

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MISSOURI  
SOUTHEASTERN DIVISION

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

**THIRD 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 Third 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 Third Amended Plan of Reorganization (hereinafter the "Plan") being filed with the Bankruptcy Court concurrently with this Third Amended Disclosure Statement. The Court will conduct a hearing on the 31st day of July, 2017 at 2:00 P.M. to determine the adequacy of this Third Amended Disclosure Statement.

The Court can confirm the Plan, which accompanies this Third 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 THIRD AMENDED DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN THIS THIRD 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 THIRD 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 Third 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 Third Amended Disclosure Statement unless otherwise noted. In the event of any ambiguity between the provisions of the Plan and the provisions of this Third 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 \$20,000. 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 shall consist of the following Allowed Secured Claims of Rabo AgriFinance LLC ("Rabo") arising under the *Credit Agreement* dated August 16, 2013 by and between John Dale Murphy and Linda Jo Murphy, as married spouses, Farmhand Supply, LLC, J Murphy Farms, James Howard Murphy and Janet Murphy, as married spouses, and Murphy Farms ("collectively, the "Borrowers"), as amended from time to time thereafter (the "Credit Agreement" and together with the notes issued under the Credit Agreement, the "Loan Documents"):

- (1) A real estate term loan in the original principal amount of \$6,100,000.00 (the "Term Loan");
- (2) A crop production line of credit loan in the principal amount not to exceed \$1,500,000.00 (the "CP LOC Loan");
- (3) A line of credit loan originally in a principal amount not to exceed \$500,000.00 (the "LOC-1 Loan"); and

(4) A line of credit loan in a principal amount not to exceed \$1,000,000 (the “LOC-2 Loan” and together with the Term Loan, the CP LOC Loan, the LOC-1, the “Loans”).

(d) In addition to the forgoing loans made under the Credit Agreement, on August 16, 2013, J Murphy Farms and Coöperatieve Rabobank U.A. entered into the *Interest Rate Swap Agreement* based on the notional amount of \$6,100,000.00 (the “Interest Rate Swap Agreement”). The Interest Rate Swap Agreement was terminated on September 16, 2016, resulting in a \$218,268.05 obligation (the “Termination Amount”) owed by J Murphy Farm to Rabo.

As of June \_\_, 2017, the Allowed Secured Claims of Rabo, in the aggregate amount of \$9, \_\_\_\_\_, are as follows:

Loan	Principal	Interest	Costs and Fees	Default Interest	Total
Term Loan	\$5,581,209.69	\$589,975.10	\$31,624.14 4,663.21	\$84,078.04	
CP LOC Loan	1,464,156.53	220,419.86	8,165.25	201,914.26	
LOC-1 Loan	318,496.51	22,327.68	2,592.14	45,583.15	
LOC-2 Loan	994,219.00	100,054.42	5184.26	128,088.90	
Swap Termination Fee	218,268.05				
Total					

(e) The Class 3 Allowed Secured Claims of Rabo are secured by liens and security interests in various assets owned by the Debtor(s) and non-debtors, including real estate in Stoddard and Dunklin Counties (the “Real Estate”), farm products, proceeds of crop insurance,

price support or other government programs, profits, inventory, equipment, accounts, contract rights and general intangibles, evidenced by the following documents:

- (1) The *Deed of Trust, Assignment of Rents and Security Agreement* from John Dale Murphy and Linda Jo Murphy, as married spouses, and James Howard Murphy and Janet Murphy, as married spouses, dated August 16, 2013 and recorded with the Recorder of Deeds for Stoddard County, Missouri on August 27, 2013 in Book 2013, Page 3689 (the “Stoddard County Deed of Trust”);
  - (2) The *Deed of Trust, Assignment of Rents and Security Agreement* from John Dale Murphy and Linda Jo Murphy, as married spouses, and James Howard Murphy and Janet Murphy, as married spouses, dated August 16, 2013 and recorded with the Recorder of Deeds for Dunklin County, Missouri on August 27, 2013 in Book 2013, Page 2957 (the “Dunklin County Deed of Trust”); and
  - (3) The *Security Agreement* from John Dale Murphy and Linda Jo Murphy, as married spouses, Farmhand Supply, LLC, J Murphy Farms, James Howard Murphy and Janet Murphy, as married spouses, and Murphy Farms dated August 16, 2013 (the “Security Agreement” and together with the Stoddard County Deed of Trust and the Dunklin County Deed of Trust, the “Collateral Documents”).
- (f) Treatment of the Class 3 Allowed Secured Claims

Rabo shall be the holder of Allowed Secured Claims to the full extent of the indebtedness of the Debtor(s) and non-debtors to Rabo under the Loans, Loan Documents and the Collateral Documents. Except as expressly provided herein, the legal, contractual and equitable rights of Rabo under the Loans, Loan Documents, the Collateral Documents and applicable law shall remain unaltered by this Plan and in full force and effect. Notwithstanding confirmation of this Plan, Rabo’s Class 3 Allowed Secured Claims are and will remain fully secured and cross-collateralized against the assets of the Debtor(s) and the non-debtor parties identified in the Loan Documents and the Collateral Documents.

For purposes of this Plan only, Rabo's Class 3 Allowed Secured Claims will be treated as follows:

- (1) Farmhand Installment Payments. On or before each of July 15, 2017, October 16, 2017, January 15, 2018 and April 15, 2018, Farmhand Supply, LLC ("Farmhand") will pay \$25,000.00 to Rabo. Rabo shall apply each installment payment to the outstanding balance due under the LOC – 1 Loan in its sole and absolute discretion;
- (2) Murphy Payment. On or before March 1, 2018, Borrowers will pay \$388,000.00 to Rabo (the "Murphy Payment"). Rabo shall apply the Murphy Payment first to interest, then to reasonable attorneys' fees and costs incurred and then to the unpaid principal of such outstanding Loans as Rabo chooses in its sole and absolute discretion;
- (3) Maturity Date and Maturity Date Payment. The Maturity Date for the Class 3 Allowed Secured Claims is March 1, 2019. On or before March 1, 2019, the Borrowers shall pay to Rabo the outstanding balance of the Class 3 Allowed Secured Claims, including unpaid principal and unpaid interest accrued thereon, together with attorneys' fees and other charges incurred under the Loans, Loan Documents and Collateral Documents;
- (4) Interest. From and after the Confirmation Date through the Maturity Date, and so long as the Borrowers are not in default under their respective Plans, interest shall accrue on the Class 3 Allowed Secured Claims at a rate equal to the thirty day LIBOR plus four percent (4%) per annum. Upon a default which is not timely cured, the Class 3 Allowed Secured Claims, without further notice, shall bear interest at the thirty day LIBOR plus ten percent (10%) per annum;
- (g) Reporting and Financial Covenants.
  - (a) John Murphy, Linda Jo Murphy and Farmhand shall prepare, or cause to be prepared, monthly financial reports, including income and expenses, profit and loss, budgets and balance sheets, for each "Business" segment each operates, using QuickBooks or whatever system is then being used to generate monthly reports. For purposes of the monthly financial reports, the Murphy Debtors' farming operation is one Business (the "Farm Operation Business") and Farmhand, Treasure Seekers, and the car wash are collectively a second Business (collectively, the "Farmhand Supply Business");



- (b) The monthly financial reports for each month shall be supplied, whether in written or electronic format, to Rabo, care of Steve Tornio, by the 15th day of the following month;
- (c) The Farm Operation Business and Farmhand Supply Business shall maintain separate bank accounts. John Murphy, Linda Jo Murphy and/or Farmhand shall provide Rabo with copies of all checks for each particular month and all bank statements for each particular month so as to include all checks and all bank statements for all accounts for the entire calendar month. Those checks and those bank statements will be electronically provided to Rabo by the 15th of the next month;
- (h) Release of Claim for Default Interest. Should John Murphy, Linda Murphy and Farmhand timely perform their respective obligations under this section 2 of the Plan and timely pay all amounts due and owing to Rabo on or before March 1, 2019, Rabo will then release its claims for default interest. For purposes of calculation of the outstanding balances at confirmation, default interest (together with non-default interest and costs) shall continue to accrue until the Plans are confirmed. Debtors have a right to pay the balance due, without default interest, at any time. In that event, Rabo agrees to release the applicable collateral.
- (i) Default and Remedies.
  - (a) Farmhand Default. The failure to pay any payment required under section \_\_ (a) of this Plan within five calendar days following its scheduled due date shall constitute an immediate and automatic default for which no prior notice or opportunity to cure shall be due or given. Upon such default: (a) Rabo shall have the immediate right to access, take possession, remove and/or liquidate Rabo's collateral not used in the Murphy Debtors' farming operation, including inventory, equipment and accounts owned by or in the possession of Farmhand, John Murphy and/or Linda Jo Murphy (the "Farmhand Collateral") in its sole and absolute discretion; (b) Farmhand, John Murphy and Linda Jo Murphy shall cooperate in the assembling, voluntary surrender, turnover, removal and liquidation of the Farmhand Collateral; and (c) upon request of Rabo, Farmhand, John Murphy and Linda Jo Murphy will allow Rabo and its agents access to the collateral and the premises upon which the Farmhand Collateral is located. Should Rabo decide to liquidate the Farmhand Collateral on premises owned by John Murphy and Linda Jo Murphy, Rabo, John Murphy and Linda Jo Murphy shall negotiate an agreement pursuant to which Rabo will

pay reasonable rent, utilities and other costs arising from the use of the premises for the liquidation of the Farmhand Collateral;

- (b) **Murphy Default.** The failure to make any payment required under section \_\_ (b) or \_\_ (c) when due shall constitute an immediate and automatic default for which no prior notice or opportunity to cure shall be due or given. Rabo shall have the immediate right to exercise its remedies under the Loan Documents or the Collateral Documents as applicable, including the right to foreclose on and/or take possession of, remove, and/or liquidate any and all of Rabo's collateral. Rabo shall have the right to credit bid at any foreclosure sale and the amount of a successful credit bid by Rabo shall be applied to reduce the Class 3 Allowed Secured Claims;
- (c) **Reporting Defaults.** The failure to provide a report, statement or information required under section \_\_ (g) of the Plan shall constitute a default for which no prior notice shall be due or given. John Murphy, Linda Jo Murphy and/or Farmhand shall have five (5) business days to cure such default. If the default under section \_\_ (g) is not timely cured, Rabo shall have the right to exercise its remedies under the Loan Documents, the Collateral Documents or applicable law, including the right to foreclose on and/or take possession of, remove, and/or liquidate any and all of Rabo's collateral. Rabo shall have the right to credit bid at any foreclosure sale and the amount of a successful credit bid by Rabo shall be applied to reduce the Class 3 Allowed Secured Claims; and
- (d) **Plan Defaults.** The failure of John Murphy, Linda Jo Murphy or Farmhand to make any payment to a creditor other than Rabo or to perform any obligation under this Plan owed to a creditor other than Rabo shall trigger a reporting obligation for Debtor. Any default to a creditor other than Rabo that is reported to Debtor for which replevin, garnishment, foreclosure or a Judgment lien could result, (a) Debtors must report this reported default or claim to Rabo within two business days so Rabo can take action to protect its collateral; and (b) Debtors must report Rabo's collateral interests to the creditor within two business days so that the creditor cannot take action against Rabo's collateral without knowledge that it is interfering with Rabo's collateral.

(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 Third 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 24th day of June, 2017.

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By /s/ J. Michael Payne  
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ATTORNEYS FOR DEBTOR

FARMHAND SUPPLY, LLC

By /s/John D. Murphy  
Managing Member