Nathan Riordan
WENOKUR RIORDAN PLLC
600 Stewart Street, Suite 1300
Seattle, WA 98101
(206) 903-0401

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

In re: 47 HOPS LLC, Debtor.	No. 17-02440 SUPPLEMENTAL BRIEF IN SUPPORT OF MOTION TO APPROVE INTERIM USE OF CASH COLLATERAL, GRANT REPLACEMENT LIENS, AND SET FINAL HEARING

The Debtor herein, 47 Hops LLC ("Debtor"), through its attorney Nathan T. Riordan and Wenokur Riordan PLLC, moves for an order approving the interim use of cash collateral, granting replacement liens, and setting the final hearing pursuant to 11 U.S.C. §363 and Fed. R. Bankr. Pro. 4001(b).

A. BACKGROUND

1. On August 14, 2017, this Court heard the Debtor's Motion to Approve Interim Use of Cash Collateral, Grant Replacement Liens and Set Final Hearing. Pursuant to the Debtor's request, the Court allowed the use of interim cash collateral to allow the Debtor to fund operations for 30 days and set a final hearing for September 19, 2017. The Debtor also requested use of cash collateral to purchase hops inventory. The Court did not grant that request, and asked for additional briefing and continued the hearing for Friday, August 18, 2017, at 11:00 a.m. This brief and the Supplemental Declaration of Douglas MacKinnon are filed in response to the Court's request for additional briefing and information, and in support of the Debtor's request to use cash collateral to purchase hops inventory.

B. USE OF CASH COLLATERAL

2. The Debtor requires use of cash collateral in order to fund its current operations. The Debtor has reduced its request to use cash collateral from $200,000 to $175,000 in order to make room for the adequate protection payment of $18,750 the Debtor proposes to pay Columbia State Bank (the "Bank"). The Debtor, if allowed to purchase inventory, will improve the Bank's collateral position: amount of cash collateral will remain even, while the amount of accounts receivable and amount of inventory will increase. If not allowed to purchase the hops, the Debtor will begin to suffer as a leader in the market place, and will begin to lose its competitive edge. Continuing in business, fulfilling customers' needs and reacting quickly to the market are of paramount importance to the Debtor's continued survival, ability to reorganize and ability to repay the Bank.

WENOKUR RIORDAN PLLC
ATTORNEYS AT LAW
600 STEWART STREET, SUITE 1300
SEATTLE, WASHINGTON 98101
206.682.6224 (WENOKUR)
206.903.0401 (RIORDAN)

3. Going forward, the Debtor can purchase hops profitably and in sufficient volumes to maintain a viable business, as demonstrated in the following paragraphs.

4. Historically, the Debtor has sold around one million or more pounds of hops per year, at an approximate gross margin of 40 percent. Most of that volume has been purchased on a contract basis.

5. Demand in the market has slackened, but is not completely gone. Consumers are still buying. The Debtor projects the volume of hops it will sell going forward is about 600,000 pounds per year. Prices have dropped on both the sell and the buy side. The Debtor projects that the Debtor can maintain a profit margin of approximately 40 percent. The reason the Debtor believes the margin can be maintained at that level is that the Debtor will be able to take advantage of cheap prices in the spot market offered by brewers, and by growers who wish to retain some market share and will offer prices competitive with the brewer prices. These growers include some of the grower with whom the Debtor is currently contracted. As the Debtor has noted in prior submissions, the amount of hops harvested and available has not decreased. The Debtor should have no problem purchasing a sufficient amount of hops.

6. The Debtor's business will change in that the Debtor will sell fewer hops and at lower prices. The hops the Debtor will purchase will come from many of the growers with whom the Debtor has contracts. The Debtor has spoken to a majority of the growers with whom the Debtor has contracts. These growers understand the need to reject their contracts and pledged to do business with the Debtor going forward despite the Debtor's inability to perform under those contracts. The growers are very interested in working with the Debtor

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600 STEWART STREET, SUITE 1300
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206.682.6224 (WENOKUR)
206.903.0401 (RIORDAN)

regardless of the Debtor's Chapter 11 status. If the Court does not allow cash collateral then the Debtor will be hamstrung, will miss deals that come in and can be frozen in place, which not only affects the Debtor, but also the farms that would like to continue to work with the Debtor. The growers want and need the Debtor to continue as a viable outlet for their hops unimpaired. If a decision comes down from the Court that is perceived in the market to cause harm, whether intentionally or not, to the Debtor, it will also cause harm to the growers. Those growers will have fewer outlets for their hops and will become less competitive relative to their competitors, which have much more serious repercussions than the filing of a chapter 11.

7. As described above, the Debtor will maintain margin and profitability despite selling less volume. While the purchases will not be on a predictable, contracted basis, but rather on a spot market basis, this is to the Debtor's advantage. The market for hops does not have an exchange. Definitive pricing is not published. The Debtor's advantage has always been in the Debtor's relationships. As the market moves into a period of fluctuation in prices, the Debtor, freed to be nimble, can move with the market.

8. The Debtor proposes to spend $175,000 on purchasing new hops as shown on <u>Exhibit A</u> ("<u>Exhibit A</u>") to the Supplemental Declaration of Douglass MacKinnon ("Supp. Dec. D. MacKinnon"). The reason spending the $175,000 on hops is important is that purchasing the hops allows the value of the inventory to improve, while at the same time the Debtor increases the amount of cash collateral available at the end of the period. If the Debtor is not able to buy these hops, the Debtor is missing out on the opportunity to buy and sell

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206.903.0401 (RIORDAN)

inventory profitably, possibly losing future sales due to the Debtor's inability to perform, and the Debtor's inventory value will begin to erode.

9. Further, the Debtor's brand and image will suffer immeasurably beyond the lost profit in any single deal. If the market's perception becomes that the Debtor is weak and unable to supply certain varieties of hops, the Debtor's future dealings will be affected. Once the customer develops the perception that we are unable to supply a certain product, they are not likely to default to us as their first choice for that variety going forward.

10. Finally, the market is extremely competitive. The Debtor has customers who will give the Debtor the first shot at filling in order. Customers need what they need when they need it. If the Debtor cannot supply the customer with the hops they need they will go elsewhere and fill that order unless we can talk them into using a substitute. In a short market, substitutions are not such a tough sell. In an oversupplied market, like the one that currently exists, that is less likely. So, by not being able to supply an order the Debtor is taking itself out of the running and directly benefiting the Debtor's competitors. Once a competitor senses an opportunity, they will work to exploit that to maximum advantage ... all to the detriment of the Debtor. Every deal a customer gets that the Debtor passes on makes the competition stronger while simultaneously making the Debtor weaker in the market.

11. The hops the Debtor proposes to purchase are proprietary varieties of hops that will come from breweries dealing with an oversupply. The Debtor has these hops earmarked for specific customers, to be sold at a profit. While no sales are ever guaranteed, these varieties are in high demand. For the past few years these varieties have been in short supply.

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SEATTLE, WASHINGTON 98101
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Even if the customers for whom these hops are already earmarked change their minds, the Debtor will have no problem selling these particular hops.

12. As can be seen on Exhibit A, the Debtor will make use of cash collateral to improve the amount of cash collateral, the amount of inventory and the amount of accounts receivable. The inventory will improve in three ways: cost basis of inventory, average price per pound, and total pounds. The Debtor is demonstrating the increase in inventory using these measures as these measures are more clear than using fair market value, which is more subjective, and more complicated given the Debtor's recent inventory write-downs. It is the Debtor's belief that the fair market value of the inventory is improved by these purchases of rare varieties as well.

13. The Debtor will make the following purchases:

Variety	Approximate Quantity	Approximate Collateral Value
Simcoe	5000 lbs.	$60,000
Mosaic	5000 lbs.	$45,000
Amarillo	2000 lbs.	$24,000
Galaxy	1500 lbs.	$25,500
Citra	1500 lbs.	$21,000
Total:	**15,000 lbs.**	**$175,500**

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14. The Debtor projects it will collect $300,000 in sales and outstanding accounts receivable in the next 30 days. The outstanding accounts receivable is spread across four customers.

15. The Debtor's cash, accounts receivable, and inventory will have the following balances shown at the beginning and end of the period:

	Beginning of Period	End of Period (9/13/17)
Cash:	$96,502	$96,152
Accounts Receivable:	$377,304	$485,000
Inventory:	$3,400,000	$3,425,000

16. As can be seen from Exhibit A, and in summary in the preceding paragraph, the Debtor will, if granted the use of cash collateral to purchase hops and improve the Bank's collateral position. The Debtor's historical ability to purchase and sell hops profitably shows the Debtor will be able to continue doing so going forward. The use of cash collateral to purchase hops will keep the Debtor on the leading edge of the market, and foremost in the minds of customers with hops needs.

17. The Debtor's recent accounting creates a distraction that is understandable and will be examined and explained to the satisfaction of all involved. However, as the Court pointed out at the prior hearing, that is history. Important, but not central to the issue at hand. The Court should focus on the simple facts surrounding the Debtor's operations for the next 30 days: Accounts receivable will increase. Cash collateral will be maintained. The amount

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and quality of the inventory as measured in pounds, average price per pounds and cost basis will improve. In short, the Debtor, and Bank and the estate will be better off, while jobs and business operations and market position are maintained. Exhibit A demonstrates the central question in granting use of cash collateral – whether the lienholder will be worse off due to diminution of assets, is not a concern. In fact, the opposite is true – the Bank will be better off for the Debtor's use of cash collateral.

DATED August 16, 2017.

WENOKUR RIORDAN PLLC

By: */s/ Nathan Riordan*
Nathan Riordan, WSBA #33926
Attorney for Debtor

WENOKUR RIORDAN PLLC
ATTORNEYS AT LAW
600 STEWART STREET, SUITE 1300
SEATTLE, WASHINGTON 98101
206.682.6224 (WENOKUR)
206.903.0401 (RIORDAN)