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UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF WASHINGTON AT YAKIMA

In re: 47 HOPS LLC, Debtor.	No. 17-02440 DEBTOR'S DISCLOSURE STATEMENT

Accompanying this Disclosure Statement is a Chapter 11 plan proposed by the above-named Debtor (the "Plan"). The Debtor attests that the information stated in this Disclosure Statement and the Plan is accurate. All Creditors should refer to the Plan for the specific treatment of their claim(s). This Disclosure Statement is explanatory only; the language used in the Plan is binding. **Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one.**

EFFECTIVE DATE OF THE PLAN: The Effective Date of the Plan is 14 days following the date of entry of the order confirming the Plan unless a stay of the confirmation order is in effect, in which case the Effective Date will be the first business day after the date on which the stay of the confirmation order has been lifted, provided that the confirmation order has not been vacated.

Part 1
Proposed Treatment of Claims

A. Unclassified Claims: Administrative Priority Claims and Priority Tax Claims

Holders of administrative priority claims are entitled to priority pursuant to § 507(a)(2) of the Bankruptcy Code including (i) professional fees and costs and (ii) United States Trustee's fees. Such claims shall be paid in full on, or as soon as practicable after, the Effective Date or upon allowance of such claim, whichever is later.

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Holders of priority tax claims are entitled to priority under § 507(a)(8). Article 2 of the Plan addresses treatment of these claims. Such claims, if any, shall be paid in full over five years from the date of the entry of the order for relief with in equal annual amortized payments according to § 511 of the Bankruptcy Code, as stated in Article 2.

B. Secured Creditors (Classes 1 and 2)

See Articles 4 and 5 of the Plan.

(1) Columbia Bank: Lien secured by all Inventory and Accounts; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and other accounts proceeds; and the "Additional Lien" granted pursuant to authorization of the Debtor's use of cash collateral on (a) the Debtor's contracts with brewers for the sale of hops, (b) the Debtor's pellet mill and line, and (c) the promissory note owed by Doug MacKinnon to the Debtor (the "Additional Collateral"). The Additional Lien shall secure only the amount of the diminution in the value of the Bank's collateral, if any, as compared to the value as of the Petition Date that occurs as a result of the Debtor's use of Cash Collateral.

(2) Banner Bank: Lien secured by 2007 Freightliner truck.

C. Unsecured Claim of Stone Brewing Co. (Article 6 of the Plan, Class 3)

Resolution of the Unsecured Claim of Stone Brewing as provided in the Plan is also a cure of the Debtor's breach under the Debtor's agreement with Stone Brewing. Stone Brewing will receive a credit of $338,828.88 against 2017 crop year hops. The credit was determined as follows:

1. The dollar value of the hops for which Stone Brewing paid pre-petition but did not receive was $304,220.18.

2. That amount is reduced by $20,169.60, which is the the value of 2016 El Dorado over-delivered by the Debtor to Stone Brewing, for which Stone Brewing did not pay.

3. The Stone Brewing credit is then increased for storage fees paid by Stone Brewing to the Debtor for hops Stone did not receive. These storage fees equal $2,418.30.

4. The Stone Brewing credit is also increased by $52,360 for hops delivered to the Debtor pre-petition for which the Debtor did not pay.

D. Guaranty Claim (Article 7 of the Plan, Class 4)

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Treatment of the creditor with a claim based upon a guaranty by the Debtor is dealt with in Article 7 of the Plan in Class 4.

E. General Unsecured Creditors (Article 8 of the Plan, Class 5)

The treatment of general unsecured creditors is addressed in Article 8 of the Plan in Class 5. Because the amount of claims is currently unknown pending completion of motions to reject contracts and the filing of any related proofs of claims, the Debtor cannot estimate the percentage of claims that unsecured creditors will be paid based upon the plan payments. The Debtor will pay unsecured creditors $110,000 annually to be shared pro-rata amongst all unsecured creditors. A list of unsecured creditors is included as **Exhibit A** to this Disclosure Statement.

F. Equity Holders (Article 9 of the Plan, Class 6)

Equity Holders treatment is addressed in Article 9 of the Plan in Class 6.

G. Executory Contracts and Unexpired Leases

(1) Executory Contracts and Leases Assumed. On the Effective Date, the Debtor assumes the executory contracts and unexpired leases enumerated in Exhibit A to the Plan and shall perform all pre-confirmation and post-confirmation obligations thereunder. Any preconfirmation arrearages shall be paid by the Effective Date unless the parties agree otherwise, or unless the court finds that a proposed payment schedule provides timely cure and adequate assurance of future performance. Post-confirmation obligations will be paid as they come due.

(2) Executory Contracts and Leases Rejected. The Debtor is conclusively deemed to have rejected all executory contracts and/or unexpired leases not previously assumed or listed in Exhibit A to the Plan as of the Effective Date, or previously rejected by motion. Claims arising from the rejection of an executory contract or unexpired lease under this section are general unsecured claims in Class 5, except to the extent this court orders otherwise. A proof of claim arising from the rejection of an executory contract or unexpired lease under this section must be filed no later than 30 days after the date of the order confirming the Plan.

H. Estimation of Claims Participating in the Plan

Under the Bankruptcy Code, a creditor in a Chapter 11 bankruptcy case may participate in an estate if either (1) the creditor has timely filed a proof of claim with the Bankruptcy Court, or (2) the debt owed to the creditor is listed on the debtor's bankruptcy schedules as not being unliquidated, contingent, or disputed. Below is Debtor's best estimation of the amounts of claims in each class. Creditors should be aware, however, that the actual allowed claims in each class may materially differ from Debtor's estimate. Immediately below the estimates is an explanation of some of the factors and contingencies

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that may render Debtor's estimates inaccurate. Nevertheless, the estimates are provided to give creditors as good an indication as currently possible as to the probable claims.

Class No.	Description	Estimate	Explanation
	Administrative Expenses	$60,000 to $150,000	The Debtor hopes the case is open only a few more months, but with billing from debtor's counsel, counsel for the unsecured creditor's committee, the examiner, counsel for the examiner and the Debtor's accountant all accruing, the expense could be high.
	Priority Tax Claim	$465.07	Claims Register – WA Dept. of Revenue
1	Secured claim of Columbia State Bank	$4,542,405.44	Claims register
2	Secured claim of Banner Bank	$11,739	Claims register
3	Unsecured claim of Stone Brewing	$383,444.28	Claims register
4	Guaranty claim	$0.00	$2.2 Million loan to MacKinnon Holdings, LLC is fully secured by real property, and Debtor's guaranty should not be needed to repay the obligation.
5	General unsecured claims	Unknown	$110,000 per year for five years. Claims will consist of rejection damages, which are unknown. Face value of the contracts the Debtor proposes to reject is $28,482,232.
6.	Equity holders	Will receive no cash payment	Will pay $75,000 obtained from third party to retain equity.

Administrative Expense claims are difficult to estimate due to the uncertainty of future professional fees. Professional fees may vary widely depending on the degree of resistance to the Plan, the extent of claims litigation, and the amount of time the bankruptcy case remains open. The secured claim of Columbia Bank and Banner Bank are straightforward as they are the Debtor's remaining obligations under promissory notes owed to those banks. The Unsecured Claim of Stone Brewing is also the cure amount for the Debtor's breach of its contract with Stone Brewing, and was reached consensually. The Debtor's guaranty claim is based on the guaranty of the promissory note to Columbia State Bank from MacKinnon Holdings, LLC, a company owned by the principals of the Debtor. The General Unsecured

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Claims is extremely difficult to predict as the class will consist entirely of rejection claims from contracts the Debtor has moved to reject. The contracts are for multiple years and it is unclear how the creditors will calculate their damages. Equity holders will not receive anything other than equity.

Creditors should be aware that Debtor may dispute the amount, priority and/or secured portion of some claims and file objections to those claims. Thus, the claims participating in the Plan may be augmented or reduced through litigation, compromise, or other developments subsequent to the date of this Disclosure Statement and confirmation of the Plan.

Part 2
Voting on Confirmation of Plan

A. Who may vote: Only impaired creditors are entitled to vote (*see § 1124*). A creditor is entitled to vote on confirmation of the Plan unless (i) the creditor's class is unimpaired (presumed to accept the Plan) or is to receive no distribution (presumed to reject the Plan); (ii) an objection has been filed to that creditor's claim; (iii) that creditor's claim is scheduled by the Debtor as contingent, disputed, unliquidated, or unknown and the creditor has not filed a proof of claim; or (iv) the claim is unclassified (and thus required by law to be paid in full). A creditor whose claim has either been objected to or has been scheduled by Debtor as contingent, disputed, unliquidated, or unknown, or who has not filed a proof of claim, and who wishes to vote, must move to have its claim allowed for voting purposes by filing a motion for such relief in time for that motion to be heard before the hearing on confirmation of the Plan. A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim is entitled to accept or reject a Plan in each capacity by delivering one ballot for the secured part of the claim and another ballot for the unsecured portion of the claim.

B. How to vote: This ballot must be mailed to Nathan Riordan, Wenokur Riordan PLLC, 600 Stewart Street, Suite 1300, Seattle, WA 98101. IN ORDER TO BE TABULATED, YOUR BALLOT MUST BE RECEIVED AT THE INDICATED ADDRESS BY NOT LATER THAN 5:00 PM PACIFIC, MARCH 20, 2018. FAILURE TO VOTE OR A VOTE TO REJECT THE PLAN WILL NOT AFFECT THE TREATMENT TO BE ACCORDED A CLAIM OR INTEREST IF THE PLAN IS NEVERTHELESS CONFIRMED.

C. Effect of vote: The Plan will be confirmed only if (i) it is accepted by each impaired class, or (ii) it is accepted by at least one impaired class exclusive of insiders (as defined by §101(31)) and the court determines that the Plan is "fair and equitable" (as defined by §1129(b)) to all rejecting classes of creditors, and it meets all the other criteria required for confirmation. A class of creditors accepts the Plan if it is accepted by a majority in number and at least two-thirds in dollar amount of the creditors in that class timely voting.

Part 3
Liquidation Analysis

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The Debtor has calculated the liquidation value of each of the Debtor's assets listed on the Debtor's filed Schedules A and B. The Debtor arrived at the net liquidation values that are subject to liens by deducting from the value of the assets the amount of the secured liens and any applicable sales costs, fees, and taxes. The liquidation analysis is attached hereto as **Exhibit B-1** and **B-2**.

Exhibit B-1 shows the assets of the Debtor. The Cash, Accounts Receivable, Inventory, and Hops Canada Judgment are all collateral for the Debtor's $4.5 million obligation to Columbia State Bank. Cash was not discounted. Accounts Receivable was estimated at 50% of its current value if collected by a Chapter 7 trustee. The Debtor estimated that in a Chapter 7, given the current surplus, the Inventory is worth, at best, 50 cents per pound. The Hops Canada judgment appears to the Debtor to be worthless and has an assigned liquidation value of $0.00. These assets do not increase the Debtor's liquidation value to unsecured creditors, as the proceeds all go to Columbia State Bank.

The Brewer Contracts are also collateral for the Columbia State Bank obligation, but only to the extent of diminution in the value of cash collateral. At the time of this writing, it did not appear that any diminution had occurred. Therefore, the Brewer Contracts are unencumbered, for now. The value of the Brewer Contracts is highly subjective. The potential list of bidders for the Brewer Contracts is very small. Only about 2 or 3 businesses in the world can realistically service those contracts. The Debtor spoke to one of them, who balked at purchasing the contracts because in a bankruptcy setting the terms would be public, thus undermining the value of the contracts, as any known discount will encourage the brewers to claim excused performance. The Debtor chose ten percent of the scheduled value, which itself was a subjective estimate, as the liquidation value of the Brewer Contracts. It is unlikely a Chapter 7 trustee could obtain more than $200,000 for those contracts, all of which would go to unsecured creditors.

The hard equipment: Office Furniture, Indoor Steel Lightbox, Security Camera, Computers, TV Monitor & Receiver, Sonic Beam Speakers, Cat Walk, Forklift, Pellet Line, Air Compressor, Pellet Mill, Hop Bale Weight Machine, and Bar Code Machine were all valued at ten percent of current value.

The 2007 Freightliner has a residual value of $6,599 after sale at Kelly Blue Book value and payment of lien.

The Warehouse Lease and Office Lease have no value. The Debtor is uncertain if it has a claim against its prior accounting firm for the condition of its financial records, whether an attorney would take up such a claim, and whether there is any value to it. Accordingly, the Debtor estimates that any such claim has no value.

Any and all distributions as a result of a sale are subject to a Chapter 7 trustee fee, which is reflected, as well as an estimated ten percent for costs of sale.

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The most problematic asset of the Debtor is the receivable owed to the Debtor by the Debtor's principal, Doug MacKinnon. The Debtor's accountant was able to discern that a great deal of the receivable is simply transfers to parties to pay them for services rendered or materials provided to MacKinnon Holdings, LLC. This matters in that it is determinable that Doug MacKinnon is not holding millions of dollars in cash, and that any estimate of the amount the Debtor could collect on this receivable must be based on a liquidation of the assets of Doug and Anastasia MacKinnon.

The Debtor estimates that the total amount to be gained from suing the MacKinnons and forcing them to file a Chapter 7 is $411,857. Exhibit B-2 shows the analysis. All of the MacKinnons' property is either exempt or encumbered except for two cars and a condominium in California. The value of the cars is shown at Kelly Blue Book values. The Debtor searched online for comparable sales and estimates of the value of the condo. The condo is smaller than another currently on the market and would ostensibly fetch less in a distress sale with no touch-up or staging.

Therefore, the liquidation value of the Debtor is $520,563.

Part 4
<u>Best Interests of the Creditors</u>

If any holder of a claim or interest does not accept the Plan, the Court must determine that each holder of a claim will receive or retain under the Plan, on account of that holder's claim, property having a value, as of the Effective Date of the Plan, that is not less than the amount such holder would receive or retain if the Debtor's assets were liquidated under Chapter 7 of the Bankruptcy Code on such date. This is the "best interests of creditors" standard. As discussed in Part 3 of this Disclosure Statement, in the event of liquidation, unsecured creditors would not realize more and would realize substantially less than they will receive under the Plan. The Debtor believes the Plan satisfies this test.

Part 5
<u>History</u>

<u>Bankruptcy Case</u>: The Debtor filed its voluntary Chapter 11 petition on August 11, 2017 (the "Petition Date"). The Bankruptcy Court authorized the Debtor's employment of its bankruptcy attorney, Wenokur Riordan PLLC, on August 31, 2017. The court approved the Debtor's employment of Alegria & Company, PS as its accountant on September 22, 2017. On November 27, 2017, the court granted Wenokur Riordan PLLC its first award of interim attorney's fees and costs in the amount of $62,687.72.

On August 16, 2017, the court authorized the Debtor's interim use of cash collateral, with the exception of purchasing hops on the spot market, granted a Replacement Lien to Columbia Bank, and required the provision of monthly financial reports to Columbia Bank.

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On August 18, 2017, the court denied interim use of cash collateral for the purpose of purchasing hops prior to final hearing on use of cash collateral.

On August 24, 2017, the court authorized the Debtor to provide adequate assurance to Debtor's utility providers in the form of a cash deposit.

On September 6, 2017, the court authorized a 2004 examination of the Debtor by creditor Wyckoff Farms, Inc. ("Wyckoff"), which was held on October 19, 2017.

On September 7, 2017, the United States Trustee appointed the following creditors to the Debtor's Official Unsecured Creditors Committee (the "UCC"): Roy Farms, Inc.; Wyckoff Farms, Inc.; and Green Acre Farms, Inc. The court approved the employment of Cairncross & Hempelmann, P.S. as attorney for the UCC on October 6, 2017. On October 19, 2017, the United States Trustee amended the appointed creditors of the UCC to include the following creditors: Roy Farms, Inc.; Wyckoff Farms, Inc.; Green Acre Farms, Inc.; DER Hops LLC, and Stone Brewing Co. LLC.

On September 22, 2017, the court authorized the Debtor's second interim use of cash collateral, including payment of salaries to Douglas MacKinnon and Anastasia MacKinnon, a Replacement Lien and Additional Lien to Columbia Bank, the required provision of monthly financial reports to Columbia Bank, the UCC, and the U.S. Trustee, and set December 5, 2017, as the hearing date for final use of cash collateral.

Court continued the final hearing on cash collateral to October 3, 2017, and then continued it again to December 5, 2017.

The Debtor defaulted on financial reporting requirements to the US Trustee's office and under the cash collateral order. In order to assure all parties of the integrity of the Debtor's records on inventory and financials, the Debtor consented to the appointment of an examiner in the case. The court approved the appointment of Marcia Frey as Chapter 11 Examiner (the "Examiner") on October 4, 2017. The court approved the employment of Hillis Clark Martin & Peterson P.S. as attorney for the Examiner on January 10, 2018.

In November 2017, the U.S. Trustee filed a motion to dismiss or convert the Debtor's case because the Debtor had been redacting the names of contracted breweries from the Debtor's filed monthly operating reports. The Debtor filed an objection to the U.S. Trustee's motion and filed a motion seeking authorization for the redactions, to which the U.S. Trustee objected. The Debtor agreed to and filed unredacted monthly operating reports, and the U.S. Trustee and the Debtor withdrew their respective motions.

On December 7, 2017, the court entered an Agreed Order Approving Final Use of Cash Collateral and Granting Replacement Liens, which authorized, among other things, a monthly adequate protection payment to the Bank in the amount of $18,750.00 per month, required monthly financial reporting to the Bank, the UCC, and the U.S. Trustee, and the purchase of hops on the spot market. The UCC negotiated the terms under which the Debtor

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can purchase spot hops, such that the growers already under contract with the Debtor as of the Petition Date have the right of first refusal to fulfill the purchase of that particular hop variety.

Additionally, on December 7, 2017, the court granted the Debtor's motion for extension of the time to assume or reject leases of its non-residential real property to March 8, 2018 (describe leases?), and also entered an Agreed Order Extending Exclusivity Periods Pursuant to 11 U.S.C. §1121(D)(1) and Setting Deadlines, in which deadlines with respect to the filing and confirmation of the Debtor's Disclosure Statement and Plan of Reorganization were set, among other deadlines.

On January 9, 2018, the Debtor filed an application for the first interim fees for its accountant, Alegria & Company, PS, in the amount of $72,563.80 for post-petition work performed through December 31, 2017.

On January 10, 2018, the court granted Cairncross & Hempelmann, P.S., attorney for the UCC, its first award of interim attorney's fees and costs in the amount of $73,779.85.

Historical Background:

The Debtor is a merchant/wholesaler of hops and hop products whose business and operations are all located in Yakima, Washington. The Debtor derives its revenue from the processing, sale, storage, and delivery of hops and hop products. The Debtor purchases hops and hop products primarily from growers, processes the hops into pellet form, and then sells the baled hops to beer brewers in the U.S. and abroad.

The husband and wife team of Douglas and Anastasia MacKinnon (the "MacKinnons") formed the 47 Hops LLC in January of 2013. The MacKinnons own 100% of the Debtor, which primarily purchases hops and hop products from growers, processes the hops into pellet form, and then sells the processed hops to beer brewers in the U.S. and abroad.

On the Petition Date, the Debtor had contracts with 12 entities to purchase their hops and hop products. These grower contracts typically span three to five years of hops planting, harvesting, and delivery to the Debtor's processing and storage facility in Yakima, Washington. The Debtor then processes the hops into pellet form, packages them in air-tight mylar foils and stores them at temperatures at or below freezing. The Debtor then sells the hops to brewers/breweries on both a contract and spot-market sales basis. The Debtor has 150+ contracts with brewers/breweries, and typically the brewery contracts also span a period of three years for storage at and delivery from the Yakima facility.

The growth in the hops industry was fueled by the popularity of the craft beer industry, which enjoyed annual double-digit growth for several years. Growth in the craft beer industry peaked at 18% in February 2014. Since then, growth in the craft beer market has decreased to its current level of approximately 6% year on year in 2016, according to a Brewers Association press release on March 28, 2017.

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Optimism surrounding the double-digit growth of the craft beer industry continued much longer than the actual growth itself. Farmers continue to this day to plant additional acreage with the reasoning that all their hops are contracted, despite information that brewers are not paying in a timely manner on the contracts. Copious articles and statistics published by the Brewers Association and others proclaiming the craft beer industry was on track to reach 20% of domestic U.S. beer production by 2020 dominated the industry news, fueled the frenzy, and further supported the belief that additional hops acreage was necessary.

The overly optimistic atmosphere in the hop industry continued unchallenged through 2015 and into the beginning of 2016. Brewers enjoyed annual double-digit growth of their most popular brands for several years. Variety shortages gave the impression of overall shortages to many brewers who, with a false sense of confidence, were comfortable signing long-term contracts for hops at high prices. Growers continued to plant for those contracts. In 2016, when the slow-down in the craft beer market became obvious, many brewers began asking for contract renegotiations. Slowing growth happened first among the largest craft brewers where competition was fierce. In the early stages of the slow-down, growth by small- and medium-sized brewers absorbed reductions from the larger brewers' contracts. Merchants absorbed this round of renegotiations by shuffling inventory from the haves to the have-nots.

The hop industry, eager to take advantage of a growth opportunity, borrowed hundreds of millions of dollars from banks based on forward contracts with merchants and farmers. Brewers borrowed heavily to expand their production capacity as well. By 2016, the majority of the brewing and hop-related industries were heavily leveraged. This is significant, because it meant cash flow was tight everywhere.

The heavy influx of bank money created a vicious cycle. To fund investments in infrastructure, farmers required stability in the form of long-term contracts. Brewers signed long-term contracts of 3-5 years to beat the ever-increasing prices of merchants and farmers. Costs of production increased across the industry due to the influx of bank-controlled money, but sales prices in the hop industry are not tied to costs. They soared even higher than the debt and justified creating what can only be described as "irrational exuberance." The bubble continued to grow.

By the end of 2016, brewers and merchants could not match their hop contract volumes to the newly reduced level of demand on the craft beer market. The result was oversupply building up in warehouses across Yakima, as evidenced by the USDA stocks report of March 2017. It became nearly impossible to shuffle inventory between brewers who had surplus hops and those who needed them-- the volume of surplus hops was simply too large. Burdened with debt and clinging to the belief that a contracted position was as good as money in the bank, many farmers and some merchants refused to renegotiate brewer contracts when opportunities arose. In some isolated cases the Debtor was guilty of this, although if reasonable renegotiation of a contract was possible in 2016, the Debtor pursued that route. Realizing the seriousness and scale of the situation, the Debtor became much more flexible

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with respect to time and renegotiations. Brewers who were unable or unwilling to renegotiate their contracts began to delay deliveries and their corresponding payments, thereby creating a stockpile of contracted hops in merchant inventory, including in the stores of 47 Hops.

At the time of filing of the Debtor's bankruptcy, the Debtor was aware of large breweries that are only now making payments on their 2015 crop-year inventory to other merchants. Older inventory is also available.

In January 2017, it was clear that the current situation with slowed brewer payments and on-time grower payments would not be sustainable without an ever-increasing line of credit. The Debtor began a series of talks to explore the possibility of renegotiating contracted positions and lowering the volumes considerably. At that time, the Debtor was open to the idea of reducing volumes and extending the number of years of the contracts in place, a practice common in the industry. The Debtor was unable to efficiently renegotiate its contracts.

As planting commenced in the spring of 2017, it was clear that the majority of farmers were still of the opinion that the market was growing. American farmers planted an additional 4,500 acres. However, at the same time, one of the Debtor's largest brewery customers delayed payment of nearly $2 million. As a result, 47 Hops was unable to make the timely March/April payment to several growers. Instead, the Debtor offered a payment plan solution that included three equal monthly payments on the 15th of April, May, and June 2017. One of the Debtor's suppliers immediately threatened to file a processor lien if 47 Hops did not make full payment within 20 days of the original due date. On the final day of that deadline, the Debtor and that grower signed an amendment to the agreement effectively giving the Debtor 30 more days to pay the entire amount in full. Some other suppliers accepted the Debtor's proffered payment plan, and 47 Hops made all those payments per the revised plans. However, without the cooperation of all suppliers the gap between the Debtor's inventory supply and customer payments continued to widen.

At the end of 2016 and the beginning of 2017, large brewers began to aggressively try to sell off their excess inventory. As a result, low spot-market prices between brewers and merchants, and also between brewers, were commonplace. It was obvious that, under current market conditions, a buy-out payment at anything near 50% of contract face value would be impossible. It was also obvious that with the market quickly moving into a heavily oversupplied surplus condition due to continued planting by farmers, the situation would become more extreme as time progressed. The momentum and enthusiasm among farmers to continue planting contracted hops will ensure that prices on the spot hop market will continue to be significantly lower than contracted price.

On December 27, 2017, the Debtor filed motions to reject all of the Debtor's grower contracts in order to free itself from the obligation to purchase hops at above-market prices. The Debtor will then purchase hops on the spot market at market prices from brewers and farmers willing to sell to it, with the originally contracted growers having the right of first refusal. Once free to float in the market and source hops at current market prices, the Debtor

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can then sell hops to brewers at competitive prices. Currently, the Debtor's contracts with brewers suffer from two problems. First, many of the contracts are priced above today's market, thereby incentivizing brewers to breach their contracts. The Debtor has found suing for breach and attempting to collect on judgments to be very expensive, frustrating, and an overall bad business practice. Second, because demand has softened, many of the brewers have surplus hops and do not need the amounts for which they originally contracted with the Debtor. Therefore, rejecting the grower contracts will allow the Debtor to aid its customers by realigning their contracted volumes with their actual needs at competitive market prices. The Debtor's contacts within the hops market will enable the Debtor to find hops to purchase despite the Debtor's rejection of the grower contracts. The surplus of hops everywhere in the market means that many parties will be eager to sell hops even at sharply reduced prices, rather than lose the hops to spoilage.

The Debtor maintains a competitive advantage due to the Debtor's knowledge of both the domestic and international hops markets on both the buy and sell side, including a broad familiarity with varieties of hops specific to different regions all over the globe. The MacKinnons' combined knowledge of and experience in the hops industry is vast. Doug MacKinnon is president of the Debtor and has worked in the hops industry since 1999. Doug has served as Director of Hop Growers of America and as Chairman of the Economic Committee of the International Hop Growers Convention, and he has written and maintained a blog on the hops and hops-related industries on the Debtor's website for many years. Anastasia MacKinnon is Vice President of Sales and International Business Development and has been involved in the hops industry for over a decade, and she transacts domestic and international business for the Debtor in four languages. The MacKinnons will remain in their respective salaried management roles with the Debtor.

The Debtor is confident that, once freed from unprofitable contracts, it can take advantage of the Debtor's knowledge of the needs and preferences of the players in the hop industry worldwide to continue to make profitable sales of hops in sufficient quantities to be a viable ongoing business.

<u>Past Performance</u>:

Debtor had sales for the past four years as follows:

Year	**Gross Revenue**
2014	$4,984,872
2015	$7,134,762
2016	$10,647,477
2017	$7,563,350.66

<u>Current financial condition</u>:

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The monthly profit or loss since the Petition Date is as follows:

Month ending	**Net Income**
August 31, 2017	$381,741.09
September 30, 2017	$159,345.07
October 31, 2017	($104,703.59)
November 30, 2017	$43,067.59

Part 7
Feasibility

The Debtor must establish that confirmation of the Plan is not likely to be followed by the need for further financial reorganization. Debtor is confident the Plan is feasible and that the Bankruptcy Court will agree. A Bankruptcy Court finding of feasibility does not guarantee that the Debtor will successfully complete or pay all of its obligations under the Plan.

Attached as **Exhibit C** are Debtor's projections for its business operations through December 2022. Debtor developed the projections internally based on a combination of historical performance and on the contracted volumes contained in the contracts the Debtor will assume as part of the Plan, using very conservative numbers given the volatility of the current business climate. The Debtor's projections assume a decline in sale price and cost of hops going forward, but with a base level of demand from customers interested in continuing to buy some amount of hops out of necessity and out of contractual obligation. The Plan provides for Debtor's business operations to generate sufficient profits to fund payments to creditors. Debtor believes that its projections are reasonable and can be achieved. As such, Debtor believes the Plan is feasible as defined by Bankruptcy Code requirements.

Part 8
Risks

The successful implementation of the Plan is contingent upon many assumptions, some or all of which could fail to meet expectations and preclude the Plan from being confirmed or producing the anticipated results. Some of the more significant risks are as follows:

1. There is no guarantee that Debtor will be able to operate its business at the profit levels set forth in its projections.

2. The hop and craft beer industry business has seen demand flatten, and it may continue to flatten or even decline.

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3. The Debtor could be unable to purchase hops on the spot market due to Debtor's bankruptcy, putting the Debtor at a competitive disadvantage and unable to profitably perform.

4. The amount of hop surplus could continue to increase, making the market so unpredictable that even with the Debtor's experience and market position, the profitable purchase and sale of hops becomes challenging and the Debtor is unable to meet its projections.

5. Debtor has not done any investigation as to the tax consequences for creditors under the Plan. There may be adverse tax consequences for creditors, and creditors with such concerns should consult their own tax advisors.

6. There is uncertainty as to the amount of claims against Debtor that will be allowed in each class.

7. The Plan is subject to approval by the various classes of creditors entitled to vote under the Bankruptcy Code and to confirmation by the Bankruptcy Court. No assurance can be given that the Plan will be accepted by the requisite number and amount of creditors, nor can assurance be given that the Plan will be confirmed by the Bankruptcy Court.

Part 9
Treatment of Dissenting Classes of Creditors

The Bankruptcy Code requires the Bankruptcy Court to find that the Plan does not discriminate unfairly, and is fair and equitable with respect to each class of claims that is impaired under and has not accepted the Plan. Upon such a finding, the Bankruptcy Court may confirm the Plan despite the objections of a dissenting class. Debtor will request that the Court confirm or "cram down" the Plan even if creditors holding impaired claims do not accept the Plan. Debtor believes the Bankruptcy Court will confirm the Plan under the circumstances.

Part 10
Effect of Confirmation

After confirmation, all property of the Debtor shall be free and clear of all claims and interests of creditors except as otherwise provided in the Plan or in the order of the Bankruptcy Court confirming the Plan. The provisions of the Plan shall bind Debtor and all other parties in interest, including any creditor of the Debtor, whether or not such creditor is impaired under the Plan and whether or not such creditor has accepted the Plan.

Part 11
Means for Implementing the Plan

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The implementation of, and the distributions required under, the Plan shall be accomplished through the Debtor's continuing operation of its business.

Part 12
Resolution of Doug MacKinnon Receivable

The principals of the Debtor currently also own 100% of MacKinnon Holdings, LLC. MacKinnon Holdings, LLC owns the land and building leased by the Debtor for the Debtor's operations. The real estate owned by MacKinnon Holdings is currently encumbered by a $2.2 million real estate loan and the Debtor's $4.5 million line of credit, both with Columbia State Bank. The real estate was recently appraised at $3.4 million.

Of the approximately $3 Million owed to the Debtor by its principal, Doug MacKinnon, the Debtor will accept as payment in full all of Doug and Anastasia MacKinnon's ownership interests in MacKinnon Holdings, LLC. This contribution allows for a tax-free repayment of the obligation, lessening the tax burden on the Debtor and the MacKinnons, and encouraging the MacKinnons to work for the Debtor as they will not have a large tax bill to fund.

The transaction also provides the Debtor with additional assets that should encourage other creditors to support the Plan. While the real estate held by MacKinnon Holdings is currently fully unencumbered, as the Plan progresses, both pieces of secured debt will decrease, providing the Debtor with potential equity over the life of the Plan. The Debtor's ownership of MacKinnon Holdings, LLC is potentially beneficial to creditors in that the event the real estate is foreclosed or sold, and excess proceeds are generated, those proceeds belong to the Debtor, not the MacKinnons.

The Debtor accepted this resolution for two reasons. The first is discussed in the section on Liquidation Analysis, which is that the MacKinnons simply do not have the cash to repay the obligation at issue. The second reason is related: the Debtor has determined, with the help of the Debtor's accountant, that almost all of the obligation owed by Doug MacKinnon is attributable to funds that came out of the Debtor and went into the construction of the buildings owned by MacKinnon Holdings. This is why Doug MacKinnon does not have the cash to return to the Debtor, and this is what allows Doug MacKinnon to repay the obligation with his property with no tax consequences – because the distributions were turned into the property, and now the property is being given back to the Debtor.

The Debtor's acceptance of the MacKinnon Holdings, LLC interests is addressed in the treatment of Class 6, Equity Holders.

Part 13
Federal Income Tax Consequences of the Plan

The Debtor urges each holder to consult the holder's own tax advisor as to the consequences of the Plan to the holder under federal and applicable state, local, and foreign tax laws. The Debtor and its counsel express no opinion as to the tax consequences of the Plan or the effect thereof on any creditor.

Conclusion

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Debtor has endeavored to obtain the best possible outcome for its creditors in this case, and believes the Plan described above is fair and equitable for all concerned.

DATED January 12, 2018.

Respectfully submitted,

By: */s/ Douglas MacKinnon*
Douglas MacKinnon, President
47 Hops LLC, Debtor

By: */s/ Nathan T. Riordan*
Nathan Riordan, WSBA #33926
Attorney for the Plan Proponent

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