

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
SOUTHEASTERN DIVISION

In re:)	
)	Case No. 16-10742
FARMHAND SUPPLY, LLC)	
)	Chapter 11
Debtor.)	

SECOND AMENDED DISCLOSURE STATEMENT

I. Introduction

Farmhand Supply, LLC (hereinafter referred to as "Debtor"), the Debtor in the above-captioned proceeding for reorganization under Chapter 11 of the Bankruptcy Code, provides this Second Amended Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code to all of its known claimants and creditors (hereinafter collectively referred to as "Creditors") for the purpose of disclosing that information deemed by the Debtor to be material, important and necessary for Creditors to arrive at a reasonably informed decision in exercising their right to vote for acceptance of the Second Amended Plan of Reorganization (hereinafter the "Plan") being filed with the Bankruptcy Court concurrently with this Second Amended Disclosure Statement. The Court will conduct a hearing on the 3rd day of April, 2017 at 2:00 P.M. to determine the adequacy of this Second Amended Disclosure Statement.

The Court can confirm the Plan, which accompanies this Second Amended Disclosure Statement, if Voting Creditors who hold at least two-thirds in amount and more than one-half in number of the allowed claims of Classes 3, 4, 5 and 6 VOTE FOR the Plan. No approval is required from Class 1 inasmuch as this class is not impaired by the Plan. Class 2 is being paid in accord with applicable rules and statutes. A class is impaired unless the Plan leaves unaltered the legal, equitable and contractual rights to which such claim entitles the holder of such claim. In

the event the requisite acceptances are not obtained from the classes that are impaired by the Plan, the Court may nevertheless confirm the Plan if it finds that the Plan accords fair and equitable treatment to the class or classes rejecting it.

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO ITS FUTURE INCOME OR THE VALUE OF ITS PROPERTY) ARE AUTHORIZED, OTHER THAN AS SET FORTH IN THIS SECOND AMENDED DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN THIS SECOND AMENDED DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND ANY SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR, WHO, IN TURN, SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THE INFORMATION CONTAINED IN THIS SECOND AMENDED DISCLOSURE STATEMENT HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THE RECORDS KEPT BY THE DEBTOR RELY FOR THEIR ACCURACY UPON INTERNAL BOOKKEEPING PERFORMED BY DEBTOR. EVERY REASONABLE EFFORT HAS BEEN MADE TO PRESENT ACCURATE FIGURES. THE DEBTOR, HOWEVER, IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS COMPLETELY AND TOTALLY WITHOUT ERROR.

On September 9, 2016, Debtor filed a voluntary petition in bankruptcy pursuant to Chapter 11 of Title 11 of the United States Bankruptcy Code. Debtor has been authorized to possess and manage its income and property as Debtor-in-Possession.

To the best knowledge, information and belief of Debtor, no Creditors' Committee was appointed in this case.

For your consideration, Debtor presents the following areas for discussion:

- (a) The Plan of Reorganization;
- (b) Means for Execution of the Plan; and
- (c) Liquidation Analysis.

II. PLAN OF REORGANIZATION

Reference is made to the Plan, which is being filed concurrently with the filing of this Second Amended Disclosure Statement, for details concerning the classification and treatment of holders of claims against Debtor. All terms defined in the Plan have the same meanings in this Second Amended Disclosure Statement unless otherwise noted. In the event of any ambiguity between the provisions of the Plan and the provisions of this Second Amended Disclosure Statement, the terms and provisions of the Plan shall control.

The successful completion of a Chapter 11 proceeding requires creditors' consideration of the terms contained in the Plan. The Plan is based upon the Debtor's belief that the forced liquidation value of the Debtor's assets would offer considerably less than the maximum recovery to its Creditors. Debtor believes that the Plan will permit a more substantial recovery to Creditors by way of extension and a reorganized debt payment schedule.

III. TREATMENT OF CLASSES UNDER THE PLAN

3.01 The Plan provides for the division of all claims against Debtor into 6 classes, which will be treated as follows:

- (a) Class 1 consists of claims against Debtor that are entitled to priority under Section 503(b) of the Bankruptcy Code. Class 1 claimants will receive, on Confirmation of the

Plan, payment in full of their claims. Debtor is current on all post-petition debts including taxes. Debtor does expect by Confirmation to owe attorney fees to its attorney in an amount of approximately \$15,000. Debtor estimates the court costs and U.S. Trustee fees to be approximately \$5,000. Said court costs and U.S. Trustee fees will be paid as a condition of Confirmation. Professional fees, other than to attorneys, owing to realtors, accountants, appraisers, or other professionals, if any, shall be paid in full, as a condition of Confirmation, within 30 days of approval of such professional's fee. Attorney fees shall be paid in full on or before March 1, 2018.

(b) Class 2 will include claims for taxes incurred prior to the commencement of the Reorganization Case by the United States of America, any state taxing authority, by Stoddard County, Dunklin County, Missouri, or any other public taxing authority.

The Class 2 claimants, if any claims are filed and approved by the Court, will receive deferred cash payments in five equal annual installments beginning within 60 days after Confirmation of the Plan and then one year from that date and on each succeeding annual anniversary of that date to pay out in full the amount of any allowed and approved claim including interest at the rate provided for by applicable Missouri statutes and regulations governing the payment of taxes or by Section 6621 of the Internal Revenue Code in the event of a claim by the United States of America. If there is a disputed claim not yet resolved when the first annual payment is due, the annual payment or payments will be escrowed until the Court rules on the claim(s) and objection(s) to same. In no event will it take longer than five years from the original due date of each respective tax obligation to pay all Class 2 claims in full including interest.

In the event that the Missouri Department of Revenue's Allowed Administrative Expenses, Allowed Secured Claims, Allowed Priority Tax Claims, and Allowed General Unsecured Claims are not paid in accordance with the terms of the Plan of Reorganization or Confirmation Order, Debtor will be in default. The Department will provide Debtor with written notice of the default by mail. If default is not made good within fifteen (15) days after notification, the entire principal and accrued interest shall at once become due and payable without further notice. The Department may thereafter proceed with either or all of the following remedies: (a) enforce the entire amount of its claim under Missouri law; (b) exercise any and all its rights and remedies under Missouri law; (c) seek such relief as may be appropriate in this Court.

(c) Class 3 consists of the secured claims of Rabo Agrifinance, Inc. (hereafter "Rabo"), which holds four Notes secured by a deed of trust, an assignment of rents and a security agreement.

The Notes and security for each Note held by Rabo are described as follows:

(1) A Real Estate Term Loan Note dated August 16, 2013, in the original principal amount of \$6,100,000, secured by a recorded Deed of Trust recorded in the land records of Stoddard County and Dunklin County, Missouri. The Real Estate Term Note is also secured by a UCC-1 on some of the Murphy Debtors' farm equipment and a UCC-1 on Farmhand Supply, LLC's equipment, inventory, and accounts receivable.

The loan is identified by Rabo as Loan number 10795800 and is referred to between the parties as "the real estate loan." Subsequent to this bankruptcy filing, the real estate collateral was appraised at \$11,635,000. Debtor believes that the value of the real estate collateral is at least

\$1 million more than the amount for which it was appraised if the real estate collateral were sold at fair market value, rather than a forced duress sale.

The amount owed on the real estate loan as of March 15, 2017 was \$6,177,839.23. This loan shall continue to accrue interest on \$6,177,839.23 after March 15, 2017 at the LIBOR monthly rate as defined and described in the original Credit Agreement plus 4% per annum, with the LIBOR rate to be adjusted as of the first of each month.

The Murphy Debtors, case number 16-10684, will satisfy this Note as set out in their Plan by paying annual installments for four years, with a balloon owing at the end of five years. The Murphy Debtors will pay this portion of the Class 3 claim in full plus interest at the rate specified in the Murphy Plan. The first four annual payments will be \$245,500 each. The first payment will be paid on or before March 1, 2018. Similar annual payments will be made on or before the 1st day of March of 2019, 2020, and 2021. Payment of the full balance owed will be paid on or before March 1, 2022.

(2) An Amended and Restated Crop Production Line of Credit Note dated August 16, 2013, in the original principal amount of \$1,500,000 secured by the same collateral as described above in subsection 1 of this section. This loan is identified by Rabo as Loan number 107995900 and is referred to between the parties as the crop production loan.

The amount owed on the crop production loan as of March 15, 2017 was \$1,685,855.60. This loan shall continue to accrue interest on \$1,685,855.60 after March 15, 2017 at the LIBOR monthly rate as defined and described in the original Credit Agreement plus 4.25% per annum, with the LIBOR rate to be adjusted as of the first of each month.

The Murphy Debtors will satisfy this Note by paying annual installments for four years, with a balloon owing at the end of five years. The Murphy Debtors will pay this obligation in full

plus interest at the rate specified in the immediately preceding paragraph. The annual payments will be \$66,995 each. The first payment will be paid on or before March 1, 2018. The same annual payments will be made on or before March 1, 2019, 2020, and 2021. Payment of the full balance owed will be paid on or before March 1, 2022.

(3) A line of credit Note dated August 16, 2013, and restated August 19, 2014, (Rabo loan number 10860900 and referred to between the parties as the Line of Credit-1 Note) in the original principal amount of \$500,000 secured by the same collateral as described above in subsection 1 of this section.

The amount owed on the Line of Credit-1 note as of March 15, 2017 was \$341,918.43. This loan shall continue to accrue interest on \$341,918.43 after March 15, 2017 at the LIBOR monthly rate as defined and described in the original Credit Agreement plus 4.25% per annum, with the LIBOR rate to be adjusted as of the first of each month.

Debtor will satisfy the Line of Credit-1 Note by paying quarterly installments for 19 quarters, with a balloon owing at the end of the 20th quarter. Debtor will pay the Line of Credit-1 Note in full plus interest at the rate specified in the immediately preceding paragraph. The quarterly payments will be \$8,000. The first quarterly payment will be made on or before June 30, 2017, with subsequent quarterly payments on or before September 30, 2017; December 31, 2017; March 31, 2018; June 30, 2018; and so forth through December 31, 2021. The full remaining balance will be paid on or before March 31, 2022.

If Debtor fails to make any payment, the Murphy Debtors will make that payment within 60 days of a demand for same by the Class 3 creditor.

(4) A line of credit loan (Rabo loan number 10868900 and referred to between the parties as Line of Credit-2 Note) in the original principal amount of \$1,000,000,

secured by the same collateral as described above in subsection 1 of this section.

The amount owed on the Line of Credit-2 Note as of March 15, 2017 was \$1,094,781.17. This loan shall continue to accrue interest on \$1,094,781.17 after March 15, 2017 at the LIBOR monthly rate as defined and described in the original Credit Agreement plus 4.25% per annum, with the LIBOR rate to be adjusted as of the first of each month.

The Murphy Debtors will satisfy this Note by paying annual installments for four years, with a balloon owing at the end of five years. The Murphy Debtors will pay this obligation in full plus interest at the rate specified in the immediately preceding paragraph. The annual payments will be \$43,505 each. The first payment will be on or before March 1, 2018. The same annual payments will be made on or before March 1, 2019, 2020, and 2021. Payment of the full balance owed will be paid on or before March 1, 2022.

(5) The last portion of the Rabo debt is for breach of contract on a financial swap agreement. This portion of Rabo's claim is \$218,268.05. The Murphy Debtors will pay this portion of the Rabo debt by paying it in four annual installments, with a balloon owing at the end of five years. The Murphy Debtors will pay this portion of the obligation in full with interest at the rate specified for the real estate Note. The annual payments will be \$12,000 each. The first payment will be made on or before March 1, 2018. The same annual payments will be made on or before March 1, 2019, 2020, and 2021. Payment of the full balance owed will be paid on or before March 1, 2022.

(d) Class 4 consists of the fully secured claim of Linhai Powersports. This claim is for an inventory of ATVs and UTVs floor planned for Debtor by this Class 4 Creditor. The total owing is \$25,245. Debtor will pay this claim in full with the agreed contract interest rate by paying \$5,000 on or before November 1, 2017, \$5,000 on or before November 1, 2018,

and \$5,000 on or before November 1, 2019. The final balance, including all principal and interest still owing will be paid in full on or before November 1, 2020.

(e) The Class 5 creditors consist of creditors of Debtor whose debts have been guaranteed by John and/or Linda Murphy, Debtors in the companion bankruptcy case number 16-10684. The Class 5 creditors are listed on Table 1A attached as an Exhibit to this Second Amended Disclosure Statement.

The Class 5 creditors will be paid as follows:

(i) Debtor will pay 10% of each Class 5 creditor's allowed and approved claim on May 15, 2018; another 10% on May 15, 2019; and another 10% on each May 15 thereafter until eight total payments of 10% each have been paid, making a total payment to each Class 5 creditor of 80% of the creditor's allowed and approved claim.

(ii) If Debtor does not pay any payment due to a Class 5 creditor by the due date, Debtors John and/or Linda Murphy in Case number 16-10684 will pay within 60 days of receiving written notice to do so by such Class 5 creditor.

(iii) Once payments totaling 80% of each of the allowed and approved claims have been paid, the Class 5 claims will be deemed to be satisfied.

(e) Class 6 consists of the general unsecured claims. An exhibit listing the unsecured claims and Debtor's listing of the amounts owed is attached as Table 1. Class 6 claims will be paid by paying 80% of the total amount owed to each claimant as follows: 10% to each being paid each year for the eight years starting with June 1, 2018 and then or before June 1, 2019; 10% on or before June 1, 2020; 10% on or before June 1, 2021; and 10% on or before June 1, 2022, 2023, 2024, and 2025. The Class 6 claims will be considered paid in full after all eight payments are made.

If Objections are filed to any general unsecured Proof of Claim from a Class 5 or Class 6 creditor, and such Objection has not been ruled upon when the first distribution to that creditor is due, distributions to those Class 5 or Class 6 creditors shall be withheld and reserved until rulings become final and not subject to further appeal or review. At that time, all withheld distributions shall be paid at once as established by the resolutions between the conflicting parties or by rulings of the Court.

3.02 Confirmation of the Plan requires the approval of at least two-thirds in dollar amount and more than one-half in number of the allowed claims of each class voting on the Plan. Under the Plan format, no approval is required from Class 1 because that class is not impaired by the Plan. The approval of Classes 2 through 6 are required.

3.03 The Plan contains provisions concerning the Debtor's operations and the retention of jurisdiction by the Bankruptcy Court. Article IX of the Plan includes additional provisions concerning retention of jurisdiction by the Bankruptcy Court and Debtors recommend that each Creditor review these provisions.

3.04 THE FOREGOING IS A BRIEF SUMMARY OF THE PLAN AND CREDITORS SHOULD NOT RELY UPON IT FOR VOTING PURPOSES. CREDITORS ARE URGED TO READ THE PLAN IN FULL AND FURTHER TO CONSULT WITH COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN. THE PLAN IS COMPLEX AND REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT AND CREDITORS CANNOT RENDER AN INTELLIGENT JUDGMENT CONCERNING THE PLAN WITHOUT FULLY UNDERSTANDING IT. BANKRUPTCY COURT APPROVAL OF A DISCLOSURE STATEMENT IS NOT THE SAME AS APPROVAL OF THE PLAN BY THE COURT.

IV. MEANS FOR EXECUTION OF THE PLAN

Debtor knows of no preferences and does not intend to pursue any preference payments. There were no repossessions by unsecured creditors in the applicable period prior to the bankruptcy being initiated. Therefore, Debtor does not intend to pursue any claim arising from any repossession.

All Executory Contracts of Debtor are listed on Table 2 and are attached and incorporated herein by reference. All are accepted except the lease of 518 S. Walnut Street, which will be rejected in the Plan.

A brief history of the income of Debtor is set out in an attachment to this Disclosure Statement and labeled "Table 3." Table 3 sets out the income, expenses and net operating income for 2014, 2015, and 2016 for Debtor.

Debtor has made some basic projections for 2017 and has attached those projections to this Disclosure Statement as "Table 4." Similarly, Debtor has made some basic projections for 2018. These projections are attached as "Table 5."

V. LIQUIDATION ANALYSIS

The only presently known alternative to Debtor's Plan is liquidation either through Chapter 7 or repossession of assets and repossession sales. A problem with either liquidation is that it will be very difficult to achieve fair market value prices. Secondly, virtually all of the assets of this Debtor are pledged to Rabo. The primary asset of Debtor is its inventory. See comparison "Table 6" comparing liquidation at fair market value to forced sale values. At this particular point, a forced sale liquidation of Rabo's collateral would be substantially short in that Rabo would not be paid in full, with no assets left and no ability for this Debtor to make any income to pay the rest of Rabo's debt. The Debtor's Plan would allow the Rabo debt to be

reduced over time and still would leave the ability for Debtor to generate income with collateral to borrow money for a pay-off, if necessary. Furthermore, the excess collateral that Rabo has from the inventory of Debtor would be wasted and likely lead to the unsecured, non-priority creditors in this case and in the companion John and Linda Murphy case getting nothing.

The Plan proposed by Debtor would enable Rabo to be paid in full plus interest. The Plan also would allow all other creditors to receive more money than forced, duress sales of all assets of Debtor. No creditor would be worse off under this Plan than under a forced sale liquidation.

VI. CONCLUSION

The Debtor has formulated the Plan based upon the belief that the Plan is in the best interest of all of its creditors in that it will allow Rabo and other fully secured creditors to be paid in full. Unsecured creditors will be paid 80% of their allowed claims, with an extension of time. Therefore, Debtor hopes that Creditors vote for the Plan.

Dated at Cape Girardeau, Missouri this 1st day of April, 2017.

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