approximately 67% of Friendship Dairies' milk cows are in their first or second lactation cycle. This means the herd is relatively young which should translate into good overall health and milk production.

Live birth rate is good at 93%. The young calves and the older heifers are satisfactory. However, Friendship Dairies has insufficient room for a full complement of young stock on its facilities and has been keeping approximately 1,850 heifers between the ages of eight and eighteen months on a leased feedlot ten miles west of the dairy.

B. FACILITIES

Friendship Dairies' facilities do not have what is referred to in real estate as 'curb appeal'. The external roads are in severe need of maintenance and there has been little effort to keep the grounds neat and tidy, much less landscaped.

However, from a cow's eye view, they are well maintained. The corrals do not have any holes and are properly mounded and maintained for cow comfort and rainfall runoff. The fences and cow lanes were well built and show negligible signs of damage. There are a few small sections of broken concrete in the feed lanes of Unit 1, but otherwise the external concrete work is in very good condition. The only areas of excessive wear are the cow platforms in the milking parlors and the milk room Friendship I, but these are not significant issues.

The facilities are designed as open lot corrals, as opposed to enclose free stalls. Open lots are cheaper to build, but expose the cows to the stresses of summer heat and of winter cold. The Friendship Dairies facilities are simple and effective, but there are some design compromises that must be recognized. First, the silage storage area has neither walls nor a floor and this will lead to slightly higher storage losses, say 14% shrink versus 12% shrink. Second, the facilities were designed for adult cows only, and not the accompanying replacements. Friendship Dairies has added individual pens for a full complement of baby calves and group pens for a full complement of calves from weaning until four months of age. However, any young stock kept on the dairy facilities after four months of age will be using corral space that would otherwise be available for an adult cow. This is not wrong per se, but affects the optimum number of cows and young stock to keep.

Friendship Dairies' two facilities have a combined total of 8,800 lock stanchions. Importantly, the lock stanchions are at 2'0" centers, as opposed to the alternatives of 2'3" and

2'6". Friendship Dairies' narrow lock stanchions give more flexibility when the pens are used for young animals. However, when the pens are used for adult cattle, the number of animals should be limited to 90% of the number of lock stanchions, to ensure that the animals have adequate feed space. Allowing for the narrow lock stanchions, for hospital pens and for grouping flexibility, Friendship Dairies' in-house facilities can cope with a total of 8,000 adult cows and young stock over four months of age combined. Currently, Friendship Dairies has 10,000 animals over four months of age. This limiting factor of overall pen space has been somewhat alleviated by keeping 1,876 heifers in the off-site feed yard and 276 in temporary paddocks close to the dairy, both of which are inefficient in feed and create additional management hassles.

As the dairy facilities were not designed for young stock, heifers are being kept in the smaller cow corrals, leaving only large corrals for the mature cows. However, not having access to small pens reduces the flexibility in grouping the mature cows and consequently reduces the overall stocking rate at which the facility can be operated without compromising performance. It may be possible to achieve additional flexibility by further subdividing the inner corrals.

In May, 2012, Friendship Dairies engaged the services of an appraiser approved by AgStar, Clint Bumgardner of West Texas Appraisal Associates, to perform an appraisal on its real estate, irrigation equipment, dairy equipment, and improvements. Throughout this Chapter 11 proceeding, Friendship Dairies has utilized, relied upon, and advocated to the Bankruptcy Court on the basis of Mr. Bumgardner's appraised values. AgStar has indicated that it regards these appraisals as out-dated and unreliable. Friendship Dairies intends to pursue getting these appraisals updated prior to the confirmation hearing. Although Friendship Dairies is of the impression that the value of its real estate assets has, if anything, increased over the past 12

months, it has no appraisals more recent than those prepared by Mr. Bumgardner on which to base its view.

C. CROP PRODUCTION

Friendship Dairies has 5,027 acres in total, of which 3,990 are irrigated. The dairy facilities themselves and the two tracts east of the dairy ("Eastern" tracts) have a total of 1,141 irrigated acres, with an average pumping capacity of 4.5 gallons per minute (gpm) per irrigated acre. This is marginally adequate for growing wheat double cropped with corn silage.

The tract to the west of the dairy ("Western" tract) has 2,500 irrigated acres, with 24 wells in the Ogalalla aquifer producing 175 gpm each and five wells in the deeper Santa Rosa aquifer producing 750 gpm each. Fortunately, the wells and center pivot irrigators on the Western tract are all interconnected by a central underground water pipeline, enabling water to irrigate where most needed. However, the combined water productivity of these wells on the Western tract is only 3.2 gpm per irrigated acre. This is insufficient for the Western tract to be doubled cropped with wheat and corn. Therefore, the area of wheat grown in the winter on the Western tract has to be restricted by 500 acres. In the summertime, instead of growing corn, the Western tract has been planted exclusively to the more drought tolerant, but lower yielding and less nutritious sorghum, and still 250 acres of the tract has been left unfarmed.

On its Western tract, Friendship Dairies has an additional three deep wells with a capacity of 750 gpm each. When the bankruptcy case was filed, a central pipeline and pivots were in place; however, all that was needed to obtain this water was to install three (3) pumps at a cost of approximately $160,000 each. The completion of these wells will increase the average water production per acre from 3.2 gpm to 4.1 gpm and will enable an additional 500 acres of

wheat to be grown in winter. It would also enable the full 2,500 acres to be irrigated during the summer, growing 500 acres of corn and 2,000 acres of sorghum.

Crop farming requires a different skill set than dairy farming and it is extremely rare for a person to possess both skill sets at a high performance level. There are a few select areas of the Texas panhandle that can produce 30 tons of corn silage per annum. However, 25 tons on a year with normal rainfall and 20 tons in a drought year are more typical. Friendship has achieved such yields on selected pivots.

In January, 2013, the Bankruptcy Court, over AgStar's objection, granted Friendship Dairies permission to complete two or the three wells. Pumps have been installed on those two wells which have increased by amount of irrigated acreage by 350 acres. The third well still needs to be completed.

A critical part of assessing the crop enterprise is to determine what average yield level can realistically be expected. Friendship Dairies has production records for every pivot. However, these yields cannot be simply projected into the future. First, the fertility of most of the land was poor when it was purchased and takes a number of years to build up. Second, 2011 and 2012 brought severe droughts, with little supplemental rainfall and high temperatures, which decimated yields. Each crop has a critical water requirement, above which it will develop to maturity with a reasonable yield, and below which it will shrivel up with only a nominal yield. The lesson learned by Friendship Dairies from 2011, when it planted the entire farm to corn and achieved only 7 tons per acre, is that it must limit its acres of each crop to that which, in the event of a drought, can be irrigated with sufficient water to produce a reasonable yield. Therefore, Friendship Dairies will be assured of a base yield in the event of a drought and a very good yield in the event of normal rainfall. The average yield of wheat silage over the last three

years was 8.0 tons per acre, when adjusted to 32% dry matter. Leaving out 2011, the average corn yield in 2010 and 2012 was 19.5 tons per acre at 32% dry matter.

Friendship Dairies has three (3) original pivots adjacent to the dairy which have high fertility and adequate water. These could be deemed to represent the achievable yields on the entire crop land assuming (a) the inherent fertility of the soil has been built up or compensated for with chemical fertilizer, (b) Friendship Dairies restricts its planted area of each crop to match the amount of available water, (c) Friendship Dairies succeeds in planting its entire acreage of each crop within the optimum time window, and (d) the crops are properly managed. These three pivots had wheat silage yields from 2010 to 2012 ranging from 7.5 to 11.9 tons per acre, with an average of 9.8 tons per acre at 32% dry matter. These pivots had an average corn silage yield in 2010 and 2012 of 26.1 and 21.9 tons respectively, giving an average of 24 tons, when adjusted to 32% dry matter.

Friendship Dairies only began growing sorghum in 2012 and the above three pivots cannot be used for yield estimation as they were planted to corn due to their adequate water. The overall sorghum yield in 2012, with no rainfall and inadequate irrigation was 11.0 tons per acre adjusted to 32% dry matter. However, the Miller pivot would be the best of the pivots planted to sorghum, in terms of water and fertility, and it yielded 19.6 tons per acre.

Assuming that Friendship Dairies continues to double crop, manages its area of each crop so as to have adequate irrigation in a drought, and ensures that soil fertility is enhanced with chemical fertilizers as needed, yields of 9, 15 and 24 tons per acre of wheat, sorghum and corn silage at 32% dry matter are achievable, based on a blend of years with varying amounts of rainfall and allowing for a small amount of grazing on the wheat.

V. OVERVIEW OF PLAN

Friendship Dairies proposed plan of reorganization contemplates eighteen (18) classes of claimants. Administrative and priority claims account for three (3) classes. There are nine (9) classes of secured creditors, three (3) classes of unsecured creditors, one (1) class of equity holders, and two (2) classes of contingent claims.

The plan provides for payments to secured creditors on an amortized basis corresponding to either: (a) agreements negotiated between Friendship Dairies and the claimant or (b) terms and conditions currently available in the financial marketplace for loans of similar size, collateral type, and valuation ratios. Administrative claims, priority claims, and unsecured claims are paid from cash flow as funds become available from Friendship Dairies' operations. Provisions are made for the payment of contingent claims if, or when, any such claims materialize. Equity holders retain their current interest in Friendship Dairies.

VI. MEANS OF IMPLEMENTATION OF THE PLAN

The core feature providing for the implementation of Friendship Dairies' proposed plan of reorganization is the conversion of its dairy herd from one consisting of approximately 5,800 milk cows, 3,800 heifers, and 1,300 calves (total head approximately 11,000) to one milking approximately 7,500 head, with approximately 675 heifers, and 1,400 calves (total head approximately 9,600). Increasing the number of milk cows will produce a greater volume of milk and increase the dairy's monthly revenue. Similarly, reducing the overall number of livestock will reduce the feed cost currently incurred by the Debtor. Increasing revenue and lowering feed cost should increase overall average profit from operations in comparison to the past few years.

The primary trade-off will be that instead of raising its own replacement heifers from birth to maturity, Friendship Dairies will be selling most of its calves immediately after birth and then purchasing its replacement heifers during the seventh month of pregnancy. Thus, Friendship Dairies will be exposed to an element of risk in the market price for replacement heifers that it currently avoids.

Friendship Dairies' farming operation contributes a key element bearing in favor of transforming the herd as contemplated. The crop that can be produced from the acreage Friendship Dairies farms becomes depleted through feeding that forage to the dairy herd. Once the most recently harvested crop is depleted, Friendship Dairies is compelled to purchase forage at prevailing market prices until its next crop is ready to harvest. The price to purchase silage on the open market is historically much higher than the cost invested by Friendship Dairies in the crop it grows. Accordingly, Friendship Dairies enjoys the greatest profit margin when it produces milk from its internally grown forage.

Since the crop grown annually is inadequate to provide for the forage needs of the dairy herd over an entire calendar year, reducing the number of total livestock will extend the period over which the herd can be fed with internally grown forage. Moreover, increasing the portion of the herd represented by milk cows contributes to maximizing the overall milk production generated through the consumption of internally grown crops. Thus, Friendship Dairies' financial investment in its farming crop becomes more focused on generating milk production and, therefore, producing greater profit and increasing cash flow. Friendship Dairies anticipates that the projections and illustrations provided with this Disclosure Statement will reflect the improved financial performance that it will realize through a better correlation between its

milking facility utilization, its farming crop yield, and its overall herd configuration and maintenance.

VII. FEASIBIILTY

Friendship Dairies is of the opinion that its plan is feasible. It currently has a total cow, heifer, and calf population of approximately 11,000. A series of tables illustrating how the dairy herd would be transformed from its current configuration to the one ultimately desired is attached to this Disclosure Statement as **Exhibit 2**. As those tables demonstrate, the dairy would be milking over 7,400 cows by the end of Month 7 and the modified herd would stabilize milking 7,500 cows around Month 10. Once stabilized, the revenue from calf and cull cow sales would be almost sufficient to purchase the required number of replacement heifers. The shortfall would be approximately $25,000 per month, which is reflected in the cash flow projections for the dairy.

Friendship Dairies anticipates initiating this conversion process in July or August, 2013; therefore, by the time the Bankruptcy Court considers confirmation of the Plan, the implementation of this transformation should be imminent or may have commenced.

When the herd conversion process begins, Friendship Dairies will sell a substantial portion of its calves and most of its young heifers. The remainder of its calves will be sold over several months. The cash produced by these sales will be used to purchase replacement heifers as needed based on the numbers of springers needed to grow the herd in an orderly and balanced fashion without creating a need for excess culling. During this conversion process, Friendship Dairies should have between approximately $400,000 (Month 4) and $1,000,000+ (Month 7 onward) in extra working capital to help it withstand unexpected cash flow demands occurring during this time.

Friendship Dairies' projected cash flow through April 2016 is illustrated in the tables attached to this Disclosure Statement as **Exhibit 3**.[2] The amounts assigned to each class of creditor are for illustration purposes only and are not meant to reflect that Friendship Dairies is in agreement with the amount shown. In most cases, the amount shown is intended to correspond to the claim amount currently on file; however, in some cases, the amount shown is meant to reflect the amount the Debtor anticipates will be the allowed amount of the particular claim.

For instance, McFinney Agri-Finance, through its attorney-in-fact, AgStar Financial Services ("AgStar"), insists that the proper amount of its Class 12 Claim is $18,371,581.45. However, this amount includes a contingent prepayment penalty in the amount of $1,919,204. Friendship Dairies is of the view that the contingent prepayment penalty cannot be properly allowed as part of AgStar's Claim. AgStar also considers itself entitled to collect post-petition interest at the default rate of 11.3% per annum, despite the fact that all payments were current when the bankruptcy petition was filed. Friendship Dairies is of the view that AgStar's claim cannot properly be allowed to include post-petition interest at the default rate.

As the cash flow projections illustrate, the summer months of 2013 will be critical to Friendship Dairies. During April, May, and June, substantial monthly cash flow deficits are projected. These deficits are primarily due to the costs incurred in growing the corn and sorghum crops. September, 2013 also projects a substantial cash flow deficit for the month. This corresponds to the costs incurred in harvesting the summer crop while planting the winter crop. Also, until Friendship Dairies begins harvesting the summer crop, it will have depleted its winter crop silage reserves, thus resulting in an increase in the monthly feed cost.

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[2] The Class III milk price used in the cash flow projections is based on the futures market as of May 15, 2013 and carried as far into the future as there was meaningful trading.

During the months when cash flow deficits are projected, the cash reserves should be adequate to sustain the operations. Moreover, once the dairy gets through October, 2013, substantial cash flow surpluses are projected. Between November, 2013 and May, 2014, the projected surplus cash flow, after payments to creditors, is estimated to total approximately $2.6 million. Thus, Friendship Dairies will have improved its cash position between May, 2013 and May, 2014 by approximately $2 million. Accordingly, even during the deficit cash flow months of August to October, 2014, Friendship Dairies will still emerge with sufficient cash on hand.

The milk revenue utilized in the attached projections is calculated from a milk price using the current futures market for Class III milk futures.[3] While the futures market is widely recognized as a largely unreliable tool for predicting future milk price, it remains the method most commonly relied upon and utilized for this purpose.

To put this in context, over the past five (5) years (2008 – 2012), on an annual basis, U.S. milk price averaged $17.21/cwt, and for the past ten (10) years (2003 – 2012), has averaged $16.17/cwt. Only once of the past six (6) has milk price averaged less than $16.25/cwt[4]. In the remaining five (5) years, milk price averaged $18.47/cwt. This observation establishes two compelling aspects of the feasibility of Friendship Dairies' Plan: (a) recent milk prices suggest that actual milk prices between August, 2014 and October, 2015 will be higher than currently projected by the future's market, thus producing greater cash flow surpluses than are currently estimated; and (b) that the Debtor's viability should be able to withstand milk prices below

[3] Friendship Dairies has traditionally been paid slightly less than the prevailing Class III milk price. The projections are based on a $0.65/cwt difference between the published Class III milk price and the price actually received by the dairy.
[4] In 2009, annual U.S. milk price averaged $12.83/cwt.

$16/cwt over a period of time enduring longer than has occurred over any comparable period in the last decade.

Based on the attached financial projections, Friendship Dairies regards its Plan as quite feasible.

VIII. ALTERNATIVES TO PROPOSED PLAN

There are several alternative to Friendship Dairies proposed Plan. The basic alternatives would be to (a) continue to operate with the current herd configuration; (b) reduce the overall herd size; or (c) liquidate the business. Friendship Dairies is firmly of the opinion that the proposed plan provides a larger return to its creditors than any feasible alternative.

A. STATUS QUO

Operating the diary on the basis of the present herd configuration would permit it to better preserve the genetic consistency of its herd. In theory, this option would also permit it to have fewer dollars invested in its replacement heifers than it will take to purchase replacement heifers at the going market rate. The problem with the theory is twofold: (1) when forage stocks are depleted and the young heifers have to be fed purchased silage, the cost of raising the heifer materially increases and (2) if underfed, the replacement heifers are not as valuable as ones purchased on the open market would be. Since Friendship Dairies cannot raise a large enough crop to feed all its livestock on a year-round basis, this option would represent trading milk production and less expensive herd maintenance for less milk revenue with more expensive herd maintenance. The most significant financial benefit from this exchange would be the potential to have less capital invested in replacement heifers. Friendship Dairies has extensively analyzed the strengths and weaknesses of this approach in comparison with the Plan and has determined that the Plan provides a greater benefit to the Estate.

B. PROPORTIONATELY REDUCE LIVESTOCK

With a significant operating restraint being the quantity of feed ration that can be produced by Friendship Dairies' farming operation, one option would be to reduce all segments of the dairy herd to the size that the crop yield would support. In doing so, the dairy could preserve all the components of its herd, meaning it could continue to raise its own replacement heifers, but on an overall smaller scale. In giving this option thorough financial consideration, the conclusion was reached that even though this alternative could provide greater overall profit margins than any other option, the total volume of cash flow would be considerably smaller than is demonstrated by the attached projections. Therefore, this alternative would not pay creditors as quickly or on terms as favorable.

C. LIQUIDATION

The least attractive alternative to the Plan would be a liquidation of the Debtor's assets. First, a liquidating plan would likely compel litigation to recover all arguably preferential transfers. If all potential preferences were successfully litigated, the total pool of unsecured claims would be slightly more than $31.5 million. If it is assumed that all secured creditors would be fully compensated by their collateral with no equity available for the unsecured creditors, the unsecured creditors would expect a distribution from the proceeds of otherwise unencumbered assets. These assets would conceivably consist of livestock, crops, feed inventory, milk, accounts receivable (net of AgStar's $1.1 million cash collateral replacement lien), and funds recovered from preference claim litigation. Against these assets, the Debtor would have increased administrative costs, litigation expenses, and sales and marketing expenses. Any time assets are sold in a compelled liquidation scenario, the price received suffers a material discount in comparison to what is considered the fair market value of the assets.

In conjunction with this alternative, a distribution to general unsecured creditors in the range of approximately $10 million is realistic. Under this scenario, each general unsecured creditor would receive a distribution of approximately 31.75% of its claim amount. For creditors that have benefited by receipt of an avoidable preferential transfer, the 31.75% dividend is based on the amount of the resulting claim after the preference has been disgorged and added to the current claim amount. Pursuant to Section 502(d) of the Bankruptcy Code, a creditor cannot "net" a potentially recoverable transfer against the proposed distribution, but must actual repay the preference before it may receive its share of the distribution.

Despite the fact that this alternative is the only alternative assured of less than a 100% payout to general unsecured creditors, AgStar has plainly, repeatedly, and openly expressed that it is firmly of the opinion that this option is not just the only feasible option available to Friendship Dairies, but that the fiduciary duty Friendship Dairies owes to its bankruptcy estate compels it to pursue liquidation and offer its creditors no other option. Friendship Dairies disagrees with AgStar and insists that reorganization is in the best interest of its Estate. Despite Friendship Dairies' firm conviction that the proper exercise of its fiduciary duty to its Estate compels it to support and promote the prospects of a successful reorganization, its creditors should, in the interest of receiving adequate information from which to make a decision about how to vote on the Debtor's Plan, be informed about AgStar's strongly held view. **Also, in the interest of full disclosure, Friendship Dairies' creditors should be informed that AgStar's principal, McFinney Agri-Finance, (a) has a claim that, as of the petition date, was in the amount of approximately $16.4 million; (b) which is secured by collateral having a value of at least $24 million; (c) is attempting to collect a prepayment penalty of almost $2 million that it would not be entitled to collect if its indebtedness were paid over time in accordance**

with its terms; and (d) has virtually no chance of realizing less than the full amount of its claim, regardless of whichever alternative is pursued by the Debtor, while insisting that the Debtor support the one option that is most likely to produce the smallest recovery for the general unsecured creditors contemporaneous with providing AgStar with grounds on which it could seek to recover the largest possible amount available to it.[5]

Having given due consideration to the plausible alternatives to the proposed plan, Friendship Dairies regards the Plan as in the best interest of the Estate and contends that the alternatives are appreciably less desirable.

IX. RISKS TO CREDITORS UNDER THE DEBTOR'S PLAN

There are always risks inherent in any Chapter 11 plan. The Plan structure has been designed in order to minimize the risks to the Debtor's general unsecured creditors. As with any agricultural enterprise, there are a plethora of factors beyond management's control, all of which affect the viability of the organization. From the weather to governmental subsidies, significant aspects of the Debtor's business are unknown and unpredictable. However, these items are generally going to impact the entire industry, or at least the entire industry in a given geographical area. Therefore, the best way for the Debtor to minimize risk to its creditors is to position itself so that it has a better ability to withstand more of the unexpected, unanticipated, and unforeseen calamity, than other similar enterprises in its immediate area. The financial model on with the Plan is based attempts to do exactly this.

Given the value and nature of the secured creditors' collateral, combined with the debt reduction provided through the plan payments, the risks to the secured creditors should be

[5] Information that might also be meaningful to the creditors in determining how to vote on the Debtor's Plan is that the prepayment penalty sought by AgStar declines over time such that the sooner it is able to enforce its penalty claim, the larger the penalty claim it can attempt to enforce.

minimal to non-existent. All things considered, the risks to the Debtor's creditors are not excessive and should diminish as payments under the Plan are made.

X. COMMENTS REGARDING TREATMENT OF MCFINNEY AGRI-FINANCE'S CLAIM

AgStar has requested that this disclosure statement include certain information pertaining to the proposed Plan treatment of the claim of its principal, McFinney Agri-Finance ("McFinney"). In AgStar's view, adequate information for voting purposes compels the Debtor to share the following observations from the Hunter Report:

- The Hunter Report projected Friendship Dairies would have negative cash flow during the three (3) months from November, 2012 through January, 2013.
- In listing the potential strategic options available to Friendship Dairies, the option of asset liquidation was sequentially the first item listed in the Hunter Report.
- The Hunter Report projected that Friendship Dairies would experience cash flow constraints until the fall of 2013.
- The Hunter Report observed that there would be large volatility in its estimates given the fact that weather and the prices of milk and feed are outside Friendship Dairies control; therefore, the precise speed with which the dairy herd could recover from the 2012 feed constraints was difficult to determine.
- Friendship Dairies' future profitability is more likely a function of performance than purely of dairy size.
- Since 2008, long term profitability is primarily driven by profit per animal.
- Friendship Dairies' milk yield in much of 2013 will be limited by the nutritional shortfalls in 2012.

- Friendship Dairies' historical records on cow numbers have been inconsistent.
- Factors such as supply, demand, and market sentiment can account for monthly price deviations for forages and livestock by as much as +/- 1%.
- Historically, Friendship Dairies has not kept pregnancy records on its replacement heifers.
- During most of time since its formation, Friendship Dairies physical and financial performance has been below average when compared to other dairies in the region.
- Significant milk yield improvement during the first half of 2013 is unlikely.
- Friendship Dairies needs to build up a stockpile of forage as a form of short-term financing.
- The Hunter Report splits the debt owed to Frontier Capital Group into a livestock loan in the amount of approximately $9.7 million and a working capital loan in the amount of approximately $2.5 million. The remainder of the debt owed Frontier Capital Group is included with the other unsecured debt.
- AgStar has requested that the financial projections update the milk pricing to reflect the current futures market. The attached financial projections include milk prices as of May 15, 2013. The financial projections also include updated feed prices.
- [AgStar also insists that Friendship Dairies disclose that the Hunter Report was predicated on a $2.5 million working capital loan and that information about that

loan be disclosed; however, this conjecture about the Hunter Report by AgStar is factually inaccurate.]

- [AgStar demands that Friendship Dairies explain why its financial projections do not reflect any payments on the McFinney loan; however, AgStar has overlooked that loan payment which is included in the attached projections.]

AgStar insists that McFinney is entitled to post-petition interest at the default rate (11.3% per annum). Debtor's plan provides for post-confirmation interest to AgStar at the rate of 5% per annum. AgStar has requested that this disclosure statement include an explanation concerning the modification of the post-petition interest rate to be paid McFinney.

Friendship Dairies is of the impression that the bankruptcy court is permitted some latitude in setting the applicable cramdown rate of interest for a secured creditor in a Chapter 11 case. *Drive Fin'l Svcs, L.P. v. Jordan*, 521 F.3d 343, 350 (5th Cir. 2008); *Good v. RMR Invs., Inc.*, 428 B.R. 249, 255 (Bankr. E.D. Tex. 2010). In making this determination, most bankruptcy courts have adopted an approach referred to as "prime-plus". *See In re Texas Grand Prairie Hotel Realty, L.L.C.*, 2013 U.S. App. LEXIS 4514, ** 29-30 (5th Cir. 2013). In this approach, the proper interest rate determination begins with the national prime rate and then adds a "risk adjustment" factor, typically between 1% and 3%. In the *Texas Grand Prairie Hotel Realty* case, a 5% interest rate was approved on the basis of 3.25% as the national prime rate plus a 1.75% risk adjustment factor. *Id*. Friendship Dairies expects a similar result in the determination of McFinney's post-confirmation interest rate.

For the period between the commencement of the bankruptcy case and the confirmation of the plan of reorganization, a secured creditor is typically not permitted to recover interest at the default rate if the following factors are predominately present: (a) junior creditors would be

harmed or impaired by the default rate; (b) the secured creditor did not face increased risks during the bankruptcy proceeding; (c) the spread between the default rate and the non-default rate is significant; and (d) the secured creditor obstructed the reorganization process. *See In re Texas Star Indus. Group, Ltd.*, 2007 Bankr. LEXIS 4219, **9-10 (Bankr. N.D. Tex. 2007). Friendship Dairies believes that the application of these factors would result in a determination that the proper pre-confirmation interest rate for McFinney is its non-default rate (6.3%).

AgStar has requested that this disclosure statement explain why the Debtor's plan does not propose to reimburse McFinney's attorneys' fees and costs until the principal balance owed McFinney is paid in full. Friendship Dairies has the view that any attorneys' fees and costs properly allowed to McFinney become part of its allowed claim and are paid in conjunction with the payment of the claim in its entirety. 4 COLLIER ON BANKRUPTCY ¶ 506.04[4] (Alan W. Resnick & Henry J. Sommer eds, 15th ed. rev.).

Friendship Dairies' plan proposes that its payment obligations to McFinney's be reflected in a promissory note and deed of trust, the form of which is attached hereto as **Exhibit 4.** The nonmonetary covenants contemplated by the Plan are those set forth in these documents.

XI. SIGNIFICANT ORDERS ENTERED DURING THE CASE

Significant orders entered by the Bankruptcy Court while this case has been pending primarily involve Friendship Dairies' use of its cash collateral. The Court has held contested hearings over the dairy's proposed use of its milk proceeds and over its proposed use of certain casualty insurance proceeds. Over AgStar's objection, the Court approved the Debtor's use of its milk proceeds in accordance with its proposed budget. Also over AgStar's objection, the Court

has permitted Friendship Dairies to complete two (2) deep water wells that will permit it to farm an additional 350 acres beginning with crop to be planted for summer 2013.

XII. GENERAL INFORMATION ABOUT THE CLAIMS PROCEDURE

A. Procedures for Resolving Contested Claims

The Debtor shall have the sole right and duty to review Claims and object to the Proof of Claim filed by any party or claimant, if appropriate. Objections to Claims must be filed with the Bankruptcy Court no later than forty-five (45) days after the Effective Date and served upon the holders of each of the Claims to which objections are made.

If the Debtor files an objection to a Claim, the Creditor shall file a response to any such objection within twenty-one (21) days from the mailing date set out in the certificate of service for the objection. Failure to timely file a response shall result in a deemed consent to the objection, and upon the expiration of the twenty-one (21) day period, the Court may enter an order without further notice or hearing. In the event a response is filed, the Court shall set a hearing on not less than thirty (30) days' notice to the parties in accordance with Bankruptcy Rule 3007.

The Debtor shall have primary responsibility for litigating, withdrawing, or resolving all objections to Claims after the Effective Date.

Except as otherwise provided in the Plan, the allowance of any pre-petition Claim, the resolution of any Claim dispute, or the payment of any Claim shall not, absent an express contrary ruling by the Court, operate as a bar, by application of the principles of res judicata or collateral estoppel, to the recovery of pre-petition Claims or the exercise of any right of setoff held by the Debtor with respect to the claims held by the affected claimants. To the extent such

right of offset is not resolved in the claim objection process, any affected claimant shall retain its right of offset of mutual claims as provided in Bankruptcy Code §553.

Any amendments to Claims previously filed must be filed prior to the Effective Date or they will be void.

XIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The transactions contemplated by the confirmation of the Plan may have an impact on the tax treatment received with respect to distributions under the Plan. That impact may be adverse to the creditor or interest holder.

An analysis of federal income tax consequences of the Plan to creditors, interest holders, and the Debtor requires a review of the Internal Revenue Code ("IRS Code"), the Treasury regulations promulgated thereunder, judicial authority, and current administrative rulings and practice. The Plan and its related tax consequences are complex. Neither the Debtor nor the Debtor's counsel has requested a ruling from the Internal Revenue Service with respect to these matters. Accordingly, no assurance can be given as to the IRS's interpretation of this Plan.

THE TRANSACTION CONTEMPLATED BY THE CONFIRMATION OF THE PLAN MAY HAVE AN IMPACT ON THE TAX TREATMENT OF ANY CREDITOR OR INTEREST HOLDER. THAT IMPACT MAY BE ADVERSE TO THE CREDITOR OR INTEREST HOLDER. NOTHING HEREIN IS INTENDED TO BE ADVICE OR OPINION AS TO THE TAX IMPACT OF THE PLAN ON ANY INDIVIDUAL CREDITOR OR INTEREST HOLDER. EACH CREDITOR OR INTEREST HOLDER IS CAUTIONED TO OBTAIN INDEPENDENT AND COMPETENT TAX ADVICE PRIOR TO VOTING ON THE PLAN.

XIV. CONFIRMATION OF THE DEBTOR'S PLAN

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

A. Confirmation Hearing

The Bankruptcy Code requires the Court, after notice, to hold a hearing on confirmation of the Plan, at which any party-in-interest may object to confirmation of the Plan.

The date and time of the hearing on confirmation of the Plan will be set forth in a notice to each Creditor. The hearing may be adjourned from time to time by the Court without further notice except for an announcement made at the hearing or any adjournment thereof. Any objection to confirmation of the Plan must be made in writing and filed with the Court and served upon the Debtor's counsel at the address listed below, together with proof of service, on or before the date set by the Court:

J. Bennett White, P.C.
P. O. Box 6250
Tyler, TX 75711
(903) 597-4300 / (903) 597-4330 (fax)

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT WILL NOT BE CONSIDERED BY THE COURT.

B. Requirements for Confirmation

At the hearing on confirmation of the Plan, the Court shall determine whether the requirements of Bankruptcy Code § 1129 have been satisfied, in which event the Court shall enter an order confirming the Plan. These requirements are as follows:

1. The Plan complies with the applicable provisions of the Bankruptcy Code.
2. The Debtor and Debtor's counsel have complied with the applicable provisions of the Bankruptcy Code.

3. The Plan has been proposed in good faith and not by any means forbidden by law.

4. Any payment made or promised by the Debtor or by a person issuing securities or acquiring property under the Plan, for services or for costs and expenses in, or in connection with the Chapter 11 Case or in connection with the Plan and incident to the Chapter 11 Case, has been disclosed to the Court, and any such payment made before confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Court as reasonable.

5. The Debtor has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer, or voting trustee of the Debtor, or a successor to the Trustee under the Plan, and the appointment to, or continuance in, such office of such individual, is consistent with the interests of Creditors and Equity Security Holders and with public policy, and the Debtor has disclosed the identity of any insider that will be employed or retained by the Reorganized Debtor and the nature of any compensation for each insider.

6. Any governmental regulatory commission with jurisdiction, after confirmation of the Plan, over the rates of the Debtor has approved any rate change provided for in the Plan, or such rate change is expressly conditioned on such approval.

7. With respect to each impaired class of Claims or Equity Security Holders, either each holder of a Claim or Equity Security Interest of such class has accepted the Plan, or will receive or retain under the Plan on account of such Claim or Equity Security Interest, property of a value, as of the Effective Date, that is not less than the amount that such holder would so receive or retain if the Debtor were liquidated on such date under Chapter 7 of the Bankruptcy Code.

8. Each class of Claims or Equity Security Interests has either accepted the Plan, is not impaired under the Plan, or is subject to cramdown.

9. Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Administrative Claims and Priority Claims will be paid in full on the Effective Date and that Priority Tax Claims will receive on account of such Claims deferred cash payments, over a period not exceeding five (5) years after the Petition Date, of a value, as of the Effective Date, equal to the allowed amount of such Claim.

10. At least one class of Claims that is impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim of such class.

11. Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the

Plan.

12. The Debtor believes that the Plan satisfies all the statutory requirements of Chapter 11 of the Bankruptcy Code, that the Debtor has complied or will have complied with all of the requirements of Chapter 11 and that the proposal of the Plan is made in good faith.

13. The Debtor believes that the holders of all Claims impaired under the Plan will receive payments under the Plan having a present value as of the Effective Date in amounts not less than the amounts likely to be received if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

C. Cramdown

In the event that any impaired class of Claims or Interests does not accept the Plan, the Court may still confirm the Plan at the request of the Debtor if, as to each impaired class which has not accepted the Plan, the Plan "does not discriminate unfairly" and is "fair and equitable." A plan of reorganization does not discriminate unfairly, within the meaning of the Bankruptcy Code, if no class receives more than it is legally entitled to receive for its Claims or Equity Security Interests. "Fair and equitable" has different meanings for Secured Claims and Unsecured Claims.

With respect to a Secured Claim, "fair and equitable" means either: (i) the impaired Secured Creditor retains its liens to the extent of its Allowed Claim and receives deferred cash payments at least equal to the allowed amount of its Claim with a present value of the Effective Date at least equal to the value of such Secured Creditor's interest in the property securing its liens; or (ii) property subject to the lien of the impaired Secured Creditor is sold free and clear of that lien, with that lien attaching to the proceeds of the sale, and such lien proceeds must be treated in accordance with clauses (i) and (ii) hereof; or (iii) the impaired Secured Creditor realizes the "indubitable equivalent" of its claim under the Plan.

With respect to an Unsecured Claim, “fair and equitable” means either (i) each impaired Unsecured Creditor receives or retains property of a value equal to the amount of its Allowed Claim; or (ii) the holders of the Claims and Equity Security Interests that are junior to the Claim of the dissenting class will not receive any property under the Plan.

With respect to an Interest, “fair and equitable” means either (i) each holder of an Impaired Interest of such Class receives property of a value**,** as of the Effective Date, equal to the greatest of (a) the allowed amount of any fixed liquidation preference to which such holder is entitled, or (b) any fixed redemption price to which such holder is entitled, or (ii) the value of such Interest that is junior in priority to the interests of the dissenting Class will not receive any Property under the Plan.

The absolute priority rule set forth in Bankruptcy Code § 1129(b)(2)(B) requires a cram-down of a plan of reorganization over a dissenting creditor class to meet an “either/or” test. Either (i) the members of each dissenting impaired class of unsecured claims must receive property of a value, as of the effective date of the plan, equal in amount to such class’ members allowed claim; or (ii) holders of claims and interests that are junior to each dissenting impaired class of claims must not receive any property under the plan of reorganization. The absolute priority rule applies only in cases when a class of claims or Equity Interests is both impaired and does not accept the plan. Thus, the absolute priority rule does not apply to all classes of claims and Equity Interests but only to dissenting classes and classes junior to the dissenting class. Because the Plan provides for the full payment of all Classes of Claims senior to Class 17, the Debtor believes that the Plan satisfies the absolute priorities rule.

In the event one or more classes of impaired Claims or interests rejects the Plan, the Court will determine at the hearing for confirmation of the Plan whether the Plan is fair and

equitable and does not discriminate unfairly against any rejecting impaired class of Claims. If the Court determines that the Plan is fair and equitable and does not discriminate unfairly against any rejecting impaired class of Claims or interests, the Court can confirm the Plan over the objection of any impaired class.

XV. VOTING PROCEDURES AND REQUIREMENTS

A. Ballots and Voting Deadline

In addition to this Disclosure Statement and a copy of the Plan, each Creditor entitled to vote will hereafter be provided with a ballot to be used for voting to accept or reject the Plan, together with a postage paid return envelope. The ballot form will also have a place for any applicable election to be made by a claimant, whether or not such claimant is entitled to vote.

In order to be counted for voting purposes, ballots of acceptance and rejection of the Plan must be completed and returned to the Court prior to the hearing before the Court requesting approval of the Plan or at such other time as the Court may set. The deadline for submitting ballots and objections will be set forth by the Court.

Whether or not the Creditor entitled to vote expects to be present at the hearing, each Creditor is urged to complete, date, sign, and properly mail the ballot to the following address:

J. Bennett White, P.C.
Attn: Friendship Dairies Balloting
P. O. Box 6250
Tyler, TX 75711

IN COMPLETING YOUR BALLOT, PLEASE READ CAREFULLY THE VOTING INSTRUCTION SHEET THAT ACCOMPANIES THE BALLOT.

Ballots may be cast by facsimile transmission to counsel for the Debtor at (903) 597-4330, provided (a) the facsimile transmission is actually received and time-stamped prior to the voting deadline; and (b) the original, signed ballot, postmarked not later than the day of the voting deadline, is mailed to and received by counsel for the Debtor.

IN ORDER TO AVOID THE POSSIBILITY OF A BALLOT TRANSMITTED BY FACSIMILE BEING BACKED UP IN TRANSMISSION AND NOT BEING COUNTED, THE DEBTOR REQUESTS THAT YOU TRANSMIT YOUR BALLOT ON THE DAY PRIOR TO THE VOTING DEADLINE.

Ballots that are signed and timely returned as directed above, but which do not expressly indicate a vote either to accept or reject the Plan will be counted by the Debtor as an acceptance of the Plan.

B. Creditors Entitled to Vote

Any creditor whose Claim is impaired under the Plan is entitled to vote, if either (i) its Claim has been scheduled by the Debtor (and such Claim is not scheduled as disputed, contingent, or unliquidated), or (ii) it has filed a proof of Claim on or before the first date set by the Court for such filings. Any Claims as to which an objection has been filed (and such objection is still pending) is not entitled to vote, unless the Court temporarily allows the Claim in an amount which it deems proper for the purpose of accepting or rejecting the Plan upon application by the Creditor. Such application must be heard and determined by the Court at such time as specified by the Court. A Creditor's vote may be disregarded if the Court determines that the Creditor's acceptance or rejection was not solicited or procured in good faith or in accordance with the Bankruptcy Code.

C. Definition of Impairment

Under Bankruptcy Code § 1124, a class of Claim or Equity Security Interests is impaired under a Chapter 11 plan unless, with respect to each Claim or interest of such class, the Plan:

1. Leaves unaltered the legal, equitable, and contractual rights of the holder of such Claim or Equity Security Interest; or

2. Notwithstanding any contractual provision or applicable law that entitles the holder of a Claim or Equity Security Interest to receive accelerated payment of its Claim or Equity Security Interest after the occurrence of default:

   a. Cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default that consists of a breach of any provision relating to the insolvency or financial condition of the Debtor at any time before the closing of the case, the commencement of the case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code;

   b. Reinstates the maturity of such Claim or Equity Security Interest as it existed before the default;

   c. Compensates the holder of such Claim or Equity Security Interest for damages incurred as a result of reasonable reliance on such contractual provision of applicable law; and

   d. Does not otherwise alter the legal, equitable, or contractual rights to which such Claim or Equity Security Interest entitles the holder of such Claim or Equity Security Interest.

D. Class Impaired Under the Debtor's Plan

The following classes are impaired under the Plan, and Creditors and Interest Holders holding claims in such classes are entitled to vote to accept or reject the Plan: Classes 3 through 12, 14 through 16, and 18 through 19.

All other classes are unimpaired under the Plan and are deemed to have accepted the Plan. The unimpaired classes, therefore, are not entitled to vote with respect to the acceptance or rejection of the Plan.

E. Vote Required for Class Acceptance

The Bankruptcy Code defines acceptance of a Plan by a class of Creditors or Equity Interest Holders as acceptance by holders of two-thirds (2/3) in dollar amount and a majority in number of the Claims and Equity Interests of that class which actually cast ballots for acceptance or rejection of the Plan.

XVI. FINANCIAL INFORMATION

As indicated above, Friendship Dairies' financial projections and its blueprint for transforming its dairy herd are attached as exhibits to this Plan. Additional information about its financial performance and operations while this case has been pending are reflected by the monthly operating statements it has prepared since this bankruptcy case was commenced. Copies of those monthly operating reports are attached hereto as **Exhibit 5**. Recently, Dr. Hunter has prepared a financial analysis contemplating the conversion of Friendship Dairies milking herd in the previously described manner (7,500 milk cows, 9,500 total), a significant part of which is incorporated into the Debtor's cash flow projections. Dr. Hunter's financial analysis is attached hereto as **Exhibit 6**.

XVII. MANAGEMENT

Friendship Dairies is primarily managed by its general partners Jakob VanDerweg and Patrick VanAdrichem. Both are good cowmen from small farm backgrounds where success was largely determined by doing the basics well.

Within two years of combining their operations and forming Friendship Dairies, Jakob and Patrick had expanded from under 3,000 cows without young stock to over 7,000 cows. In addition, they had started rearing their young stock and had set up a 5,000 acre intensive farming operation.

Friendship Dairies' herd records are kept on Dairy Comp 305 (DC305) software for herd management. This system records the individual cow events, such as age, inseminations, calvings, and milk yields, and generates cow side action lists for herdsmen. DC305 records on Friendship Dairies are generally correct, but management has room to improve in this area.

Friendship Dairies' plan contemplates that its operations will continue to be managed by Jakob VanDerweg and Patrick VanAdrichem.

XVIII. COST AND RISK ANALYSIS

It is anticipated that enough revenue can be generated through operations within the terms of the Plan that such revenues will be adequate for distribution to creditors, with all classes to be paid in full during the term of the Plan. It is anticipated that the cost of administration will not significantly affect the implementation of the Plan. All distributions to attorneys for work prior to the Effective Date of the Plan shall be subject to the review process of the Court.

In determining the risk to creditors in accepting the Plan, the creditors should take into account the Debtor's proven ability to succeed and grow over a substantial period of time, in varying economic conditions, through the expertise of its present management.

XIX. PREFERENTIAL TRANSFERS

The Debtor is aware of substantial preferential transfers. The chart below sets forth the material potentially preferential transfers.

Frontier Capital Group, Ltd.	Perfection of contractual lien
Gavilon Ingredients, LLC	$350,000
Gavilon Ingredients, LLC	Perfection of statutory lien
Dimmitt Flaking, LP	$414,647.94
Dimmitt Flaking, LP	Perfection of statutory lien
ADM (Archer Daniels Midland)	$78,326.11
Albert Schoenenberger	$235,030.26
Alta Genetics USA, Inc.	$22,614.72
CHS, Inc.	$86,822.66
Commodity Specialists Co.	$394,156.88
DBS Commodities	$29,935.27
GEA Westfalia Surge West	$32,691.62
H F & C Feeds	$63,257.63
Ivesco Holdings, LLC	$141,988.59
Link Feed Ingredients	$62,738.84
Lone Star Commodities	$80,000
Renaissance Nutrition	$29,705.40

Ordinarily, where the Plan anticipates all creditors will be paid in full, there would be no benefit to seeking an avoidance of any preferential transfers and no attempt to avoid transfers would be anticipated. However, in this case there are two significant differences from the normal case bearing on this item.

First, the lien claimed by Frontier Capital was perfected on the eve of bankruptcy and is a potentially avoidable transfer. However, in order to retain its lien, Frontier Capital is willing to

subordinate its remaining unsecured deficiency claim in excess of $11 million to the other general unsecured creditors. The result of this concession transforms the general unsecured creditor pool from an amount in excess of $13.5 million to slightly less than $3.4 million, thus increasing the dividend otherwise payable to general unsecured creditors by approximately 400%. The Debtor considers this compromise to represent a fair exchange of value and is in favor of permitting Frontier Capital to retain its lien in order to achieve a viable prospect for full repayment to its remaining general unsecured creditors. However, with Frontier Capital making such a significant sacrifice in settlement of a potential avoidance action against it, to forgive other avoidance claims without any benefit to the Estate might be perceived an unfair or inequitable.

Second, given AgStar's insistence that liquidation is the only viable option, that prospect cannot be ignored. Accordingly, Friendship Dairies intends to preserve its claims for the potential avoidance of preferential transfers (other than those compromised and settled) and to retain those claims for the benefit of its Estate. Should events materialize such that litigation of those claims becomes in the best interest of Friendship Dairies' Estate, creditors should anticipate that those claims will be pursued.

XX. MODIFICATION OF THE PLAN

Bankruptcy Code § 1127(a) permits the Debtor to amend or modify the Plan at any time prior to confirmation. Post-confirmation modifications of the Plan are allowed under Bankruptcy Code § 1127(a), if the proposed modification is offered before the Plan has been substantially consummated or pursuant to an article of the confirmed Plan authorizing the intended modification. The Debtor reserves the right to amend or modify the Plan at any time at which such modification is permitted under the Bankruptcy Code.

In the event that the Debtor proposes to modify the Plan prior to the Confirmation Order, further disclosure pertaining to the proposed modification will be required only if the Court finds, after a hearing, that the pre-confirmation modifications adversely change the treatment of any Creditor or Equity Interest Holder who has previously accepted the Plan. If the proposed modification is material and adverse, or if a post-confirmation modification is sought, the Debtor intends to supplement this Disclosure Statement to describe the changes made in the Plan and the reasons for any proposed modifications.

XXI. RETENTION OF JURISDICTION

As set forth in the Plan, the Court will retain jurisdiction over substantially all matters arising in connection with the Chapter 11 Case and Plan.

XXII. SUMMARY

The Debtor contemplates that its operations will permit its administrative claimants, secured creditors, and trade creditors to be paid in full. Essentially, this proceeding will enable the Debtor to preserve the value of its going-concern while permitting payment of its claims in an orderly manner. The treatment afforded creditors by this Plan is the best alternative for all interested parties. Accordingly, the Debtor respectfully requests your affirmative support and vote in favor of the Plan.

DATED this ___ day of ________, 2013.

Friendship Dairies

BY: /s/ Jakob VanDerweg

BY: /s/ Patrick VanAdrichem

RESPECTFULLY SUBMITTED,

J. BENNETT WHITE, P.C.
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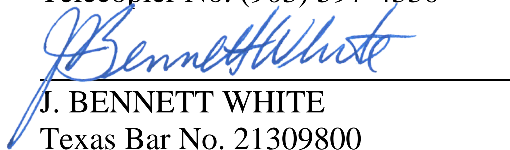

J. BENNETT WHITE
Texas Bar No. 21309800

ATTORNEYS FOR DEBTOR

CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing document was filed electronically. As such, this document was served all interested parties deemed to have consented to electronic service. Pursuant to Fed. R. Bankr. P. 5, all other interested parties not deemed to have consented to electronic service were served with a true and correct copy of the foregoing, unless noted otherwise below, by first class mail on this date, May 16, 2013. Those served by means other than electronic are listed in the attached mailing matrix. In addition, this document has been served by first class mail upon:

Securities & Exchange Commission
Ft. Worth Regional Office
Burnett Plaza, Suite 1900
801 Cherry St., Unit 18
Ft. Worth, TX 76102

____
J. BENNETT WHITE