

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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:
In re : Chapter 11 Cases No.
: 04-11139 through 04-11141 (RDD)
:
PARMALAT USA CORP., et al., :
:
Debtors. : (Jointly Administered
: Under Case No. 04-11139)
:
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**DISCLOSURE STATEMENT FOR PLAN OF
REORGANIZATION OF FARMLAND DAIRIES LLC
AND PLANS OF LIQUIDATION OF PARMALAT USA CORP. AND
FARMLAND STREMICKS SUB, L.L.C. (F/K/A MILK PRODUCTS OF
ALABAMA L.L.C.) UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

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Dated: New York, New York
January ~~10~~, 13, 2005

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT (THE “DISCLOSURE STATEMENT”) IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN OF REORGANIZATION OF FARMLAND DAIRIES LLC AND PLANS OF LIQUIDATION OF PARMALAT USA CORP. AND FARMLAND STREMECKS SUB, L.L.C. (F/K/A MILK PRODUCTS OF ALABAMA L.L.C.) (COLLECTIVELY, THE “PLAN”), AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO SOLICITATION OF VOTES TO ACCEPT THE PLAN MAY BE MADE EXCEPT PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. A COPY OF THE PLAN IS ANNEXED HERETO AS EXHIBIT A. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND THE EXHIBITS ANNEXED TO THE PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF. IN THE EVENT OF ANY CONFLICT BETWEEN THE DESCRIPTION SET FORTH IN THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN, THE TERMS OF THE PLAN WILL GOVERN.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE UNITED STATES BANKRUPTCY CODE AND RULE 3016(B) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH OTHER NON-BANKRUPTCY LAW.

THE SECTIONS OF THIS DISCLOSURE STATEMENT DEDICATED TO DISCUSSION OF (I) POSTPETITION FINANCING, (II) THE SETTLEMENT EMBODIED IN THE PLAN WITH RESPECT TO FARMLAND DAIRIES LLC, AND (III) INTERCOMPANY (NON-DEBTOR) CLAIMS, WERE PREPARED BY McDERMOTT WILL & EMERY LLP, CONFLICTS COUNSEL TO THE DEBTORS AND DEBTORS-IN-POSSESSION IN THESE CASES.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT WILL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT WILL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, NOR WILL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES,

OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN THE DEBTORS AND DEBTORS-IN-POSSESSION IN THESE CASES.

Statement of the Official Committee of Unsecured Creditors of the Debtors

To the Unsecured Creditors of Parmalat USA Corp., Farmland Dairies LLC, and Farmland Stremicks Sub, L.L.C. (f/k/a Milk Products of Alabama L.L.C.):

The Official Committee of Unsecured Creditors (the "Committee") of Parmalat USA Corp. ("PUSA"), Farmland Dairies LLC ("Farmland"), and Farmland Stremicks Sub, L.L.C. (f/k/a Milk Products of Alabama L.L.C.) ("MPA" and collectively with PUSA and Farmland, the "Debtors") supports the Plan of Reorganization of Farmland and Plans of Liquidation of PUSA and MPA under Chapter 11 of the Bankruptcy Code (collectively, the "Plan"). The Committee is comprised of creditors of all three Debtors and has been advised throughout the Debtors' chapter 11 cases by Chadbourne & Parke LLP and Cole, Schotz, Meisel, Forman & Leonard, PA, counsel for the Committee, and BDO Seidman, financial advisor to the Committee.

Since the inception of these Chapter 11 cases, the Committee and its professionals have been actively involved in the cases and in the preparation and negotiation of the Plan and this Disclosure Statement. The fundamental distribution structure embodied in the Plan is a direct result of long and intense negotiations between all relevant creditor constituencies, both secured and unsecured, and represents, in the Committee's view, a fair and reasonable compromise of the various creditor interests.

Although you should carefully review the terms of the Plan and Disclosure Statement yourself, in summary, the Plan provides that unsecured creditors with allowed claims against PUSA will receive their pro rata share of available PUSA cash (over time) in exchange for their claims. Unsecured creditors with allowed claims against Farmland are to receive their pro rata share of cash, a five-year note from reorganized Farmland, and a share of net litigation trust proceeds in exchange for their claims. Farmland unsecured creditors with allowed claims of a *de minimis* amount will receive a certain percentage of their claims in cash only. Finally, it is anticipated that unsecured creditors with allowed claims against MPA will receive a full recovery in cash. The claims distributions will be made to creditors in the manner provided in the Plan.

The treatment of the unsecured creditors' claims embodied in the Plan is the result of not only inter-creditor negotiations, but also lengthy and involved negotiations between the Committee, the Debtors, and, in the case of the Farmland plan of reorganization, GE Capital Public Finance, Inc., as lessor under Farmland's equipment lease agreement. Because of the number of parties involved in these Chapter 11 cases and the various disparate interests at stake, the Plan represents a fair and reasonable settlement of a complex web of inter-company arrangements and debts.

The Committee fully supports the Plan and the treatment of unsecured creditors set forth therein. The Committee and its professionals believe that such treatment will provide superior and more certain recoveries for creditors than would likely be available if other alternatives were pursued. The Committee's recommendation and support is qualified by the satisfaction of the conditions precedent to Confirmation and Effectiveness included in the Plan assuming no material amendment thereto and the satisfactory completion of various agreements contemplated by the Plan and Plan Supplement documents.

Therefore, the Committee urges all unsecured creditors to vote to accept the Plan by marking and returning the enclosed ballot as instructed.

Very truly yours,

**The Official Committee of
Unsecured Creditors of the Debtors**

SUMMARY OF PLAN

The following is a summary of the chapter 11 plans (the “Plan”) of Parmalat USA Corp. (“PUSA”), Farmland Dairies LLC (“Farmland”), and Farmland Stremicks Sub, L.L.C. (f/k/a Milk Products of Alabama L.L.C.) (“MPA” and together with PUSA and Farmland, the “Debtors”), the debtors and debtors in possession in these chapter 11 cases. This Disclosure Statement describes the Plan, which is in fact three plans, one for each of the Debtors.

The three Debtors are direct and indirect subsidiaries of Parmalat S.p.A., which is currently a debtor in an insolvency proceeding in Italy. PUSA is the sole owner of Farmland, which owns 80% of MPA. Farmland has dairy operations in the Northeast (New York and New Jersey), Michigan, and Atlanta, Georgia, while MPA operated in Alabama. The Debtors commenced their chapter 11 cases after disclosure of the financial situation of Parmalat S.p.A. adversely impacted their businesses and liquidity. At the outset of their chapter 11 cases, Farmland and MPA determined to sell their operations based on their initial business judgment that a sale would maximize the value of their assets for creditors. While several parties expressed interest in certain of Farmland’s and MPA’s assets, Farmland and MPA determined that the values of their estates would be maximized by a reorganization of Farmland’s business involving its Northeast and Michigan operations (with a sale of its Atlanta operations) and a sale of substantially all of the assets of MPA. During MPA’s chapter 11 case, substantially all of its assets were sold and Farmland is currently marketing its Atlanta business.

The Plan provides for the reorganization of Farmland as a going concern (“Reorganized Farmland”) and is based on a settlement between the statutory committee of unsecured creditors (the “Creditors’ Committee”) and GE Capital Public Finance, Inc., as lessor (the “Lessor”) under Farmland’s equipment lease agreement covering its Northeast and Michigan facilities. General Electric Capital Corporation, an affiliate of the Lessor, is Farmland’s and MPA’s post-petition lender. The Plan provides that Reorganized Farmland will obtain at least \$100-110 million in term and revolving credit facilities upon its emergence from chapter 11 to operate its business. Under the Plan, the Lessor will receive 80% of the common equity (which will be in the form of warrants) and 100% of the preferred equity in Reorganized Farmland, an interest in a litigation trust established on the effective date of the Plan, a release of claims from Farmland, and the recoveries from certain preference causes of action, ~~and preferred equity on account of the secured portion of its claim~~. Farmland’s general unsecured creditors will receive approximately \$3 million in cash, a note from Reorganized Farmland in the approximate amount of \$7 million and a share of the net litigation trust proceeds. Farmland projects that the total recovery for holders of its allowed general unsecured non-convenience claims (other than the claims of the Lessor) will be approximately 56%, although this projection is based on several assumptions described herein, and actual recovery value may be different.

The Plan also provides for the liquidation of PUSA and MPA, with payment in accordance with priorities afforded under the Bankruptcy Code. As set forth

in more detail in this Disclosure Statement, PUSA projects a recovery of approximately 29% for its holders of allowed general unsecured claims and no recovery for its equity holders. MPA anticipates that its allowed general unsecured creditors will receive a full recovery in cash and that its equity holders will receive cash distributions. Again, these projections are based on assumptions described herein and are not guaranteed.

THE DEBTORS AND THE CREDITORS' COMMITTEE BELIEVE THAT THE PLAN PROVIDES THE BEST RECOVERIES POSSIBLE FOR THE HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS, AS APPLICABLE. AT THIS TIME, THE DEBTORS DO NOT BELIEVE THAT THERE IS A VIABLE ALTERNATIVE FOR COMPLETING THESE CHAPTER 11 CASES OTHER THAN THROUGH CONFIRMATION OF THE PLAN. EACH OF THE DEBTORS AND THE CREDITORS' COMMITTEE STRONGLY RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN.

GLOSSARY

The terms in the following table are used in the Disclosure Statement and Plan. These definitions are summaries. Please refer to the Plan for the complete definitions of these terms.

<i>Administrative Expense Claim</i>	Any claim, other than a claim arising out of the Master Lease Financing Agreement, under sections 503(b) and 507(a)(1) of the Bankruptcy Code, including, without limitation, any actual and necessary expenses of preserving the assets of the Debtors, any actual and necessary expenses of operating the business of the Debtors, all compensation and reimbursement of expenses allowed by the Bankruptcy Court under sections 330 or 503 of the Bankruptcy Code, any fees required by the United States Trustee for the Southern District of New York, and any fees and charges assessed against the Debtors under section 1930 of chapter 123 of title 28 of the United States Code.
<i>Allocation Agreement</i>	The agreement among the Debtors allocating Administrative Expense Claims and post-Effective Date expenses among the estates of the Debtors.
<i>Bankruptcy Code</i>	Title 11 of the United States Code.
<i>Bankruptcy Court</i>	The United States Bankruptcy Court for the Southern District of New York.
<i>Buyback Agreement</i>	The agreement pursuant to which the Lessor agrees to sell to Farmland the equipment that is subject to the Master Lease Financing Agreement in consideration for a portion of the Preferred Membership Interests.
<i>Citibank</i>	Citibank, N.A., London Branch.
<i>Citibank Receivables Purchase Agreement</i>	That certain Parmalat Receivables Purchase Agreement among Farmland and MPA, as Sellers and Initial Servicers, Eureka Securitisation Plc, as Purchaser, and Citibank, as Agent, dated as of November 2, 2000, as amended from time to time.
<i>Class</i>	Any group of substantially similar claims or equity interests classified by the Plan pursuant to section 1123(a)(1) of the Bankruptcy Code.
<i>Commencement Date</i>	February 24, 2004, the date on which the Debtors' chapter 11 cases were commenced.
<i>Common Membership Interests</i>	The common membership interests in Reorganized Farmland issued under the Plan, with all such powers, rights and privileges conventionally accorded common stock.
<i>Confirmation Order</i>	The order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.
<i>Creditors' Committee</i>	The statutory committee of unsecured creditors appointed in the Debtors' chapter 11 cases.
<i>Debtors</i>	PUSA, Farmland and MPA.
<i>DIP Lender</i>	General Electric Capital Corporation, an affiliate of the Lessor, in its capacity as

	agent (for certain participants) and lender under the postpetition financing facility.
<i>Disclosure Statement</i>	This document together with the annexed exhibit.
<i>Effective Date</i>	The date on which the Plan with respect to a particular Debtor will become effective, after the conditions set forth in <u>Article 11</u> of the Plan have been satisfied or waived. The Effective Date of the Plan may be different for each of the three Debtors, and the Plan for a particular Debtor can become effective prior to the confirmation of or Effective Date of the Plan for any other Debtor.
<i>Exit Facility</i>	Means the three (3) separate sub-facilities likely consisting of the following: (i) a \$35 million revolving line of credit secured by accounts receivable and inventory, of which \$10 million will be drawn on emergence and \$7.2 million in letters of credit will be issued; (ii) a \$20 million term loan secured by a first lien on fixed assets; and (iii) a \$45-55 million term loan secured by a second lien on fixed assets.
<i>Farmland</i>	Farmland Dairies LLC
<i>Farmland Note</i>	The note to be provided to the Unsecured Creditors' Trust on behalf of holders of Class 3a Claims against Farmland under <u>Article 7.8</u> of the Plan.
<i>Lessor</i>	GE Capital Public Finance, Inc., the lessor under the Master Lease Financing Agreement.
<i>Litigation Trust</i>	Means the litigation trust described in the Plan and the Litigation Trust Agreement.
<i>Master Lease Claim</i>	All claims arising under the Master Lease Financing Agreement for prepetition amounts due and lease rejection damages, but in no event including the Lessor's claim under section 365(d)(10) of the Bankruptcy Code.
<i>Master Lease Financing Agreement</i>	That certain Master Lease Financing Agreement, dated as of April 30, 2003, between the Lessor and Farmland.
<i>MPA</i>	Farmland Stremicks Sub, L.L.C. (f/k/a Milk Products of Alabama L.L.C.)
<i>Plan</i>	The applicable chapter 11 plan of each of the Debtors, including all exhibits and schedules annexed thereto, as altered, amended or modified from time to time.
<i>Plan Supplement</i>	The forms of documents, including, but not limited to, the Allocation Agreement, the amended PUSA certificate of incorporation and by-laws (if any), the Reorganized Farmland LLC Agreement, the Amended MPA LLC Agreement, the Litigation Trust Agreement, the Unsecured Creditors' Trust Agreement, the Buyback Agreement, the terms of the Management Incentive Plan, the form of the Farmland Note, and the list of executory contracts and unexpired leases to be assumed, effectuating the transactions contemplated by this Plan, which documents will be filed with the Bankruptcy Court no later than ten days prior to the Confirmation Hearing.
<i>Postpetition Financing Order</i>	The Final Order of the Bankruptcy Court, dated March 30, 2004, (1) Authorizing Debtors-in-Possession to Enter into Post-Petition Financing Agreement and Obtain Post-Petition Financing; (2) Authorizing Debtors-in-Possession to Enter Into an Amendment to Receivables Purchase Agreement and Sell Interests in

	Accounts Receivable; (3) Providing Adequate Protection; and (4) Granting Liens, Security Interests and Superpriority Claims for Both Transactions, as amended from time to time.
<i>Preferred Membership Interests</i>	Shares of non convertible preferred membership interests of Reorganized Farmland, the terms of which will be set forth in the Reorganized Farmland LLC Agreement.
<i>Pro Rata</i>	The proportion that the amount of any claim or equity interest in a particular class bears to the aggregate amount of all claims or equity interests in such Class, including disputed claims.
<i>PUSA</i>	Parmalat USA Corp.
<i>Reorganized Farmland</i>	The entity that is the successor to Farmland that emerges from chapter 11 upon the Effective Date.
<i>Unsecured Creditors' Trust</i>	The trust established to make distributions to holders of allowed Farmland Class 3a claims and Farmland Class 3c claims which are disputed as of the Effective Date, but are subsequently allowed, as described in the Plan and the Unsecured Creditors' Trust agreement.
<i>Voting Agent</i>	Bankruptcy Services LLC
<i>Voting Deadline</i>	February 18, 2005 , <u>February 18, 2005</u> , the last date for the actual receipt by the Voting Agent of ballots to accept or reject the Plan.

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EXHIBITS

- Exhibit A — Plan of Reorganization of Farmland Dairies LLC and Plans of Liquidation of Parmalat USA Corp. and Farmland Stremicks Sub, L.L.C. (f/k/a Milk Products of Alabama L.L.C.) Under Chapter 11 of the Bankruptcy Code
- Exhibit B — Order of the Bankruptcy Court dated ~~_____~~, January 13, 2005, approving, among other things, this Disclosure Statement and establishing certain procedures with respect to solicitation and tabulation of votes to accept or reject the Plan

I. INTRODUCTION

The Debtors are soliciting votes to accept or reject the Plan. A copy of the Plan is attached as Exhibit A to this Disclosure Statement. *Please refer to the Glossary and the Plan for definitions of terms used in this Disclosure Statement. Some terms that are used only in a specific section may be defined in that section. Capitalized terms used but not defined will have the meaning ascribed to them in the Plan.*

The Debtors' chapter 11 cases have been consolidated for procedural purposes only and are being jointly administered pursuant to an order of the Bankruptcy Court.

The purpose of the Disclosure Statement is to provide sufficient information to enable holders of claims and equity interests of the Debtors who are entitled to vote to make an informed decision on whether to accept or reject the Plan. The Disclosure Statement describes:

- the settlement in Farmland's chapter 11 case between the Lessor and the Creditors' Committee, the new structure of Reorganized Farmland, how holders of claims and equity interests of the Debtors are treated, and the terms of the securities to be issued under the Plan (Section II);
- how to vote on the Plan and who is entitled to vote (Section III);
- certain financial information about the Debtors, including cash flow projections (Section IV);
- the businesses of the Debtors and the reasons why they commenced these chapter 11 cases (Section V);
- significant events that have occurred in the Debtors' chapter 11 cases (Section VI);
- how the Debtors will be governed on the Effective Date of the Plan (Section VII);
- how distributions under the Plan will be made and the manner in which disputed claims are resolved (Section VIII);
- certain factors creditors should consider before voting (Section IX);
- the procedure and requirements for confirming the Plan, including a liquidation analysis (Section X);
- alternatives to the Plan (Section XI); and
- certain federal tax consequences (Section XII).

A copy of the order (without exhibits) of the Bankruptcy Court dated January 13, 2005 (the "Disclosure Statement Order") approving, among other things,

this Disclosure Statement and establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan is attached to the Disclosure Statement as Exhibit B.

The LAST DAY to vote to accept or reject the Plan is January 13, 2005. Ballots must be received at the address listed on the ballots by that date.

The RECORD DATE for determining which creditors may vote on the Plan is January 12, 2005.

On January 13, 2005, after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order, approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical of the Debtors' creditors to make an informed judgment whether to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating ballots. A ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of claims and equity interests that the Debtors believe may be entitled to vote to accept or reject the Plan. In addition, detailed voting instructions accompany each ballot. Each holder of a claim or equity interest entitled to vote on the Plan should read the Disclosure Statement, the Plan, the Disclosure Statement Order and the instructions accompanying the ballot in their entirety before voting on the Plan. These documents contain important information concerning the classification of claims and equity interests for voting purposes and the tabulation of votes.

The Bankruptcy Code provides that only the votes of creditors who vote on the Plan will be counted for purposes of determining whether the requisite acceptances have been attained. Failure to timely deliver a ballot by the voting deadline will constitute an abstention. Any ballot that is executed and timely delivered but does not indicate an acceptance or rejection of the Plan will not be counted.

If you have any questions about the packet of materials that you have received, please contact Gary T. Holtzer, Esq., Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, Telephone: (212) 310-8000, or Stephen B. Selbst, Esq., McDermott Will & Emery LLP, 50 Rockefeller Plaza, New York, New York, 10020, Telephone: (212) 547-5400, during normal business hours.

Additional copies of this Disclosure Statement are available upon request made to the Voting Agent, at the following address:

Bankruptcy Services LLC
757 Third Avenue
Third Floor
New York, New York 10017
Tel: (866) 798-7938

The Plan Supplement will be filed with the Bankruptcy Court no later than ten (10) days prior to the Confirmation Hearing.

II. OVERVIEW OF THE PLAN

A. CHAPTER 11 GENERALLY

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself, its creditors and its equity interest holders. In addition to permitting the rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the commencement date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the bankruptcy court binds the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity interest holder of a debtor whether or not such creditor or equity interest holder (i) is impaired under or has accepted the plan or (ii) receives or retains any property under the plan. Subject to certain limited exceptions, the order approving confirmation of a plan [of reorganization](#) discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

Holders of claims against and interests in a debtor are permitted to vote to accept or reject the plan. Prior to soliciting acceptances of the proposed plan, however, section 1125 of the Bankruptcy Code requires a debtor to ~~prepare~~ [obtain the Bankruptcy Court's approval of and provide to creditors and equity interest holders](#) a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding the plan. The Debtors are submitting this Disclosure Statement to holders of claims against [and equity interests in](#) the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

B. THE PLAN

The Plan governs the treatment of claims against and interests in each of the Debtors in these chapter 11 cases. The following tables briefly summarize the classification and treatment of claims and equity interests under the Plan. The table also identifies which classes are entitled to vote on the Plan based on the rules set forth in the Bankruptcy Code. Finally, the table indicates the estimated recovery for each class.

The recoveries described in the tables below represent the Debtors' best estimates of those values given the information available at the time. Unless otherwise specified, the information in the table and in the section below is based on calculations as of November 16, 2004. The estimated recoveries are based on the face value of distributions and do not include a discount factor to reflect the fact that some payments will not be made immediately. Additionally, the estimated recoveries are based upon the following: [projections](#):

Claims

- The aggregate amount of allowed Secured Claims against each Debtor are estimated at:
 - PUSA (Class 2) -- \$0
 - Farmland (Class 2) -- \$40,485
 - MPA (Class 2) -- \$0.
- The aggregate amount of allowed Administrative Expense Claims, Priority Tax Claims and Priority Non-Tax Claims against each Debtor are estimated at:
 - PUSA -- \$2,713,175
 - Farmland -- \$8,998,200
 - MPA -- \$3,030,140.
- The aggregate amount of allowed General Unsecured Claims against each Debtor are estimated at:
 - PUSA (Class 3) -- \$27,732,047
 - Farmland (Class 3a) -- \$29,184,780, including the allowed PUSA General Unsecured Claim against Farmland in the amount of \$10,392,497
 - MPA (Class 3) -- \$6,285,529.
- The aggregate amount of allowed Convenience Claims is \$564,765.

Distributions

PUSA

- The distributions received by holders of General Unsecured Claims against PUSA (Class 3) are estimated to be \$8,075,000. When distributed to the estimated claim pool of \$27,732,047, the recovery to holders of General Unsecured Claims against PUSA is estimated to be 29% (over time). The distributions on account of PUSA Class 3 claims will be paid from available cash of PUSA after paying its Secured Claims, Administrative Expense Claims, Priority Tax Claims and Priority Non-Tax Claims, and its post-effective date expenses. PUSA's primary assets consist of the following estimated components:
 - PUSA's recovery as a holder of an MPA Class 3 claim -- \$4,967,846
 - PUSA's recovery as a holder of a Farmland Class 3a claim -- \$5,820,000.

Farmland

- The distributions received by holders of General Unsecured Claims against Farmland (Class 3a) are estimated to be \$16,274,094. When distributed to the estimated claim pool of \$29,184,780, the recovery to holders of General Unsecured Claims against Farmland is estimated to be 56% (over time). The distributions on account of Farmland Class 3a claims consists of the following estimated components:
 - the cash payment by Farmland to the Unsecured Creditors' Trust (after payment of \$225,906 on account of Convenience Claims) -- \$2,774,094
 - the principal amount of the Farmland Note issued to the Unsecured Creditors' Trust -- \$7 million
 - proceeds from the Litigation Trust distributable to Farmland General Unsecured Claims -- \$6.5 million.
- The distributions received by the holder of the Master Lease Claim (Class 3b) are estimated at:
 - 80% of the Common Membership Interests in Farmland on a fully diluted basis
 - proceeds from the Litigation Trust distributable to Farmland Class 3b (the Master Lease Claim) -- \$11,602,500

- all preference actions that may be pursued by Reorganized Farmland -- \$2 million.¹

MPA

- Holders of General Unsecured Claims against MPA (Class 3) are expected to receive a recovery of 100% (over time) when distributed to the estimated claim pool of \$6,285,529, as reflected in the Forecasted MPA Sources/Uses (of funds) chart on page 48.

¹ As discussed in Section VI.K., subject to Bankruptcy Court approval, the Debtors have settled the potential preference claims against Citibank N.A. The only other potential preference claims the Debtors have identified are claims against Unicredito Italiano S.p.A. (“Unicredito”) and certain insiders of the Debtors. As described in Section VIII.F., Farmland has waived most of its preference claims under the Plan. The Debtors estimate that the value of the Unicredito preference claim is approximately \$500,000. The Debtors have been unable to assess the potential value of preference claims against insiders. Only Preference Causes of Action (as defined in Section II.C.) actually existing on the Effective Date can be transferred to the Lessor. Therefore, any preference claims that are finally settled or otherwise resolved prior to the Effective Date (such as the preference claim against Citibank N.A.) do not constitute Preference Causes of Action available for distribution to the Lessor under the Plan and the proceeds of any such preference claims will be retained by Farmland.

PUSA

Class Number	Class Description	Entitled to Vote	Treatment Under the Plan	Estimated % Recovery
PUSA Class 1	Priority Non-Tax Claims against PUSA	No	On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed Priority Non-Tax Claim in PUSA Class 1 will be paid an amount in cash equal to the allowed amount of such Priority Non-Tax Claim.	100%
PUSA Class 2	Secured Claims against PUSA	No	On the Effective Date, unless the holder of a Secured Claim in PUSA Class 2 agrees to less favorable treatment, each Secured Claim in PUSA Class 2 will be reinstated or rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of a Secured Claim in PUSA Class 2 to demand or receive payment of such claim prior to its stated maturity from and after the occurrence of a default. All Secured Claims in PUSA Class 2 that are not due and payable on or before the Effective Date will, at PUSA's option, be paid (i) in the ordinary course of business in accordance with the course of practice between PUSA and such holder with respect to such claim, or (ii) by transfer of the collateral to the holder of such claim.	100% ²
PUSA Class 3	General Unsecured Claims against PUSA	Yes	On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed General Unsecured Claim will receive its Pro Rata share of available PUSA cash.	29%
PUSA Class 4	Equity Interests in PUSA	Yes	As soon as reasonably practical after the payment in full of all allowed claims against PUSA, including all interest to which such holders of claims are entitled under the Plan and subject to reserving sufficient cash to pay holders of disputed claims against PUSA the amount which such holders would be entitled to receive if such disputed claims were allowed claims, each holder of an Equity Interest in PUSA will receive its Pro Rata share of remaining available PUSA cash.	0%

² PUSA does not believe there are any claims in this class.

FARMLAND

Class Number	Class Description	Entitled to Vote	Treatment Under the Plan	Estimated % Recovery Under the Plan
Farmland Class 1	Priority Non-Tax Claims against Farmland	No	On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed Priority Non-Tax claim in Farmland Class 1 will be paid an amount in cash equal to the allowed amount of such Priority Non-Tax Claim.	100%
Farmland Class 2	Secured Claims against Farmland	No	On the Effective Date, unless the holder of a Secured Claim in Farmland Class 2 agrees to less favorable treatment, each Secured Claim in Farmland Class 2 will be reinstated or rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of a Secured Claim in Farmland Class 2 to demand or receive payment of such claim prior to its stated maturity from and after the occurrence of a default. All Secured Claims in Farmland Class 2 that are not due and payable on or before the Effective Date will, at Farmland's option, be paid (i) in the ordinary course of business in accordance with the course of practice between Farmland and such holder with respect to such claim, or (ii) by transfer of the collateral to the holder of such claim.	100%
Farmland Class 3a	General Unsecured Claims against Farmland	Yes	On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed General Unsecured Claim in Farmland Class 3a will receive its Pro Rata share of the beneficial interests in the Unsecured Creditors' Trust, which will receive on behalf of holders of allowed General Unsecured Claims (i) approximately \$3 million in cash (less payments to all holders of Convenience Claims that are allowed as of the Effective Date), (ii) a note in the principal amount of approximately \$7 million issued by Farmland for the benefit of general unsecured creditors, and (iii) a share of any proceeds on account of certain litigation claims held by Farmland.	56%
Farmland Class 3b	Master Lease Claim	Yes	On the Effective Date, or as soon thereafter as is reasonably practical, the Lessor will receive on account of the allowed Master Lease Claim (i) 80% of the Common Membership Interests on a fully diluted basis (some or all of which may be in the form of warrants), (ii) a share of any proceeds on account of Farmland litigation claims collected prior to the Effective Date, (iii) a beneficial interest in the trust to hold Farmland litigation claims,	N/A See fn. 4 below ⁴

Class Number	Class Description	Entitled to Vote	Treatment Under the Plan	Estimated % Recovery Under the Plan
			(iv) title to the property subject to the Second Mortgages under a deemed deed-in-lieu of foreclosure, which property will then be deemed immediately resold to Farmland in exchange for Preferred Membership Interests in Reorganized Farmland with a liquidation value of \$10,365,000, and (v) all preference actions that may be pursued by Reorganized Farmland, unless otherwise waived in the Plan. ³	
Farmland Class 3c	Convenience Claims	Yes	On the Effective Date, each holder of an allowed Convenience Claim against Farmland will receive cash in an amount equal to 40% of such holder's convenience claim, unless such holder elects on its timely-filed ballot to be treated for voting and distribution purposes as a holder of a General Unsecured Claim against Farmland.	40%
Farmland Class 4	Equity Interests in Farmland	No	On the Effective Date, all instruments evidencing Equity Interests in Farmland will be canceled without further action under any applicable agreement, law, regulation, or rule, and the equity interests in Farmland evidenced thereby will be extinguished and holders of Equity Interests in Farmland will not receive nor retain any property under the Plan.	0%

³ The treatment set forth in this table is the recovery received by the Lessor on account of its Farmland Class 3b Master Lease Claim. Under the Plan, the Lessor will receive additional consideration (in the form of Preferred Membership Interests) in respect of (i) the Lessor's administrative claim under section 365(d)(10) of the Bankruptcy Code for unpaid postpetition lease payments, and (ii) Farmland's buyback of the equipment subject to the Master Lease Financing Agreement. See Sections II.G.9.

⁴ On account of the unsecured portion of its Farmland Class 3b Master Lease Claim, the Debtors do not believe the Lessor will receive an estimated recovery that is greater than the recovery to be received by holders Farmland Class 3a claims (General Unsecured Claims against Farmland).

MPA

Class Number	Class Description	Entitled to Vote	Treatment Under the Plan	Estimated % Recovery Under the Plan
MPA Class 1	Priority Non-Tax Claims against MPA	No	On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed Priority Non-Tax Claim in MPA Class 1 will be paid an amount in cash equal to the allowed amount of such Priority Non-Tax Claim.	100%
MPA Class 2a	Secured Claims against MPA	No	On the Effective Date, unless the holder of a Secured Claim in MPA Class 2 agrees to less favorable treatment, each Secured Claim in MPA Class 2 will be reinstated or rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of a Secured Claim in Farmland Class 2 to demand or receive payment of such claim prior to its stated maturity from and after the occurrence of a default. All Secured Claims in MPA Class 2 that are not due and payable on or before the Effective Date will, at MPA's option, be paid (i) in the ordinary course of business in accordance with the course of practice between MPA and such holder with respect to such claim, or (ii) by transfer of the collateral to the holder of such claim.	100%
MPA Class 3	General Unsecured Claims against MPA	Yes	On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed General Unsecured Claim against MPA will receive its Pro Rata share of available MPA cash up to the allowed amount of such claim, including interest.	100%
MPA Class 4	Equity Interests in MPA	Yes	As soon as reasonably practical after the payment in full of all allowed claims against MPA, including all interest to which such holders of claims are entitled under the Plan and subject to reserving sufficient cash to pay holders of disputed claims against MPA the amount which such holders would be entitled to receive if such disputed claims were allowed claims, each holder of an Equity Interest in MPA will receive its Pro Rata share of remaining available MPA cash.	N/A ⁴⁵

⁴⁵ As set forth in the chart on pg. 49 entitled "Forecasted MPA Sources/Uses," the estimated amount available to MPA Class 4 (Equity Interests in MPA), is \$10,640,000.

C. THE FARMLAND SETTLEMENT

The terms of Farmland's Plan are based upon a settlement by and among Farmland, the Creditors' Committee and the Lessor. As discussed in detail in Section VI.M., Farmland, and following its appointment, the Creditors' Committee, investigated potential causes of action in connection with the Master Lease Financing Agreement and related issues affecting allocation of value in these chapter 11 cases. Among other things, Farmland and the Creditors' Committee investigated (i) whether the Master Lease Financing Agreement could be recharacterized as a financing transaction as opposed to a lease agreement, (ii) whether the Master Lease Financing Agreement could be avoided as a fraudulent transfer under sections 544 and/or 548 of the Bankruptcy Code, and (iii) the value, if any, of the Lessor's secured claim. If the Lessor's ownership interest in the equipment subject to the Master Lease Financing Agreement were recharacterized as a lien, then the equipment would constitute property of Farmland's bankruptcy estate and potentially available for use in the operation of its business in accordance with section 363 of the Bankruptcy Code. In addition, if Farmland had not received reasonably equivalent value in connection with the Master Lease Financing Agreement, and was insolvent at the time of the transaction or rendered insolvent as a result of the transaction, the Master Lease Financing Agreement and potentially the Lessor's claim against Farmland could be avoided as a fraudulent transfer for the benefit of Farmland and its creditors.

After the Creditors' Committee concluded its investigation and considered its litigation alternatives, Farmland, the Lessor and the Creditors' Committee conducted extensive and vigorous negotiations in an effort to resolve all outstanding issues relating to the allocation of value between the Lessor and the general unsecured creditors of Farmland.

Following extensive, arms' length negotiations, Farmland, the Lessor and the Creditors' Committee agreed to the following:

- Upon Farmland's rejection of the Master Lease Financing Agreement pursuant to a motion that will be filed with the Bankruptcy Court, the Lessor will have, among other things, a rejection damage claim in the amount of \$96,226,490 (minus a credit of approximately \$24,021,000 for the buyback of the equipment subject to the Master Lease Financing Agreement and the section 365(d)(10) claim for unpaid postpetition lease payments). Under the Debtors' Postpetition Financing Order, approximately \$10,365,000 of the rejection damage claim is secured because Farmland pledged certain real estate to the Lessor. See discussion in Section VI.D. On account of all claims arising out of the Master Lease Financing Agreement (including all secured and unsecured claims), the Lessor will receive 80% of the new common equity in Reorganized Farmland on a fully diluted basis (some or all of which may be in the form of warrants), its share in the Litigation Trust, title to the property subject to the Second Mortgages (as defined in Section II.D.4.) under a deemed deed-in-lieu of foreclosure (which property will then be deemed immediately resold to Farmland as described below), and any and all claims and causes of action of Farmland under section 547 of the Bankruptcy Code, except those claims and causes of action waived in

Section VIII.F. (the ‘Preference Causes of Action’). Pursuant to the Buyback Agreement, the Lessor will sell to Farmland all of the equipment subject to the Master Lease Financing Agreement in exchange for Preferred Membership Interests with a liquidation value of \$9,176,445. Additionally, as noted above, the real property subject to the Second Mortgages, pledged to the Lessor in connection with the Master Lease Financing Agreement, will be sold to Farmland in exchange for (a) Preferred Membership Interests with a liquidation value of \$10,365,000 and (b) the release of any obligation the Lessor has under the Postpetition Financing Order to share or distribute any proceeds received from such sale with Farmland or Reorganized Farmland. Finally, on account of the Lessor’s claim for postpetition lease payments pursuant to 365(d)(10) of the Bankruptcy Code, which the Lessor agreed to defer in accordance with the terms of the Postpetition Financing Order, the Lessor will receive Preferred Membership Interests with a liquidation value of \$14,844,555. Consequently, the Lessor and the participants (the “Participants”) in the Master Lease Financing Agreement (or their designees) will own 100% of the equity interests in Reorganized Farmland, except for up to 20% of Common Membership Interests, which may be issued in connection with distribution under the Management Incentive Plan (as defined and discussed in Section VIII.N.) and/or to the lenders of the junior secured Exit Facility (see Section II.G.2.).

- Holders of allowed Farmland General Unsecured Claims will receive approximately \$3 million in cash (less the cash payable to holders of allowed Convenience Claims) and a five (5) year unsecured note in the approximate amount of \$7 million, subordinated to the Exit Facility, paying 6% interest quarterly in arrears, with payment-in-kind interest for the first ten quarters and thereafter payable in cash, and amortization beginning on the third anniversary of issuance, based on a ten-year amortization schedule, with a balloon at maturity. The note is also subordinated to accumulated unpaid preferred dividends on the Preferred Membership Interests and the right of the holders of Preferred Membership Interests to redeem their Preferred Membership Interests for the value of the liquidation preference if there is a Subordination Change of Control (as defined in f.n. 8 on pg. 28). In addition, holders of allowed Farmland General Unsecured Claims (other than Convenience Claims) will be entitled to share in the proceeds of the Litigation Trust, the terms of which are discussed in Section VIII.C – D., at pgs. 91-~~97~~98. The settlement further provides that the Unsecured Creditors’ Trust will be set up to object to Farmland General Unsecured Claims and make distributions to holders of allowed Farmland General Unsecured Claims. A Convenience Claims class was established to permit holders of Farmland General Unsecured Claims in an amount of less than \$2,400 to receive a cash payment of 40% of their claims upon allowance in lieu of having to wait to receive recovery from the Unsecured Creditors’ Trust.

- At the time of the negotiations, Farmland, the Lessor, and the Creditors' Committee estimated that approximately \$30 million in general unsecured claims would be allowed against Farmland. Because the parties recognized that the recoveries received by general unsecured creditors could vary dramatically if the amount of general unsecured claims allowed against Farmland differed from the estimate, however, they built in certain adjustments to the consideration to be received by the general unsecured creditors to ensure the percentage recoveries received by general unsecured creditors would not vary significantly for certain occurrences. The parties recognize that certain other factors could cause dramatic changes in the forecast recoveries. See the discussion of risk factors in Section IX.B., at pgs. 109-~~115~~.116. To that end, the settlement and the Plan provide that the elements of recovery to general unsecured creditors (\$3 million cash, the \$7 million Farmland Note, and the share of the Litigation Trust) will be adjusted by a formula if either or both of two specified events occur, each of which could have an impact on the general unsecured claim pool. Those two events are: (i) if the General Unsecured Claim of PUSA against Farmland (the "PUSA Claim") is allowed at an amount less than \$10,392,497 (see Section VIII.A.) and (ii) if additional claims totaling more than \$1 million are filed against Farmland as a result of preference recoveries by Reorganized Farmland. There is no adjustment if allowed General Unsecured Claims against Farmland otherwise exceed their estimated amounts. General Unsecured Claims against Farmland (prior to objections), including disputed claims, aggregate approximately \$769.8 million.⁶

D. CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN

Claims and equity interests are divided into fourteen (14) classes under the Plan and the proposed treatment of claims and equity interests in each class is described in the Plan and in the discussion here. Such classification takes into account the different nature and priority of the claims and equity interests.

1. Priority Non-Tax Claims

The claims in these classes are the types of claims identified in section 507(a) of the Bankruptcy Code that are entitled to priority in payment (other than Administrative Expense Claims and Priority Tax Claims). For the Debtors, these claims related primarily to prepetition wages and employee benefit plan contributions that have not yet been paid as of the Commencement Date. The Debtors believe that a substantial number of these claims have already been paid pursuant to an order entered by the Bankruptcy Court at the beginning of these

⁶ As noted on pgs. 15-16 below, following objections to claims for various reasons, Farmland estimates that allowed General Unsecured Claims against Farmland will total approximately \$29,184,780.

chapter 11 cases. On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed Priority Non-Tax Claim in PUSA Class 1, Farmland Class 1, and MPA Class 1 will be paid an amount in cash equal to the allowed amount of such Priority Non-Tax Claim.

2. Secured Claims

Claims in PUSA Class 2, Farmland Class 2, and MPA Class 2 refer to claims, other than any claim arising out of the Master Lease Financing Agreement, secured by the Debtors' collateral, but only to the extent of the value of the collateral, as set forth in the Plan, as agreed to by the holder of such claim and the Debtors, or as determined by a final order of the Bankruptcy Court. Holders of Secured Claims in PUSA Class 2, Farmland Class 2, and MPA Class 2, on the Effective Date, except to the extent that the holder of a Secured Claim in PUSA Class 2, Farmland Class 2, and MPA Class 2 agrees to less favorable treatment, will be reinstated or rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of a secured claim to demand or receive payment prior to its stated maturity from and after the occurrence of a default. All Secured Claims in PUSA Class 2, Farmland Class 2, and MPA Class 2 that are not due and payable on or before the Effective Date will, at the Debtors' option, be paid (i) in the ordinary course of business in accordance with the course of practice between the Debtors and the holder of the claim, or (ii) by transfer of the collateral to the holder of the claim.

3. General Unsecured Claims

Claims in PUSA Class 3, Farmland Class 3a, and MPA Class 3 are General Unsecured Claims and refer to any claim other than Administrative Expense Claims, Priority Tax Claims, Convenience Claims, the Master Lease Claim, Priority Non-Tax Claims, or Secured Claims. The claims in PUSA Class 3, Farmland Class 3a, and MPA Class 3 consist of claims of the Pension Benefit Guaranty Corporation, suppliers and other trade creditors, parties to contracts with the Debtors that are being rejected, personal injury claims, employment claims, litigation claims, and other general unsecured claims.

a. *PUSA Class 3.* The aggregate amount of General Unsecured Claims filed against PUSA on or before the Bar Dates was approximately \$737,565,581.24 (excluding late-filed and superceded claims). However, PUSA estimates that the aggregate amount of allowed General Unsecured Claims will approximate \$27,732,047 after obtaining a bankruptcy court order disallowing or reducing duplicate claims, amended claims, previously paid claims, claims not supported by PUSA's books and records, claims that are covered by insurance, and claims that are subject to other objections.

(i) On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed General Unsecured Claim will receive its Pro Rata share of available PUSA cash (but not to exceed the full amount of the allowed claim, including all interest that the holder of such claim is entitled to under the Plan) following payment of PUSA (i) Administrative Expense Claims, (ii) Priority Tax Claims, (iii) Non-Priority Tax Claims, and (iv) Secured Claims.

b. *Farmland Class 3a.* The aggregate amount of General Unsecured Claims filed against Farmland on or before the Bar Dates was approximately \$769,789,482.93 (excluding late-filed and superceded claims). However, Farmland estimates that the aggregate amount of allowed General Unsecured Claims will approximate \$29,184,780 (including the PUSA Claim), after obtaining a bankruptcy court order disallowing or reducing duplicate claims, amended claims, previously paid claims, claims not supported by Farmland's books and records, claims that are covered by insurance, and claims that are subject to other objections.

(i) On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed General Unsecured Claim in Farmland Class 3a will receive its Pro Rata share of the beneficial interests in the Unsecured Creditors' Trust, which will receive on behalf of holders of allowed General Unsecured Claims (i) \$3 million (less payments to all holders of Convenience Claims that are ultimately allowed), which amount may decrease pursuant to the formula set forth in Article 7.7 of the Plan, (ii) any additional cash payments Reorganized Farmland is required to make to the Unsecured Creditors' Trust under the Plan, (iii) the note issued by Farmland in the original principal amount of \$7 million, (iv) a share of any proceeds on account of Farmland litigation claims collected prior to the Effective Date, (v) a share of any proceeds on account of the Excluded Claims (as defined and discussed in Section II.G.7.), and (vi) a beneficial interest in the trust established to hold Farmland litigation claims. For a detailed discussion of the scenarios that affect the ultimate amount of the above-referenced payments, see Section II.G.3 - 4.

c. *MPA Class 3.* The aggregate amount of General Unsecured Claims filed against MPA on or before the Bar Dates was approximately \$625,040,346.77 (excluding late-filed and superceded claims). However, MPA estimates that the aggregate amount of allowed General Unsecured Claims will be approximately \$6,285,529, after obtaining a bankruptcy court order disallowing or reducing duplicate claims, amended and superceded claims, previously paid claims, claims not supported by the MPA's books and records, claims that are covered by insurance, and claims that are subject to other objections.

(i) On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed General Unsecured Claim against MPA will receive its Pro Rata share of available MPA cash (but not to exceed the full amount of the allowed claim, including all interest that the holder of such claim is entitled to under the Plan) following payment of MPA (i) Administrative Expense Claims, (ii) Priority Tax Claims, (iii) Non-Priority Tax Claims, and (iv) Secured Claims.

Estimates for the aggregate amount of General Unsecured Claims that will be allowed against each Debtor, as set forth in subsections "a – c" above, are based on an extensive claims analysis performed by the Debtors' financial advisors, AlixPartners, LLC ("AlixPartners"), over the course of many months. This analysis was provided to the Creditors' Committee and served as the basis for the overall settlement embodied in the Plan. Set forth below is a chart demonstrating the categories of claims that the Debtors believe will be disallowed or reduced. Significantly, the Debtors believe that the claims of Parmalat S.p.A. and certain of its related affiliates, which comprise approximately 79%, 85% and 94% of the aggregate amount of General Unsecured Claims filed against PUSA, Farmland, and MPA, respectively, have no merit and will be disallowed or subordinated. As discussed in detail in

Section VI.O.8., in addition to asserting substantive and non-substantive objections to each of the affiliate claims, the Debtors intend to seek disallowance and/or subordination of these claims pending the recovery of amounts Parmalat S.p.A. and its affiliates owe the Debtors. The Debtors also believe that General Unsecured Claims in the aggregate amount of approximately \$37 million filed by the Pension Benefit Guaranty Corporation against each of the Debtors, will be expunged as a result of Reorganized Farmland's assumption of the Pension Plans (as defined and discussed in Sections II.G.11., and VI.Q.) Further, the Debtors believe that Tuscan/Lehigh Dairy, Inc.'s claims of approximately \$57 million against each of PUSA and Farmland will be avoided or disallowed in connection with a recently commenced adversary proceeding and/or objections to claims, ~~which is~~ discussed in Section VI.P.3. The Debtors believe their claims analysis and the discussion herein, support ~~the~~the ir estimates of the aggregate amount of allowed General Unsecured Claims against each of the Debtors. Nonetheless, the Debtors clearly set forth in Section IX.B.10. that the estimated amounts for allowed General Unsecured Claims are subject to certain risks, uncertainties, and assumptions, and the recoveries to holders of General Unsecured Claims would likely be reduced if the amount of General Unsecured Claims against the relevant Debtor is higher than the estimates contemplated in this Disclosure Statement.

PARMALAT USA CORP., ET AL
Claims Analysis (in 000's)

	Parmalat USA Corp.				Farmland Dairies LLC				Milk Products of Alabama, L.L.C.			
	Secured	Admin/Priority	Unsecured	Total	Secured	Admin/Priority	Unsecured	Total	Secured	Admin/Priority	Unsecured	Total
Aggregate Amount of Claims Filed per Disclosure Statement	118,796	2,410	737,566	858,771	218,035	1,630	769,789	989,454	118,039	11	625,040	743,091
<u>Claims from Related Affiliates</u>												
Parmalat S.p.A.	(117,349)		(246,589)	(363,938)	(117,349)		(246,589)	(363,938)	(117,349)		(246,589)	(363,938)
Parmalat Netherlands BV			(144,880)	(144,880)			(144,880)	(144,880)			(144,880)	(144,880)
Parmalat Finance Corporation BV			(122,068)	(122,068)			(122,068)	(122,068)			(122,068)	(122,068)
Bonlat/Parmalat Capital Finance Ltd			-	-			(74,000)	(74,000)			-	-
Curcastle			(72,050)	(72,050)			(72,050)	(72,050)			(72,050)	(72,050)
Parmalat USA *							10,392	10,392			4,968	4,968
Subtotal	(117,349)	-	(585,588)	(702,937)	(117,349)	-	(659,588)	(776,937)	(117,349)	-	(585,588)	(702,937)
<u>Procedural Objections</u>												
Duplicative Claims	(632)	(47)	(15,110)	(15,789)	(2,896)	(11)	(256)	(3,162)	(96)			(96)
Non-Debtor Claims		(8)	(172)	(180)		-	-	-				-
Insufficient Supporting Documentation		(3)	(544)	(547)	(34)	(8)	(1,518)	(1,560)				-
Resolved Claims			-	-	(134)	-	(8)	(142)				-
Withdrawn			(14,402)	(14,402)		(2)	(2)	(2)				-
Subtotal	(632)	(58)	(30,228)	(30,918)	(3,063)	(21)	(1,782)	(4,866)	(96)	-	-	(96)
<u>Substantive Objections</u>												
GE Capital Corp.			-	-	(96,226)			(96,226)				-
Dean/Tuscan			(57,053)	(57,053)			(57,053)	(57,053)				-
PBGC			(37,077)	(37,077)			(37,077)	(37,077)			(37,077)	(37,077)
Other Claims to be Reduced/Reclassified**	(815)	(1,139)	(4,398)	(6,352)	(1,356)	(1,327)	(5,602)	(8,284)	(594)	12	(1,727)	(2,309)
Subtotal	(815)	(1,139)	(98,527)	(100,482)	(97,582)	(1,327)	(99,731)	(198,640)	(594)	12	(38,804)	(39,386)
Scheduled Only Claims			42	42			5,450	5,450			232	232
Estimated Rejection Damages			4,468	4,468			4,654	4,654			437	437
Professional Fees & MPA Claim		1,500		1,500		8,716		8,716		3,007		3,007
Estimated Aggregate Amount of Allowed	(0)	2,713	27,732	30,445	40	8,998	29,185	38,223	(0)	3,030	6,286	9,316

4. Master Lease Claim

Pursuant to a separate motion, Farmland will reject the Master Lease Financing Agreement. The claim in Farmland Class 3b is the claim in the amount of \$96,226,490 (minus a credit of approximately \$24,021,000 for the buyback of the equipment subject to the Master Lease Financing Agreement and the section 365(d)(10) claim for unpaid postpetition lease payments) arising under the Master Lease Financing Agreement for unpaid prepetition lease payments and lease rejection damages. A portion of the Master Lease Financing Agreement rejection damage (approximately \$10,365,000) claim is secured. Pursuant to the Postpetition Financing Order, the Lessor was granted second mortgages on the real estate owned by the Debtors in Wallington, New Jersey, Grand Rapids, Michigan, and Brooklyn, New York (locations where the equipment subject to the Master Lease Financing Agreement is located) as additional security for adequate protection of the obligations of Farmland under the Master Lease Financing Agreement (the “Second Mortgages”). In accordance with the terms of the Plan, on the Effective Date, the Lessor will receive on account of the allowed Master Lease Claim (i) 80% of the Common Membership Interests (some or all of which may be in the form of warrants exercisable for \$.01 per share to purchase Common Membership Interests) on a fully diluted basis, (ii) a share of any proceeds on account of Farmland litigation claims collected prior to the Effective Date, (iii) a beneficial interest in the trust established to hold Farmland litigation

claims, and (iv) title to the property subject to the Second Mortgages under a deemed deed-in-lieu of foreclosure (which property will then be deemed immediately resold to Farmland).

5. Convenience Claims

Claims in this class are (i) any prepetition unsecured claims against Farmland that, but for being defined as a Convenience Claim, would be a General Unsecured Claim, (ii) allowed in an amount of \$2,400 or less and (iii) scheduled as undisputed, non-contingent, and liquidated, or the subject of a timely filed proof of claim in a liquidated amount of \$2,400 or less; provided, however, that if a holder of a claim that would otherwise hold a Convenience Claim elects on its timely-filed ballot to be treated for voting and distribution purposes as a holder of a General Unsecured Claim against Farmland, such claim will be a General Unsecured Claim and not a Convenience Claim.

On the Effective Date, each holder of an allowed Convenience Claim will receive cash in an amount equal to 40% of such holder's Convenience Claim. In the event a holder of a claim against Farmland holds multiple claims against Farmland, such claims will not be aggregated for purposes of determining whether each such claim is a Convenience Claim except to the extent the multiple claims were originally held by the same person or entity.

6. Equity Interests

The interests in these classes are those of any holder of equity securities of any of the Debtors represented by the issued and outstanding shares of common or preferred stock or other instrument evidencing a present ownership interest in any of the Debtors, whether or not transferable, or any option, warrant, or right, contractual or otherwise, to acquire any such interest.

a. *PUSA Class 4.* As soon as reasonably practical after the payment in full of all allowed claims against PUSA, including all interest to which such holders of claims are entitled under the Plan and subject to reserving sufficient cash to pay holders of disputed claims against PUSA the amount which such holders would be entitled to receive if such disputed claims were allowed claims, each holder of an Equity Interest in PUSA will receive its Pro Rata share of remaining available PUSA cash.⁵⁷

b. *Farmland Class 4.* On the Effective Date, all instruments evidencing equity interests in Farmland will be canceled without further action under any applicable agreement, law, regulation, or rule, and the equity interests in Farmland evidenced

⁵⁷ Although PUSA does not believe there will be a distribution to holders of PUSA Class 4 (Equity Interests in PUSA), as the distributions to PUSA Class 3 (General Unsecured Claims against PUSA) is estimated to be 29%, the Plan provides for a distribution to holders of such equity interests in the unlikely event that there exists sufficient available PUSA cash to pay holders of claims against PUSA 100% of their claims. This contingency will only occur if ~~the Litigation Trust recovers proceeds several times higher than expected~~ PUSA recovers proceeds much greater than expected from its causes of action or from the Litigation Trust (on account of its General Unsecured Claim against Farmland). See Section VIII.C – D.

thereby will be extinguished and holders of an Equity Interest in Farmland will not receive nor retain any property under the Plan.

c. *MPA Class 4.* As soon as reasonably practical after the payment in full of all allowed claims against MPA, including all interest to which such holders of claims are entitled under the Plan and subject to reserving sufficient cash to pay holders of disputed claims against MPA the amount which such holders would be entitled to receive if such disputed claims were allowed claims, each holder of an Equity Interest in MPA will receive its Pro Rata share of remaining available MPA cash.

E. ADMINISTRATIVE EXPENSE CLAIMS AND PRIORITY TAX CLAIMS

To confirm the Plan, allowed Administrative Expense Claims and allowed Priority Tax Claims must be paid in full or in a manner otherwise agreeable to the holders of those claims.

1. Administrative Expense Claims

Administrative expenses are the actual and necessary costs and expenses of the chapter 11 cases. Those expenses include, but are not limited to, postpetition salaries and other benefits for employees, amounts owed to vendors providing goods and services during the chapter 11 cases, tax obligations incurred after the Commencement Date, allowed bankers' fees, allowed reclamation claims, management costs, and certain statutory fees and expenses. Other administrative expenses include the actual, reasonable, necessary, and unpaid fees and expenses of the professionals retained by the Debtors and the Creditors' Committee.

a. *PUSA and MPA.* Each holder of an allowed Administrative Expense Claim against PUSA or MPA will receive an amount in cash equal to the allowed amount of such claim.

b. *Farmland.* Except with respect to (i) the payment of Farmland's ordinary course expenses which will be paid in the ordinary course of business, or (ii) as otherwise agreed to by a holder of an allowed Administrative Expense Claim, on the Effective Date, or as soon thereafter as is reasonably practicable, each holder of an allowed Administrative Expense Claim against Farmland will receive an amount in cash equal to the allowed amount of the claim. On the Effective Date, however, (a) any obligations of Farmland under the Postpetition Financing Order will be paid, and (b) on account of the Lessor's claim for postpetition lease payments pursuant to 365(d)(10) of the Bankruptcy Code, which the Lessor agreed to defer as set forth in the Postpetition Financing Order, the Lessor will receive Preferred Membership Interests with a liquidation value of \$14,844,555.

c. *Allocation Agreement.* The allocation of Administrative Expense Claims among the Debtors will be determined in accordance with the Allocation Agreement. See Section VIII.G. below for complete discussion of the Allocation Agreement.

2. **Priority Tax Claims**

a. *PUSA*. On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed Priority Tax Claim against PUSA will receive an amount in cash equal to the allowed amount of such claim.

b. *Farmland*. Except to the extent that a holder of an allowed Priority Tax Claim agrees to a different treatment, each holder of an allowed Priority Tax Claim will receive, at the sole option of Farmland or Reorganized Farmland, (i) on the Effective Date, or as soon thereafter as is reasonably practical, cash equal to the allowed amount of such claim or (ii) equal annual cash payments each year on the anniversary of the Effective Date in an aggregate amount equal to such allowed Priority Tax Claim, together with interest at a fixed annual rate equal to 5% (or such other amount as determined by the Bankruptcy Court in the Confirmation Order), over a period not exceeding six (6) years after the date of assessment of such allowed Priority Tax Claim. All allowed Priority Tax Claims that are not due and payable on or before the Effective Date will be paid in the ordinary course of business as such obligations become due.

c. *MPA*. On the Effective Date, or as soon thereafter as is reasonably practical, each holder of an allowed Priority Tax Claim against MPA will receive an amount in cash equal to the allowed amount of such claim.

F. **IMPLEMENTATION OF PUSA PLAN**

1. **PUSA Plan Administrator**

The PUSA Plan Administrator will be designated by PUSA and the Creditors' Committee to implement the terms of the Plan with respect to PUSA, and the Confirmation Order will name the PUSA Plan Administrator.

The duties and powers of the PUSA Plan Administrator will include all powers necessary to implement the Plan with respect to PUSA and administer and liquidate the assets of PUSA, including, without the limitation, the duties and powers set forth in the Plan with respect to PUSA.

2. **Directors/Officers/Equity/Assets of PUSA on the Effective Date**

a. On the Effective Date, (i) all instruments evidencing Equity Interests in PUSA will be cancelled, provided, however, that holders of claims in PUSA Class 4 (Equity Interests in PUSA) will be entitled to receive ~~the~~any available distribution provided to such holders under the Plan, (ii) the PUSA Plan Administrator, on behalf of the holders of claims in PUSA Class 3, will hold 100% of the Equity Interests in PUSA until dissolution of PUSA pursuant to the Plan, and (iii) the PUSA Plan Administrator will be appointed and succeed to such powers as would have been applicable to PUSA's officers and directors.

b. After the Effective Date, the PUSA Plan Administrator may decide to maintain PUSA as a corporation or dissolve it and transfer all assets of PUSA to a trust or

another entity created to make distributions to holders of allowed claims against and equity interests in PUSA.

3. **PUSA Distributions Under the Plan**

a. *Effective Date Payments and Transfers.* On the Effective Date, or, as soon thereafter as reasonably practical, PUSA will remit, to each holder of an allowed claim (as of the Effective Date) against PUSA, the distribution provided for such claim under the Plan.

b. *Subsequent Distributions.* As additional available PUSA cash becomes available after the Effective Date from (i) undeliverable, time-barred, or unclaimed distributions to holders of allowed claims against PUSA, (ii) resolution of disputed claims, (iii) a decrease in the estimate of cash necessary to fund the administration of the Plan, (iv) liquidation of PUSA's non-cash assets, (v) recoveries on causes of action, or (vi) otherwise, PUSA will, at reasonable periodic intervals determined by the PUSA Plan Administrator, remit to each holder of an allowed General Unsecured Claim in PUSA Class 3 its Pro Rata share of available PUSA cash, provided, that no holder of a claim against PUSA will be entitled to an amount greater than the allowed amount of such claim plus the interest to which the holder is entitled under the Plan.

If (x) all holders of allowed claims in PUSA Class 3 have not received payment in full on account of their claims after the resolution of all disputed claims against PUSA and (y) PUSA does not hold sufficient cash or other assets to pay all holders of claims in PUSA Class 3 the full allowed amount of their claims, including interest to which holders of such claims are entitled under the Plan, (a) if all assets of PUSA have been liquidated, the PUSA Plan Administrator will make a final Pro Rata distribution of all remaining available PUSA cash to holders of claims in PUSA Class 3 or (b) if all assets of PUSA have not been liquidated, the PUSA Plan Administrator will either distribute, if possible, to each holder of allowed PUSA Class 3 claims its Pro Rata share of PUSA's assets in kind plus a Pro Rata share of the available PUSA cash or make a final Pro Rata distribution of all remaining available PUSA cash to holders of claims against PUSA in PUSA Class 3 after all assets of PUSA have been liquidated; provided, however, that in the event (x) and (y) occur, holders of equity interests in PUSA Class 4 will not receive a distribution on account of their equity interests.

As soon as reasonably practical after (i) the payment in full of allowed claims against PUSA, including interest to which holders of such claims are entitled under the Plan, (ii) resolution of all disputed claims against PUSA, and (iii) the liquidation of all the assets of PUSA and the resolution of all causes of action of PUSA, the PUSA Plan Administrator will complete the wind up of the affairs of PUSA (or the successor of PUSA), and PUSA will make a final Pro Rata distribution of all remaining available PUSA cash (which will constitute all cash of PUSA) to holders of Equity Interests in PUSA Class 4; provided, however, that if the liquidation of all PUSA assets has not been completed, but all allowed claims against PUSA (including interest to which holders of such claims are entitled under the Plan) have been paid in full and no disputed claims against PUSA remain, the PUSA Plan Administrator may make periodic distributions to holders of allowed Equity Interests in PUSA of available PUSA cash, or (if possible) distribute the remaining unliquidated assets of PUSA in kind Pro Rata to holders of equity interests in PUSA Class 4 in addition to available PUSA cash.

4. **Closing of PUSA Chapter 11 Case**

When all disputed claims filed against PUSA have become allowed claims or have been disallowed by final order and all remaining assets of PUSA have been liquidated and converted into cash or abandoned and such cash has been distributed in accordance with the Plan, the PUSA Plan Administrator will seek authority from the Bankruptcy Court to close PUSA's chapter 11 case in accordance with the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

G. IMPLEMENTATION OF FARMLAND PLAN

1. **Reorganized Farmland**

a. On the Effective Date, the existing operating agreement of Farmland will be replaced by the Reorganized Farmland LLC Agreement, which will be executed by or on behalf of the holders of the Membership Interests, and the existing articles of organization of Farmland will be amended and restated as will be necessary to be consistent therewith or as otherwise appropriate to give effect to the Reorganized Farmland LLC Agreement.

b. On or before the Effective Date, the following trusts will be established for the sole purpose of liquidating and distributing their assets for the benefit of holders of allowed claims in Farmland Classes 3a and 3b: (i) the Litigation Trust (discussed below in Section VIII.D.), and (ii) the Unsecured Creditors' Trust (discussed below in Section VIII.E.).

c. Reorganized Farmland will issue the following securities under the Plan without further action: (i) the Farmland Note in an aggregate principal amount of seven million (\$7,000,000) dollars, or a higher or lower amount if adjusted under the terms of the Plan as described below, (ii) Common Membership Interests, warrants to purchase Common Membership Interests, and Preferred Membership Interests in an amount to be specified in the Reorganized Farmland LLC Agreement (see discussion in subsection "5" below).

d. Any Common Membership Interests outstanding, but not issued under the Plan, will be reserved by Reorganized Farmland to be issued for other purposes described under the Plan.

2. **Method of Distributions of Farmland Under the Plan**

a. *Distributions to Lessor.* On the Effective Date, Reorganized Farmland will issue or transfer to the Lessor:

(i) 80% of the Common Membership Interests (some or all of which may be in the form of warrants exercisable for \$.01 per share to purchase Common Membership Interests) on a fully diluted basis after giving effect to all Common Membership Interests and warrants to purchase Common Membership Interests to be issued under the Plan;

(ii) a beneficial interest in the Litigation Trust (see Section VIII.C.);

(iii) a share of any proceeds on account of Farmland litigation claims collected prior to the Effective Date;

(iv) the Preference Causes of Action; provided, however, Reorganized Farmland will pursue such actions at the direction of and for the benefit of the Lessor;

(v) title to the property subject to the Second Mortgages under a deed-in-lieu of foreclosure, which property will then be deemed immediately resold to Farmland in exchange for Preferred Membership Interests (see subsection “9” below); and

(vi) the Preferred Membership Interests.

b. *Distributions to Litigation Trust.* On the Effective Date, and as discussed in more detail in Section VIII.C. - D., Farmland will transfer and/or provide to the Litigation Trust for the benefit of allowed claims in Farmland Class 3a (General Unsecured Claims against Farmland) and Farmland Class 3b (Master Lease Claim):

(i) any and all claims, rights, and causes of action, that could have been brought or raised by or on behalf of Farmland against any third party based on events that occurred prior to the Commencement Date or for damages found by a final order to have occurred prior to the Commencement Date, including but not limited to, against Farmland’s Canadian affiliates and Deloitte & Touche LLP and its affiliates and predecessors-in-interest (the “Litigation Claims”), other than the Excluded Claims (as defined in and subject to the recoveries by the Unsecured Creditors’ Trust discussed in subsection “7” below), and any claims (i) for moneys owed for goods and services provided by Farmland in the ordinary course of business, (ii) arising out of Preference Causes of Action, and (iii) that Reorganized Farmland would be entitled to setoff against obligations of Reorganized Farmland to pay holders of allowed Secured Claims, allowed Priority Claims, and allowed Administrative Expense Claims; and

(ii) cash in an initial amount of \$300,000, or a greater amount acceptable to the Lessor, to be loaned to the Litigation Trust by Reorganized Farmland to fund the fees, expenses, and costs of the Litigation Trust.

In addition, within 5 business days of the Effective Date, Reorganized Farmland will provide an accounting of all Farmland Litigation Proceeds (defined in Section VIII.C.) and Excluded Claim Net Proceeds (defined in subsection “7” below) collected by Farmland as of the Effective Date.

c. *Distributions to Unsecured Creditors’ Trust.* On the Effective Date, and as discussed in more detail in Section VIII.E., Farmland will transfer to the Unsecured Creditors’ Trust for the benefit of allowed claims in Farmland Class 3a (General Unsecured Claims against Farmland) and, as applicable, allowed claims in Farmland Class 3c (Convenience Claims):

(i) \$300,000 (the “Initial Funding Amount”) to administer the Unsecured Creditors’ Trust for the benefit of holders of allowed claims in Farmland Classes 3a and 3c (the Initial Funding Amount will be used to pay the costs of the Unsecured Creditors’ Trust, including resolving and objecting to claims and administering distributions to creditors — costs that are generally borne by a debtor. The Plan provides that any unused portion of the Initial Funding Amount will be remitted to Reorganized Farmland upon dissolution of the Unsecured Creditors’ Trust.);

(ii) the Farmland Note;

(iii) the Initial Cash Payment (as defined and calculated in subsection “3” below), minus all amounts paid or to be paid by Farmland to holders of allowed Convenience Claims as provided in the Plan;

(iv) a beneficial interest in the Litigation Trust (see Section VIII.D.); and

(v) a share of any proceeds on account of Farmland litigation claims collected prior to the Effective Date.

d. *Distributions to Holders of Allowed Convenience Claims.* On the Effective Date, or as soon thereafter as is reasonably practical, Farmland will distribute to each holder of an allowed Convenience Claim cash equal to 40% of the allowed amount of such claim (which will be deducted from the Initial Cash Payment distributed to the Unsecured Creditors’ Trust, as discussed in subsection “3” below).

e. *Distributions to New Management.* In connection with the Management Incentive Plan (defined and discussed in Section VIII.N.), on the Effective Date, Farmland will distribute to the new management of Reorganized Farmland Common Membership Interests in an amount to be specified in the Plan Supplement.

f. *Distributions to Junior Secured Exit Facility Lenders.* On the Effective Date, Reorganized Farmland will distribute to the lenders of the Second Lien Term Loan (defined in subsection “13” below) warrants to purchase Common Membership Interests.

g. *Other Effective Date Distributions.* Except with respect to the payment of ordinary course expenses which will be paid in the ordinary course of business, on the Effective Date, or as soon thereafter as reasonably practical, Farmland or Reorganized Farmland will remit to each holder of an allowed (i) Administrative Expense Claim against Farmland, (ii) Priority Tax Claim against Farmland, (iii) Priority Non-Tax Claim against Farmland, and (iv) Secured Claim against Farmland, the distribution provided for such claim under the Plan, which in most instances will be cash.

3. **Cash Payments**

The Plan provides for Farmland to make an “Initial Cash Payment” to holders of allowed claims in Farmland Classes 3a (General Unsecured Claims against Farmland) and 3c (Convenience Claims) and “Additional Cash Payments” based on the allowed amount of PUSA’s

Claim against Farmland and the amount of allowed claims against Farmland resulting from recoveries from Preference Causes of Action.

The Initial Cash Payment will be \$3 million, as adjusted downward by the formula in Article 7.7(a)(ii) of the Plan, if the allowed amount of PUSA's Claim against Farmland is less than \$10,392,497. If the amount of the PUSA Claim is known on the Effective Date, Farmland will distribute the entire \$3 million, as adjusted, on the Effective Date ((i) directly to holders of allowed Farmland Class 3c Claims and (ii) to the Unsecured Creditors' Trust to distribute to holders of allowed Farmland Class 3a claims, whether allowed on the Effective Date or thereafter, and holders of Farmland Class 3c claims which are disputed on the Effective Date but subsequently allowed).

If, on the Effective Date, the amount of the PUSA Claim has not been finally determined, the Initial Cash Payment will be \$1,960,750 (which is the Initial Cash Payment created by the formula if PUSA's Claim against Farmland is zero). In such a case, Reorganized Farmland also will escrow \$1,039,250, and once the amount of PUSA's Claim against Farmland is finally determined, the escrowed funds will be divided between the Unsecured Creditors' Trust, in the form of an "Additional Cash Payment," and Reorganized Farmland pursuant to the formula in Article 7.7(a)(iii) of the Plan.

Additionally, in the event greater than \$1 million in claims against Farmland resulting from recoveries from Preference Causes of Action are allowed, and after the PUSA Claim against Farmland has been determined by final court order, Reorganized Farmland will make periodic Additional Cash Payments to the Unsecured Creditors' Trust pursuant to the formula set forth in Article 7.7(b) of the Plan.

Following the commencement of these chapter 11 cases, AlixPartners, the Debtors' financial advisors, conducted an extensive investigation of inter-debtor transactions, which was reviewed with the Creditors' Committee's financial advisors. As set forth in Section VIII.A., the Creditors' Committee believes, based upon its review of the facts and circumstances of the PUSA Claim and AlixPartners' analysis, that the PUSA Claim should be fixed at \$10,392,497. In addition, the Debtors and the Creditors' Committee believe the other prepetition inter-debtor balances should be fixed in the amounts set forth in Section VIII.A. On January 10, 2005, the Debtors and the Creditors' Committee filed that certain Joint Motion of the Debtors and the Creditors' Committee for an Order Pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure Authorizing and Approving Settlement of Prepetition Inter-Debtor Balances (the "Inter-Debtor Settlement Motion"). A hearing on the Inter-Debtor Settlement Motion is scheduled for February 3, 2005.

As noted above, if the Bankruptcy Court approves the Inter-Debtor Settlement Motion setting the PUSA Claim against Farmland at \$10,392,497 prior to the Effective Date, the Initial Cash Payment paid by Farmland to or for the benefit of holders of allowed General Unsecured Claims and holders of allowed Convenience Claims will be \$3 million. Out of the \$3 million, Farmland will make a distribution (approximately \$225,906) directly to holders of Convenience Claims that are allowed on the Effective Date and will distribute the remaining Initial Cash Payment (approximately \$2,774,094) to the Unsecured Creditors' Trust to pay all

holders of allowed Farmland General Unsecured Claims and holders of disputed Convenience Claims that are allowed after the Effective Date.

Below is an example illustrating the formulas in Article 7.7 of the Plan. If the Bankruptcy Court approves the Inter-Debtor Settlement Motion setting the PUSA Claim against Farmland at \$10,392,497 prior to the Effective Date, most of the formulas in Article 7.7 of the Plan will be unnecessary. The only formula potentially applicable in such a scenario is the formula used to determine the Additional Cash Payment Reorganized Farmland will make if recoveries from Preference Causes of Action result in more than \$1 million in additional allowed claims against Farmland (which the Debtors believe is unlikely). Please note that for purposes of this illustrative example and others in this Disclosure Statement, numbers have been rounded to the nearest 1/100th. When the calculations are performed on or after the Effective Date, rounding will not be permitted, so the results of these examples will vary, in an immaterial amount, from the results of the actual calculations.

Example

In this example, on the Effective Date, the allowed amount of PUSA's Claim against Farmland has not been determined. A month after the Effective Date, such claim is allowed in the amount of \$9,000,000. Three months after the Effective Date, a claim in the amount of \$1,200,000 resulting from a recovery from a Preference Cause of Action is allowed against Farmland.

- On the Effective Date, the Initial Cash Payment would be \$1,960,750 and Reorganized Farmland will escrow \$1,039,250. (Of the Initial Cash Payment, Farmland would first pay holders of allowed Convenience Claims. Farmland would distribute the remainder to the Unsecured Creditors' Trust).
- One month after the Effective Date, Farmland would make an Additional Cash Payment to the Unsecured Creditors Trust equal to the formula in Article 7.7(a)(iii) of the Plan, which is: (i) the product of \$3,000,000 multiplied by a fraction, the numerator of which is \$30,000,000 minus the difference between \$10,392,497 less the allowed amount of PUSA's Claim against Farmland (which difference, in this example, is \$1,392,497) and the denominator of which is \$30,000,000 minus (ii) the Initial Cash Payment.

$$(3,000,000 \times (30,000,000 - 1,392,497) / 30,000,000) - 1,960,750 = 889,250$$

Thus, Reorganized Farmland would release the \$1,039,250 from escrow, distributing \$889,250 to the Unsecured Creditors' Trust as an Additional Cash Payment and keeping the remaining \$150,000 for itself.

- Three months after the Effective Date, Reorganized Farmland will make an Additional Cash Payment to the Unsecured Creditors' Trust as a result of the additional allowed Claim resulting from the recovery from the Preference Causes of Action pursuant to the formula set forth in Article 7.7(b) of the Plan. The

Additional Cash Payment will be equal to (i) the sum of Initial Cash Payment plus any Additional Cash Payment made pursuant to Article 7.7(a) of the Plan (which, in this example, is \$2,850,000), (ii) multiplied by a fraction, the numerator of which is \$30,000,000 plus the amount by which allowed claims against Farmland resulting from recoveries from Preference Causes of Action exceeds \$1,000,000 (which, in this example, is \$200,000) and the denominator of which is \$30,000,000, (iii) reduced by the Initial Cash Payment plus any Additional Cash Payment made pursuant to Article 7.7(a) of the Plan, and (iv) further reduced by the sum of all previous Additional Cash Payments received under Article 7.7(b) of the Plan.

$$(2,850,000 \times 30,200,000 / 30,000,000) - 2,850,000 - 0 = 28,500$$

Thus Reorganized Farmland would make an Additional Cash Payment of \$28,500 to the Unsecured Creditors' Trust as a result of additional allowed claims against Farmland resulting from a recovery from Preference Causes of Action.

4. **The Farmland Note**

a. On the Effective Date, Farmland will issue a five-year note (the "Farmland Note") in favor of the Unsecured Creditors' Trust on behalf of the holders of allowed claims in Farmland Class 3a (General Unsecured Claims against Farmland), the form of which will be acceptable to the Creditors' Committee and filed in the Plan Supplement. The principal amount of the Farmland Note will be \$7 million, as adjusted downward by the formula described in Article 7.8 of the Plan if PUSA's Claim against Farmland is determined by final order to be allowed in an amount less than \$10,392,497:

If the allowed amount of PUSA's Claim against Farmland is known on the Effective Date, the principal amount of the Farmland Note will be determined by a straightforward application of the formula, and there will be no need for an amendment of the Farmland Note.

If, however, the allowed amount of PUSA's Claim against Farmland has not been determined as of the Effective Date, then the principal amount of the Farmland Note will initially be \$4,575,084 (which is the amount produced by the formula if PUSA's Claim against Farmland is determined to be zero). After the allowed amount of such claim has been determined by a final order, Reorganized Farmland will execute and deliver, within five (5) business days, an amendment to the Farmland Note to provide for a principal amount equal to the amount that would have been produced by the formula on the Effective Date if the allowed amount of PUSA's Claim had been known on the Effective Date. Reorganized Farmland will then immediately pay to the Unsecured Creditors' Trust any cash that would have been paid on account of the Farmland Note if the principal amount of the Farmland Note, on the Effective Date, was the principal amount of the Farmland Note, as amended, minus any amounts that have already been paid to the Unsecured Creditors' Trust on account of the Farmland Note.

As noted above and discussed in Section VIII.A., on January 10, 2005, the Debtors and the Creditors' Committee filed the Inter-Debtor Settlement Motion. If the Bankruptcy Court approves the Inter-Debtor Settlement Motion setting the PUSA Claim at \$10,392,497 prior to the Effective Date, as is expected, the principal amount of the Farmland Note will be \$7 million, and there would be no amendments or further adjustments to the Farmland Note pursuant to any of the formulas in Article 7.8 of the Plan.

The example below illustrates how the formulas would work if the Bankruptcy Court does not approve the Inter-Debtor Settlement Motion setting the PUSA claim against Farmland at \$10,392,497 prior to the Effective Date.

Example

In this example, the allowed amount of PUSA's Claim against Farmland has not been determined as of the Effective Date, but is later determined to be \$9,000,000

- On the Effective Date, Reorganized Farmland will issue the Farmland Note to the Unsecured Creditors' Trust in the principal amount of \$4,575,084.
- When the final order has been entered determining that PUSA's Claim against Farmland is allowed in the amount of \$9,000,000, the Farmland Note will be amended within five (5) Business Days such that the new principal amount of the Farmland Note is \$7,000,000 multiplied by a fraction, the numerator of which is \$30,000,000 minus the difference between \$10,392,497 minus the Allowed amount of PUSA's Claim against Farmland (which difference, in this example, is \$1,392,497), and the denominator of which is \$30,000,000, or:

$$7,000,000 \times (30,000,000 - 1,392,497) / 30,000,000 = 6,650,000$$

Thus the Farmland Note will be amended so that the principal amount of such note is \$6,650,000, and Reorganized Farmland will be obligated to make any payments to the Unsecured Creditors' Trustee that would have been distributed if the principal amount of the Farmland Note had been \$6,650,000 as of the Effective Date, less amounts paid.

b. *Interest.* Interest on the Farmland Note will be paid quarterly at 6% per annum (subject to the subordination provisions in Article 7.8(h) of the Plan and discussed below), provided, however, that in the event of a payment default under the Farmland Note, interest will accrue at 8% per annum. Interest will accrue daily on the basis of a 365-day year and will be payment-in-kind as of the end of each fiscal quarter for the first ten fiscal quarters after issuance of the Farmland Note and thereafter will be payable in cash.

c. *Subordination.* The Farmland Note is subordinated to the Exit Facility (as discussed in subsection "13" below) in right of payment. The Exit Facility lenders will be permitted to block interest and principal payments on the Farmland Note in the event of a default under any Exit Facility. Once exercised with respect to any default, a payment block will be effective until the earlier of (x) twelve (12) months following the exercise of the block or (y)

the cure or waiver of the default giving rise to the block. If an interest payment is blocked, the amount that would otherwise be paid will accrete (and thereby be treated as though additional principal) as of the date on which the payment would otherwise have been due. The Exit Facility lenders may exercise the block right on more than one occasion in the event a payment block is in effect for less than twelve months, but the Exit Facility lenders cannot exercise their blocking rights for more than twelve (12) months in the aggregate.

In the event of (x) a Subordination Change of Control⁶⁸ or (y) a filing by Reorganized Farmland of a petition under the Bankruptcy Code, the Farmland Note will be contractually subordinated in right of repayment to the Preferred Membership Interests.

Payment of dividends on Common Membership Interests will be prohibited while any portion of the Farmland Note remains outstanding.

5. Common and Preferred Membership Interests

Reorganized Farmland will be issuing Common Membership Interests and Preferred Membership Interests under the Plan.

The Common Membership Interests will be accorded all such powers, rights, and privileges conventionally accorded common stock.

The Preferred Membership Interests will have a liquidation value of \$34,386,000 and bear dividends at the rate of 11% per annum of the liquidation thereof, which will accrue daily based on a 365 day year and be payable annually not later than ten (10) business days after the fiscal year end. Dividends on the Preferred Membership Interests will be payable in kind, through the issuance by Reorganized Farmland of additional Preferred Membership Interests, until the third anniversary of the Effective Date and thereafter payable in cash solely to the extent that payments due under the Farmland Note are made and Reorganized Farmland has additional funds available therefor; provided, however, that after the occurrence of either (x) a Subordination Change of Control (as defined in Article 1.90 of the Plan); or (y) a filing by Reorganized Farmland of a petition under the Bankruptcy Code, all dividends on Preferred Membership Interests will be payable, and all Preferred Membership Interests redeemable by Reorganized Farmland for their liquidation value, prior to the payment of additional amounts on account of the Farmland Note. All dividends not paid in cash will be payable in kind.

⁶⁸ As defined in Article 1.90 of the Plan, “Subordination Change of Control” means a sale of all or substantially all of the assets of Reorganized Farmland in which the purchaser is neither the Lessor or an affiliate of the Lessor. A Subordination Change of Control will not be deemed to have occurred unless (i) the Exit Facility is repaid in full or no value is distributed on account of the Common Membership Interests, (ii) the Unsecured Creditors’ Trustee receives thirty (30) days advanced notice of the sale, including drafts of the purchase and finance documents (only if the Lessor is financing the purchase) and the analysis of the valuation, if any, of Reorganized Farmland, and (iii) either the purchaser is not financed by the Lessor or, if the purchaser is financed by the Lessor, such financing is either on (a) market terms or (b) terms similar to other loans made by the Lessor to similar borrowers under similar circumstances.

6. Issuance and Resale of Plan Securities

The issuance of the Farmland Note is expected to satisfy the requirements of section 1145 of the Bankruptcy Code and, therefore, the Plan is to be implemented without registration of the Farmland Note under the Securities Act of 1933, as amended (the “Securities Act”), and any state law requiring registration of the sale of securities in reliance on the exemption provided by such section. The Common Membership Interests and Preferred Membership Interests are to be issued under the Plan on a private offering basis and, therefore, without registration under the Securities Act and in reliance on comparable exemptions from any applicable state law requiring registration of the sale of securities. Transfer of such securities, accordingly, will be restricted (as discussed in Section IX.B.7.). Some of all holders of Common Membership Interests and Preferred Membership Interests may be provided rights to have Reorganized Farmland register their interests for sale under the Securities Act as may be provided in the Plan Supplement.

Given that the Common Membership Interests and Preferred Membership Interests will not be registered under the Securities Act in connection with the Plan and, consequently, the complex nature of the considerations pertaining to whether and when a particular person who receives Common Membership or Preferred Membership Interests may sell such interests, the Debtors make no representations concerning the right of any person to transfer such Plan Securities and recommend that potential recipients of Plan Securities consult their own counsel concerning if and when they may transfer such securities.

7. Excluded Claims

Reorganized Farmland will be entitled to prosecute all “Excluded Claims,” which are claims of Farmland and/or Reorganized Farmland that could have been brought or raised by or on behalf of Farmland against any third party based on events that occurred prior to the Commencement Date or for damages found by a final court order to have occurred prior to the Commencement Date, which are integral to the ongoing business of Farmland or Reorganized Farmland, but only to the extent the claims would be Litigation Claims if they were not Excluded Claims. The claims against Dean Foods Company and its affiliates, including Tuscan/Lehigh Dairies, Inc., will be Excluded Claims. See discussion in Section VI.P.

a. *Distribution of Excluded Claim Net Proceeds.* “Excluded Claim Net Proceeds” means the gross proceeds realized by Farmland or Reorganized Farmland on account of any Excluded Claims, less all fees, costs, and expenses expended by Farmland or Reorganized Farmland. The Excluded Claim Net Proceeds will include only actual cash proceeds on account of judgment or settlement of any Excluded Claims, and will not include the benefits or burdens of any agreement or business relationship involving the provision of goods or services by or to any party to an Excluded Claim. Farmland and Reorganized Farmland will distribute the Excluded Claim Net Proceeds as follows: (i) all Excluded Claim Net Proceeds that would be distributed to the Unsecured Creditors’ Trust if they were Net Litigation Proceeds (as defined in Section VIII.C.), will be distributed by Farmland or Reorganized Farmland to the Unsecured Creditors’ Trust; and (ii) all Excluded Claim Net Proceeds that would be distributed to the Lessor if they were Net Litigation Proceeds will be retained by Farmland or Reorganized Farmland. Reorganized Farmland will transmit to the Unsecured Creditors’ Trust quarterly

statements of the status of its prosecution of the Excluded Claims, and prior to making any distribution of Excluded Claim Net Proceeds, the Litigation Trustee (defined in Section VIII.D.) will provide to Reorganized Farmland, an accounting of all distributions on account of Net Litigation Proceeds made by the Litigation Trust. Subsequent to making distributions of Excluded Claim Net Proceeds, Reorganized Farmland will provide an accounting of any distribution to the Litigation Trustee.

8. Properties Subject to Second Mortgages

On the Effective Date, Farmland will be deemed to have given the Lessor deeds in lieu of foreclosure with respect to the mortgaged real property subject to the Second Mortgages, and such Second Mortgages will be deemed to have merged into the deeds in lieu of foreclosure. Farmland will then be deemed to immediately repurchase the real property subject to the Second Mortgages, in exchange for (i) Preferred Membership Interests with a liquidation value of \$10,365,000, and (ii) the release of any obligation the Lessor has under the Postpetition Financing Order to share or distribute any such proceeds with or to Farmland or Reorganized Farmland.

9. Master Lease Buyback Agreement

The Lessor and Farmland will enter into the Buyback Agreement pursuant to which, on the Effective Date, the Lessor will sell to Farmland the equipment subject to the Master Lease Financing Agreement in exchange for Preferred Membership Interests with a liquidation value of \$9,176,445.

10. Citibank Receivables Purchase Agreement

In connection with the Citibank Receivables Purchase Agreement, on or before the Effective Date, Farmland will repurchase the Farmland Receivables Interests (as such term is defined in the Postpetition Financing Order) from Citibank for an amount in cash equal to the Farmland Receivables Interest capital plus accrued and unpaid yield and obligations.

11. Pension Plans

Farmland maintains and sponsors certain defined benefit pension plans, including the Parmalat New Atlanta Dairies Union Retirement Income Security Plan, the Farmland Dairies Local 680 Pension Plan, the Sunnydale Pension Plan, the Clinton Milk Employees Pension Plan, and the Clinton Milk Company Local 680 Pension Plan (collectively, the "Pension Plans"). Following the Effective Date, Farmland presently intends to continue, or to cause Reorganized Farmland to continue, to maintain the Pension Plans, subject to Farmland's right to amend, terminate or modify the Pension Plans as permitted by such plans or applicable law and to administer and operate the Pension Plans in accordance with their terms and the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, 29 U.S.C. §§ 1301-1461, and the Internal Revenue Code of 1986, as amended (the "IRC"), as set forth in 29 U.S.C. § 1082 and Tax Code Section 412, respectively, and to pay all insurance premiums due and owing with respect to the Pension Plans to the Pension Benefit Guaranty Corporation, a wholly owned United States government corporation that administers the defined benefit pension plan termination insurance program under Title IV of ERISA. The Lessor has

informed the Debtors that no entity other than Reorganized Farmland will be in Reorganized Farmland's "control group" for ERISA purposes.

12. Retiree Benefits

On or after the Effective Date, pursuant to section 1129(a)(13) of the Bankruptcy Code, Reorganized Farmland will continue to pay all retiree benefits of Farmland (within the meaning of section 1114 of the Bankruptcy Code), if any, at the level established in accordance with section 1114 of the Bankruptcy Code, at any time prior to the Confirmation Date, for the duration of the period for which Farmland obligated itself to provide such benefits.

13. Exit Facility

Reorganized Farmland expects to enter into an Exit Facility likely consisting of three (3) separate sub-facilities of up to \$100-110 million. The proceeds of the Exit Facility and cash generated from operations will be used to repay the claims in connection with the Postpetition Credit Agreement (as defined in Section VI.D.), repurchase the receivables sold under the Citibank Receivables Purchase Agreement (as defined in Section VI.K.), to fund payments required to be made under the Plan on the Effective Date, and to meet working capital and other corporate needs of Reorganized Farmland, thereby facilitating its emergence from bankruptcy.

The three (3) separate sub-facilities of the Exit Facility will likely consist of the following: (i) a \$35 million revolving line of credit (the "Revolving Line of Credit") secured by accounts receivable and inventory, of which \$10 million will be drawn on emergence and \$7.2 million of undrawn letters of credit are projected to be issued under the Revolving Line of Credit; (ii) a \$20 million term loan secured by a first lien on fixed assets (the "First Lien Term Loan"); and (iii) a \$45-55 million term loan secured by a second lien on fixed assets (the "Second Lien Term Loan"). The settlement among Farmland, the Creditors' Committee, and the Lessor provides that the outstanding balance under the Exit Facility will not be increased above \$120 million without the consent of the Unsecured Creditors' Trustee, unless the Unsecured Creditors' Trust has been dissolved.

Farmland is currently in discussions with several lenders to arrange the Exit Facility and has already received preliminary exit financing proposals. On December 8, 2004, the Bankruptcy Court approved Farmland's payment of deposits and reasonable fees and out-of-pocket legal and other expenses to potential lenders designed to cover the costs of the potential lenders' field examinations and preliminary due diligence and as a condition to the potential lenders' signing proposal and commitment letters. As of the date hereof, no formal commitment to provide the Exit Facility has been obtained. Farmland is confident that prior to confirmation it will obtain one or more formal commitments to provide the Exit Facility. The Exit Facility is a condition to the effectiveness of the Farmland Plan. Documents evidencing the Exit Facility, or commitment letters with respect thereto, will be presented by Farmland to the Bankruptcy Court no later than the Confirmation Date. Notice of any material modification to the Exit Facility or the commitment letters with respect thereto will be provided to the Lessor, the DIP Lender and the Creditors' Committee or the Unsecured Creditors' Trustee, as the case may be. In the Confirmation Order, the Bankruptcy Court will authorize Reorganized Farmland to execute the

same together with other documents as the Exit Facility lenders may reasonably require to effectuate the treatment afforded to the parties under the Exit Facility.

H. IMPLEMENTATION OF MPA PLAN

1. MPA Plan Administrator

The MPA Plan Administrator will initially be chosen by MPA and the Confirmation Order will name the MPA Plan Administrator. The duties and powers of the MPA Plan Administrator will include all powers necessary to implement the Plan with respect to MPA and the Amended MPA LLC Agreement (defined below) and administer and liquidate the assets of MPA.

2. The Amended MPA LLC Agreement

On the Effective Date, the operating agreement for MPA (the “Amended MPA LLC Agreement”), as in effect immediately prior to the Effective Date (which will be amended as provided by the Plan Supplement), will continue to provide for MPA to be managed by a manager, not by its members, and will name the MPA Plan Administrator as the sole manager of MPA in substitution for and replacement of existing managers of MPA, but this will not change the members of MPA. On the Effective Date, the MPA Plan Administrator will, by operation of the Plan, be admitted to MPA as a member and receive a 0.01% interest in MPA and the beneficial interest of each other holder of a beneficial interest will be proportionately reduced. The MPA Plan Administrator will serve as MPA’s “Tax Matters Member,” as such term is defined in Section 6231(a)(7) of the IRC (the “Tax Matters Member”) and will be authorized by the Amended MPA LLC Agreement to perform all duties and exercise all rights of the Tax Matters Member.

3. Termination

MPA will terminate after its liquidation, administration, and distribution of its assets in accordance with the Plan and its material completion of all other duties and functions, but in no event later than three (3) years after the Effective Date, unless extended by the MPA Plan Administrator pursuant to the terms of the Amended MPA LLC Agreement. Upon termination, the MPA Plan Administrator will cause to be filed with the State of Alabama and any other governmental authority, the appropriate certificate of dissolution or cancellation.

4. Method of Distributions of MPA Under the Plan

a. *Effective Date Payments and Transfers.* On the Effective Date, or as soon thereafter as reasonably practical, after reserving sufficient funds in trust to pay holders of disputed claims against MPA the amount such holders would be entitled to receive under the Plan if all such claims were allowed claims, MPA will remit, to each holder of an allowed claim (as of the Effective Date) against MPA, the distribution provided for such claim under the Plan; provided, however, that no holder of a claim against MPA will be entitled, on account of such claim, to an amount greater than the allowed amount of such claim.

b. *Subsequent Distributions.* Unless otherwise provided in the Plan, as additional available MPA cash becomes available subsequent to the Effective Date from (i) undeliverable, time-barred, or unclaimed distributions to holders of allowed claims against MPA, (ii) resolution of disputed claims, (iii) a decrease in the estimate of cash necessary to fund the administration of the Plan, (iv) liquidation of MPA's non-cash assets, (v) recoveries on causes of action, or (vi) otherwise, MPA will, at reasonable periodic intervals determined by the MPA Plan Administrator, remit to each holder of an allowed general unsecured claim in MPA Class 3 its Pro Rata share of available MPA cash; provided, however, that no holder of a claim against MPA will be entitled, on account of such claim, to an amount greater than the allowed amount of the claim plus the interest to which such holder is entitled under the Plan.

If (x) all holders of allowed claims in MPA Class 3 have not received payment in full on account of their claims after the resolution of all disputed claims against MPA and (y) MPA does not hold sufficient cash or other assets to pay all holders of claims in MPA Class 3 the full allowed amount of their claims, including interest to which holders of such claims are entitled under the Plan, (a) if all assets of MPA have been liquidated, the MPA Plan Administrator will make a final Pro Rata distribution of all remaining available MPA cash to holders of claims in MPA Class 3 or (b) if all assets of MPA have not been liquidated, the MPA Plan Administrator will either distribute, if possible, to each holder of allowed MPA Class 3 claims its Pro Rata share of MPA's assets in kind plus a Pro Rata share of the available MPA cash or make a final Pro Rata distribution of all remaining available MPA cash to holders of claims against MPA in MPA Class 3 after all assets of MPA have been liquidated; provided, however, that in the event (x) and (y) occur, holders of Equity Interests in MPA Class 4 will not receive a distribution on account of their equity interests.

As soon as reasonably practical after (x) the payment in full of all allowed claims against MPA, including interest to which holders of such claims are entitled under the Plan, (y) the resolution of all disputed claims against MPA, and (z) the liquidation of all the assets of MPA, including the resolution of all causes of action of MPA, the MPA Plan Administrator will take any action necessary to complete and effectuate the dissolution and winding up the affairs of MPA, and MPA will make a final Pro Rata distribution of all remaining available MPA cash (which will constitute all cash of MPA) to holders of allowed equity interests in MPA Class 4; provided, however, that if (x) and (y), but not (z) will have occurred, the MPA Plan Administrator may, in its sole discretion, make periodic distributions to holders of allowed equity interests in MPA of available MPA cash or, if possible, distribute the remaining unliquidated assets of MPA in kind Pro Rata to holders of allowed equity interests in MPA Class 4 in addition to the available MPA cash.

5. Closing of MPA's Chapter 11 Case

When all disputed claims filed against MPA have become allowed claims or have been disallowed by final order, and all remaining assets of MPA have been liquidated and converted into cash or abandoned and such cash has been distributed in accordance with the Plan and the business and affairs of MPA otherwise wound up, the MPA Plan Administrator will seek authority from the Bankruptcy Court to close MPA'S chapter 11 case in accordance with the Bankruptcy Code and the Bankruptcy Rules.

I. RESERVATION OF “CRAM DOWN” RIGHTS

The Bankruptcy Code permits the Bankruptcy Court to confirm a chapter 11 plan over the dissent of any class of claims or equity interests as long as the standards in section 1129(b) are met. This power to confirm a plan over dissenting classes — often referred to as “cram down” — is an important part of the reorganization process. It assures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code and is in the interests of the other constituents in the case.

The Debtors expressly reserve the right to seek confirmation of their respective Plans notwithstanding the rejection of the Plan by any class entitled to vote. In the event a class of claims votes to reject the Farmland Plan, if a class of impaired claims against Farmland has voted to accept the Farmland Plan, Farmland intends to request that the Bankruptcy Court rule that the Plan meets the requirements specified in section 1129(b) of the Bankruptcy Code with respect to such class. Farmland will also seek a ruling that the standards of section 1129(b) of the Bankruptcy Code are satisfied with respect to Farmland Class 4 (Equity Interests in Farmland), which is deemed to reject the Plan.

In the event PUSA Class 3 (General Unsecured Claims against PUSA), the only impaired class of claims against PUSA, votes to accept the PUSA Plan, PUSA will request that the Bankruptcy Court rule that the PUSA Plan meets the requirements of sections 1129(b) of the Bankruptcy Code with respect to PUSA Class 4 (Equity Interests in PUSA), if such class votes to reject the PUSA Plan.

In the event MPA Class 3 (General Unsecured Claims against MPA), the only impaired class of claims against MPA, votes to accept the MPA Plan, MPA will request that the Bankruptcy Court rule that the MPA Plan meets the requirements of sections 1129(b) of the Bankruptcy Code with respect to MPA Class 4 (Equity Interests in MPA), if such class votes to reject the MPA Plan.

III. VOTING PROCEDURES AND REQUIREMENTS

Detailed voting instructions are provided with the Ballot accompanying this Disclosure Statement. The following classes are the only ones entitled to vote to accept or reject the Plan.

CLASS	DESCRIPTION
PUSA Class 3	General Unsecured Claims against PUSA
PUSA Class 4	Equity Interests in PUSA
Farmland Class 3a	General Unsecured Claims against Farmland
Farmland Class 3b	Master Lease Claim
Farmland Class 3c	Convenience Claims
MPA Class 3	General Unsecured Claims against MPA
MPA Class 4	Equity Interests in MPA

If your claim or interest is not in one of these classes, you are not entitled to vote and you will not receive a ballot with the Disclosure Statement. If your claim or interest is in one of these classes, you should read your ballot and follow the listed instructions carefully. Please use only the ballot that accompanies the Disclosure Statement.

If a ballot is damaged or lost, or you have any questions concerning voting procedures, you may contact the Debtors' Voting Agent at:

Ballot Information Number: (866) 798-7938

A. VOTE REQUIRED FOR ACCEPTANCE BY A CLASS

1. Acceptance by Impaired Class of Claims

Under the Bankruptcy Code, acceptance of a plan of reorganization by a class of claims is determined by calculating the number and the amount of claims voting to accept, based on the actual total claims voting. Acceptance requires an affirmative vote of a majority of the total claims and two-thirds in amount of the total claims voting.

2. Acceptance by Impaired Class of Interests

Under the Bankruptcy Code, acceptance of a plan of reorganization by a class of interests is determined solely by the amount of interests voting to accept. Acceptance requires two-thirds in amount of the total claims voting.

A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

B. CLASSES NOT ENTITLED TO VOTE

Under the Bankruptcy Code, creditors are not entitled to vote if their contractual rights are unimpaired by the Plan or they will receive no property under the Plan. Based on this standard, PUSA Class 1 (Priority Non-Tax Claims against PUSA), PUSA Class 2 (Secured Claims against PUSA), Farmland Class 1 (Priority Non-Tax Claims against Farmland), Farmland Class 2 (Secured Claims against Farmland), MPA Class 1 (Priority Non-Tax Claims against MPA), and MPA Class 2 (Secured Claims against MPA) are not entitled to vote because these classes are not being affected by the Plan and, therefore, these classes are conclusively presumed to have accepted the Plan.

C. PRESUMED REJECTIONS AND CRAM DOWN

For purposes of voting on the Plan, interests in Farmland Class 4 (Equity Interests in Farmland) are conclusively presumed to have rejected the Plan. In the event that at least one class of impaired claims votes to accept the Farmland Plan, Farmland will utilize the provisions of sections 1129(b) of the Bankruptcy Code to satisfy the requirements for confirmation of the Plan over the presumed rejection of Farmland Class 4 and the rejection, if any, of any other class entitled to vote to accept or reject the Plan.

D. VOTING

The Debtors have engaged Bankruptcy Services LLC as their Voting Agent to assist in the transmission of voting materials and in the tabulation of votes with respect to the Plan. For your vote to be counted, your vote must be **received** by the Voting Agent at the following address before the voting deadline of 4:00 p.m., New York Time, on February 18, 2005:

**Bankruptcy Services LLC
757 Third Avenue
Third Floor
New York, New York 10017
Tel: (866) 798-7938**

ANY BALLOT THAT IS EXECUTED AND RETURNED BUT WHICH DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN WILL NOT BE COUNTED.

E. WITHDRAWAL OF BALLOT

Any voter that has delivered a valid ballot may withdraw its vote by delivering a written notice of withdrawal to the Voting Agent before the Voting Deadline. To be valid, the notice of withdrawal must (a) be signed by the party who signed the Ballot to be revoked, and (b) be received by the Voting Agent before the Voting Deadline. The Debtors may contest the validity of any withdrawals. Any holder that has delivered a valid ballot may change its vote by delivering to the Voting Agent a properly completed subsequent ballot so as to be received

before the Voting Deadline. In the case where more than one timely, properly completed ballot is received, only the ballot that bears the latest date will be counted.

IV. FINANCIAL INFORMATION AND PROJECTIONS

A. INTRODUCTION

This section provides summary information concerning the recent financial performance of Farmland and certain assumptions about the Debtors.

1. Pro Forma Financial Projections

PUSA and MPA submit that feasibility is satisfied because the Plan provides for liquidation with respect to both PUSA and MPA. Farmland believes that the Plan meets the Bankruptcy Code's feasibility requirement that Plan confirmation is not likely to be followed by liquidation, or the need for further financial reorganization of Farmland or any successor under the Plan.

In connection with the development of the Plan, and for the purposes of determining whether the Plan satisfies the feasibility standard, Farmland analyzed its ability to satisfy its financial obligations while maintaining sufficient liquidity and capital resources. In this regard, the management of Farmland developed and refined its business plan and prepared financial projections for the three-month period ending December 31, 2004 (the "Stub Period") and for the calendar years ending December 31, 2005 through 2008 (collectively, the "Projections"). Farmland does not, as a matter of course, publish its business plans and strategies or projections or its anticipated financial position or results of operations. Accordingly, Farmland does not anticipate that it will, and disclaims any obligation to, furnish updated business plans or projections to holders of claims or interests after the Confirmation Date, or to include such information in documents required to be filed with the Securities and Exchange Commission (if any) or otherwise make such information public. Since the completion of the Projections, certain events occurred during the Stub Period — including the approval of the LC Facility pursuant to the Supplemental Postpetition Financing Order (as discussed in Section VI.D.3.) and the realization of proceeds from the sale of certain Non-Operating Properties (as discussed in Section VI.G.2.) — which would make the actual figures for the period ending December 31, 2004 vary slightly from the Projections. However, as of the date hereof, the Debtors do not have the actual results for the year ending December 31, 2004.

In connection with the planning and development of the Plan, the Projections were prepared by Farmland to present the anticipated impact of the Plan. The Projections assume that the Plan will be implemented in accordance with its stated terms. Since the Projections are based on forecasts of key economic variables such as the demand for milk products, Farmland's ability to restructure its operations in an efficient manner, the ability to introduce certain products to the market, and the ability to maintain certain customers and pricing, the estimates and assumptions underlying the Projections are inherently uncertain. Though considered reasonable by Farmland as of the date hereof, the Projections are subject to significant business, economic and competitive uncertainties. Accordingly, such projections, estimates and assumptions are not necessarily indicative of current values or future performance,

which may be significantly less favorable or more favorable than as set forth. The Projections were substantially completed in October of 2004.

ALTHOUGH EVERY EFFORT WAS MADE TO BE ACCURATE, THE PROJECTIONS ARE ONLY AN ESTIMATE, AND ACTUAL RESULTS MAY VARY CONSIDERABLY FROM THE PROJECTIONS. IN ADDITION, THE UNCERTAINTIES WHICH ARE INHERENT IN THE PROJECTIONS INCREASE FOR LATER YEARS IN THE PROJECTION PERIOD, DUE TO INCREASED DIFFICULTY ASSOCIATED WITH FORECASTING LEVELS OF ECONOMIC ACTIVITY AND FARMLAND PERFORMANCE AT MORE DISTANT POINTS IN THE FUTURE. CONSEQUENTLY, THE PROJECTED INFORMATION INCLUDED HEREIN SHOULD NOT BE REGARDED AS A REPRESENTATION BY FARMLAND, FARMLAND'S ADVISORS, OR ANY OTHER PERSON THAT THE PROJECTED RESULTS WILL BE ACHIEVED. THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARDS PUBLIC DISCLOSURE OR COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, THE PUBLISHED GUIDELINES OF THE SECURITIES AND EXCHANGE COMMISSION OR THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING PROJECTIONS OR FORECASTS. THE PROJECTIONS HAVE NOT BEEN AUDITED OR REVIEWED BY FARMLAND'S INDEPENDENT CERTIFIED ACCOUNTANTS. IMPAIRED CREDITORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THE FOLLOWING PROJECTIONS IN DETERMINING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN.

The Projections assume that (i) the Plan will be confirmed and consummated in accordance with its terms, (ii) there will be no material change in legislation or regulations, or the administration thereof, that will have an unexpected effect on the operations of Reorganized Farmland, (iii) there will be no change in generally accepted accounting principles in the United States that will have a material effect on the reported financial results of Reorganized Farmland, and (iv) there will be no material contingent or unliquidated litigation or indemnity claims applicable to Reorganized Farmland. To the extent that the assumptions inherent in the Projections are based upon future business decisions and objectives, they are subject to change. In addition, although they are presented with numerical specificity and considered reasonable by Farmland when taken as a whole, the assumptions and estimates underlying the Projections are subject to significant business, economic and competitive uncertainties and contingencies, many of which will be beyond the control of Reorganized Farmland. Accordingly, the Projections are only an estimate and, therefore, necessarily speculative in nature. It can be expected that some or all of the assumptions in the Projections will not be realized and that actual results will vary from the Projections, which variations may be material and are likely to increase over time. The Projections should therefore not be regarded as a representation by Farmland or any other person that the results set forth in the Projections will be achieved. In light of the foregoing, readers are cautioned not to place undue reliance on the Projections. The Projections should be read together with the information in Section IV to this Disclosure Statement.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. The Projections contain statements which constitute "forward-looking statements" within the meaning of the Securities Act and the Securities Exchange Act of 1934 (the "Exchange Act"), as amended by the Private Securities Litigation

Reform Act of 1995. "Forward-looking statements" in the Projections include the intent, belief or current expectations of Farmland and members of their management team with respect to the timing of, completion of and scope of the current restructuring, reorganization plan, strategic business plan, bank financing, and debt and equity market conditions and Farmland's future liquidity, as well as the assumptions upon which such statements are based. While Farmland believes that the expectations are based on reasonable assumptions within the bounds of their knowledge of their business and operations, parties in interest are cautioned that any such forward-looking statements are not guarantees of future performance, and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those contemplated by the forward-looking statements in the Projections include, but are not limited to, further adverse developments with respect to Farmland's liquidity position or operations of Farmland's business, adverse developments in Farmland's efforts to renegotiate its funding and adverse developments in the bank financing or public or private markets for debt or equity securities, or adverse developments in the timing or results of Farmland's strategic business plan (including the time line to emerge from chapter 11), the difficulty in controlling industry costs and the ability of Farmland to realize the anticipated general and administrative expense savings and overhead reductions presently contemplated, the ability of Farmland to return Farmland's operations to profitability, the level and nature of any restructuring and other one-time charges, the difficulty in estimating costs relating to exiting certain markets and consolidating and closing certain operations, and the possible negative effects of a change in applicable legislation.

2. Summary of Significant Assumptions

Farmland's management developed the Projections based on: (i) current and projected market conditions in each of Farmland's respective markets, (ii) information regarding contracted customers which were likely to renew business for 2005, (iii) cost savings opportunities at various plant locations and administrative departments, (iv) the ability to maintain sufficient working capital to self-fund operations or access to financing sources to fund any deficiencies, and (v) confirmation of the Plan.

For presentation purposes, it is assumed that Farmland emerges from chapter 11 on December 31, 2004, thus completing the financial restructuring of Farmland. Farmland intends to emerge in the first quarter of 2005, which management believes will not materially change the Projections. All costs presented in the restructuring columns of the statements are assumed to be incurred and paid if applicable at December 31, 2004. However, not all of the costs presented in that column will be paid immediately and may be paid when approved by the Bankruptcy Court, when negotiated, or in the ordinary course of business of Farmland.

As discussed in Section II.G., Reorganized Farmland expects to enter into an Exit Facility, consisting of three (3) separate sub-facilities of up to \$100-110 million upon emergence from its chapter 11 case. The three (3) separate sub-facilities of the Exit Facility will likely consist of the following: (i) a \$35 million Revolving Line of Credit secured by accounts receivable and inventory, of which \$10 million will be drawn on emergence and \$7.2 million of undrawn letters of credit are projected to be issued under this facility; (ii) a \$20 million First

Lien Term Loan; and (iii) a \$45-55 Second Lien Term Loan. For detailed information on the Exit Facility, see Section II.G.13.

For purposes of preparing the Projections, a blended interest rate at emergence of 7.4% has been assumed and applied to the estimated outstanding balance of the Exit Facility. The Projections assume the following amortization schedule: the Revolving Line of Credit will be paid down with surplus cash; the First Lien Term Loan will amortize based on a six-year amortization; the Second Lien Term Loan will amortize at a rate of \$250,000 per quarter, beginning on the second anniversary of the Effective Date. The Exit Facility is projected to have a term of four (4) years. The actual amount of proceeds required could differ materially from this estimate, as could the actual blended interest rate, amortization schedule and term ultimately obtained. The final terms of the Exit Facility are subject to further negotiation with Farmland's potential exit lenders and future market conditions. The Projections assume that the Preferred Membership Interests have interest which is payable-in-kind until the third anniversary of the Effective Date, after which time interest is paid in cash (see Section II.G.5.).

The Projections contemplate the payment of certain cash amounts to the Unsecured Creditors' Trust, the issuance of securities to the Unsecured Creditors' Trust, and certain rights of recovery from the Litigation Trust as provided in the Plan. It is assumed that the Unsecured Creditors' Trust will receive \$2,774,094 of cash at emergence (after payment on the Effective Date of allowed Convenience Claims) and the Farmland Note with a value of \$7 million. For more information on the distributions to the Unsecured Creditors' Trust, see Section VIII.E. For more information on the Litigation Trust, see Section VIII.D.

The Projections also contemplate the rejection of the Master Lease Financing Agreement, and, as described in Section II.G.9, above, the sale of (i) the equipment subject to the Master Lease Financing Agreement in exchange for Preferred Membership Interests with a face value of \$9,176,445, and (ii) real property subject to the Second Mortgages (which are deemed to have been merged into deeds in lieu of foreclosure given by Farmland to the Lessor on the Effective Date), in exchange for Preferred Membership Interests with a face value of \$10,365,000 and the release of any obligation the Lessor has under the Postpetition Financing Order to share or distribute any proceeds received from such sale with Farmland or Reorganized Farmland. The Projections also contemplate an additional \$14,844,555 in Preferred Membership Interests, issued on account of the Lessor's claim for postpetition lease payments pursuant to 365(d)(10) of the Bankruptcy Code, which the Lessor agreed to defer in accordance with the terms of the Postpetition Financing Order.

"Fresh Start Reporting" principles, which Farmland will be required to adopt upon emergence from chapter 11 have been reflected in the Projections. Fresh Start Reporting requires, among other things, that Farmland's assets and liabilities be recorded at fair value on the Effective Date. As a result, Farmland's Projections reflect reductions in the fixed assets, intangibles, and deferred tax accounts to reflect Fresh Start Reporting.

3. Assumptions Surrounding PUSA

The Projections reflect the proposed plan structure for PUSA as of emergence in December 2004. The Projections take into account a recovery from the MPA estate of \$5

million. PUSA will also have a recovery from Farmland based on its prepetition claim of \$10,392,497. Creditors of PUSA will receive recovery from the initial cash distribution and the Farmland Note, both of which are contemplated in the Projections, and the Litigation Trust, which is not included in the Projections. Of the total \$10,788,000 of forecasted value at PUSA, (i) \$1.53 million is forecasted to be distributed in cash to allowed Administrative Expense Claims, (ii) \$1.2 million to allowed Priority Tax Claims, and (iii) \$8 million to PUSA Class 3 General Unsecured Claims. The \$1.53 million allowed Administrative Expense Claim estimate includes an estimated \$1.5 million Administrative Expense Claim owed to Farmland for incurred professional fee expenses relating to PUSA's estate. There are no PUSA Class 1 or PUSA Class 2 claims estimated. For further information see the chart titled "Parmalat USA Projected Sources and Uses of Recovery," on pg. 48.

4. **Assumptions Surrounding MPA**

In October 2004, MPA was sold to Dean Foods Company ("Dean") for \$21.6 million. With the exception of entries surrounding the establishment of an escrow of proceeds and the paydown of certain MPA liabilities, the projected Stub Period balance sheet and income statement do not include MPA financials after the sale. The settlement of the MPA pre-petition and post-petition liabilities is assumed to occur on or before the Effective Date. The net proceeds estimated to be available for distribution to holders of claims against and equity interests in MPA (including inter-debtor claims) is approximately \$34.6 million, based on the following sources and uses of funds. In addition to the \$21.6 million of sale proceeds, MPA has received or is forecasted to receive approximately \$2.8 million in collection of accounts receivable, \$1.4 million of recovery from the adjusted prepetition Farmland intercompany receivable, and \$8.7 million from the recovery of administrative claims due from Farmland, as set forth in the Postpetition Financing Order (see discussion in Section VI.D.). From these sources, MPA has paid or is projected to pay \$1.8 million of transaction costs relating to the sale, \$2.8 million to fund a receivables related escrow at Bank of New York, and \$10 million to pay down the postpetition loan per the Postpetition Financing Order. In addition, management has allocated certain professional fees to MPA totaling \$2.0 million which are treated as allowed Administrative Expense Claims. MPA is also projected to pay \$415,000 in professional fees as part of its wind-down. MPA is projected to pay a 100% recovery to allowed (i) Priority Non-Tax Claims in MPA Class 1 (approximately \$23,000), and (ii) allowed General Unsecured Claims in MPA Class 3 (approximately \$6.3 million). There are no forecasted allowed claims in MPA Class 2 (Secured Claims against MPA). Additionally, there is a projected \$10.6 million of recovery projected for MPA Class 4 (Equity Interests in MPA). For further information see the chart titled "Forecasted MPA Sources/Uses," on pg. 49.

5. **Business Strategy of Reorganized Farmland**

During Farmland's chapter 11 case, its new senior management conducted an extensive review of Farmland's operations and competitive situation. Management focused its strategy on the following broad areas:

- Consolidation of Capacity — Capacity among plants should be consolidated into the lowest cost operating facilities.

- Route Optimization — Transportation and warehouse operations will be rationalized with revised production locations and customer base.
- Plant Efficiencies — Management will focus on improving plant efficiencies at its operating plants.
- New Products — Farmland will pursue future growth through introduction of value added products.
- Reduce Overhead Costs — Management has taken steps to reduce overhead costs.
- Exit Non-Core Businesses — Farmland will exit its Southeast operations. The Atlanta milk operations are currently being marketed for sale.

6. **Assumptions Surrounding Atlanta Operations**

The Projections from 2005-2008 do not include any EBITDA impact from Atlanta operations. It is assumed that Atlanta is sold in 2005 (as discussed in Section VI.G.4.), and the Projections do not contain operating forecasts for Atlanta past emergence. Farmland expects to incur one time costs of approximately \$756,000 in 2005 associated with the sale of Atlanta milk operations which, are added back under reorganization costs to arrive at 2005 EBITDA.

7. **Assumptions Surrounding Brooklyn Operations**

The Projections contemplate certain changes with respect to Farmland's Brooklyn, New York ("Brooklyn") and Wallington, New Jersey ("Wallington") operations. Currently, Farmland processes and distributes milk from both Brooklyn and Wallington. Management plans on closing milk processing operations at Brooklyn, and consolidating those operations into Wallington. Management also plans on consolidating certain distribution activities from Brooklyn into Wallington. The Projections also contemplate being able to continue to use Brooklyn employees for certain distribution activities, including running a cross-dock at Brooklyn and continuing to distribute milk on certain routes from Brooklyn. Management has been in discussions with the unions at both Brooklyn and Wallington regarding these transitions. While the Projections contemplate the successful transition of these activities, there are risks that the unions may not accept the transitions as projected, or that Farmland may not be able to transition production and distribution work in a manner suitable for certain customers.

8. **Balance Sheet Assumptions**

a. *Cash:* At emergence, there is forecasted cash of \$6.5 million. Any excess cash generated over the projection period is used to pay down any short-term debt borrowed to operate the business, with the balance accumulated in the cash accounts of Farmland. The Projections do reflect estimated amounts paid as a result of implementing the Plan, including but not limited to, payment of certain administrative, priority, and miscellaneous secured claims, cure costs, and amounts owed to the Unsecured Creditors' Trust for settlement of Farmland Class 3a claims.

b. *Accounts Receivable (“AR”)*: Projected AR consists primarily of trade receivables owed to Farmland by its customers for services provided in the ordinary course of business. Farmland provides services to its customers on standard terms of credit. Consistent with a range of recent historical activity, AR is projected at 37 days sales outstanding throughout the Projections.

c. *AR Securitization*: During the Stub Period, this balance consists of the forecasted advances made by Citibank on AR. At emergence, these receivables are forecasted to be purchased back by Farmland and pledged as collateral to the Exit Facility lender providing the Revolving Line of Credit.

d. *Inventory*: Projected inventory is based on historical inventory levels. The forecasted changes over the projection period are consistent with cost of goods sold levels achieved over the same period. Inventory projections are based on days cost of goods sold outstanding of around 19 days.

e. *Other Current Assets*: Primarily include workers compensation trust fund and other receivables.

f. *Property, Plant & Equipment and Intangibles*: Projected Property, Plant & Equipment is presented net of accumulated depreciation on the balance sheet. Increases that occur throughout the projection period represent annual capital expenditures reduced by annual depreciation. Projected capital expenditures include replacement of worn equipment, spending for compliance with regulatory requirements, including environmental, and new equipment to support growth. Annual capital expenditures in thousands are as follows:

	2004 Stub	2005	2006	2007	2008
Capital Expenditures	\$2,471	\$6,703	\$6,850	\$6,275	\$6,300

Intangibles totaling \$135 million relating to PUSA are written-off at emergence to adjust the balance sheet to reflect only Farmland operations. The remaining intangibles are forecasted to remain after implementation of fresh start accounting and the requirements of FAS 142 regarding impairment of goodwill and intangibles. The balance is further reduced throughout the forecast period to reflect amortization.

g. *Trademarks and Other Intangible Assets*: Other Intangible Assets include investments in trademarks, deferred pension expense, goodwill, trade names and customer lists.

h. *Other Assets*: Other Assets include cash deposits with states in lieu of performance bonds, deferred pension cost, prepaid slotting fees and prepaid marketing expenses.

i. *Intercompany Receivables/Intercompany Payable*: Farmland’s receivables and the related causes of action against a variety of non-debtor Parmalat affiliates

including, but not limited to, Parmalat Capital Finance, Ltd., Bonlat Financing Corporation, Parmalat TechHold Corp., Curcastle Corporation NV, Parmalat Finance Corp. BV, Parmalat Dairy & Bakery, Inc., Eaux Vives Harricana Inc., Parmalat Gelateria USA, Inc., Parmalat Gelateria Miami, Inc., Parmalat Gelateria Houston, Inc., Finanziaria, and Parmalat S.p.A., will be transferred to the Litigation Trust on the Effective Date. Farmland has filed claims, sent demand letters, or commenced litigation regarding these claims. For further discussion of intercompany claims, demands and litigation, see Section VI.O.

j. *Revolving Line of Credit*: Short-term debt will consist of a \$35 million Revolving Line of Credit secured by accounts receivable and inventory, of which \$10 million will be drawn on emergence, and \$7.2 million of undrawn letters of credit are projected to be issued under this facility. For a detailed discussion of Reorganized Farmland's Exit Facility, see Section II.G.13.

k. *Debtor-in-Possession Financing*: The Projections include total cash draws under the Postpetition Credit Agreement at emergence of \$34.3 million. An additional \$7.2 million of undrawn letters of credit are projected to be issued under the LC Facility (as defined below in Section VI.D.3). Cash borrowings under the Postpetition Credit Agreement are projected to be paid out at emergence through the Exit Facility, and the letters of credit are expected to be replaced under the Revolving Line of Credit.

l. *Accounts Payable*: Projected accounts payable are based on maintaining historical credit terms provided by Farmland's vendors, and are forecasted to increase during the 2005-2008 projection period as Farmland emerges from chapter 11 and gains better terms with creditors. Days payable outstanding are forecasted to increase from a current level of 14 to 28 at the end of 2008.

m. *Accrued Other Liabilities*: Projected accrued expenses and other liabilities include accrued salaries, accrued consulting and legal fees, and accrued other payables, including payments owed to raw milk suppliers. It is assumed in the Projections that approximately \$4.3 million of consulting fees representing current accrued balances, accrued holdbacks, and bonuses will be paid in cash on the Effective Date. Other accruals remain at similar levels consistent with the ongoing operations and are forecasted at 17 days payable outstanding, an amount consistent with recent historical levels.

n. *Term Loan*: The term loan will consist of (i) \$20 million First Lien Term Loan and (ii) a \$45-55 million Second Lien Term Loan. For more detailed information on the Exit Facility, see Section II.G.13.

o. *Farmland Note*: The Projections include amounts relating to the initial balance of the Farmland Note, and payment-in-kind interest and amortization related to the note. For discussion of the Farmland Note, see Section II.G.4.

p. *Liabilities Subject to Compromise*: Consists of pre-petition obligations of Farmland. These are forecasted to be reorganized consistent with the Plan on the Effective Date.

q. *Preferred Membership Interests:* Includes initial Preferred Membership Interests with a face value of approximately \$34,486,000. The Projections include issuance of new Preferred Membership Interests as payment-in-kind dividends. For discussion of the Preferred Membership Interests, see Section II.G.5.

Stockholders' equity represents a combination of Farmland's common stock, retained earnings, additional paid-in-capital, and other related accounts. The forecasted changes throughout the projection period represent the net income or net loss for Farmland for the related period. Adjustments to stockholders' equity made to effectuate the Plan include the adoption of Fresh-Start Reporting, and recognition of gains due to retirement of debt.

9. **Income Statement Assumptions**

a. *Revenues:* Projections for 2005-2008 are based on an annual run rate from 3rd quarter 2004. This run rate has been adjusted for known lost customers which will not be returning in 2005, and for future growth opportunities beyond 2005. The 3rd quarter run rate, adjusted for known lost customers is projected to be approximately \$281 million per year.

Growth during the period 2005 to 2008 is projected to occur from the introduction of value added products, product line extensions, new co-packing arrangements and price increases on existing products. Where appropriate, Farmland is also planning on increasing the sales of certain product lines through the use of new sales brokers.

	Base Run Rate	2005	2006	2007	2008
Sales	\$280,707	\$289,738	\$297,162	\$307,685	\$314,745
% Growth	Not Applicable	3.2%	2.6%	3.5%	2.2%

b. *Cost of Goods Sold:* Cost of goods sold includes costs associated with production of product including raw materials, cost of goods sold, direct labor and production overhead. Farmland currently operates two production facilities in the New York Metro area (Brooklyn, New York and Wallington, New Jersey). Management's plan calls for the consolidation of production into the lower cost Wallington, New Jersey plant. The closure of the Brooklyn production and transfer of the production of certain product to the Wallington facility is projected to save Farmland \$12.7 million in annual costs in cost of goods sold. From 2005-2008, Farmland's cost of goods sold as a percentage of sales is projected to decrease 2% from 81% to 79%. Management is forecasting improvements in cost of goods sold after emergence due to reduced plant losses, improved production efficiencies and cost savings from vendors. These savings are projected to occur at both the Grand Rapids and New York Metro area plants.

c. *Distribution Expenses:* Distribution costs include projections for distribution, warehouse, and freight. The Projections include a rationalization of routes and a decrease of routes for certain known lost customers. Management is in the process of implementing a route optimization process which will reduce the number of operating routes in the New York Metro area among its Wallington, New Jersey, Brooklyn, New York, Clinton, New Jersey and Neptune, New Jersey locations. Projected 2005 distribution costs are forecasted to be \$7.2 million lower than the Stub Period annual run rate as a result of these initiatives. Projected 2005 warehouse costs are projected to be \$6.1 million lower than the Stub Period

annual run rate as a result of the consolidation of Farmland's warehousing activities amongst its locations in the New York metro area. Freight and warehouse costs for Grand Rapids facility are projected to be consistent with current costs per unit.

d. *Selling, General and Administrative Expense:* These categories are primarily composed of labor costs, consulting costs, marketing department costs, information technology costs and insurance costs. Projections for 2005 include the effect of headcount reductions which occurred in this area in 2004, and the offset of potentially increased advertising and insurance costs. Advertising costs are expected to increase as Farmland promotes certain line extensions and value added products. Insurance costs are projected to increase over current levels, because Farmland is required to purchase policies which previously were purchased by other Parmalat entities.

e. *Interest Expense:* Includes payments on the Exit Facility, the Farmland Note and the Preferred Membership Interest. The Farmland Note interest is payment-in-kind for the first 10 quarters, and the Preferred Membership Interests interest is payment-in-kind until the third anniversary of the Effective Date and thereafter will be paid in cash solely to the extent that payments due under the Farmland Note are made and Reorganized Farmland has additional funds available. For further information on the Farmland Note, see Section II.G.4. For further information on the Preferred Membership Interests, see Section II.G.5.

f. *Reorganization Items:* Reorganization Items are comprised of Postpetition Credit Agreement fees and professional fees related to Farmland's chapter 11 filing. Professional fees are forecasted to continue beyond December 31, 2004, the assumed Effective Date, since the reorganization was assumed to take place at that point for presentation purposes only.

**Forecasted Farmland Sources and Uses
at Emergence (\$ 000s)**

Beginning Cash	\$ 2,000.0
Sources of Value:	
Funding From AR and Inventory Revolver	10,000.0
Funding Term Loan 1st Lien	20,000.0
Funding Term Loan 2nd Lien	45,000.0
MPA Allowed Administrative Expense Claim	2,064.0
PUSA Allowed Administrative Expense Claim	1,500.0
Equity Recovery from MPA	8,511.6
Total Sources of Value	<hr/> 87,075.6
Payments or Distributions to:	
Refinance Post-Petition Financing	(34,300.0)
Refinance Citibank Receivables Purchase Agreement	(27,774.6)
Accrued Unpaid Professionals	(6,406.1)
Cure Costs	(1,500.0)
Farmland Class 1 Claims	(199.2)
Farmland Class 2 Claims	(40.5)
Initial Cash Payment to Farmland Class 3a Claims	(3,000.0)
Initial Funding Amount and Litigation Trust Loan	(600.0)
Allowed Administrative Expense Claims	(8,798.9)
Total Forecasted Uses of Value	<hr/> (82,619.3)
Ending Cash December After Emergence	<hr/> <hr/> \$ 6,456.3

Parmalat USA Projected Sources and Uses of Recovery (\$ 000s)

Beginning Forecasted Cash 12/31/2004	\$ -
Projected Sources of Value:	
Recovery from MPA Class 3 Claim	4,968
Recovery from Farmland Class 3a Claim	5,820
Total Sources of Value	<u>10,788</u>
Payments and Distribution to:	
Allowed Administrative Expense	(1,533)
Priority Tax Claims	(1,180)
PUSA Class 1 Claims-Priority Non-Tax (estimated Allowed at \$0)	-
PUSA Class 2-Secured Claims (estimated Allowed at \$0)	-
PUSA Class 3-General Unsecured Claims	(8,075)
PUSA Class 4-Equity	-
Total Forecasted Uses of Value	<u>(10,788)</u>
Ending Cash After Distributions	<u><u>\$ -</u></u>

Forecasted MPA Sources/Uses (\$ 000s)

Beginning Cash as of 10/15/2004	\$ -
Sources of Value:	
Cash received from sale (10/15/04)	19,429
Cash deposit related to sale	2,160
Collection of accounts receivable	2,827
Farmland Class 3a Claim	1,443
Farmland Administrative Expense Claim	8,715
Total Sources of Value	<u>34,574</u>
Payments and Distributions:	
Transaction costs	(1,791)
Funding of Bank of New York escrow	(2,827)
DIP loan paydown per Final DIP Order	(10,000)
Estimated MPA Administrative Expense Claims	(943)
Professional Fee Allocation Through Sale per Final DIP Order	(1,649)
Estimated Professional Fees Post Sale	(415)
Priority tax claim	(23)
MPA Class 1 Claims (estimated at \$0)	-
MPA Class 2 Claims (estimated at \$0)	-
MPA Class 3 Claims	(6,286)
Total Forecasted Uses of Value	<u>(23,934)</u>
Est. Amt Avail to Equity Interests in MPA (Class 4)	<u><u>\$ 10,640</u></u>

Farnland Dairies LLC
Projected Balance Sheet
2004-2008
(\$ 000s)

	Stub Year 2004	Fresh Start/ Restructuring	Adj. Dec. 2004	2005	2006	2007	2008
Assets							
Current Assets							
Cash and equivalents	\$ 2,000	\$ 4,456	\$ 6,456	\$ 6,414	\$ 5,707	\$ 3,500	\$ 3,500
Accounts receivable	43,328	-	43,328	28,442	27,896	28,875	29,532
AR securitization	(27,775)	27,775	-	-	-	-	-
Inventories	18,498	-	18,498	11,229	10,877	11,236	11,468
Prepaid expenses and other current assets	27,962	(8,354)	19,608	19,608	19,608	19,608	19,608
Total current assets	64,013	23,877	87,890	65,693	64,088	63,219	64,107
Property plant and equipment	91,022	(37,612)	53,410	47,485	46,816	45,572	44,353
Receivables from Parmalat entities	90,030	(90,030)	-	-	-	-	-
Intangibles and Other Assets	265,034	(248,794)	16,240	15,193	14,446	13,699	12,952
Total Assets	\$ 420,068	\$ (262,529)	\$ 157,540	\$ 128,371	\$ 125,349	\$ 122,490	\$ 121,412
Liabilities							
Current Liabilities							
Accounts payable-trade	13,630	\$ (83)	\$ 13,547	\$ 12,411	\$ 16,029	\$ 16,559	\$ 16,901
Accrued expense and other current liabilities	25,543	(6,406)	19,137	14,233	13,918	14,239	14,447
Revolving line of credit-AR and Inventory	-	10,000	10,000	-	-	75	5,733
Debtor-in-possession financing	32,300	(32,300)	-	-	-	-	-
Total current liabilities	71,473	(28,789)	42,684	26,644	29,947	30,873	37,080
Long-Term Liabilities							
First Lien Term Loan	-	20,000	20,000	16,667	13,333	10,000	6,667
Second Lien Term Loan	-	45,000	45,000	45,000	45,000	44,000	43,000
Farnland Note	-	7,000	7,000	7,430	7,875	8,112	7,300
Due to Parmalat Group	(82,069)	82,069	-	-	-	-	-
Capital lease obligations	43	-	43	43	43	43	43
Other liabilities	8,326	-	8,326	6,829	5,942	5,355	5,355
Prepetition liabilities subject to compromise	361,077	(361,077)	-	-	-	-	-
Preferred Membership Interests	-	34,486	34,486	38,279	42,490	47,164	47,164
Common Membership Interests	61,217	(61,217)	(0)	(12,522)	(19,282)	(23,058)	(25,198)
Total Liabilities and Stockholder Equity	\$ 420,068	\$ (262,529)	\$ 157,540	\$ 128,371	\$ 125,349	\$ 122,490	\$ 121,412

Farmland Dairies LLC
Projected Income Statement
2004-2008
(\$ 000s)

	Stub Year 2004	Fresh Start/ Restructuring	2004	2005	2006	2007	2008
Net sales	\$ 128,469	\$ -	\$ 128,469	\$ 289,738	\$ 297,162	\$ 307,685	\$ 314,745
Cost of goods sold	108,280	-	108,280	234,360	238,726	244,829	248,966
Operating expenses							
Distribution	15,430	-	15,430	30,749	30,660	30,531	30,576
General and administrative	3,431	-	3,431	10,834	10,834	10,334	10,234
Selling and marketing	3,282	-	3,282	12,817	12,819	12,421	12,223
Amortization-goodwill and trademarks	24	-	24	747	747	747	747
Total operating expenses	22,167	-	22,167	55,147	55,061	54,034	53,781
Income from operations	(1,978)	-	(1,978)	232	3,375	8,822	11,998
Interest expense, net	1,299	-	1,299	10,478	9,757	10,000	10,533
Non-Recurring Costs/(Extraordinary Gain)	(13,670)	(145,357)	(159,027)	-	-	-	-
Income/loss before taxes	10,393	145,357	155,750	(10,246)	(6,382)	(1,178)	1,465
Income tax provision	-	-	18	-	379	2,598	3,605
Net loss before reorganization costs	10,393	145,357	155,732	(10,246)	(6,761)	(3,776)	(2,140)
Reorganization costs	6,663	-	6,663	2,276	-	-	-
Net loss after reorganization costs	\$ 3,731	\$ 145,357	\$ 149,069	\$ (12,522)	\$ (6,761)	\$ (3,776)	\$ (2,140)
Note: EBITDA							
Net loss before reorganization costs	10,393	\$ 145,357	\$ 155,732	\$ (10,246)	\$ (6,761)	\$ (3,776)	\$ (2,140)
Depreciation	2,474	-	2,474	8,266	8,266	8,266	8,266
Interest expense, net	1,299	-	1,299	10,478	9,757	10,000	10,533
Taxes	-	-	18	-	379	2,598	3,605
Non-recurring costs	(13,670)	(145,357)	(159,027)	-	-	-	-
EBITDA	\$ 496	\$ -	\$ 496	\$ 8,498	\$ 11,641	\$ 17,088	\$ 20,264

Farmland Dairies LLC
Projected Cash Flows

2004-2008

(\$ 000s)

	Stub Year 2004	Fresh Start/ Restructuring	2004	2005	2006	2007	2008
Cash Flow from Operating Activities							
Net loss	\$ 3,731	\$ 145,357	\$ 149,087	\$ (12,522)	\$ (6,761)	\$ (3,776)	\$ (2,140)
Adjustments to reconcile net loss to cash provided by (used by) operations							
Depreciation and amortization	2,474	-	2,474	8,266	8,266	8,266	8,266
Loss (Gain) on disposal of property, plant and equipment	(15,988)	(145,357)	(161,345)	-	-	-	-
Changes in operating assets and liabilities							
Accounts receivables	(34)	-	(34)	14,886	546	(979)	(657)
Inventories	(2,370)	-	(2,370)	5,565	352	(359)	(232)
Prepaid and other expenses	(6,835)	8,354	1,519	-	-	-	-
Accounts payable	(1,270)	(83)	(1,353)	(1,136)	3,618	530	342
Accrued liabilities and other expenses	462	(6,406)	(5,944)	(4,904)	(315)	322	207
Total Adjustments	(23,560)	(143,492)	(167,052)	22,676	12,467	7,779	7,927
Net cash provided by (used by) operations	(19,830)	1,865	(17,965)	10,155	5,706	4,003	5,787
Cash Flows From Investing Activities							
Acquisition of property, plant and equipment	(1,853)	-	(1,853)	(6,703)	(6,850)	(6,275)	(6,300)
Proceeds from disposal of property, plant and equipment	24,589	-	24,589	6,814	-	-	-
Net cash provided by (used by) investing activities	22,736	-	22,736	111	(6,850)	(6,275)	(6,300)
Cash Flows From Financing Activities							
Proceeds (repayment) of DIP financing	422	(32,300)	(31,878)	-	-	-	-
Proceeds (repayment) of revolving line of credit	-	10,000	10,000	(10,000)	-	75	5,658
Proceeds (repayment) of first lien term loan	-	20,000	20,000	(3,333)	(3,333)	(3,333)	(3,333)
Proceeds (repayment) of second lien term loan	-	45,000	45,000	-	-	(1,000)	(1,000)
Farmland Note	-	-	-	430	446	236	(811)
Advances to Litigation Trust and UCC	-	(600)	(600)	300	-	-	-
Settlement of liabilities subject to compromise	-	(11,734)	(11,734)	-	-	-	-
Proceeds (repayment) of other debt	-	-	-	-	-	-	-
Proceeds (repayment) of securitization facility	(9,293)	(27,775)	(37,068)	-	-	-	-
Repayment of capital lease obligation	-	-	-	-	-	-	-
Issue preferred stock	-	-	-	3,793	4,211	4,674	-
Change in other long-term payables	-	-	-	(1,497)	(887)	(587)	-
Due to Parmalat group	-	-	-	-	-	-	-
Net cash provided by (used by) financing activities	(8,871)	2,591	(6,280)	(10,307)	436	65	513
Net increase (decrease) in cash and cash equivalents	(5,965)	4,456	(1,509)	(42)	(707)	(2,207)	(0)
Cash at beginning of period	7,965	2,000	7,965	6,456	6,414	5,707	3,500
Cash at end of period	\$ 2,000	\$ 6,456	\$ 6,456	\$ 6,414	\$ 5,707	\$ 3,500	\$ 3,500

V. BUSINESS DESCRIPTION AND REASONS FOR CHAPTER 11

A. THE DEBTORS' CORPORATE STRUCTURE AND MANAGEMENT

PUSA is a wholly-owned direct subsidiary of Parmalat S.p.A., which in turn is a wholly-owned subsidiary of Parmalat Finanziaria S.p.A.⁷⁹ (“Finanziaria” and together with Parmalat S.p.A., “Parmalat Center” and collectively with all their direct and indirect subsidiaries, “Parmalat”). PUSA is the sole owner of Farmland, which, owns 80% of MPA.

Prior to the Commencement Date, some of the Debtors' senior managers, including the Chief Executive Officer and the Chief Financial Officer, were based at Parmalat's North American headquarters in Toronto, Canada, and were provided to the Debtors by Parmalat Dairy & Bakery, Inc. (“PDBI”), Parmalat's Canadian corporation indirectly owned and controlled by Finanziaria. Since the Commencement Date, the Canadian-based senior managers have resigned their positions with the Debtors. In particular, on May 7, 2004, Alnashir Lakha, Treasurer and Chief Financial Officer of all three Debtors, resigned his positions with PUSA and Farmland. Further, on May 20, 2004, Peter Ferraro, an officer of all three Debtors, resigned his positions. Also at this time, Marc Caira, President and Chief Executive Officer of Parmalat Dairy North America, discontinued his management role at both Farmland and MPA. Finally, on July 12, 2004, Michael T. Rosicki, Director and Chairman of all three Debtors, resigned his positions with PUSA and Farmland. Following their approval of the sale of substantially all of the assets of MPA, Messrs. Lakha and Rosicki both resigned their positions with MPA. For further discussion of the MPA sale, see Section VI.G.3.

In light of these resignations and the lack of day-to-day senior management necessary to oversee operations and implement restructuring initiatives, the Debtors appointed a Chief Restructuring Officer (“CRO”), and Farmland appointed two other new senior executives (see discussion in Section VI.F.4). Moreover, on September 22, 2004, Parmalat S.p.A. elected Paolo Fietta, Carlo Frau, and Martin J. Margherio to comprise the board of directors of PUSA. Farmland is managed by PUSA and does not have its own board of directors. Martin J. Margherio and Teresa E. Webb were appointed as Managers of MPA by its members on November 18, 2004, replacing Michael Janis, the sole remaining manager of MPA, who left MPA subsequent to its sale and is employed by MPA's purchaser. The following is a description of each Debtor's current management:

⁷⁹ Finanziaria holds 89.2% of the equity of Parmalat S.p.A., the remaining 10.8% of which is held by Dalmata S.r.l., a wholly-owned direct subsidiary of Finanziaria.

PUSA

Position	Name
Director	Paolo Fietta
Director	Carlo Frau
Director	Martin Margherio
Officer (Chief Restructuring Officer)	James A. Mesterharm

Farmland

Position	Name
Officer — Chief Restructuring Officer	James A. Mesterharm
Officer — President and Chief Operating Officer	Martin J. Margherio
Officer — Chief Financial Officer	Teresa E. Webb
Officer — Executive Vice President	Mikael B. Pederson

MPA

Position	Name
Manager	Martin J. Margherio
Manager	Teresa E. Webb
Officer — Chief Restructuring Officer	James A. Mesterharm

B. THE DEBTORS' PREPETITION BUSINESS OPERATIONS

The Debtors' core business is the processing, packaging, and sale of fresh milk to retail customers, primarily supermarkets, for the ultimate sale to consumers. While headquartered in Wallington, New Jersey, Farmland also owns major milk production facilities in New York, Georgia, and Michigan. In the New York/New Jersey market, Farmland is a market leader for fresh milk, while in the Southeast market, Farmland is among the market leaders in fresh milk. Farmland's "Skim Plus" product is especially successful. In addition to fresh milk, Farmland's business includes a diverse array of products, including shelf milk, juices, canned vegetables, and ice cream products, and popular brand names such as "Farmland Dairies," "Welsh Farms," "Clinton," and "Kinnett." Prior to the Alabama Sale (as defined and discussed in Section VI.G.3. below), MPA owned a milk production facility in Decatur, Alabama

and produced “mix” for products such as milk shakes and ice cream for sale to restaurant chains and retail outlets.

As of the Commencement Date, the Debtors employed in the aggregate approximately 1,272 employees, of whom approximately 567 were union members. In addition, approximately 500 dairy farms, most of which are family owned and operated, provided milk exclusively to the Debtors. As of January 4, 2005, Farmland had 923 employees on its payroll, and MPA, following the Alabama Sale, has no full-time employees.

PUSA is a holding company and does not have operations or employees.

C. THE DEBTORS’ PREPETITION CAPITAL STRUCTURE

For the twelve-month period ending December 27, 2003, the Debtors recorded revenue of \$577,463,000 and a net loss of \$12,475,000. For the same period, the Debtors’ earnings before interest, taxes, depreciation, and amortization (EBITDA) was recorded as positive \$12,882,000. As of December 31, 2003, PUSA’s books reflected assets totaling \$414,421,000 and liabilities totaling \$316,466,000. The foregoing financial data is based on preliminary unaudited financial statements

1. Citibank Receivables Purchase Agreement

On or about November 2, 2000, Farmland, MPA, Eureka Securitisation Plc (“Eureka”), and Citibank, as agent (in its capacity as agent, the “Citibank Agent”), entered into the Citibank Receivables Purchase Agreement, pursuant to which Eureka may, subject to the terms and conditions thereof, purchase from Farmland and MPA from time to time an undivided percentage ownership interest in the rights, title, and interest in and to a certain pool of trade receivables of Farmland and MPA (the “Receivable Interests”). On December 11, 2003, Eureka sold and assigned to Citibank all of its rights in the Receivable Interests and the Citibank Receivables Purchase Agreement.

Pursuant to Amendment No. 1 to the Citibank Receivables Purchase Agreement, dated as of December 19, 2001, two affiliates of the Debtors, Mother’s Cake and Cookie Co. (“Mother’s”) and Archway Cookies, LLC (“Archway”), also became sellers of Receivable Interests under the Citibank Receivables Purchase Agreement. As of the Commencement Date, the Receivables Interests purchased by Eureka from these affiliates had a value of approximately \$17 million. Pursuant to certain Receivables Repurchase Agreements, dated as of July 1, 2004, by and among Citibank, the Citibank Agent, and each of Archway and Mother’s, from and after the effectiveness of such Receivables Repurchase Agreements (i) no further Receivables Interests of either of Archway or Mother’s have been sold pursuant to the Citibank Receivables Purchase Agreement and (ii) except as provided otherwise in such Receivables Repurchase Agreement, each of Archway and Mother’s has been released of its obligations under the Citibank Receivables Purchase Agreement.

Pursuant to the Citibank Receivables Purchase Agreement, Farmland and MPA sell Receivable Interests to Eureka (or since December 11, 2003, Citibank) thereby generating immediate liquidity. On December 26, 2003, the Debtors received notice from the Citibank Agent that a default may have occurred under the Citibank Receivables Purchase Agreement.

Between December 2003 and the Commencement Date, the aggregate Capital (as defined in the Citibank Receivables Purchase Agreement) in respect of Receivable Interests purchased from Farmland and MPA under the Citibank Receivables Purchase Agreement remained constant at approximately \$48,990,000. The Citibank Receivables Purchase Agreement provides for certain purchase price and related formulas based on a number of factors, including, without limitation, certain purchase eligibility standards. From time to time, as a result of such formulas, Citibank may have overpaid for Receivable Interests purchased from Farmland and MPA under the Citibank Receivables Purchase Agreement (such overpayment, a “Purchase Price Overpayment”).

On the Commencement Date, (i) the aggregate Capital in respect of the Receivable Interests purchased from Farmland and MPA under the Citibank Receivables Purchase Agreement was approximately \$48,990,000, (ii) the gross amount of receivables of Farmland and MPA (including ineligible receivables), which Citibank may collect and apply against the outstanding aggregate Capital, was approximately \$53 million, and (iii) the aggregate Purchase Price Overpayment was approximately \$5,535,000.

2. Master Lease Financing Agreement

On April 30, 2003, the Lessor and Farmland entered into the Master Lease Financing Agreement, pursuant to which the Lessor agreed to purchase from and lease to Farmland certain of the equipment owned by Farmland and located at Farmland’s facilities in Wallington, New Jersey, Brooklyn, New York, and Grand Rapids, Michigan, for a purchase price of approximately \$100 million. On or about May 1, 2003, Farmland wired \$70 million of the proceeds to Parmalat S.p.A. and \$30 million to PDBI. On June 5, 2003, PDBI forwarded \$10 million to Farmland. Pursuant to email instructions received from PDBI on June 10, 2003, Farmland wired \$10 million to Parmalat S.p.A. on June 11, 2003. On December 16, 2003, December 30, 2003, and February 5, 2004, Farmland received notices of default from the Lessor in connection with the Master Lease Financing Agreement. As of the Commencement Date, Farmland’s outstanding obligations under the Master Lease Financing Agreement were approximately \$96 million.

D. EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11 CASES

On December 24, 2003 and December 30, 2003, Parmalat S.p.A and Finanziaria, respectively, filed applications for admission into ‘extraordinary administration’ under the Legislative Decree no. 347 dated December 23, 2003, as amended, with the Italian Ministry of Production and The Court of Parma. Parmalat S.p.A. and Finanziaria were declared insolvent by The Court of Parma on December 27, 2003 and January 8, 2004, respectively. The Ministry of Production appointed Enrico Bondi as Commissioner in Extraordinary Administration Proceedings to administer each of the Parmalat Center entities, along with certain other Italian affiliates that have been put into extraordinary administration. The Parmalat Center companies are operating under a new extraordinary administration procedure introduced by a December 23, 2003 decree of the government of Italy to facilitate the restructuring of large insolvent companies. The decree streamlined the procedure for a company seeking extraordinary

administration and accelerated the appointment of the extraordinary commissioner who immediately is vested with powers to operate the Parmalat Center entities.

The extensive media coverage of Parmalat Center's financial situation and allegations of wrongdoing had serious adverse consequences for the Debtors' businesses and negatively impacted the Debtors' liquidity. Certain banks demanded payment of all amounts outstanding under their respective credit arrangements and refused to extend further credit to the Debtors. In addition, on December 19, 2003, Westchester Fire Insurance Company ("Westchester") notified the Debtors that it was requesting cash collateralization of certain surety bonds or a standby letter of credit back-stop. The bonding program with Westchester included surety bonds aggregating approximately \$9,300,000 (the "Milk Bonds") issued by Westchester to secure the Debtors' payment obligations to their raw milk suppliers. As the Milk Bonds (or certain other forms of security) are a licensing requirement for dairy operations in New York, New Jersey, Pennsylvania, and Michigan, the termination of the Milk Bonds could have had potentially catastrophic consequences for the Debtors. Following extensive negotiations between Westchester and the Debtors, Westchester agreed to reissue the bonds, and the Debtors agreed to provide cash collateral in the amount of \$1 million to secure the Debtors' reimbursement obligations to Westchester.

At around the same time, many of the Debtors' milk suppliers and vendors began demanding strict payment terms, including cash on delivery or prepayment, as a condition to the continued supply of raw milk, other ingredients, materials, and packaging to the Debtors. In some cases, the Debtors were able to find substitute vendors, but in many other cases, the Debtors had no alternative to paying vendors cash on delivery. Farmland's largest milk supplier in the New York/New Jersey region, which regularly supplied Farmland with 25% of its milk supply in the region on 22-day terms, demanded payment on a cash in advance basis for approximately half of its sales to Farmland. In Georgia and Alabama, Farmland's and MPA's sole milk supplier in the region would not even accept cash on delivery and refused to deliver any shipments of milk unless Farmland and MPA posted financial security. Farmland and MPA were able to find an alternate supplier, but this supplier required cash on delivery, as opposed to the 22-day payment terms Farmland and MPA had enjoyed with their former supplier. In addition, certain utility providers insisted on billing the Debtors a month in advance, further constricting liquidity. These demands by suppliers, vendors, and service providers impacted the Debtors' cash flow by over \$8 million.

The Debtors' liquidity worsened in early January 2004, when two of their top salespersons resigned and took positions with the Debtors' largest competitor. Thereafter, several of Farmland's biggest customers refused to pay Farmland, claiming that the departed employees had promised sales allowances or similar concessions. Farmland placed such customers on COD and aggressively pursued collection efforts with such customers. Nevertheless, Farmland's liquidity was adversely impacted by approximately \$2 million as a result of the situation.

As a result of the liquidity crisis, Farmland was unable to make several large payments to milk suppliers in mid-January, 2004. On or about January 21, 2004 and January 27, 2004, Farmland received loans of approximately \$5 million and \$3.6 million, respectively, from Parmalat S.p.A. (together, the "Parent Loans") as a temporary measure to address its most

immediate and critical funding needs. Although the Parent Loans provided a measure of relief, they were insufficient to enable Farmland to meet ongoing cash requirements and ensure the continuity of Farmland's supply of raw milk.

VI. SIGNIFICANT EVENTS DURING THE REORGANIZATION CASES

A. COMMENCEMENT OF THE CHAPTER 11 CASES

On February 24, 2004, the Debtors commenced chapter 11 cases in the Bankruptcy Court. As of the date hereof, the Debtors continue to manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

B. "FIRST-DAY" ORDERS

On the Commencement Date, the Debtors obtained a series of orders from the Bankruptcy Court designed to minimize disruption of their business operations and to facilitate the chapter 11 process. The Bankruptcy Court entered orders authorizing the Debtors to, among other things, (i) maintain their existing bank accounts and business forms, (ii) pay certain prepetition wages, compensation, tax withholding obligations, and employee benefits, (iii) pay prepetition sales and use taxes, (iv) pay certain prepetition insurance program obligations, (iv) pay certain prepetition milk supplier and shipping claims, (v) provide adequate assurance to utility companies, and (vi) honor certain prepetition customer programs.

Further, the Bankruptcy Court authorized the Debtors to employ the following professionals on an interim basis: (i) Weil, Gotshal & Manges LLP ("WG&M") as attorneys, (ii) McDermott Will & Emery LLP ("MW&E") as conflicts counsel, (iii) AlixPartners as financial advisors, and (iv) Lazard Frères and Co. LLC ("Lazard") as investment bankers and financial advisors. A final order authorizing the employment of MW&E was entered by the Bankruptcy Court on March 19, 2004, and final orders authorizing the employment of WG&M and AlixPartners were entered on March 30, 2004. A final order authorizing Lazard's employment was entered on April 22, 2004.

After the Commencement Date, the Debtors realized that the good faith estimates provided in their motion to approve the payment of prepetition claims of certain suppliers and shippers of milk were less, in some cases, than the actual prepetition amounts outstanding. Accordingly, on March 12, 2004, the Debtors sought and received a supplemental order from the Bankruptcy Court clarifying their authority to pay the full prepetition amounts owing to certain suppliers and shippers of milk. In addition, on April 21, 2004, the Debtors filed a supplement to the Debtors' motion seeking authorization to pay certain prepetition wages, compensation, tax withholding obligations, and employee benefits (the "Wage Motion"), to clarify that the good faith estimates provided in the Wage Motion were, in some instances less, and in some instances greater, than the actual prepetition amounts outstanding for certain related wage claims.

C. APPOINTMENT OF THE CREDITORS' COMMITTEE

Section 1102 of the Bankruptcy Code requires that, absent an order of the Bankruptcy Court to the contrary, as soon as practicable after the commencement of a chapter 11

case, the United States Trustee (the “U.S. Trustee”) appoint an official committee of unsecured creditors.

On March 8, 2004, the U.S. Trustee appointed an official committee of unsecured creditors (the “Creditors’ Committee”). The Creditors’ Committee is comprised of the following nine members:

Comerica Bank, Special Assets Group
One Detroit Center, 4th Floor
Detroit, MI 48226

Blue Ridge Paper Products Inc.
41 Main Street
Canton, NC 28716

Tetra Pak Inc.
101 Corporate Woods Parkway
Vernon Hills, IL 60061

All Star Dairy Association, Inc.
P.O. Box 911050
Lexington, KY 40591-1050

CKS Packaging, Inc.
P.O. Box 44386
Atlanta, GA 30336

Ryder Truck Rental d/b/a Ryder Transportation
6000 Windward Parkway
Alpharetta, GA 30005

Industrial Machine Corp.
44 Lehigh Avenue
Paterson, NJ 07503

Valley Packaging Corp.
275 Industrial Boulevard
Pulaski, TN 38478

Liqui-Box Corporation
6950 Worthington-Galena Road
Worthington, OH 43085

The Creditors’ Committee has retained Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, New York 10112, as legal counsel, Cole, Schotz, Meisel, Forman & Leonard, P.A., Court Plaza North, 25 Main Street, P.O. Box 800, Hackensack, New Jersey, 07602-0800, as conflicts counsel, and BDO Seidman, LLP, 330 Madison Avenue, New York, New York

10017, as its financial advisors. The Creditors' Committee has actively participated in all aspects of the chapter 11 cases.

D. POSTPETITION FINANCING

1. Postpetition Financing Order

To enable the continued operation of their businesses, avoid short-term liquidity concerns, and preserve the going concern value of their estates, the Debtors, together with their attorneys and financial advisors, negotiated with the DIP Lender, the terms of a postpetition credit agreement (the "Postpetition Credit Agreement") for up to \$35 million in secured debtor-in-possession financing. The Debtors also negotiated an amendment with Citibank to the Citibank Receivables Purchase Agreement to continue the sale of the receivables of Farmland and MPA (the "Amendment"). On March 30, 2004, the Bankruptcy Court entered the Postpetition Financing Order, approving the Postpetition Credit Agreement and the Amendment.

a. *DIP Lender and Prepetition Lessor.* The Postpetition Financing Order provides that, except for certain carve-outs for postpetition professional fees, fees payable to the U.S. Trustee and the Clerk of the Court, and chapter 7 administration fees (collectively, the "Carve Out"), the DIP Lender is granted (i) super-priority administrative claims, and (ii) first priority priming liens in all of the Debtors' then-owned and after-acquired property (other than avoidance actions) (the "Postpetition Collateral"). The liability of PUSA and MPA under the Postpetition Financing Order is limited to \$25,000 with respect to PUSA, and \$10 million with respect to MPA (collectively, the "Claim Limitations"). The Postpetition Financing Order further provides that the Lessor, for the benefit of itself and the Participants, is granted — subject only to the Carve Out, the Claim Limitations, the postpetition liens and claims granted to the DIP Lender, and certain postpetition claims and liens in favor of Citibank (described below) — (i) a superpriority administrative claim, (ii) a second priority adequate protection lien on all Postpetition Collateral to secure any amounts due and payable postpetition under the Master Lease Financing Agreement or, if the Master Lease Financing Agreement were to be recharacterized as a financing agreement, to the extent of any diminution in the value of the equipment occurring subsequent to the Commencement Date, and (iii) Second Mortgages on the real estate owned by Farmland at Wallington, New Jersey, Grand Rapids, Michigan, and Brooklyn, New York (locations where the equipment is located), as additional security for the obligations of Farmland under the Master Lease Financing Agreement.

As of January 5, 2005, the Debtors had \$29,888,000 of borrowings outstanding under the Postpetition Credit Agreement.

b. *Citibank.* The Postpetition Financing Order provides that, subject to the Carve Out and the Claim Limitations, Citibank is granted superpriority claims and first priority liens in the Postpetition Collateral on a *pari passu* basis with the DIP Lender to the extent of any Purchase Price Overpayments in excess of \$1.5 million, but less than \$4.5 million, under the Citibank Receivables Purchase Agreement. Pursuant to the Postpetition Financing Order, Citibank was also granted a (i) superpriority administrative claim and (ii) a second priority adequate protection lien in certain of the Postpetition Collateral on a *pari passu* basis with the Lessor for any Purchase Price Overpayments made in excess of \$4.5 million.

As a result of the Alabama Sale (as defined and further described in Section V.G.3.) on October 15, 2004, Citibank has stopped purchasing Receivable Interests from MPA. In addition, any security interest held by Citibank in the Postpetition Collateral was released in connection with the Alabama Sale.

As of December 26, 2004, the aggregate Capital (as defined in the Citibank Receivables Purchase Agreement) in respect of Receivable Interests purchased from Farmland was \$29,393,350.46. ^{§10}

c. *Inter-Debtor Provisions.* The Postpetition Financing Order also grants junior reimbursement claims and junior liens among the Debtors to provide adequate protection to each Debtor in connection with postpetition transfers of property among the Debtors. The junior claims and liens are subject to the Carve Out and, with respect to the assets subject to the postpetition claims and liens granted in favor of the DIP Lender, the Lessor, and Citibank, the claims and liens in favor of the DIP Lender, the Lessor, and Citibank.

2. **Modification of the Postpetition Financing Order**

a. *DIP Lender and Prepetition Lessor.* The Postpetition Financing Order originally provided that the failure of the Debtors to meet certain milestones with respect to the sale of substantially all of their assets would be a default under the Postpetition Credit Agreement and the Citibank Receivables Purchase Agreement. Following the Debtors' determination that a reorganization of their core business as a going concern would provide greater benefits to creditors and other parties in interest, the Debtors negotiated extensions of the Postpetition Credit Agreement and the Citibank Receivables Purchase Agreement, which extensions were reflected in stipulations "so ordered" by the Court on June 22, 2004, June 25, 2004, June 28, 2004, August 23, 2004, September 2, 2004, September 9, 2004, September 17, 2004, October 6, 2004, October 20, 2004, November 3, 2004, and December 3, 2004. Among other things, the stipulations modified certain sale deadlines contained in the Postpetition Financing Order and replaced them with deadlines contemplating the filing of plans of reorganization.

On December 3, 2004, the Bankruptcy Court "so ordered" a stipulation, which, among other things, provided for an extension of the termination date of the Postpetition Credit Agreement until January 14, 2005. The Debtors intend to file a stipulation with the DIP Lender no later than January 11, 2005, so that it can be "so ordered" by the Court by January 14, 2005. If approved by the Court, the stipulation will further extend the termination date of the Postpetition Credit Agreement until ~~the earliest of the following dates: April 15, 2005, the date Citibank stops purchasing Receivable Interests from Farmland under the Citibank Receivables Purchase Agreement, and Farmland's Effective Date.~~ February 28, 2005. Farmland expects to obtain further extensions of the Postpetition Credit Agreement, if needed, through Farmland's Effective Date.

^{§10} All Receivables Interests from MPA have been collected.

b. *Citibank*. On September 9, 2004, the Bankruptcy Court “so ordered” a stipulation between the Debtors, the DIP Lender, the Creditors’ Committee, and Citibank that amended the Citibank Receivables Purchase Agreement (the “RPA Settlement”). The RPA Settlement extended the termination date of the Citibank Receivables Purchase Agreement through January 14, 2005, as part of a settlement of certain claims the Creditors’ Committee could have asserted against Citibank on behalf of Farmland’s and MPA’s estates.

The Debtors have recently negotiated a settlement of a \$2 million preference claim Farmland has against Citibank, N.A. and certain lease claims Citibank Vendor Finance, Inc. has against PUSA (the “Citibank Preference/Lease Settlement”). In connection with the Citibank Preference/Lease Settlement, Farmland has entered into a stipulation with Citibank with respect to the Citibank Receivables Purchase Agreement. Farmland intends to file this stipulation no later than January 11, 2005, so that it can be “so ordered” by the Bankruptcy Court by January 14, 2005. If approved by the Bankruptcy Court, the stipulation will further extend the Citibank Receivables Purchase Agreement through February 28, 2005, with the ability to further extend the Citibank Receivables Purchase Agreement, at Farmland’s option, through April 15, 2005.⁹¹¹ Farmland expects to obtain further extensions of the Citibank Receivables Purchase Agreement, if needed, through Farmland’s Effective Date.

3. **Supplemental Postpetition Financing Order**

On January 6, 2005, the Bankruptcy Court entered an order approving supplemental postpetition financing (the “Supplemental Postpetition Financing Order”). The Supplemental Postpetition Financing Order approved a subordinated letter of credit facility (the “LC Facility”) between Farmland and the DIP Lender (in such capacity, the “LC Lender”) that provides Farmland with up to \$15 million of letter of credit accommodations. The Supplemental Postpetition Financing Order grants the LC Lender (i) a superpriority administrative claim, and (ii) a subordinated priming lien in all of Farmland’s property (other than the equipment subject to the Master Lease Financing Agreement, certain equipment leased from De Lage Landen Financial Services, Inc., and avoidance actions arising under chapter 5 of the Bankruptcy Code). The LC Facility is subject to the Carve Out and the postpetition liens and claims granted in favor of the DIP Lender, Citibank, the Lessor, and the Debtors under the Postpetition Financing Order. Farmland intends to use the letters of credit issued in connection with the LC Facility to replace cash deposits currently being used by various milk boards and an insurance carrier. The maturity date of the LC Facility is currently January 14, 2005. Farmland intends to file a stipulation with the LC Lender no later than January 11, 2005, so that it can be “so ordered” by the Bankruptcy Court by January 14, 2005. If approved by the Bankruptcy Court, the stipulation will further extend the termination date of the LC Facility until ~~the earlier of (i) April 15, 2005, the date Citibank stops purchasing Receivable Interests from Farmland under the Citibank Receivables Purchase Agreement, and (ii) Farmland’s Effective Date,~~ February 28, 2005. Farmland expects to obtain further extensions of the LC Facility, if needed, through Farmland’s Effective Date.

⁹¹¹ For discussion of the RPA Settlement and the Citibank Preference/Lease Settlement, see Section VI.K. below, entitled “Citibank Receivables Purchase Agreement Settlement and Status of Ongoing Negotiations with Citibank.”

As of January 5, 2005, the Debtors had \$7.7 million in letter of credit accommodations outstanding under the LC Facility.

E. KEY EMPLOYEE RETENTION PLAN

On April 22, 2004, the Bankruptcy Court entered an order approving a key employee retention plan (the “KERP”) designed to ensure the continued employment of certain employees critical to the Debtors’ business and the sale process (the “Key Employees”). The KERP provided for (i) one-time bonus payments to two Key Employees if they remain employed by the Debtors through the earlier of the end of the sale of substantially all of the Debtors’ businesses or December 31, 2004, (ii) ordinary course merit increases for six vice presidents, and (iii) the continuation of the Debtors’ prepetition severance program for seven vice presidents.

F. THE DEBTORS’ STRATEGY

1. The Aborted Sale Process

Due to their deteriorating financial condition and lack of liquidity, the Debtors initially believed that a sale of their businesses would be required to preserve the value of their assets for the benefit of their creditors and other parties in interest. Prior to the Commencement Date, the Debtors retained Lazard, as investment banker to, among other things, solicit offers from qualified buyers for a possible purchase of substantially all of the Debtors’ assets as a going concern. At that time, the Debtors had five main facilities in the following locations: (i) Wallington, New Jersey, (ii) Brooklyn, New York, (iii) Grand Rapids, Michigan (the “Grand Rapids Facility”), (iv) Decatur, Alabama (the “Decatur Facility” and together with the Grand Rapids Facility, the “Grand Rapids/Decatur Facilities”), and (v) Atlanta, Georgia. The Debtors’ assets were marketed both in whole and in parts.

As discussed above in subsection “D,” the Postpetition Financing Order provided that the failure of the Debtors to meet certain milestones with respect to the sale of substantially all of their assets would be a default under the Postpetition Credit Agreement and the Citibank Receivables Purchase Agreement. Lazard, along with WG&M and AlixPartners, worked with the Debtors to identify and contact seventy-one strategic and financial potential buyers for the Debtors’ assets, thirty-seven of which signed confidentiality agreements and conducted due diligence. Six of these parties had meetings with management.

As a result of these marketing efforts, by the end of April 2004 the Debtors had two outstanding proposals for the Grand Rapids/Decatur Facilities, and three outstanding proposals for the facilities located in Wallington, New Jersey and Brooklyn, New York (the Northeast operations). Around this time, the Debtors negotiated an asset purchase agreement with one of the two parties interested in the Grand Rapids/Decatur Facilities (the “Grand Rapids/Decatur Stalking Horse Agreement”). The Grand Rapids/Decatur Stalking Horse Agreement contemplated the purchase of all, or substantially all, of the real property and owned and leased equipment at the Grand Rapids/Decatur Facilities. The total value of the offers and letters of interest received with respect to Farmland’s assets (i.e., excluding the Decatur Facility, which was later sold, see Section VI.G.3. below) was approximately \$48 million (excluding receivables). Offers were not received for each of the facilities.

Because an integral part of the Debtors' assets is the equipment at the Wallington, Brooklyn, and Grand Rapids facilities, which is leased to Farmland pursuant to the Master Lease Financing Agreement, Farmland could not sell its assets without the consent of the Lessor or the recharacterization of the Master Lease Financing Agreement as a secured financing agreement, which would have raised a default under the Postpetition Credit Agreement. On April 23, 2004, in consultation with the Lessor, the Debtors determined not to accept any of the bids that had been submitted for their assets, and not to execute the Grand Rapids/Decatur Stalking Horse Agreement. The Lessor concluded that the Grand Rapids/Decatur Stalking Horse Agreement would not result in the receipt of fair value for the equipment at the Grand Rapids Facility leased under the Master Lease Financing Agreement. Accordingly, the Lessor was not willing to sell such equipment consensually under the terms contemplated by the Grand Rapids/Decatur Stalking Horse Agreement. Following this decision, the Debtors, in consultation with their professionals, determined that the values of their estates would be maximized by a reorganization of Farmland's business involving its Northeast and Michigan operations (with a sale of its Atlanta operations) and a sale of substantially all of the assets of MPA. See subsections "G.3 – 4" below.

2. Appointment of AP Services, LLC as Crisis Managers

On May 18, 2004, the Debtors, in connection with their decision to reorganize Farmland's business as a going concern, sought authorization, pursuant to sections 363 and 105 of the Bankruptcy Code, to employ AP Services, LLC ("APS"), an affiliate of AlixPartners, as crisis managers to the Debtors, thereby converting AlixPartners' employment as financial advisors in these cases. Pursuant to the employment agreement entered into by and among the Debtors and APS, James A. Mesterharm was appointed the Debtors' CRO, working collaboratively with the senior management team, the Board of Directors and the Debtors' professionals, assisting the Debtors in evaluating and implementing strategic and tactical options through the restructuring process. In addition to the CRO, APS provided certain temporary staff to assist the Debtors in their restructuring efforts.

On May 21, 2004, the Bankruptcy Court authorized the Debtors to employ APS on an interim basis. A final order authorizing the employment of APS was entered by the Bankruptcy Court on June 25, 2004.

3. Application to Expand Scope of Lazard's Retention

In connection with the Debtors' reorganization strategy, the Debtors filed an application to expand the scope of Lazard's retention to include certain restructuring services, in addition to its services in connection with the sale of any significant interest in the Debtors' business. On June 25, 2004, the Bankruptcy Court approved the Debtors' application to expand Lazard's retention.

4. Motions to Employ Senior Executives

Farmland's operational headquarters are located in Wallington, New Jersey. As discussed in Section V.A., at pg. 53, following the Debtors' determination to reorganize their businesses as going concern, Farmland lacked the day-to-day senior management necessary to

oversee operations and assist the CRO with the implementation of restructuring initiatives. Additionally, Farmland lacked the management and skill necessary to manage business production and financial operations, which in turn would facilitate the long-term financial and operational stability Farmland requires to succeed as an autonomous business.

On August 4, 2004, the Bankruptcy Court approved Farmland's employment of Martin J. Margherio as President and Chief Operating Officer (the "President and COO"), responsible for day-to-day operations of Farmland, which includes the monitoring of all production and overall supervision of employees and business practices. Further, on September 3, 2004, the Bankruptcy Court approved Farmland's employment of (i) Mikael B. Pederson as Executive Vice President (the "Executive VP"), effective August 2, 2004, and (ii) Teresa E. Webb as Chief Financial Officer (the "CFO" and together with the President and COO and Executive VP, the "Senior Executives"), effective August 16, 2004. In light of the Senior Executives' experience in the milk production and distribution industry, the employment of the Senior Executives to oversee Farmland's business and financial operations on a day-to-day basis complements the efforts of the CRO and provides Farmland with necessary leadership and guidance that it has been lacking. Further, the employment of the Senior Executives facilitates the long-term financial and operational stability Farmland's business requires to succeed by putting in place a senior management team that has the ability to operate Farmland effectively following emergence from chapter 11.

G. SALES OF ASSETS

1. Sale of Assets to Integrated Brands, Inc.

On June 25, 2004, the Bankruptcy Court entered an order approving that certain Asset Purchase Agreement (the "Purchase Agreement") between and among Farmland and Integrated Brands, Inc. ("Integrated Brands"), whereby Integrated Brands acquired the ice cream division of Farmland's milk processing business based in Atlanta, Georgia (the "Atlanta Ice Cream Business"). In connection with the Atlanta Ice Cream Business, Farmland had distributed ice cream in the Atlanta area through both Farmland owned direct distribution routes and independent distributors. The Atlanta Ice Cream Business had 22 employees and had sales of approximately \$6.5 million during 2003.

2. Sale of Non-Operating Real Properties and Surplus Assets

On April 22, 2004, the Bankruptcy Court entered an order authorizing the Debtors to utilize streamlined procedures to sell certain parcels of real property not used in the operation of their business (the "Non-Operating Properties") and surplus equipment (the "Surplus Assets"), and to retain and pay the reasonable compensation of any brokers or auctioneers engaged to sell the Non-Operating Properties and the Surplus Assets (the "Sale Procedures Order"). Pursuant to the Sale Procedures Order, on June 25, 2004, the Bankruptcy Court authorized the retention of (i) Keen Realty LLC, as special marketing consultant in connection with the sale of Non-Operating Properties, (ii) Harry Davis & Company, as auctioneer in connection with the sale of Surplus Assets, and (iii) on August 4, 2004, Colliers Houston & Co., as real estate broker in connection with the sale of Non-Operating Properties. On October 6, 2004, the Bankruptcy Court entered a supplement to the Sales Procedures Order (the "Sales Procedure Supplemental Order"),

authorizing Farmland to enter into stalking horse agreements with bidders with respect to Non-Operating Properties, including agreements to pay break-up fees to the stalking horse bidder, subject to the terms and conditions set forth in the Sales Procedures Supplemental Order.

a. *Long Valley Property.* Pursuant to that certain Stipulation and Order between and among the Debtors and Jade Land Co., LLC, Farmland sold the property located in Long Valley, New Jersey (the “Long Valley Property”), Township of Washington, County of Morris and commonly known as Block 28, Lots 46 and 47, with a mailing address of 55 Fairview Avenue. After adjustments, the purchase price for the Long Valley Property Purchase was \$3,125,000.

b. *Augusta Property.* On October 14, 2004, Farmland conducted an auction amongst interested bidders in connection with the sale of idle property located in Augusta, Georgia (the “Augusta Property”). Following the auction, Farmland negotiated a contract for the sale of the Augusta Property with Land-O-Sun Dairies, L.L.C. The terms of the contract represent the highest and best offer received at the auction and will bring approximately \$252,000 into Farmland’s estate. The sale of the Augusta Property closed on November 19, 2004.

c. *West Caldwell Property.* On December 16, 2004, Farmland conducted an auction amongst interested bidders in connection with the sale of idle property located in West Caldwell, New Jersey (the “West Caldwell Property”). Following the auction, Farmland negotiated a contract for the sale of the West Caldwell Property with Kearney Federal Savings Bank. The sale of the West Caldwell Property closed on December 30, 2004. Farmland received \$2,143,000.

d. *Washington Property.* On or about January 4, 2005, Farmland negotiated a contract with an individual for the sale of idle property located in Washington, Georgia (the “Washington Property”) for the purchase price of \$70,000. The sale of the Washington Property is scheduled to close on January 17, 2005.

e. *Other Properties.* As of January 4, 2005, eight (8) other idle properties are at various stages in the marketing and sale process. In connection with the Sales Procedures Supplemental Order, the Debtors intend to enter into a stalking horse agreement with a bidder for the property located in East Vincent, Pennsylvania, in an attempt to obtain the highest or best sale price. The sale of all eight (8) idle properties is expected to be completed by the middle of March 2005, with projected net proceeds of approximately \$1,900,000.

f. *Surplus Assets.* On August 4, 2004 and August 5, 2004, Farmland conducted three (3) auctions to dispose of surplus assets at idle plant locations. Substantially all of the surplus assets related to these idle properties were sold for \$867,746 during these auctions. Farmland may conduct additional auctions of surplus assets.

3. **Sale of MPA**

On July 15, 2004, the Debtors filed a motion to sell the business conducted by MPA through its Decatur Facility, excluding its receivables as of the closing of approximately \$2,756,078, which were subject to the Citibank Receivables Purchase Agreement (the “Alabama

Business”). Pursuant to the Debtors’ reorganization strategy, the Debtors plan to concentrate on their fresh milk and nationwide extended shelf life milk business and to divest their non-core operations and nonessential assets, such as the Alabama Business. To accomplish the sale of the Alabama Business, MPA entered into that certain Asset Purchase Agreement (the “Stalking Horse Agreement”), dated July 14, 2004, with National Dairy Holdings, LP (“NDH”). Pursuant to the Stalking Horse Agreement, NDH agreed to (i) pay \$19.7 million in cash and (ii) assume certain liabilities in exchange for the Alabama Business. Prior to consummating any sale with NDH and to guarantee that MPA received the highest and otherwise best offer for the Alabama Business, MPA had the right to subject the sale of the Alabama Business to an auction (consistent with the terms of certain bidding procedures approved by the Bankruptcy Court on August 4, 2004 (the “Bidding Procedures”)), with the Stalking Horse Agreement serving as the floor price. In connection with the Bidding Procedures, MPA received one qualified bid for the Alabama Business from Dean on September 1, 2004. Prior to the auction, MPA was informed by NDH that NDH did not intend to submit an additional bid. Therefore, in accordance with the authority granted to MPA pursuant to the Bidding Procedures, MPA cancelled the auction and sought Bankruptcy Court approval of the sale of the Alabama Business to Dean. On September 17, 2004, the Bankruptcy Court entered an order approving the sale of the Alabama Business to Dean (the “Alabama Sale”) for \$21.6 million, and the assumption of and assignment to Dean of certain executory contracts and unexpired leases.

The Alabama Sale closed on October 15, 2004. Effective October 15, 2004, MPA became Farmland Stremicks Sub, L.L.C. As a result of the Alabama Sale, MPA was required, pursuant to the Bidding Procedures, to pay to NDH a break-up fee of \$600,000 and the reimbursement of expenses in an amount not to exceed \$300,000. On October 18, 2004, MPA paid to NDH approximately \$791,000, including the break-up fee and expenses incurred by NDH that were submitted for reimbursement.

As set forth in the order approving the Alabama Sale, MPA was required to disburse, pursuant to the Postpetition Financing Order, \$10 million to the DIP Lender to be applied to repayment of the Postpetition Credit Agreement, and \$2,756,068 into escrow pending satisfaction of MPA’s obligations under the Citibank Receivables Purchase Agreement. Upon such disbursement, MPA had no further liability to the DIP Lender or Citibank on account of any postpetition claims or liens granted in favor of the DIP Lender, the Lessor, or Citibank under the Postpetition Financing Order. MPA’s obligations under the Citibank Receivables Purchase Agreement have now been satisfied, and MPA and Citibank are in the process of terminating the escrow.

4. Sale of Atlanta Operations

Farmland has been involved in negotiations for the sale of substantially all of the assets of its Atlanta dairy operations, Farmland’s fluid milk and other beverages processing division located in Atlanta, Georgia, including the assets which comprise the Atlanta processing facility, the distribution centers located in Cartersville, Columbus and Lawrenceville, Georgia, the owned vehicles used to service the customers of these facilities, and all other assets used to generate sales or service customers (collectively, the “Atlanta Operations”). The sale of the Atlanta Operations, which Farmland anticipates completing prior to the Effective Date, is expected to generate proceeds of \$15-20 million.

5. **Sale of Brooklyn Operations**

As discussed in Section IV.A.7. above, Farmland currently processes and distributes milk from both Brooklyn and Wallington. However, Farmland intends to close milk processing operations at Brooklyn, and to consolidate the Brooklyn operations into Wallington. Following closure of the Brooklyn facility and a liquidation of the assets at the Brooklyn facility as a result thereof, which assets include equipment subject to the Master Lease Financing Agreement, it is estimated that a liquidation would generate proceeds of \$4-6 million.

H. **REQUESTS FOR APPOINTMENT OF AN EXAMINER OR TRUSTEE**

1. **Southern Alaska Carpenters Retirement Trust**

On March 10, 2004, Southern Alaska Carpenters Retirement Trust (“Southern Alaska”) moved for the appointment of an examiner, pursuant to section 1104(c) of the Bankruptcy Code, or, in the alternative, a Chapter 11 trustee pursuant to section 1104(a) of the Bankruptcy Code. After a chambers conference at the request of the Debtors and over the objection of Southern Alaska, the Bankruptcy Court determined that an initial hearing would be held on the issue of Southern Alaska’s standing prior to hearing the merits of the motion. Following a number of adjournments, on June 23, 2004, Southern Alaska withdrew, without prejudice to refile, its motion for an appointment of an examiner.

2. **Friendship Dairies, Inc. and Perry’s Ice Cream Company, Inc.**

On May 7, 2004, Friendship Dairies, Inc. (“Friendship”) and Perry’s Ice Cream Company, Inc. (“Perry’s”), moved for the appointment of an examiner, pursuant section 1104(c) of the Bankruptcy Code, or, in the alternative, a Chapter 11 trustee pursuant to section 1104(a) of the Bankruptcy Code, to examine Parmalat’s collapse, its causes and history, and how the pre-2004 affairs of Parmalat may have involved transactions designed to strip assets from the Debtors.

On May 17, 2004, the Debtors, the Creditors’ Committee, and the U.S Trustee each filed separate objections to Friendship and Perry’s motion. The Debtors and the Creditors’ Committee both argued that the appointment of an examiner would impose an unnecessary financial burden on the Debtors’ estates to the detriment of all parties in interest, considering that MWE and AlixPartners, together with the Creditors’ Committee’s professionals, were conducting an investigation and review, on behalf of the Debtors, of transactions involving the Debtors and their foreign affiliates. While the U.S. Trustee took no position with respect to whether the Bankruptcy Court should appoint an examiner, the U.S. Trustee believed that the scope of the appointment sought by Friendship and Perry’s was overly broad and would result in duplicative investigations.

On June 4, 2004, the Bankruptcy Court ordered that the U.S. Trustee appoint an examiner (the “Examiner”) pursuant to section 1104(c)(2) of the Bankruptcy Code, to meet with or interview the Debtors, the Creditors’ Committee, and/or their advisors and professionals to determine, based on such meetings or interviews, whether the Debtors and the Creditors’ Committee’s claims strategy, including with respect to intercompany claims and claims against third parties relating thereto, is being pursued in a disinterested manner. The Bankruptcy Court

ordered that the Examiner's investigation be completed within two weeks of the Bankruptcy Court's approval of appointment and that the Examiner produce a brief report within one week of the completion of the investigation stating whether or not the Examiner believes that the Debtors' and the Creditors' Committee's claims strategy is being pursued in a disinterested manner. Finally, the Bankruptcy Court ordered that the Examiner would have a budget of \$5,000 with which to complete the investigation and prepare the brief report.

On July 15, 2004, the U.S. Trustee submitted an application to the Bankruptcy Court pursuant to Bankruptcy Rule 2007.1 seeking the appointment of James L. Garrity, Jr. as the Examiner. On July 26, 2004, the Bankruptcy Court entered an order approving the U.S. Trustee's appointment of Mr. Garrity (the "Examiner Order"). Pursuant to the Examiner Order, the Examiner met with the Debtors' professionals and the Creditors' Committee's professionals to determine whether the claims strategy was being pursued in a disinterested matter. As of the date of this Disclosure Statement, the Examiner has not issued his report.

I. AMENDED EMPLOYEE SEVERANCE PROGRAM

On June 25, 2004, the Bankruptcy Court entered an order approving the Debtors' amended employee severance program (the "Amended Severance Program"). Pursuant to the terms of the Amended Severance Program, regular, full time, non-union employees in good standing with the Debtors who are terminated for reasons other than for cause, retirement, or resignation prior to the offering of separation benefits are entitled to severance payments at the sole discretion of the Debtors, based on the following years of service to the Debtors: (i) less than one (1) year — no severance; (ii) between one (1) year and less than three (3) years — two (2) weeks severance; and (iii) three (3) years and over — one (1) week regular base salary for each completed and continuous year of service up to a maximum of eight (8) weeks regular base salary. In addition, the Debtors, in their sole discretion, may amend or terminate the Amended Severance Program at any time. As of November 12, 2004, the Debtors have paid \$123,202 in separation benefits in connection with the Amended Severance Program.

J. UNION ISSUES

1. Local 338

Approximately 300 employees at Farmland's Wallington, New Jersey facility (the "Wallington Facility") are represented by Local 338, RWDSU/UFCW, AFL-CIO ("Local 338"). Prior to the Commencement Date, Farmland and Local 338 entered into that certain collective bargaining agreement (the "Wallington CBA"). Among other things, the Wallington CBA provides that Local 338 is recognized as the exclusive bargaining representative for all of Local 338's employees. By its terms, the Wallington CBA expired on March 19, 2004. To avoid any disruption to the Debtors' operations that may have resulted from the absence of a collective bargaining agreement in place at the Wallington Facility, including, among other things, work stoppages and related costs, on or about March 16, 2004, Farmland and Local 338 agreed to modify and extend the terms of the Wallington CBA through September 19, 2004 (the "Extension Period"). The Bankruptcy Court entered an order on March 25, 2004, approving the Extension Period.

On December 22, 2004, Farmland and Local 338 agreed to modify and further extend the terms of the Wallington CBA through and including September 30, 2008 (the “Second Extension Period”). On January 6, 2005, the Bankruptcy Court approved the Second Extension Period and authorized Farmland to perform all of its obligations thereunder, without the assumption of the Extension Agreement or the Wallington CBA.

2. Local 584

Approximately 140 employees at Farmland’s Brooklyn, New York facility (the “Brooklyn Facility”) are represented by Milk Drivers & Dairy Employees Local No. 584, International Brotherhood of Teamsters, AFL-CIO (“Local 584”). Prior to the Commencement Date, Farmland was a member of the Milk Industry Labor Association of New York (“MILA”), a multi-employer bargaining group comprised of six additional dairies and distributors in the metropolitan New York and New Jersey area. On May 18, 2002, MILA, for and on behalf of its members, entered into that certain collective bargaining agreement (the “Brooklyn CBA”) with Local 584. The term of the Brooklyn CBA ran from December 1, 2001 through May 31, 2004. On April 14, 2004, Farmland withdrew from MILA. When the Brooklyn CBA expired, Farmland and Local 584 agreed to extend its terms as applied to Farmland through August 15, 2004. On August 13, 2004, MILA, for and on behalf of its remaining members, and Local 584 entered into that certain Memorandum of Agreement (the “MILA Agreement”) that extended the Brooklyn CBA on certain modified terms until June 30, 2005. In an effort to avoid any disruption to Farmland’s operations that would result from the absence of a collective bargaining agreement in place at the Brooklyn Facility, on or about September 9, 2004, Farmland and Local 584 entered into an extension agreement (the “Extension Agreement”) to modify and extend the Brooklyn CBA on terms identical to the MILA Agreement. On September 15, 2004, the Bankruptcy Court entered an order approving the Extension Agreement and authorizing Farmland to perform all of its obligations thereunder, without the assumption of the Extension Agreement or the Brooklyn CBA.

K. CITIBANK RECEIVABLES PURCHASE AGREEMENT SETTLEMENT AND STATUS OF ONGOING NEGOTIATIONS WITH CITIBANK

The Debtors, and soon after its appointment, the Creditors’ Committee, investigated potential causes of action relating to the Citibank Receivables Purchase Agreement. Among other things, the Debtors and the Creditors’ Committee considered (i) whether sales of Receivables Interests under the Citibank Receivables Purchase Agreement could be recharacterized as financings, (ii) whether any of the payments made or obligations incurred by Farmland and MPA under the Citibank Receivables Purchase Agreement could be avoided as a fraudulent transfer under sections 544 or 548 of the Bankruptcy Code, and (iii) whether the payment made by Farmland to Citibank, N.A. on December 3, 2003, in satisfaction of an unsecured line of credit made available to PUSA (the “Citibank Line”) could be avoided as a preferential transfer under section 547 of the Bankruptcy Code.

If Citibank’s ownership of the Receivables Interests were recharacterized as liens against the receivables generated by Farmland and MPA, such receivables would be property of their chapter 11 estates and potentially available for use in the operations of their businesses in accordance with section 363 of the Bankruptcy Code. In addition, if Farmland and MPA had not

received reasonably equivalent value in return for the sale of the Receivable Interests, and were insolvent or rendered insolvent as a result, the transactions could potentially be avoided as fraudulent transfers for the benefit of Farmland, MPA, and their respective creditors. Similarly, if Farmland made preferential payments to Citibank, N.A. on the Citibank Line during the 90 days prior to the Commencement Date, such payments could potentially be avoided as a preferential transfer for the benefit of Farmland and its creditors.

The Creditors' Committee investigation included depositions of one Citibank employee, one Citibank, N.A. employee, and one former representative of the Debtors, each of whom the Creditors' Committee was informed had knowledge of the Citibank Receivables Purchase Agreement and the Citibank Line. Additionally, the Creditors' Committee reviewed thousands of pages of documents produced by Citibank and the Debtors.

Following its investigation and subsequent negotiations with Citibank, the Creditors' Committee entered into the RPA Settlement with the Debtors, the DIP Lender, and Citibank, amending the Postpetition Financing Order and the Citibank Receivables Purchase Agreement, which was approved by the Bankruptcy Court on September 9, 2004 (the "RPA Settlement"). The RPA Settlement provided that: (i) the termination date of the Citibank Receivables Purchase Agreement was extended to January 14, 2005 (the "Termination Date"), (ii) the \$1.5 million dollar threshold for the Debtors' repayment obligation on Purchase Price Overpayments was removed (all Purchase Price Overpayments are now required to be paid without a minimum threshold), (iii) an event of default will occur under the Citibank Receivables Purchase Agreement if, in connection with the Alabama Sale, MPA will fail on the date of the closing of such sale to deposit into escrow an amount equal to the aggregate unpaid amount of all receivables originated by MPA that are outstanding on such closing date, (iv) the Creditors' Committee waived all claims against Citibank in Citibank's individual capacity and in its capacity as Citibank Agent, except that the Creditors' Committee retained its right to pursue the avoidance of an alleged \$2 million payment made to Citibank, N.A. on or about December 3, 2003 to repay the Citibank Line (which payment was made within 90 days of the Commencement Date and therefore possibly avoidable as a preferential transfer under section 547 of the Bankruptcy Code), (v) the Creditors' Committee acknowledged that the transfer of Receivables Interests under the Citibank Receivables Purchase Agreement constituted a true sale and is not subject to recharacterization or subordination, (vi) Farmland and MPA agreed to pay Citibank's expenses incurred in connection with the RPA Settlement and also to pay Citibank an extension fee of \$100,000 with an additional \$200,000 due on October 15, 2004, \$200,000 due on December 1, 2004, and an additional \$50,000 each month after the Termination Date, (vii) Citibank was granted equal benefit with the DIP Lender of any future modification of the definition of Termination Events in the Postpetition Financing Order, (viii) the capital concentration limits affecting Citibank's obligations to purchase Receivables Interests under the Citibank Receivables Purchase Agreement were modified, and (ix) Citibank agreed to consent to future requests by the Debtors to extend the exclusive periods to file and solicit acceptances of plans of reorganization so long as the Citibank Receivables Purchase Agreement is in effect and has not been terminated.

The Debtors, the Creditors' Committee, and the DIP Lender supported the RPA Settlement for a number of reasons. First, the RPA Settlement ensured that Farmland and MPA would have adequate financing through the anticipated confirmation date of the Plan. The RPA

Settlement prevented serious disruptions to Farmland's and MPA's businesses that could have resulted absent the RPA Settlement because of the difficulty of obtaining reasonable financing alternatives. Second, even if the Creditors' Committee had been successful in persuading the Bankruptcy Court to recharacterize the Citibank Receivables Purchase Agreement from a sale to a financing, there would have been little benefit to Farmland's and MPA's estates because Citibank would likely have remained a secured creditor. Third, it would have been difficult to avoid Citibank's purchase of Receivable Interests under the Citibank Receivables Purchase Agreement because Farmland and MPA likely received reasonably equivalent value in connection with any relevant transactions. Finally, the Creditors' Committee retained its ability to assert a preference claim, which it believes has substantial merit, against Citibank, N.A. in connection with the \$2 million payment made by Farmland to Citibank, N.A. on or about December 3, 2003. Therefore, the estates were able to obtain a reasonable extension of the Citibank Receivables Purchase Agreement, which is vital to the Debtors' ongoing businesses, in exchange for the release of claims of de minimis value.

The Debtors have also recently negotiated the Citibank Preference/Lease Settlement with Citibank N.A. relating to the \$2 million payment Farmland made to Citibank N.A. on or about December 3, 2003, to repay the Citibank Line. The Citibank Preference/Lease Settlement also resolves all issues relating to PUSA's assumption or rejection of certain leases of photocopier and fax equipment owned by Citibank Vendor Finance, Inc. The Debtors intend to file a motion pursuant to Bankruptcy Rule 9019 seeking approval of the Citibank Preference/Lease Settlement by January 14, 2005, and expect a hearing on the motion to be scheduled for February 3, 2005. As will be further described in the motion, in connection with the Citibank Preference/Lease Settlement, Citibank N.A. has agreed to pay Reorganized Farmland \$550,000 and to assign to Reorganized Farmland a claim under section 502(h) of the Bankruptcy Code in the amount of \$625,000. In addition, PUSA has agreed to assume four of the seven photocopier and fax equipment leases with Citibank Vendor Finance, Inc., upon the earlier of the Confirmation Date or the closing on the sale of the Atlanta Operations (as defined and discussed in Section VI.G.4.). Two of the leases have or are about to terminate, and the equipment subject to such leases will be returned. Farmland, which is currently using the leased equipment, will continue to make lease payments to Citibank Vendor Finance, Inc. pending assumption or rejection.

Should the Bankruptcy Court ultimately approve the motion regarding the Citibank Preference/Lease Settlement, the estimate aggregate amount of allowed General Unsecured Claims against Farmland will increase by \$625,000, resulting in a reduction in estimated recovery to such claimants by approximately 1.5%.

In connection with the Citibank Preference/Lease Settlement, Farmland has entered into a stipulation with Citibank regarding the Citibank Receivables Purchase Agreement, which it intends to file no later than January 11, 2005, so that it can be "so ordered" by the Bankruptcy Court by January 14, 2005. If approved by the Bankruptcy Court, the stipulation will further extend the Citibank Receivables Purchase Agreement through February 28, 2005, with the ability to further extend the Citibank Receivables Purchase Agreement, at Farmland's option, through April 15, 2005. It will be a termination event under the Citibank Receivables Purchase Agreement, however, if the Citibank Preference/Lease Settlement is not approved by the Bankruptcy Court by February 3, 2005.

L. EXCLUSIVITY

On June 10, 2004, the Debtors filed a motion to extend the period during which the Debtors have the exclusive right to file and solicit a chapter 11 plan under section 1121(a) of the Bankruptcy Code (the “Exclusive Periods”). Section 1121(c)(3) of the Bankruptcy Code provides an initial period of 120 days after the commencement of a chapter 11 case during which a debtor has the exclusive right to propose and file a chapter 11 plan and a period of 180 days after the commencement of the cases to obtain acceptance of such plan. On June 24, 2004, the Bankruptcy Court entered an order extending the Exclusive Periods through and including September 28, 2004 (for filing a plan) and November 27, 2004 (for solicitation of a plan). On October 6, 2004, the Bankruptcy Court approved a further extension of the Exclusive Periods through and including November 29, 2004 (for filing a plan) and January 27, 2005 (for solicitation of a plan). On December 8, 2004, the Bankruptcy Court approved a further extension of the Exclusive Periods through and including January 22, 2005 (for filing a plan) and March 28, 2005 (for solicitation of a plan). On December 27, 2004, the Debtors filed a motion to further extend the Exclusive Periods through and including March 25, 2005 (for filing a plan) and May 24, 2005 (for solicitation of a plan). The Debtors believe this further extension will provide them with sufficient time to obtain the necessary approvals for the Plan, or in the alternative, if necessary, to formulate and file new chapter 11 plans without having the destabilizing effect of competing plans. A hearing on the Debtors’ motion is currently scheduled for January 12, 2005.

M. MASTER LEASE FINANCING AGREEMENT INVESTIGATION

The Debtors, and soon after its appointment, the Creditors’ Committee began an investigation of potential causes of action relating to the Master Lease Financing Agreement and related issues affecting allocation of value in connection with these chapter 11 cases. Among other things, the Debtors and the Creditors’ Committee investigated (i) whether the Master Lease Financing Agreement could be recharacterized as a financing, (ii) whether the Master Lease Financing Agreement and the Lessor’s claim could be avoided as a fraudulent transfer under sections 544 and/or 548 of the Bankruptcy Code, and (iii) the value, if any, of the Lessor’s secured claim. If the Lessor’s ownership interest in the equipment subject to the Master Lease Financing Agreement was recharacterized as a lien, then the equipment would be property of Farmland’s bankruptcy estate and potentially available for use in the operation of its business in accordance with section 363 of the Bankruptcy Code. In addition, if Farmland did not receive reasonably equivalent value in connection with the Master Lease Financing Agreement and was insolvent or rendered insolvent as a result, the Master Lease Financing Agreement and the Lessor’s claim could potentially be avoided as a fraudulent transfer for the benefit of Farmland and its creditors.

The investigation conducted by the Creditors’ Committee included (i) depositions of four employees of the Lessor, one employee of Citigroup, which arranged the Master Lease Financing Agreement, and a former representative of the Debtors who was familiar with the Master Lease Financing Agreement, and (ii) a review of thousands of pages of documents produced by the Lessor, Citigroup, the Debtors, and Deloitte & Touche LLP (“D&T”), which had issued an appraisal to the Lessor in connection with the Master Lease Financing Agreement. Upon conclusion of its investigation, the Creditors’ Committee asserted that it had meritorious

causes of action against the Lessor pursuant to, among other things, sections 544 and 548 of the Bankruptcy Code.

1. **Fraudulent Transfer/Obligation Claims**

To support its position that the Master Lease Financing Agreement and potentially the Lessor's claim thereunder could be avoided under sections 544 and 548 of the Bankruptcy Code, the Creditors' Committee has contended that:

- the Lessor did not exhibit good faith in connection with the Master Lease Financing Agreement because it (a) negotiated the Master Lease Financing Agreement directly with Parmalat S.p.A., (b) viewed Parmalat S.p.A. as the ultimate credit, (c) believed that all of the proceeds from the Master Lease Financing Agreement would be immediately transferred to Parmalat S.p.A., (d) did not consider whether the lease payments would be coming from Parmalat S.p.A. or Farmland, and (e) conducted relatively little due diligence regarding the effect the Master Lease Financing Agreement would have on Farmland and its creditors;
- the Master Lease Financing Agreement transaction could be collapsed with the transactions involving the upstreaming of funds to Parmalat S.p.A. and PDBI, because of the closeness in time of the events and Lessor's prior knowledge of the subsequent transfer;
- Farmland received very little, if any, consideration from Parmalat S.p.A. in connection with the Master Lease Financing Agreement because the note it received from Parmalat S.p.A. to evidence the initial \$70 million transfer (a) was unsecured, (b) had a 5 year term, (c) was non-callable, (d) provided for no periodic payments, (e) was not readily marketable, (f) was issued by an insider entity that was insolvent and had no intention of paying it back, and (g) was being subordinated to the claims of other creditors in Parmalat S.p.A.'s Italian insolvency proceedings;
- Farmland received very little, if any, consideration from PDBI in connection with the Master Lease Financing Agreement because (a) the \$30 million intercompany payable recorded from PDBI was not set forth in a note, (b) PDBI was having liquidity problems at the time, and (c) Farmland had very limited ability to demand repayment; and
- Farmland was insolvent at the time of the Master Lease Financing Agreement or rendered insolvent as a result thereof because (a) its liabilities exceeded its assets prior to or as a result of the Master Lease Financing Agreement and (b) Farmland was not able to pay its obligations as they became due as a result of the lease obligations.

Accordingly, the Creditors' Committee has contended that Farmland received little if any value in connection with the Master Lease Financing Agreement and that the Master

Lease Financing Agreement and the Lessor's claim thereunder, can be avoided as fraudulent under sections 544 and 548 of the Bankruptcy Code.

The Lessor has disputed the material arguments and related allegations asserted by the Creditors' Committee, taking the position that the Master Lease Financing Agreement cannot be avoided as a fraudulent transfer under sections 544 and 548 of the Bankruptcy Code. In support of its position, the Lessor has contended that:

- the Lessor exhibited good faith when it entered into the Master Lease Financing Agreement because (a) the appraisal performed by D&T in connection with the Master Lease Financing Agreement showed that Farmland was solvent at the time of the transaction and the Lessor had no reason to know that the Master Lease Financing Agreement would render Farmland insolvent, (b) the Lessor believed that Parmalat S.p.A. was an investment grade company with millions of dollars in the bank and had no reason to expect that Parmalat S.p.A. would not repay the funds to Farmland to the extent necessary to satisfy Farmland's obligations to its creditors, and (c) if the Lessor had known that Parmalat S.p.A. was insolvent at the time of the transaction or that Farmland would be rendered insolvent by the Master Lease Financing Agreement, it would not have entered into the Master Lease Financing Agreement;
- Farmland received reasonably equivalent value in connection with the Master Lease Financing Agreement because it received from the Lessor \$100 million, which in retrospect is considerably more than the equipment was worth;
- even if the Master Lease Financing Agreement transaction was collapsed with the subsequent upstreaming transactions, Farmland was not rendered insolvent by the collapsed transaction because (a) the note received by Farmland from Parmalat S.p.A., an investment grade company, shortly after the transaction and the intercompany claim against PDBI, a solvent company from a balance sheet perspective, substantially offset the \$100 million lease obligation to the Lessor, and (b) Farmland could have sold its non-operating assets to satisfy its financial obligations as they became due; and
- even if the Master Lease Financing Agreement could be avoided as constructively fraudulent, the Lessor would be entitled to (a) retain a significant secured claim in accordance with section 548(c) of the Bankruptcy Code to the extent that value was provided to Farmland in connection with the Master Lease Financing Agreement and (b) assert a significant unsecured claim under section 502(h) of the Bankruptcy Code for common law fraud against Farmland based on certain alleged misrepresentations made by representatives of Farmland in connection with the Master Lease Financing Agreement.

2. Reasonableness of the Settlement

The fraudulent transfer/obligation claims that could have been asserted by the Creditors' Committee against the Lessor are highly fact specific. Among other things, the Creditors' Committee would have had to demonstrate that the Master Lease Financing Agreement would have been collapsed with the subsequent upstreaming of funds to Parmalat S.p.A. and PDBI. This analysis would depend upon whether the Creditors' Committee would be able to prove that the Lessor had actual or constructive knowledge of the fraudulent scheme (i.e., that Farmland would not be retaining the proceeds of the Master Lease Financing Agreement). In addition, the Creditors' Committee would also have had to prove that Farmland did not receive reasonably equivalent value in connection with the Master Lease Financing Agreement. This would have required testimony as to the value of the note and intercompany receivable Farmland received from Parmalat S.p.A. and PDBI, respectively. Next, the Creditors' Committee would have had to show that Farmland was insolvent at the time of the transaction or rendered insolvent as a result thereof. In addition, to receive any meaningful recovery, the Creditors' Committee would have had to prove that the Lessor would not be able to interpose a meritorious defense under (i) section 548(c) of the Bankruptcy Code, which would provide the Lessor with a secured claim to the extent of the value received by Farmland if it acted in good faith or (ii) section 502(h) of the Bankruptcy Code, which would allow the Lessor to assert a fairly large unsecured claim for common law fraud, which would itself require litigation involving very fact sensitive issues. The fact sensitive nature of the claims, the paucity of case law directly on point, and the uncertainty that would be associated with proving such fact sensitive claims weigh in favor of the settlement.

Moreover, the complexity and cost of potential litigation, notwithstanding the delay necessarily attendant thereto, suggested that settlement was essential. Because of the numerous complex and fact sensitive issues, which most likely would require expert testimony, the Debtors estimate that, not including appeals, it would take between six and twelve months to litigate these claims. The corresponding cost to Farmland's estate associated with such litigation would likely be at least \$1.5 million - \$3.0 million. Moreover, and perhaps more importantly, without an agreement by and between the Lessor and the Creditors' Committee, the Debtors believe that Farmland would have to be sold or liquidated, because the DIP Lender would not be willing to extend the term of the Postpetition Credit Agreement or to provide the additional funding necessary to reorganize the Debtors' core business absent the settlement embodied in the Plan. Further, it is unlikely that the Debtors would be able to obtain alternative financing. It is significant to note that a termination event under the Postpetition Credit Agreement also constitutes a termination event under the Citibank Receivables Purchase Agreement, which would further reduce the resources available to the Debtors. Finally, Farmland would have likely lost considerable value during litigation as a result of the uncertainty surrounding its future, which could have led key customers and suppliers to move business to competitors.

Based upon an analysis conducted by AlixPartners in August 2004, the Debtors believe that if the Creditors' Committee had pursued litigation against the Lessor, a rapid sale of all of the Debtors' assets would have ensued because the commencement of a lawsuit would have caused an event of default under the Postpetition Credit Agreement and, by extension, under the Citibank Receivables Purchase Agreement. The Debtors believe that in a litigation scenario, the lenders would not have continued to extend financial accommodations to the

Debtors under the Postpetition Credit Agreement and/or the Citibank Receivables Purchase Agreement.

The Debtors' analysis regarding the propriety of the settlement is summarized as follows: based on third-party appraisals of Farmland's assets under a liquidation scenario and on offers received for some, but not all, of the assets, the Debtors forecasted maximum proceeds of \$56.9 million for various sales of assets. In addition to proceeds from asset sales, Farmland had certain receivables and litigation claims with estimated net recoveries of approximately \$23 million. The Debtors' analysis included a projected \$33.6 million repayment of the Postpetition Credit Facility, projected administrative claims, including professional fees, of \$5.2 million, closure and sale costs of \$4.7 million, and litigation costs totaling \$7.1 million. Thus, the net proceeds available for distribution, after repayment of the Postpetition Credit Agreement and other obligations discussed above, were forecasted at \$29.3 million.

In the event the Lessor prevailed in the litigation, the Lessor's claim would likely have been allowed in the amount of approximately \$96 million. Based on appraised values of the Lessor's collateral, an estimated \$13.4 million of that amount would have been a secured claim. Out of the \$29.3 million in net sale proceeds referenced above, the Lessor would have received \$13.4 million on account of its secured claim and \$10.5 million on account of its deficiency claim, for a total recovery of \$24.9 million or 26%. In this scenario, holders of allowed claims against Farmland would have received only approximately \$4.4 million, or 14%. These recoveries are clearly less than the estimated recoveries set forth in the Plan.

If the Creditors' Committee prevailed in the litigation following a sale of the Debtors' remaining assets and termination of the Postpetition Credit Agreement and the Citibank Receivables Purchase Agreement, the Debtors' analysis reflected that holders of allowed Farmland Class 3a and 3c claims (General Unsecured Claims and Convenience Claims against Farmland) would have received approximately \$10.1 million, or 33%. The Lessor's recovery under this scenario would likely have been an allowed claim in the amount of \$31 million. Of that amount, the Lessor would have had a secured claim of \$13.4 million based on the value of its collateral, resulting in a total recovery (including on account of its deficiency claim) of approximately \$19.1 million, or 20%. Again, these recoveries are less than the estimated recoveries set forth in the Plan.

Finally, the Plan provisions dealing with potential disputes among the Lessor and the Creditors' Committee are in the paramount interest of creditors and in proper deference to their reasonable views. The Creditors' Committee has aggressively represented the interests of all general unsecured creditors and wholeheartedly supports the Plan. The Plan frees the Debtors from time-consuming and expensive litigation and paves the way for creditors to receive a significant recovery by allowing the core operating business of the Debtors to be reorganized. The Debtors, the Creditors' Committee, and the Lessor believe that the settlement as embodied in the Plan, preserves the value of Farmland's estate and effectuates the most advantageous recovery to the Debtors, their estates, creditors, and all parties in interest.¹²

¹² Societe Generale Financial Corporation and ING Capital LLC, two of the four Participants in the Master Lease Financing Agreement, who hold a collective 40% interest in the Master Lease

N. CLAIMS PROCESS AND BAR DATE

On April 23, 2004, each of the Debtors filed Statements of Financial Affairs and Schedules of Assets and Liabilities and Schedules of Executory Contracts and Unexpired Leases (collectively, the “Schedules”). By order dated May 20, 2004 (the “Bar Date Order”), the Bankruptcy Court set July 9, 2004, as the deadline by which proofs of claim were required to be filed in the Debtors’ chapter 11 cases (the “Non-Governmental Bar Date”), and August 23, 2004 at the deadline by which proofs of claim were required to be filed by governmental units (the “Governmental Bar Date”). By stipulation and order dated July 2, 2004 (the “Parmalat Center Bar Date Order”), the Bankruptcy Court set August 9, 2004 as the deadline by which time Parmalat Center and related entities were required to file proofs of claim (the “Parmalat Center Bar Date” and together with the Non-Governmental Bar Date and the Governmental Bar Date, the “Bar Dates”). In accordance with the Bar Date Order, written notices of the Bar Dates were mailed to all known creditors. The time within which to file claims against the Debtors has expired.

1. Proofs of Claim

As of January 3, 2005, 311 proofs of claim have been filed against PUSA, 563 proofs of claim have been filed against Farmland; and 121 proofs of claim have been filed against MPA. Several of these proofs of claim were filed against more than one Debtor.

2. Claim Settlement Procedures.

On November 3, 2004, the Bankruptcy Court entered that certain Order Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code and Bankruptcy Rule 9019(b) Authorizing the Establishment of Procedures to Settle Certain Prepetition Claims (the “Claims Procedures Order”). Pursuant to the Claims Procedures Order, the Debtors are authorized to file objections to proofs of claim on an omnibus basis, and the Debtors are authorized to compromise and settle claims against the Debtors’ estates in accordance with the settlement procedures set forth in the Claims Procedures Order.

On November 5, 2004, the Debtors filed their First Omnibus Objection to Proofs of Claim (the “First Omnibus Objection”). On December 8, 2004, the Bankruptcy Court entered an order granting the Debtors’ First Omnibus Objection, thereby disallowing and expunging certain claims filed against the Debtors.

O. INTERCOMPANY (NON-DEBTOR) CLAIMS

The Debtors have asserted claims and/or demands for payments against numerous Parmalat S.p.A. affiliates for amounts in excess of \$400 million. The Debtors’ efforts to collect on these claims have included service of demand letters and the filing of claims in the insolvency proceedings of Parmalat S.p.A., Finanzia ria, and Parmalat Finance Corp. B.V. pending in the

[Financing Agreement, contend that the Lessor’s acceptance of the treatment provided in the Plan violates their rights under their participation agreement. The Lessor and the Debtors disagree with this assertion.](#)

Court of Parma, Italy and Eaux Vives Harricana Inc. (“EVH”) pending in the Superior Court, Province of Quebec, District of Montréal, Canada, and the commencement of an adversary proceeding in the Bankruptcy Court against Parmalat TechHold Corp. (“TechHold”), as described below in ~~footnote 10~~^{f.n. 14} on pg. 81.

1. Proofs of Claims Filed in the Parmalat S.p.A. Insolvency Proceedings

The Debtors have filed proofs of claim against Parmalat S.p.A., Finanziaria, and Parmalat Finance Corp. B.V. The Debtors asserted claims against Finanziaria for alleged obligations of Parmalat S.p.A. based on an Italian law that ~~makes~~^{may require} Finanziaria, ~~—~~ as Parmalat S.p.A.’s sole shareholder, ~~liable for — to satisfy certain of~~ Parmalat S.p.A.’s alleged obligations. After a thorough examination of the books and records of the Debtors, claims in excess of \$350 million were asserted as follows:⁺⁰¹³

2. Claims Asserted By Farmland

Farmland asserted the following claims in the Parmalat S.p.A. insolvency proceedings:

- \$292,542,198, relating to an intercompany loan and reimbursement credits owing to Farmland by Parmalat S.p.A. and the same claim in a similar amount against Finanziaria based on ~~its statutory liability~~^{an Italian statute that may require Finanziaria,} as Parmalat S.p.A.’s sole shareholder, to satisfy certain of Parmalat S.p.A.’s alleged financial obligations;
- \$9,938,081, relating to an intercompany loan allegedly owing to Farmland by Parmalat S.p.A. and the same claim ~~in~~^{alleging} a similar amount against Finanziaria as Parmalat S.p.A.’s sole shareholder;
- \$8,835,071.45, relating to monies allegedly advanced to Transora by Farmland, allegedly at the direction of Parmalat S.p.A., and the same claim in a similar amount against Finanziaria as Parmalat S.p.A.’s sole shareholder;
- ~~\$20,595,555~~^{20,592,555}, relating to monies allegedly advanced by Farmland to acquire the stock of DASI Products on behalf of TechHold, allegedly at the direction of Parmalat S.p.A., and the same claim in a similar amount against Finanziaria as Parmalat S.p.A.’s sole shareholder;

⁺⁰¹³ When filed with the Court of Parma, the U.S. dollar amounts claimed with respect to Parmalat S.p.A. were converted into Euros at an exchange rate of .8060 Euros per U.S. Dollars, the official exchange rate of the European Central Bank for December 23, 2003. The U.S. dollar amounts claimed with respect to Finanziaria S.p.A. were converted into Euros at an exchange rate of .8003 Euros per U.S. Dollars, the official exchange rate of the European Central Bank for December 30, 2003.

- \$5,415,115, relating to monies allegedly withheld from or paid by Farmland for the benefit of Curcastle Corporation NV (“Curcastle”), allegedly at the direction of Parmalat S.p.A., and the same claim in a similar amount against Finanziaria;
- \$4,258,698, relating to monies allegedly advanced by Farmland to Parmalat Gelateria U.S.A., Parmalat Gelateria Miami, Inc., Parmalat Gelateria Houston, Inc. (collectively, “Gelateria”), allegedly at the direction of Parmalat S.p.A., and the same claim in a similar amount against Finanziaria as Parmalat S.p.A.’s sole shareholder; and
- \$17,523,850, relating to reimbursement credits allegedly owing by Parmalat Finance Corp. B.V. to Farmland.

3. Claims Asserted By MPA

MPA asserted two claims in the Parmalat S.p.A. insolvency proceeding, including a claim against Parmalat S.p.A. in the amount of \$5,415,115 relating to monies allegedly withheld from or paid by MPA for the benefit of Curcastle, allegedly at the direction of Parmalat S.p.A., and the same claim ~~is~~ alleging a similar amount against Finanziaria as Parmalat S.p.A.’s sole shareholder.

4. Acknowledged Claims and Distributions in the Italian Insolvency Proceedings

Parmalat S.p.A. acknowledged an obligation to Farmland in the amount of approximately \$75 million. Parmalat Finance Corp. B.V. also acknowledged an obligation to Farmland in the amount of approximately \$13 million. By order of the Court of Parma, dated December 16, 2004, these two acknowledged claims have been allowed. The remainder of the Debtors’ more than \$375 million of claims have been excluded from the final list of allowed claims. The Debtors have until January 27, 2005 to appeal the exclusion of their claims from the final list of allowed claims. The Debtors intend to file a timely appeal in an effort to have the full amount of their asserted claims allowed.

The respective restructuring plans currently provide for creditor recoveries of the following approximate percentages: Parmalat S.p.A., 7.3%; Finanziaria, 11.3%; and Parmalat Finance Corp. B.V., 4.6%. Nonetheless, Parmalat S.p.A., Finanziaria, and Parmalat Finance Corp. B.V., pursuant to section 6.4.4.1 of their restructuring plan, are seeking to subordinate all of the Debtors’ claims based solely upon their corporate affiliation with the Debtors. On September 18, 2004, the Debtors filed an objection in the Italian insolvency proceedings contesting the proposed restructuring plan and subordination of their claims. It is too early to predict the likely recovery in respect of the claims against Parmalat S.p.A. and its affiliates. However, pending the occurrence of the Effective Date and execution of the Litigation Trust Agreement (discussed in Section VIII.D.), the Debtors intend to pursue and defend their claims in the Italian insolvency proceedings vigorously.

5. Demand Letters

In addition to the proofs of claim filed against Parmalat S.p.A. and certain of its affiliates, the Debtors also served demand letters on certain other Parmalat S.p.A. affiliates. Between June 17, 2004, and August 6, 2004, the Debtors served demand letters upon TechHold, PDBI, Curcastle, and Gelateria for the following amounts:

- \$20,592,555.66 on TechHold relating to money allegedly transferred on behalf of TechHold for the acquisition of assets of the stock of DASI Products and the payment of TechHold's professional fees;⁺⁺¹⁴
- \$20,501,750 on PDBI relating to outstanding portion of the alleged transfer of \$30 million from the proceeds of the Prepetition Master Lease allegedly without the receipt of reasonably equivalent value and without any preexisting obligation;
- \$6,283,364 on Curcastle relating to funds allegedly owing to Farmland and MPA that were paid to or withheld by Curcastle under the Citibank Receivables Purchase Agreement and used to repay obligations of Curcastle or one or more of its affiliates that were owed to Citibank; and
- \$4,258,698.04 on Gelateria relating to advances Farmland allegedly made to Gelateria for its start-up costs and to cover subsequent operating losses.

The Debtors are currently in the process of negotiating a resolution of the claim against PDBI and expect that dispute to be resolved in the near future. The resolution of the claim against PDBI is expected to yield sufficient proceeds to satisfy the "Tranche Amounts" for Tranches I and II of the Litigation Trust (as defined and discussed in Section VIII.C.1., below).

⁺⁺¹⁴ On November 18, 2004, PUSA and Farmland filed an adversary proceeding in the Bankruptcy Court on account of this claim. The amount claimed in the adversary proceeding (approximately \$12,134,198) is less than the amount in the demand letter, as well as the claims filed against Parmalat S.p.A. and Finanziaria in the Parmalat S.p.A. proceedings, because the Debtors inadvertently failed to give TechHold credit for the value of certain assets transferred to PUSA in February 2000. TechHold disputes PUSA's and Farmland's allegations. TechHold asserts that the applicable statutes of limitations have expired with respect to the primary cause of action asserted against it. TechHold further asserts that it holds substantial counterclaims against PUSA and Farmland for, inter alia, patent infringement. The Debtors disagree with TechHold's assertions. In addition, PUSA and Farmland obtained a temporary restraining order against TechHold enjoining TechHold from transferring, liquidating, encumbering, or otherwise dissipating any (i) intellectual property, patent, or technology rights, or the proceeds thereof, or (ii) assets of TechHold or the proceeds thereof, pending a hearing on PUSA's and Farmland's request for a preliminary injunction, which hearing is currently scheduled for March 1, 2005.

6. Other Claims Filed in Insolvency Proceedings

Farmland also filed a claim against a Canadian affiliate of Parmalat S.p.A., EVH, in its insolvency proceedings in the amount of C\$147,612.78 (U.S.D.\$107,691.53 at an exchange rate of 1.3707). This claim is related to employee wages and expenses paid by Farmland.

7. Claims Filed by Parmalat S.p.A. and its Affiliates against the Debtors

All claims discussed in this section were asserted by Parmalat S.p.A. and certain of its affiliates against the Debtors in “not less than” amounts. In addition, unless otherwise stated below, all of the claims described in this section are allegedly secured in currently unliquidated amounts only to the extent of a valid right of setoff.

Claims totaling more than \$700 million have been asserted against each of the Debtors by Parmalat S.p.A. and its affiliates including:

- Parmalat S.p.A.: an unsecured claim for ~~\$363,937,810.12, with a secured portion totaling more than \$117 million, for indebtedness from acquisitions~~ 363,937,810.12 for, among other things, money loaned, goods sold, and other charges, of which claim approximately \$117.3 million is secured, but only to the extent of a valid right of setoff;
- Fratelli Strini Costruz. Meccaniche S.r.L.: ~~a secured~~ an unsecured claim for \$20,640.30 for unpaid invoices;
- Archway Cookies B.V.: ~~a secured~~ an unsecured claim ~~only to the extent of a right of setoff~~ for \$632,005.43, allegedly arising from among other things, milk storage charges and other reimbursements;
- Parmalat Finance Corp. B.V.: ~~a secured~~ an unsecured claim ~~only to the extent of a right of setoff~~ for \$122,068,471.76 based on ~~indebtedness from acquisitions, goods sold, and other charges~~ among other things, money loaned (this claim is included in and duplicative of one of the claim claims asserted by Parmalat S.p.A. in the same amount);
- Parmalat Netherlands B.V.: ~~a secured~~ an unsecured claim for \$144,880,348.00 ~~for indebtedness relating to acquisitions, goods sold, and other charges~~ based on, among other things, money loaned (this claim is included in and duplicative of one of the claim claims asserted by Parmalat S.p.A. in the same amount);
- Curcastle: ~~a secured~~ an unsecured claim ~~only to the extent of a right of setoff~~ for \$72,049,960.00 for unspecified intercompany transactions ~~with an alleged right of setoff~~; and

- PDBI: an unsecured claim for \$572,803.47 for management and professional fees for services PDBI claims were rendered on behalf of Parmalat USA Corp.

In addition, Bonlat Financing Corporation (“Bonlat”) and Parmalat Capital Finance Limited (“Capital Finance”) each filed contingent unsecured claims for \$37 million against Farmland to the extent that Farmland asserts a claim in a similar amount against Bonlat or Capital Finance.

Further, each of the following Parmalat S.p.A. affiliates asserted ~~a secured~~ claimclaims for ~~an~~-unliquidated and undetermined ~~amount~~amounts against each of the Debtors alleging ~~unspecified~~ breaches of obligations ~~and asserting an alleged right of setoff~~:

- Finanziaria
- Parmalat Soparfi S.p.A.
- Parmalat Capital Netherlands B.V.
- Newco S.r.L.
- Nuova S.p.A.
- Olex S.A.
- Panna Elena S.r.L.
- Parma Food Corporation B.V.
- Parmatour S.p.A.
- Centro Latte Centallo S.r.L.
- Coloniale S.p.A.
- Contal S.r.L.
- Dairies Holding International B.V.
- ~~Eliare~~Eliair S.r.L.
- Eurolat S.p.A.
- Geslat S.r.L.
- HIT International S.p.A. ~~, and~~
- HIT S.p.A.
- Lactis S.p.A., and
- Parmengineering S.r.L.

8. **The Debtors’ Objections to Claims of Parmalat S.p.A. and its**

Affiliates

Pending the occurrence of the Effective Date and execution of the Litigation Trust Agreement, the Debtors intend to object and/or seek to recharacterize or subordinate each of the claims of Parmalat S.p.A. and its affiliates. Based on the analysis of the proofs of claim and the support attached thereto, the Debtors believe that the vast majority of the claims filed by Parmalat S.p.A. and its affiliates have no merit. Parmalat S.p.A., however, believes the claims do have merit. In addition to asserting substantive and non-substantive objections to each of the claims, the Debtors intend to seek to have these claims disallowed pending the recovery by the Debtors’ estates of amounts Parmalat S.p.A. and its affiliates owe the Debtors.

The Debtors will seek to recharacterize some or all of these claims as equity investments, and/or alternatively, seek to have these claims subordinated to all general unsecured claims or to other equity because, based on an investigation performed by the Debtors and their professionals, the Debtors believe that (i) the claims of Parmalat S.p.A. and its affiliates were not bona fide debt, but were instead disguised equity investments in the Debtors, and (ii) Parmalat S.p.A. and its affiliates engaged in inequitable and unfair conduct, and, in the process, breached fiduciary duties owed to the Debtors, thereby causing injury to the Debtors' creditors and conferring an unfair advantage upon Parmalat S.p.A. and its affiliates and certain of their officers and directors. Further, the Debtors will file substantive objections to all, or substantially all, of the claims because the claims (i) were filed against the wrong Debtor, (ii) lack support, (iii) are subject to set off and/or recoupment, (iv) are barred by the applicable statute of limitations, and/or (v) are barred by section 502(d) of the Bankruptcy Code because the respective claimants have not paid amounts owed to these estates under sections 542, 543, 550, or 553 of the Bankruptcy Code.

The Debtors anticipate that the vast majority of the claims asserted by Parmalat S.p.A. and its affiliates will be disallowed or substantially reduced and/or recharacterized or subordinated to the claims of other creditors or to other equity interests. The Debtors estimate that if the claims are not subordinated and/or recharacterized, then, in total, the above proofs of claim will be reduced to no more than \$212 million against PUSA and will be disallowed in full against both Farmland and MPA. Further, to the extent that certain claims are allowed, the Debtors intend to set off, to the greatest extent possible, amounts they are owed against such claims. The Debtors are currently involved in ongoing settlement discussions with Parmalat S.p.A. and its affiliates regarding these claims.

9. The Debtors' Objection to Extension of the Preliminary Injunction in the 304 Proceeding of Parmalat S.p.A. and Affiliates

On June 22, 2004, Dr. Enrico Bondi, in his capacity as Extraordinary Administrator of Parmalat S.p.A. and certain of its non-United States affiliates (the 'Foreign Debtors'), filed a verified petition in support of a case ancillary to a foreign proceeding pursuant to section 304 of the Bankruptcy Code, as well as a motion for a temporary restraining order and a preliminary and permanent injunction and related relief under section 304(b) of the Bankruptcy Code (the '304 Proceeding'). The 304 Proceeding was assigned Case No. 04-14268 (RDD). On July 2, 2004, the Bankruptcy Court entered a preliminary injunction, which, among other things, enjoined all creditors from commencing or continuing any action or legal proceeding against the Foreign Debtors through August 30, 2004 and pending a hearing on the Foreign Debtors' motion for a permanent injunction. On August 26, 2004, the Bankruptcy Court entered an order extending the preliminary injunction through November 30, 2004. On November 24, 2004, Farmland and MPA filed an objection to the extension of the preliminary injunction beyond November 30, 2004, asserting that Farmland and MPA should not be enjoined from prosecuting their claims in the U.S. due to the proposed subordination of their claims in the Foreign Debtors' Italian insolvency proceedings based upon an allegedly improper application of Italian law. The Foreign Debtors responded to Farmland's and MPA's objection on November 30, 2004. The Bankruptcy Court denied Farmland's and MPA's objection without prejudice, and on November 30, 2004, entered an order extending the preliminary injunction through January 31, 2005. A

hearing to consider whether the injunction should be continued beyond January 31, 2005, is currently scheduled for January 27, 2005.

P. TUSCAN/LEHIGH DAIRIES, INC. AND DEAN FOODS COMPANY

On May 30, 2003, PUSA and Tuscan/Lehigh Dairies, Inc. ("Tuscan"), an affiliate of Dean, entered into that certain Supply Agreement (the "Supply Agreement" or "Tuscan Contract"), pursuant to which PUSA agreed, inter alia, to process, package and load fluid milk products under the Tuscan label or private labels at Farmland's Sunnydale plant in Brooklyn, New York ("Sunnydale") for delivery to Tuscan customers in the New York area (the "Co-Packing Services"). A specified processing fee, among other fees, was to be paid by Tuscan to PUSA for the Co-Packing services to be performed at Sunnydale. PUSA further agreed to purchase and load other products as requested by Tuscan for delivery in the New York area.

The initial term of the Supply Agreement was from May 30, 2003 through June 30, 2016, with provisions for automatic renewal. Pursuant to the Supply Agreement, the Parties contemplated that on or about June 30, 2004, or, at Tuscan's option, on July 1, 2004, the volume of fluid milk products to be processed, packaged and loaded for Tuscan would increase significantly. In addition to the Co-Packing Services to be performed pursuant to the Supply Agreement, Tuscan and/or its designee(s) received certain of its parking, office space and storage facilities at no additional charge.

1. Tuscan's Motions to Compel

a. *Tuscan's Motion to Compel PUSA*

On June 2, 2004, Tuscan filed a motion to compel PUSA to assume or reject the Supply Agreement, or, in the alternative, for relief from the automatic stay provisions of section 362 of the Bankruptcy Code (the "Motion to Compel PUSA"). On June 10, 2004, the Debtors filed their response to the Motion to Compel PUSA (the "Debtors' Response"), in which they consented to the rejection of the Supply Agreement effective June 30, 2004. On June 14, 2004, Tuscan filed its reply to the Debtors' Response (the "Tuscan Reply"). In the Tuscan Reply, Tuscan objected to the June 30, 2004, rejection date and sought a transition period to August 31, 2004.

On June 30, 2004, the Bankruptcy Court approved that certain Stipulation, Agreement, and Order Between Debtors and Tuscan/Lehigh Dairies, Inc. (the "Stipulation and Order"), pursuant to which PUSA and Tuscan agreed to (i) PUSA's rejection of the Supply Agreement, effective as of September 30, 2004 (the "Rejection Date"), and (ii) perform under the Supply Agreement beginning June 30, 2004 through and including the Rejection Date on certain modified terms and to the extent set forth in the Stipulation and Order. Further, Tuscan had until October 30, 2004, to file a proof of claim for rejection damages (subject to all of PUSA's rights, claims and defenses, including rights of setoff with respect to any such claims).

Notwithstanding the Rejection Date, the parties agreed on September 29, 2004, subject to certain conditions, to extend the arrangement temporarily on the terms and conditions as set forth in the Stipulation and Order. On October 21, 2004, the parties agreed to continue the arrangement on the terms and conditions set forth in the Stipulation and Order until November 30, 2004. On or about November 15, 2004, PUSA and Tuscan agreed to continue the arrangement on the terms and conditions set forth in the Stipulation and Order until January 15, 2005.

b. *Tuscan's Motion to Compel Farmland*

On November 29, 2004, Tuscan filed a motion to compel Farmland to assume or reject the Supply Agreement, arguing that Farmland, rather than PUSA, is the contractual party-in-interest under the Supply Agreement (the "Motion to Compel Farmland"). Farmland will file a response to the Motion to Compel Farmland on or before January 25, 2005, the deadline by which responses must be filed, and a hearing on the Motion to Compel Farmland and any filed responses thereto has been set for February 3, 2005.

2. Tuscan's Rejection Damage Claim

On October 28, 2004, Tuscan filed rejection damage claims against both PUSA and Farmland in the amount of ~~\$57,052,568.00~~ \$57,052,568.00 (the "Rejection Damage Claims"). On November 24, 2004, Farmland objected to the rejection damage claim filed by Tuscan against Farmland (the "Farmland Objection"), arguing that this claim should be disallowed and expunged in its entirety because Farmland (i) has no contract with Tuscan, (ii) is not a party to the Supply Agreement or the Stipulation and Order, and (iii) owes no liability to Tuscan arising under either the Supply Agreement. Farmland has reserved its right to object to these claims on

other bases at a later time. A hearing on the Farmland Objection is currently scheduled for February 3, 2005.

3. Fraudulent Transfer Action

On December 17, 2004, PUSA initiated an adversary proceeding against Tuscan pursuant to which it filed that certain Complaint to Avoid Transactions Pursuant to 11 U.S.C. §§ 544, 548, and 550 and for Other Relief (the “Complaint”). As set forth in the Complaint, PUSA seeks to (i) avoid its obligations under the Supply Agreement that was executed within one year before the Commencement Date, (ii) disallow Tuscan’s rejection damage claim in connection with the Supply Agreement, (iii) recover from Tuscan, for the benefit of PUSA’s estate, reasonably equivalent value for the goods and services provided pursuant to the Supply Agreement, less any amounts already paid by Tuscan, plus interest thereon at a rate to be determined by the Bankruptcy Court, and (iv) disallow any claim of Tuscan against PUSA until such time as Tuscan pays to PUSA the amount set forth in (iii) above. On December 20, 2004, the Clerk of the Court assigned the adversary proceeding No. 04-04737 (RDD) and issued that certain Summons and Notice of Pretrial Conference in an Adversary Proceeding (the “Summons”), setting (i) January 19, 2005 as the date by which an answer to the Complaint was due, and (ii) February 15, 2005 at 10:00 a.m. as the date and time for the pretrial conference. On December 23, 2004, the Complaint was amended to include Farmland as a plaintiff in the action on a provisional basis only. It is the Debtors’ position that Farmland was not a party to the transaction sought to be avoided by the Complaint. Tuscan, however, filed a claim against Farmland (as discussed in subsection “2” above) in an attempt to recover from Farmland amounts related to the Supply Agreement, and has also filed the Motion to Compel Farmland to assume or reject the Supply Agreement (as discussed in subsection “1.b.” above). While Farmland filed the Farmland Objection to Tuscan’s claim and will oppose the Motion to Compel Farmland, until such time as the Bankruptcy Court determines that Farmland has no responsibility for Tuscan’s claims, Farmland joined the adversary proceeding to preserve all of its positions. On December 28, 2004, the Summons was amended and the answer deadline was extended to January 27, 2005. The pretrial conference remains scheduled for February 15, 2005 at 10:00 a.m. The Debtors have reserved their rights to assert other objections to Tuscan’s claims and are currently conducting an investigation of such claims. The Debtors believe they will avoid all of Tuscan’s claims and obtain a cash recovery. [Tuscan disagrees.](#)

4. Settlement Discussions

[The Debtors and the “Tuscan Entities,” including Tuscan and its affiliates, have engaged in settlement discussions regarding the Rejection Damage Claims, the Complaint and related matters, and have reached an agreement in principle, subject to acceptable documentation and Bankruptcy Court approval.](#)

Q. PENSION BENEFIT GUARANTY CORPORATION CLAIMS AGAINST THE DEBTORS

As set forth in Section II.G.11., Farmland maintains the Pension Plans for certain of its employees. The Pension Plans are tax-qualified defined benefit pension plans covered by Title IV of ERISA, pursuant to which benefits are payable upon a participant’s retirement from

the Debtors, disability, or death. Based on the most recent actuarial reports, the Pension Plans are currently underfunded by approximately \$18.8 million, on a distressed termination basis.

The Pension Benefit Guaranty Corporation (the “PBGC”) has filed a total of fifty-four (54) docketed proofs of claim against PUSA, Farmland and MPA on joint and several bases for liabilities with respect to the Pension Plans and the pension plan of a non-debtor affiliate. PBGC has alleged that unliquidated portions of such claims are potentially subject to administrative expense and/or unsecured priority status. Of the claims filed by the PBGC, in the aggregate, \$25,199,100 represents the PBGC’s estimate of the difference between the liabilities of the Pension Plans and the current value of assets in the Pension Plans (the unfunded benefit liabilities), on a plan termination basis. PBGC also filed proofs of claim for \$7,942,300 in respect of unfunded benefit liabilities under the Metz-Mother’s Cake and Cookies Co. Consolidated Pension Plan, which is sponsored by a non-debtor affiliate of the Debtors. The PBGC has also filed proofs of claim for unpaid minimum funding contributions pursuant to 29 U.S.C § 1082 and IRC Section 412, in a liquidated amount of \$3,934,667 million and unliquidated amounts. Lastly, PBGC filed unliquidated proofs of claim for PBGC insurance premiums, interest and penalties pursuant to 29 U.S.C § 1307 in respect of the Pension Plans. The Debtors believe they are current on their minimum funding contributions to the Pension Plans and all PBGC premiums with respect to such plans. In addition, the Debtors believe that the PBGC has inadvertently overstated the value of its asserted claims with respect to unfunded benefit liabilities. The Debtors have been negotiating with the PBGC toward a resolution of all issues between the parties. To the extent, however, the Debtors and the PBGC are unable to negotiate consensually the mutually agreeable treatment of PBGC’s claims for purposes of voting on the Plan or recovery on claims, the Debtors intend to object to PBGC’s claims on multiple grounds. Because Reorganized Farmland is assuming the Pensions Plans, the Debtors anticipate that the prosecution of such objections will result in the disallowance and expungement of the PBGC’s claims. However, there can be no assurance that the Debtors will be successful in contesting all of the PBGC’s claims. The actual allowed amount of the PBGC’s claims in these chapter 11 cases, if any, will impact the estimated percentage distribution to creditors.

PBGC has filed claims on joint and several bases against the Debtors because they are members of the same controlled group of corporations as defined in ERISA and the IRC and, as such, each may be jointly and severally liable with respect to obligations under the Pension Plans and to the PBGC with respect thereto.

Farmland intends to continue or to cause Reorganized Farmland to continue to maintain the Pension Plans after the Effective Date, subject to Farmland’s right to amend, terminate or modify the Pension Plans as permitted by such plan or applicable law and to administer and operate the Pension Plan in accordance with their terms and the applicable provisions of ERISA and the IRC, as set forth in 29 U.S.C. § 1082 and IRC Section 412, respectively, and to pay all insurance premiums due and owing with respect to the Pension Plans to the PBGC.

Unless the Pension Plans are terminated prior to the Effective Date, Reorganized Farmland will become the contributing sponsor of the Pension Plans and the liabilities of Reorganized Farmland to the Pension Plans, or to the PBGC with respect to the Pension Plans,

will not be affected in any way by these chapter 11 cases, including confirmation of the Plan and Farmland's discharge thereunder. Farmland does not intend to seek a termination of the Pension Plans. Accordingly, PBGC's bankruptcy claims in respect of the Pension Plans will not arise and, therefore, will be discharged. Nothing in the Plan is intended to release or discharge any statutory liability or obligation of Reorganized Farmland with respect to the PBGC or the Pension Plans. Neither the PBGC nor any of the Pension Plans will be enjoined or precluded from enforcing such liability as a result of the Plan.

VII. GOVERNANCE OF REORGANIZED FARMLAND

A. MEMBERS OF REORGANIZED FARMLAND

The initial members of Reorganized Farmland will be identified in the Reorganized Farmland LLC Agreement, which will be filed in the Plan Supplement no later than ten (10) days prior to the confirmation hearing.

B. SENIOR MANAGEMENT OF FARMLAND

As discussed herein, Farmland recently employed three (3) new senior managers to facilitate the long-term financial and operational stability Farmland's business requires to succeed. In light of their experience in the milk production and distribution industry, employment of these senior managers to oversee Farmland's business and financial operations on a day-to-day basis, affords Farmland the management strength necessary to accomplish its business objectives. The following table summarizes the base salary for these new senior managers who will all continue on with Reorganized Farmland:

Name	Title	Base Salary
Martin J. Margherio	President and Chief Operating Officer	\$360,000
Teresa E. Webb	Chief Financial Officer	\$237,000
Mikael B. Pederson	Executive Vice President	\$205,000

These senior managers and others will also be eligible for an annual bonus based on a determination by the board of directors of Reorganized Farmland. The maximum amount of bonus compensation for these employees under their current employment agreement is 100% of Mr. Margherio's base salary, and 70% of both Ms. Webb's and Mr. Pederson's base salary.

VIII. OTHER ASPECTS OF THE PLAN OF REORGANIZATION AND PLANS OF LIQUIDATION

A. SETTLEMENT OF INTER-DEBTOR PREPETITION CLAIMS AND INTERESTS

Following the Commencement Date, AlixPartners recognized the importance and necessity of conducting an investigation to reconcile prepetition inter-debtor claims (the "Inter-Debtor Claims"). After initially discovering that the Debtors' books and records were in

substantial disorder, AlixPartners, together with the Debtors' other professionals, spent several months analyzing the Debtors' financial data and identifying documentation to support certain reported transactions.

As set forth in the Inter-Debtor Settlement Motion, the Debtors and the Creditors' Committee believe, based upon their review of the facts and circumstances of the Inter-Debtor Claims and AlixPartners' analysis, which was reviewed and analyzed by BDO, that the Inter-Debtor Claims should be fixed at the following amounts:

CLAIM	AMOUNT
PUSA Claim against Farmland	\$10,392,497
PUSA Claim against MPA	\$4,967,846
MPA Claim against Farmland	\$2,705,407

The Debtors and the Creditors' Committee believe that settlement of the Inter-Debtor Claims based upon the adjusted claim amounts set forth above, is fair and equitable to all parties in interest and is in the best interests of the Debtors' estates.

B. PROCEDURES FOR TREATING DISPUTED CLAIMS

1. Objections

Any objections to claims against PUSA, Farmland, and MPA will be served and filed on or before the later of (a) 120 days after the Effective Date and (b) such later date as may be fixed by the Bankruptcy Court.

a. *Claims against Farmland.* The Unsecured Creditors' Trustee will be responsible for objecting to claims in Farmland Class 3a and Farmland Class 3c. Reorganized Farmland will be responsible for objecting to all other claims against Farmland. To the extent that a disputed claim that is not a General Unsecured Claim against Farmland or a Convenience Claim becomes allowed, Reorganized Farmland is responsible for payment of such allowed claim.

2. No Distributions Pending Allowance.

If any portion of a claim is a disputed claim, no payment or distribution will be made on account of such claim unless and until such disputed claims becomes an allowed claim.

3. Estimation of Claims

The PUSA Plan Administrator, the Unsecured Creditors' Trustee, with respect to claims in Farmland Class 3a or Farmland Class 3c, or Reorganized Farmland, with respect to all other claims against Farmland, and the MPA Plan Administrator, may at any time request that the Bankruptcy Court estimate any contingent, unliquidated, or disputed claim pursuant to section 502(c) of the Bankruptcy Code or otherwise regardless of whether any person or entity previously objected to such claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain exclusive jurisdiction to estimate any claim at any time during litigation concerning any objection to any claim, including without limitation,

during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or disputed claim, the amount so estimated will constitute either the allowed amount of such claim or a maximum limitation on such claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such claim, PUSA, the Unsecured Creditors' Trustee, Reorganized Farmland or MPA, as the case may be, may pursue supplementary proceedings to object to the allowance of such claim. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. Claims may be estimated and subsequently disallowed, reduced, compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

4. **Resolution of Disputed Claims**

a. *PUSA and MPA*

(i) Within sixty (60) days of a disputed claim becoming an allowed claim, PUSA or MPA will remit to the holder of such allowed claim cash equal to the amount such holder would have received as of that date under the Plan if the allowed portion of the disputed claim had been an allowed claim as of the Effective Date.

(ii) To the extent that a disputed claim against PUSA or MPA is not allowed or becomes an allowed claim in an amount less than the amount of the disputed claim set forth in the proof of claim, or as previously estimated by the Bankruptcy Court, the excess of the amount of cash that would have been distributed to the holder of the disputed claim if the claim had been allowed in full over the amount of cash actually distributed on account of such disputed claim will be available PUSA or MPA cash.

(iii) Holders of disputed claims will not be entitled to interest if such disputed claims becomes an allowed claim except to the extent such holder is entitled to interest under the Plan as a holder of an allowed claim.

b. *Farmland*

(i) Within sixty (60) days of a disputed (i) Administrative Claim against Farmland, (ii) Priority Tax Claim against Farmland, (iii) Priority Non-Tax Claim against Farmland, or (iv) Secured Claim against Farmland becoming an allowed claim, Reorganized Farmland will remit to the holder of such allowed claim the distribution such holder would have received on the Effective Date if the allowed portion of the disputed claim had been an allowed claim as of the Effective Date.

(ii) Within sixty (60) days of a disputed claim in Farmland Class 3a or Farmland Class 3c becoming an allowed claim, the Unsecured Creditors' Trustee will remit to the holder of such allowed claim cash equal to the amount such holder would have received as of that date under the Plan if the allowed portion of the disputed claim had been an allowed claim as of the Effective Date.

(iii) To the extent that a disputed claim in Farmland Class 3a or Farmland Class 3c is not allowed or becomes an allowed claim in an amount less than the

amount of the disputed claim set forth in the proof of claim, or as previously estimated by the Bankruptcy Court, the excess of the amount of cash that would have been distributed to the holder of the disputed claim if the claim had been allowed in full over the amount of cash actually distributed on account of such disputed claim, will be available to be distributed to holders of allowed Farmland Class 3a claims.

(iv) Holders of disputed claims will not be entitled to interest if such disputed claim becomes an allowed claim except to the extent such holder is entitled to interest under the Plan as a holder of an allowed claim.

**C. ALLOCATION OF NET LITIGATION PROCEEDS
BY REORGANIZED FARMLAND AND THE LITIGATION TRUST**

The Plan, in accordance with the Farmland settlement, provides for an allocation of “Net Litigation Proceeds” between the Lessor and the Unsecured Creditors’ Trust. The Net Litigation Proceeds means (i) any gross cash payments collected between December 1, 2004 and the Effective Date by Farmland on account of the Litigation Claims (the “Farmland Litigation Proceeds”); and (ii) any net cash payments collected after the Effective Date by the Litigation Trust (as discussed in subsection “D” below) on account of the Litigation Claims (the “Litigation Trust Net Proceeds”). Farmland will distribute the Farmland Litigation Proceeds on the Effective Date and the Litigation Trustee will distribute the Litigation Trust Net Proceeds after the Effective Date. The Net Litigation Proceeds will be allocated between the Lessor and the Unsecured Creditors’ Trust in accordance with the formula set forth in Article 7.3(a)(i) of the Plan. The formula for allocation varies depending on the total amount of Net Litigation Proceeds realized (the “Tranche Amounts”), the amount of PUSA’s Claim against Farmland, and the amount of allowed claims against Farmland resulting from recoveries from Preference Causes of Action.

1. Determination of Tranche Amounts and Allocation

All Net Litigation Proceeds up to the Tranche I Amount will be distributed to the Unsecured Creditors’ Trust on behalf of holders of allowed Farmland Class 3a claims. The Tranche I Amount is \$6 million, but is adjusted downward by the formula described in Article 7.3(b)(i) of the Plan if PUSA’s Claim against Farmland is determined by a court to be less than \$10,392,497. The Tranche I Amount will be adjusted upwards by the “Annual Adjustment,” which is an increase at the rate of 6% per annum, compounded monthly, beginning on the second anniversary of the Effective Date of the Plan for Farmland and concluding on the third anniversary of the Effective Date of the Plan for Farmland.

Net Litigation Proceeds greater than the Tranche I Amount up to the Tranche II Amount will be allocated between the holders of allowed Class 3a Claims and the Lessor. The Unsecured Creditors’ Trust, on behalf of holders of allowed Farmland Class 3a Claims, will receive one-third of such amount, subject to adjustments. The one-third distribution will be adjusted downward by the formula described in Article 7.3(a)(ii) of the Plan if PUSA’s Claim against Farmland is determined by a court order to be less than \$10,392,497 and adjusted upward by the formula described in Article 7.3(a)(ii) of the Plan if greater than \$1 million in additional Claims are allowed against Farmland as a result of Preference Causes of Action. The Lessor will

receive the remaining Net Litigation Proceeds greater than the Tranche I Amount up to the Tranche II Amount. The Tranche II Amount is the Tranche I Amount plus \$1.5 million, as adjusted by the Annual Adjustment.

Net Litigation Proceeds greater than the Tranche II Amount up to the Tranche III Amount will be distributed to the Lessor. The Tranche III Amount is the Tranche II Amount plus \$12 million, as adjusted by the Annual Adjustment.

Net Litigation Proceeds in excess of the Tranche III Amount will be distributed as follows: (x) 83.5% to the Lessor and (y) 16.5% to the Unsecured Creditors' Trust on behalf of holders of allowed Farmland Class 3a claims. If, however, the allowed amount of PUSA's Claim against Farmland is determined by final order to be less than \$10,392,497, any distributions that would otherwise be provided to the Unsecured Creditors' Trust will be adjusted downward by the formula described in Article 7.3(a)(iv) of the Plan and will instead be distributed to the Lessor.

The example below illustrates how the formulas in Article 7.3 of the Plan determine the allocation of Net Litigation Proceeds between the Lessor and the Unsecured Creditors' Trust:

Example:

If on a given date after the Effective Date (prior to the second anniversary of the Effective Date of the Farmland Plan), \$20,000,000 in Net Litigation Proceeds have been recovered, PUSA's Claim is determined by a court to be \$9,000,000, and there have been \$1,200,000 in allowed claims against Farmland resulting from the Preference Causes of Action, the Litigation Trustee should allocate distributions as follows:

- The first step is to determine the Tranche I Amount. The Tranche Amount will be \$6,000,000, adjusted by the formula set forth in Article 7.3(b)(i) of the Plan. According to the formula, the \$6,000,000 will be multiplied by a fraction, the numerator of which is \$30,000,000 plus the amount by which allowed claims against Farmland resulting from recoveries from the Preference Causes of Action exceeds \$1,000,000 (which, in this example, is \$200,000) and the denominator of which is \$30,000,000. The result will then be multiplied by a fraction, the numerator of which is \$30,000,000 minus the difference between \$10,392,497 and the allowed amount of PUSA's Claim against Farmland (which difference, in this example, is \$1,392,497) and the denominator of which is \$30,000,000. Therefore:

$$6,000,000 \times (30,200,000/30,000,000) \times (28,607,503/30,000,000) = 5,757,000$$

The Tranche I Amount is thus \$5,757,000, which would not be adjusted by the Annual Adjustment, because the second anniversary of the Effective Date would not have occurred. The entire Tranche I Amount is distributed to the Unsecured

Creditors' Trust.

- The next \$1,500,000 in Net Litigation Proceeds (those greater than the Tranche I Amount but less than the Tranche II Amount) would be distributed by giving the Unsecured Creditors' Trust one-third of such amount (\$500,000) multiplied by the same fractions as above:

$$500,000 \times 1.01 \times .95 = 479,750.$$

Thus, \$479,750 of the \$1,500,000 would be distributed to the Unsecured Creditors' Trust and the remainder, \$1,020,250 (which is \$1,500,000 - \$479,750), would be distributed to the Lessor.

- The next \$12,000,000 in Net Litigation Proceeds (those greater than the Tranche II Amount but less than the Tranche III Amount) would be distributed to the Lessor.
- The remaining \$743,000 in Net Litigation Proceeds (\$20,000,000 - (\$5,757,000 + \$1,500,000 + \$12,000,000)) would be distributed by giving the Unsecured Creditors' Trust 16.5% of such amount multiplied by the fraction from above derived from the allowed amount of PUSA's Claim against Farmland:

$$743,000 \times .165 \times .95 = 116,465.$$

Thus, \$116,465 of the \$743,000 would be distributed to the Unsecured Creditors' Trust and the remainder, \$626,535 (which is \$743,000 - \$116,465) would be distributed to the Lessor.

- In this example, the \$20,000,000 in Net Litigation Proceeds would, therefore, be distributed as follows:
 - Unsecured Creditors' Trust: \$6,353,215 (which is the sum of \$5,757,000 + \$479,750 + \$116,465)
 - Lessor: \$13,646,785 (which is the sum of \$1,020,250 + \$12,000,000 + \$626,535)

2. Recalculation of Tranche Amounts:

Because the allocation of Net Litigation Proceeds between the Lessor and the Unsecured Creditors' Trust is affected by several formulas, which may change often and create circumstances where distributions already made no longer accord with the current adjusted allocation, the Plan provides a mechanism by which the Litigation Trustee will regularly recalculate the Tranche Amounts and "true-up" future distributions to provide for the correct allocation at a given time. Specifically, the Plan provides that the Litigation Trustee will at

reasonable periodic intervals, but at least annually at the time distributions are made, recalculate the Tranche Amounts in accordance with the formulas set forth in the Plan. In the event that the Tranche Amounts have been adjusted, and distributions have been already made such that the Unsecured Creditors' Trust or the Lessor has received less than the amount to which it is entitled under the recalculated Tranche Amounts, then all future distributions of Net Litigation Proceeds will be paid to the Unsecured Creditors' Trust or Lessor, as applicable, until the Unsecured Creditors' Trust or the Lessor has received the distributions of Net Litigation Proceeds to which it is entitled in view of the total amount of Net Litigation Proceeds recovered.

Example

In the above example, if, after the Litigation Trustee makes the distribution of \$20,000,000 in Net Litigation Proceeds as calculated above, an additional \$1,000,000 in Claims against Farmland are allowed as a result of the Preference Causes of Actions, then the Tranche I Amount and the amount of Net Litigation Proceeds received by the Unsecured Creditors' Trust in the amount greater than the Tranche I Amount up to the Tranche II Amount would have to be recalculated. The 1.01 fraction from the previous example would now be 1.04 (\$31,200,000/\$30,000,000). This would mean that the Unsecured Creditors' Trust would have received less in the initial distribution than the amount to which it would be entitled under the recalculated amounts.

- The Tranche I Amount would be recalculated:

$$\begin{aligned} 6,000,000 \times 1.04 \times .95 = \\ 5,928,000 \end{aligned}$$

- The amount received by the Unsecured Creditors' Trust from the next \$1,500,000 would have to be recalculated:

$$\begin{aligned} 500,000 \times 1.04 \times .95 = \\ 494,000 \end{aligned}$$

The Lessor would receive the remaining 1,006,000.

- The Lessor would still receive the next \$12,000,000.
- There would now be \$572,000 of Net Litigation Proceeds remaining (\$20,000,000 – (\$5,928,000 + \$1,500,000 + \$12,000,000)), of which the amount distributed to the Unsecured Creditors' Trust would be recalculated as:

$$\begin{aligned} 572,000 \times .165 \times .95 = \\ 89,661 \end{aligned}$$

The Lessor would receive the remaining \$482,339.

- Thus, under the recalculated formulas, the \$20,000,000 in Net Litigation Proceeds would be allocated as follows:

- Unsecured Creditors' Trust: \$6,511,661 (which is the sum of \$5,928,000 + \$494,000 + \$89,661)
- Lessor: \$13,488,339 (which is the sum of \$1,006,000 + \$12,000,000 + \$482,339).
- This shows after recalculating the formulas, the Unsecured Creditors' Trust should have received \$158,446 more (\$6,511,661 – \$6,353,215) and the Lessor \$158,446 less (\$13,488,339 - \$13,646,785) than the amounts already distributed to such parties. Thus, if and when additional Net Litigation Proceeds are received by the Litigation Trustee, the Litigation Trustee should distribute such proceeds so as to rectify the now-inaccurate past distributions so that total distributions are in accordance with the then-current formulas.

3. The Excluded Claims

As described in Section II.G.7., Excluded Claim Net Proceeds will be distributed to the Unsecured Creditors' Trust by Farmland and/or Reorganized Farmland as if they are Net Litigation Proceeds, and to the extent Farmland makes distributions of Net Litigation Proceeds and Excluded Claim Net Proceeds on the Effective Date or the Litigation Trust makes distributions of Net Litigation Proceeds after any Excluded Claim Net Proceeds have been distributed, such distributions will count as Net Litigation Proceeds in the calculation of the Tranche Amounts and allocations set forth in Article 7.3 of the Plan, except Reorganized Farmland will retain any portion of Excluded Claim Net Proceeds that would otherwise be distributed to Lessor if the Excluded Claim Net Proceeds were Net Litigation Proceeds.

D. LITIGATION TRUST

On or before the Effective Date, the Litigation Trust Agreement, in a form reasonably acceptable to Farmland, the Creditors' Committee, and the Lessor, will be executed. The Litigation Trust will be established for the sole purpose of liquidating and distributing the Litigation Trust Assets (defined below) for the benefit of holders of the allowed claims in Farmland Classes 3a and 3b, in accordance with Treasury Regulation section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business.

1. Litigation Trust Loan

On the Effective Date, Reorganized Farmland will transfer cash in the amount of \$300,000, or a greater amount acceptable to the Lessor (the "Litigation Trust Loan"), to the Litigation Trust. Any gross cash payments collected after the Effective Date by the Litigation Trust on account of the Litigation Claims and earnings or proceeds generated by the Litigation Trust Assets will first be used to repay the Litigation Trust Loan prior to making any distributions to Farmland Classes 3a and 3b in accordance with their respective shares of Net Litigation Proceeds (as discussed in subsection "5" below).

2. **Litigation Trust Assets**

The litigation trust assets will consist of the Litigation Claims and the Litigation Trust Proceeds (defined in subsection “b” below) (collectively, the “Litigation Trust Assets”).

a. *Litigation Claims.* As previously defined in Section II.G.2., the Litigation Claims are all claims that could have been brought by or on behalf of Farmland against any third party based on events that occurred prior to the Commencement Date or for damages found by a final order to have occurred prior to the Commencement Date, including but not limited to, against Farmland’s Canadian affiliates and Deloitte & Touche LLP and its affiliates and predecessors-in-interest, other than the Excluded Claims, and any claims (i) for moneys owed for goods and services provided by Farmland in the ordinary course of business, (ii) arising out of Preference Causes of Action, or (iii) that Reorganized Farmland would be entitled to setoff against obligations of Reorganized Farmland.

(i) The Litigation Claims also include the intercompany claims of Farmland as discussed in Section VI.O., and any other non-preference claims.

b. *Litigation Trust Proceeds.* The Litigation Trust Proceeds include any gross cash payments collected after the Effective Date by the Litigation Trust on account of the Litigation Claims and earnings or proceeds generated by the Litigation Trust Assets.

As of the Effective Date, Farmland will assign and transfer to the Litigation Trust all of its rights to the Litigation Trust Assets for the benefit of the holders of allowed claims in Farmland Classes 3a and 3b, whether allowed on or after the Effective Date. This transfer will be exempt from any stamp, real estate transfer, mortgage reporting, sales, use, or other similar tax and will be free and clear of any liens, claims, and encumbrances, and no other entity, including Farmland or Reorganized Farmland, will have any interest, legal, beneficial, or otherwise, in the Litigation Trust or the Litigation Trust Assets upon their assignment and transfer to the Litigation Trust (other than as provided herein or in the Litigation Trust Agreement).

3. **Governance of Litigation Trust**

The Litigation Trust will be governed by the litigation trust agreement and administered by the litigation trustee (the “Litigation Trustee”). Prior to the Effective Date, Farmland will initially appoint the Litigation Trustee, which must be acceptable to the Lessor. The Litigation Trustee will (i) hold the Litigation Trust Assets for the benefit of the holders of allowed claims in Farmland Classes 3a and 3b, (ii) make distributions of Litigation Trust Net Litigation Proceeds to holders of beneficial interests in the Litigation Trust, and (iii) have the power and authority to prosecute and resolve any Litigation Claims. The Litigation Trustee will not compromise or settle any Litigation Claims within three years after the Effective Date without the consent of the Lessor.

4. **Claims against Canadian Affiliates**

Within one year after the Effective Date, the Litigation Trustee will either (i) resolve all claims against Farmland’s Canadian affiliates acceptable to the Lessor and

consistent with the purpose and treatment of the Litigation Trust, or (ii) file a complaint against the Canadian affiliates, unless the Unsecured Creditors' Trustee consents to an extension of such deadline.

5. Distribution of Litigation Trust Assets

At least annually, the Litigation Trustee will distribute Litigation Trust Net Proceeds to the Unsecured Creditors' Trust and/or the Lessor, of all cash on hand (including any cash received from Farmland on the Effective Date), except such amounts (i) reasonably necessary to meet contingent liabilities and to maintain the value of the Litigation Trust Assets during liquidation, (ii) for reasonable expenses, and (iii) to satisfy other liabilities incurred by the Litigation Trust.

6. Dissolution of Litigation Trust

The Litigation Trustee and the Litigation Trust will be discharged or dissolved, as the case may be, at such time as (i) the Litigation Trustee determines that the pursuit of additional Litigation Claims is not likely to yield sufficient additional Litigation Trust Proceeds to justify further pursuit of claims and (ii) all distributions of Litigation Trust Proceeds required to be made by the Litigation Trustee under the Plan have been made, but in no event will the Litigation Trust be dissolved later than three (3) years unless the Bankruptcy Court, upon motion made within the six (6) month period prior to such third (3rd) anniversary (or at least six (6) months prior to the end of an extension), determines that a fixed period extension (not to exceed three (3) years from the Effective Date, together with any prior extensions, without a favorable letter ruling from the Internal Revenue Service that any further extension would not adversely affect the status of the Litigation Trust as a liquidating trust for federal income tax purposes) is necessary to facilitate or complete the recovery on and liquidation of the Litigation Trust Assets. Upon dissolution of the Litigation Trust, any remaining Litigation Trust Proceeds will be distributed to the Lessor and the Unsecured Creditors' Trust in accordance with the allocations set forth in Section VIII.C. and Article 7.3 of the Plan (and any unresolved Litigation Claims not liquidated by assignment will thereupon be deemed abandoned).

E. ESTABLISHMENT OF UNSECURED CREDITORS' TRUST

On or before the Effective Date, the Unsecured Creditors' Trust Agreement, in a form reasonably acceptable to Farmland and the Creditors' Committee will be executed. The Unsecured Creditors' Trust will be established for the sole purpose of liquidating and distributing its assets for the benefit of holders of allowed claims in Farmland Class 3a (whether allowed on or after the Effective Date), in accordance with Treasury Regulation section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. The Unsecured Creditors' Trust will be governed by the Unsecured Creditors' Trust Agreement and administered by the trustee (the "Unsecured Creditors' Trustee"), appointed by the Creditors' Committee.

1. Fees and Expenses of Unsecured Creditors' Trust

The Unsecured Creditors' Trustee will use the Initial Funding Amount of \$300,000 to pay its fees, expenses, and costs, and will remit any unused portion thereof to

Reorganized Farmland. Reorganized Farmland will not be responsible for any fees, expenses, and costs of the Unsecured Creditors' Trust.

2. Unsecured Creditors' Trust Assets

All transfers made to the Unsecured Creditors' Trust will be exempt from any stamp, real estate transfer, mortgage reporting, sales, use or other similar tax and will be free and clear of any liens, claims and encumbrances. No other entity, including Farmland, or Reorganized Farmland, will have any interest, legal, beneficial, or otherwise, in the Unsecured Creditors' Trust or the assets of the Unsecured Creditors' Trust upon their assignment and transfer to the Unsecured Creditors' Trust. However, the Unsecured Creditors' Trust will pay any Convenience Claims that have not been paid or allowed as of the Effective Date (but which are subsequently allowed).

3. Distributions from the Unsecured Creditors' Trust

The Unsecured Creditors' Trustee will distribute on the Effective Date or soon thereafter, and at periodic intervals thereafter as cash becomes available (but in all events at least annually), in accordance with the Unsecured Creditors' Trust Agreement, all cash on hand, except such amounts (i) necessary to satisfy holders of disputed claims in Farmland Classes 3a or 3c, (ii) as are reasonably necessary to meet contingent liabilities and to maintain the value of the Unsecured Creditors' Trust Assets during liquidation, (iii) to pay reasonable expenses, and (iv) to satisfy other liabilities incurred by the Unsecured Creditors' Trust or the Unsecured Creditors' Trust Agreement.

4. Dissolution of Unsecured Creditors' Trust

The Unsecured Creditors' Trustee and the Unsecured Creditors' Trust will be discharged or dissolved, as the case may be, when (i) all disputed Farmland Class 3a and Class 3c claims become allowed claims or are disallowed by final order, (ii) all allowed Farmland Class 3c claims received the distribution provided for such claims under the Plan, (iii) Reorganized Farmland has no pending adversary proceeding under which it is seeking payment under section 547 of the Bankruptcy Code, and (iv) the Litigation Trust has been dissolved, but in no event will the Unsecured Creditors' Trust be dissolved (x) earlier than February 24, 2006, or (y) later than four (4) years from the Effective Date unless the Bankruptcy Court, upon a motion filed in accordance with Article 7.5(n)(i) of the Plan, determines that a fixed period extension is necessary to complete the liquidation of the Unsecured Creditors' Trust assets.

If the Unsecured Creditors' Trust has not used all of the Initial Funding Amount at the time of the dissolution of the Unsecured Creditors' Trust, then the remaining Initial Funding Amount will be remitted to Reorganized Farmland upon the dissolution of the Unsecured Creditors' Trust.

If at any time the Unsecured Creditors' Trustee determines that the cost of administering the Unsecured Creditors' Trust so as to make a final distribution to its beneficiaries of all remaining assets of the trust is likely to exceed the value of the assets remaining in the Unsecured Creditors' Trust, the Unsecured Creditors' Trustee will apply to the

Bankruptcy Court for authority to donate any balance to a charitable organization exempt from federal income tax under section 501(c)(3) of the Tax Code that is unrelated to the Debtors, the Unsecured Creditors' Trust, and any insider of the Unsecured Creditors' Trustee. Notice of such application will be given electronically, to the extent practicable, to those parties who have filed requests for notices and whose electronic addresses remain current and operating.

F. FARMLAND SETTLEMENT AND WAIVER OF PREFERENCE CLAIMS

The terms contained in the Farmland Plan are based on a settlement among Farmland, the Lessor, and the Creditors' Committee. Under that settlement, Farmland and Reorganized Farmland waive all claims and causes of actions pursuant to section 547 of the Bankruptcy Code other than claims against the following entities: Citibank, N.A., Unicredito Italiano, any and all direct and indirect affiliates of the Debtors, any prepetition insiders or prepetition members of management of any of the Debtors or their affiliates, and/or any entity to which a payment was made on behalf of any and all direct and indirect affiliates or prepetition insiders or prepetition members of management of any of the Debtors.

G. ALLOCATION AGREEMENT

Prior to the Confirmation Hearing, the Debtors will file a form of Allocation Agreement in the Plan Supplement. The Bankruptcy Court will hear any objections to the Allocation Agreement and will approve the form of Allocation Agreement, with any amendments deemed appropriate thereto, in the Confirmation Order. The Debtors will execute such Allocation Agreement, as amended by the Confirmation Order, prior to the Effective Date.

1. Professional Fees and Expenses

a. *After the Commencement Date, Prior to the Effective Date.* Each professional person or firm retained by order of the Bankruptcy Court other than ordinary course professionals, will file an application for final compensation and reimbursement of expenses on or before a date fixed by the Bankruptcy Court in the Confirmation Order or other final order. The PUSA Plan Administrator, Reorganized Farmland, and the MPA Plan Administrator will each, in accordance with the Allocation Agreement, reserve sufficient cash to pay all fees and expenses, from the Commencement Date through the Effective Date, as if all fees and expenses submitted in each professional person's or firm's monthly statements or other invoices are allowed in full, including any amounts held back as a result of an order of the Bankruptcy Court, until the Bankruptcy Court has entered a final order with respect to the fees and expenses incurred by such professional during the chapter 11 cases.

b. *After the Effective Date.* After the Effective Date, Reorganized Farmland, the Unsecured Creditors' Trustee, the Litigation Trustee, the PUSA Plan Administrator, and the MPA Plan Administrator will, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, pay reasonable fees and expenses, incurred after the Effective Date, of professionals employed by Reorganized Farmland, the Unsecured Creditors' Trustee, the Litigation Trustee, the PUSA Plan Administrator, or the MPA Plan Administrator, as applicable.

2. Postpetition Financing Order

Pursuant to the Postpetition Financing Order, the DIP Lender was granted certain liens on the assets of MPA, provided that MPA would pay the DIP Lender at least \$10 million regardless of the actual benefit MPA received from the Postpetition Credit Agreement. MPA has a contribution claim against Farmland to the extent that the actual benefit to MPA from participating in the Postpetition Credit Agreement was less than \$10 million. The Allocation Agreement will address this potential concern.

3. Miscellaneous Allocable Items

The Allocation Agreement will address several claims/fees that Farmland may have against MPA on a postpetition basis, including, but not limited to, (i) accounts payable and other charges, (ii) certain management fees, (iii) purchases of products, (iv) restructuring charges, and (v) costs associated with the MPA sale.

H. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

1. Executory Contracts and Unexpired Leases

Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and unexpired leases, that exist between the Debtors and any person or entity will be deemed rejected by the Debtors, as of the Effective Date, except for any executory contract or unexpired lease (i) that has been assumed by Bankruptcy Court order entered on or before the Effective Date, (ii) as to which a motion for approval of the assumption or rejection of such executory contract or unexpired lease has been filed prior to the Confirmation Date, or (iii) that is specifically designated in the Plan Supplement as a contract or lease to be assumed. The Debtors may, on or before the Confirmation Date, amend the Plan Supplement to delete any executory contract or unexpired lease therefrom or add any executory contract or unexpired lease thereto, in which event such executory contract(s) or unexpired lease(s) will be deemed to be, respectively, rejected or assumed. Nothing in the Plan will prejudice the Debtors' or the Creditors' Committee's rights to argue that any of its unexpired leases should be recharacterized as a secured financing. The Debtors will provide notice of any amendments to the Plan Supplement to the parties to the executory contracts and unexpired leases affected thereby. The listing of a document in the Plan Supplement will not constitute an admission by the Debtors that such document is an executory contract or an unexpired lease or that the Debtors have any liability thereunder.

2. Approval of Assumption and Rejection of Executory Contracts and Unexpired Leases

The Confirmation Order will, on the Effective Date, constitute (i) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed and assigned pursuant to the Plan and (ii) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected pursuant to the Plan. To the extent any provision of an executory contract or unexpired lease to be assumed by any of the Debtors under the Plan limits such Debtor's ability to assume or assume and assign such executory contract or

unexpired lease, the effectiveness of such provision will be limited or nullified to the full extent provided in section 365(f) of the Bankruptcy Code.

3. Claims Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan

Any claim arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan, other than claims arising out of the rejection of the Master Lease Financing Agreement, will be classified as a general unsecured claim against the Debtor that is a party to such executory contract or unexpired lease (i.e., either a PUSA Class 3 Claim, a Farmland Class 3a Claim, or a MPA Class 3 Claim), except that all claims arising out of the rejection of the Master Lease Financing Agreement will be classified as a Farmland Class 3b Master Lease Claim.

4. Cure of Defaults.

Generally, if there has been a default (other than a default specified in section 365(b)(2) of the Bankruptcy Code) under an executory contract or unexpired lease, a debtor can assume the contract or lease only if the debtor cures the default. Accordingly, a condition to the assumption of an executory contract or unexpired lease is that any default under an executory contract or unexpired lease that is to be assumed pursuant to a plan of reorganization will be cured in a manner consistent with the Bankruptcy Code and as set forth in a plan of reorganization.

Except as may otherwise be agreed to by the parties, within thirty (30) days after the Effective Date, Reorganized Farmland will cure any and all undisputed defaults under any executory contract or unexpired lease assumed by Farmland pursuant to the Plan, in accordance with section 365(b) of the Bankruptcy Code. All disputed defaults that are required to be cured will be cured either within thirty (30) days of the entry of a final order determining the amount, if any, of Reorganized Farmland's liability with respect thereto, or as may otherwise be agreed to by the parties.

While the Debtors are still in the process of reviewing executory contracts with respect to PUSA and MPA, at this time the Debtors do not believe any executory contracts of PUSA or MPA will be assumed, to the extent not previously assumed.

5. Bar Date for Filings Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan

Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Bankruptcy Court and served upon the relevant Debtor no later than thirty (30) days after the later of (i) notice of entry of an order approving the rejection of such executory contract or unexpired lease, (ii) notice of entry of the Confirmation Order, and (iii) notice of an amendment to the Plan Supplement relating to such executory contract or unexpired lease. All such claims not filed within such time will be forever barred from assertion against the Debtors and their estates or Reorganized Farmland and its property.

I. EFFECTIVENESS OF THE PLAN

1. Conditions Precedent to the Confirmation of the Plan

A condition precedent to confirmation of each Plan is the Bankruptcy Court will have entered a Confirmation Order with respect to each Plan in form and substance satisfactory to the applicable Debtor and the Creditors' Committee and, with respect to the Confirmation Order for the Farmland Plan, satisfactory to the Lessor. There may be three separate Confirmation Orders for the Plan of the three Debtors, and the Confirmation Orders may be entered on different dates.

2. Conditions Precedent to Effective Date of PUSA Plan

The following are conditions precedent to the Effective Date of the PUSA Plan:

- a. No stay of the Confirmation Order will then be in effect; and
- b. the certificate of incorporation and by-laws of PUSA will have been amended to the extent necessary to effectuate the PUSA Plan.

3. Conditions Precedent to Effective Date of Farmland Plan

The following are conditions precedent to the Effective Date of the Farmland Plan:

- a. No stay of the Confirmation Order will then be in effect;
- b. the Reorganized Farmland LLC Agreement will have been executed by the Lessor and such persons as are required to execute such agreement at the time of the Effective Date in connection with the implementation of the Management Incentive Plan;
- c. all of the payments to be made by Farmland by or on the Effective Date will have been made or will be made on the Effective Date;
- d. Farmland will have entered into the Exit Facility; and
- e. the Buyback Agreement will have been entered into.

4. Conditions Precedent to Effective Date of MPA Plan

The following are conditions precedent to the Effective Date of the MPA Plan:

- a. No stay of the Confirmation Order will then be in effect; and
- b. the Amended MPA LLC Agreement will have been executed by the MPA Plan Administrator.

5. Waiver of Conditions

Notwithstanding the foregoing, each Debtor reserves its right, upon obtaining the consent of the Creditors' Committee and, with respect to the Farmland Plan, the Lessor, to waive the occurrence of the conditions precedent to the Effective Date of its Plan set forth in the Plan. Any such waiver may be effected at any time, without notice, without leave or order of the Bankruptcy Court, and without any formal action other than proceeding to consummate the Plan. Any actions required to be taken on the Effective Date will take place and will be deemed to have occurred simultaneously, and no such action will be deemed to have occurred prior to the taking of any other such action. If any of the Debtors decides, after consultation with the Creditors' Committee and, with respect to the Farmland Plan, the Lessor, that one of the conditions precedent to the Effective Date of its Plan cannot be satisfied and the occurrence of such condition is not waived or cannot be waived, then the Debtor will file a notice of the inability to satisfy such condition to the Effective Date with the Bankruptcy Court.

J. EFFECTS OF CONFIRMATION

1. Vesting of Assets

a. As of the Effective Date, the property of each Debtor's estate will vest in the applicable Debtor or such other entity as provided in the Plan. From and after the Effective Date, Reorganized Farmland, the Unsecured Creditors' Trustee, the PUSA Plan Administrator, and the MPA Plan Administrator may dispose of assets of their respective Debtors free of any restrictions of the Bankruptcy Code, but in accordance with the provisions of the Plan. As of the Effective Date, all assets of the Debtors will be free and clear of all claims, liens, encumbrances, charges, and other interests, except as provided in the Plan or the Confirmation Order.

2. Binding Effect

Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code, on and after the Confirmation Date, the provisions of the Plan will bind any holder of a claim against, or equity interest in, the Debtors and their respective successors and assigns, whether or not the claim or equity interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

3. Discharge of Farmland

Upon the Effective Date and in consideration of the distributions to be made hereunder, except as otherwise expressly provided herein, each holder (as well as any trustees and agents on behalf of each holder) of a claim or equity interest and any affiliate of such holder will be deemed to have forever waived, released, and discharged Farmland and Reorganized Farmland, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all claims, equity interests, rights, and liabilities that arose prior to the Confirmation Date. Upon the Effective Date, all such persons will be forever precluded and enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting or asserting any such discharged claim against or equity interest. Because section 1141(d)(3) of the Bankruptcy Code provides that

confirmation of a plan does not discharge a debtor if a plan provides for liquidation of the property of the estate, neither PUSA nor MPA will be entitled to a discharge.

4. Exculpation

The Debtors, the Creditors' Committee, the Lessor, Citibank N.A., General Electric Capital Corporation, in its capacity as postpetition lender under the Debtors' postpetition credit agreement and subordinated letter of credit facility, and the Released Parties,⁺²¹⁵ and any property of or professionals retained by such parties, or direct or indirect predecessor in interest to any of the foregoing persons, will not have or incur any liability to any person for any act taken or omission, after the Commencement Date, in connection with or related to the Chapter 11 cases or the operations of the Debtors' chapter 11 cases, including but not limited to (i) formulating, preparing, disseminating, implementing, confirming, consummating or administering the Plan (including soliciting acceptances or rejections thereof); (ii) the Disclosure Statement or any contract, instrument, release or other agreement or document entered into or any action taken or omitted to be taken in connection with the Plan; or (iii) any distributions made pursuant to the Plan, except for acts constituting willful misconduct or gross negligence, and in all respects such parties will be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. The exculpation, as discussed herein and in Article 12.4 of the Plan, will extend as far as, but no further than, permitted under applicable law. The Examiner has not yet issued his report pursuant to the Examiner Order. See Section VI.H.2. The U.S. Trustee reserves her right to object to the relief sought in this paragraph to the extent the Examiner's report finds that the claims strategy has not been pursued in a disinterested manner.¹⁶

The following individuals will not be Released Parties because their service to the Debtors began prior to the Commencement Date and no longer continues: Marc Caira, Peter Ferraro, Alnashir Lakha, Anthony Mayzun, Michael Rosicki, and Claudio Anzalone.

5. Retention of Causes of Action/Reservation of Rights

Except as expressly provided in the Plan, nothing contained in the Plan or the Confirmation Order will be deemed to be a waiver or the relinquishment of any rights or causes of action that the Debtors may have or choose to assert on behalf of their respective estates under any provision of the Bankruptcy Code or any applicable nonbankruptcy law, including, without

⁺²¹⁵ As defined in Article 1.84 of the Plan, "Released Parties" means any current or former agent, representative, director, officer, member, manager, attorney, accountant, financial advisor, or other professional of the Debtors, the Creditors' Committee, ~~or~~ the Lessor, Citibank N.A., or General Electric Capital Corporation, in its capacity as postpetition lender under the Debtors' postpetition credit agreement and subordinated letter of credit facility, but only to the extent, in each case, such party served in such capacity on or after the Commencement Date.

¹⁶ The Lessor and the Debtors believe the Plan's exculpation clause, as set forth in Article 12.4 of the Plan, is applicable to claims the Participants may assert against the Lessor. The Participants disagree.

limitation, (i) any and all claims against any person or entity, to the extent such person or entity asserts a crossclaim, counterclaim, and/or claim for setoff which seeks affirmative relief against the Debtors, their officers, directors, or representatives and (ii) the turnover of any property of the Debtors' estates.

Except as expressly provided in the Plan, nothing contained in the Plan or the Confirmation Order will be deemed to be a waiver or relinquishment of any claim, cause of action, right of setoff, or other legal or equitable defense which the Debtors had immediately prior to the Commencement Date, against or with respect to any claim left unimpaired by the Plan. The Debtors will have, retain, reserve, and be entitled to assert all such claims, causes of action, rights of setoff, and other legal or equitable defenses which they had immediately prior to the Commencement Date fully as if the chapter 11 cases had not been commenced, and all of the Debtors' legal and equitable rights respecting any claim left unimpaired by the Plan may be asserted after the Confirmation Date to the same extent as if the chapter 11 cases had not been commenced.

Except as expressly provided in the Plan, the PUSA Plan Administrator, Reorganized Farmland, and the MPA Plan Administrator will, after the Effective Date, retain the rights of PUSA, Farmland, and MPA, respectively, to bring any causes of action that could have been brought by PUSA, Farmland, and MPA at any time.

6. Release of the Released Parties and the Lessor

As of the Effective Date, the Released Parties will be released by the Debtors and any successors-in-interest of the Debtors for any act taken or omission committed in their capacity as representatives of the Debtors ~~or~~ the Creditors' Committee, Citibank N.A., or General Electric Capital Corporation, in its capacity as postpetition lender under the Debtors' postpetition credit agreement and subordinated letter of credit facility except for acts constituting willful misconduct or gross negligence, and in all respects such parties will be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

In consideration of the settlement embodied in the Plan, on the Effective Date, and except for the obligations arising under or in connection with this Plan, Farmland, Reorganized Farmland, and the Creditors' Committee, for themselves, their successors and assigns, Farmland's estate, and any person claiming through any of the foregoing will fully, finally, and irrevocably release and forever discharge the Lessor, its officers, directors, employees, partners, affiliates, administrators, trustees, advisors, consultants, attorneys, and any successors, predecessors, subsidiaries, and assigns of any of the foregoing of and from any and all claims, rights, actions, demands, injuries, damages, compensation, or causes of action of every kind and nature, whether foreseen or unforeseen, known or unknown, contingent or actual, liquidated or unliquidated, whether in tort or contract, whether statutory or at common law (including, without limitation, claims under section 506(c) of the Bankruptcy Code) which they have or may have as of the Confirmation Date relating to Farmland, arising from the beginning of the world up to the Confirmation Date.

7. Injunction

All persons or entities who have held, hold, or may hold claims against or equity interests in any or all of the Debtors and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, are permanently enjoined, on and after the Effective Date, with respect to claims discharged or released under the Plan and all claims against PUSA and MPA, from (i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding of any kind (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against or affecting the Debtors, Reorganized Farmland, the Released Parties, or their property, (ii) enforcing, levying attaching (including, without limitation, any prejudgment attachment), collecting, or otherwise recovering by any manner or means, whether directly or indirectly, any judgment, award, decree, or order against the Debtors, Reorganized Farmland, the Released Parties, or their property, (iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any encumbrance of any kind against the Debtors, Reorganized Farmland, the Released Parties, or against the property or interests in property of the Debtors, (iv) asserting any right of setoff, directly or indirectly, against any obligation due the Debtors, the Released Parties, or any of their property, except as contemplated or allowed by the Plan, the Bankruptcy Code, or applicable law; (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan; (vi) commencing, continuing or asserting in any manner any action or other proceeding of any kind with respect to any claims and causes of action which are extinguished or released pursuant to the Plan, and (vii) taking any actions to interfere with the implementation or consummation of the Plan.

All persons are permanently enjoined, on and after the Effective Date, from asserting any claim (x) which is released by such person under the Plan or (y) for which the party against whom the claim is being asserted has received exculpation under the Plan, including: (i) commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding of any kind (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) on account of such claim, (ii) enforcing, levying attaching (including, without limitation, any prejudgment attachment), collecting, or otherwise recovering by any manner or means, whether directly or indirectly, any judgment, award, decree, or order on account of such claim, (iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any encumbrance of any kind on account of such claim, (iv) asserting any right of setoff, directly or indirectly, against any obligation on account of such claim, (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan, (vi) commencing, continuing or asserting in any manner any action or other proceeding of any kind with respect to any such claim, and (vii) taking any actions to interfere with the implementation or consummation of the Plan.

8. Terms of Injunctions or Stays

Unless otherwise provided in the Plan, the Confirmation Order, or a separate order of the Bankruptcy Court, all injunctions or stays arising under or entered during the chapter

11 cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the later of the Effective Date and the date indicated in such applicable order.

9. PBGC Clarification

As set forth in Article 12.8 of the Plan, Farmland's reorganization proceeding, and in particular Farmland's Plan, the exhibits thereto, the Confirmation Order, and section 1141 of the Bankruptcy Code, will not in any way be construed as discharging, releasing, limiting or relieving Reorganized Farmland or, unless explicitly released under the Plan, any other party in any capacity, from any liability to the PBGC with respect to the Pension Plans or any other defined benefit pension plan under any law, governmental policy or regulation provision. PBGC and the Pension Plans will not be enjoined or precluded from enforcing liability with respect to the Pension Plans against Reorganized Farmland or any party not explicitly released under the Plan resulting from any of the provisions of the Plan or the Confirmation Order.

K. RETENTION OF JURISDICTION

1. Jurisdiction of Bankruptcy Court

The Bankruptcy Court will retain exclusive jurisdiction of all matters arising under, arising out of, or related to, the chapter 11 cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

- a. to hear and determine any motions for the assumption, assumption and assignment or rejection of executory contracts or unexpired leases and the allowance of any claims resulting therefrom;
- b. to determine any and all pending adversary proceedings, applications and contested matters relating to the chapter 11 cases;
- c. to hear and determine any objection to any claims;
- d. to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, or vacated;
- e. to issue such orders in aid of execution of the Plan to the extent authorized by section 1142 of the Bankruptcy Code;
- f. to consider any modifications of the Plan, to cure any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;
- g. to hear and determine all applications for compensation and reimbursement of expenses of professionals under sections 330, 331 and 503(b) of the Bankruptcy Code;

h. to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan;

i. to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Allocation Agreement;

j. to hear and determine any actions brought against the Unsecured Creditors' Trustee, the Litigation Trustee, the PUSA Plan Administrator, or the MPA Plan Administrator in connection with the Plan;

k. to recover all assets of the Debtors, property of the estates, assets of the Unsecured Creditors' Trust, assets of the Litigation Trust, assets of the PUSA Plan Administrator, and assets of the MPA Plan Administrator, wherever located;

l. to hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code (including any requests for expedited determinations under section 505(b) of the Bankruptcy Code filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Commencement Date);

m. to hear all matters relating to Article 12 of the Plan, including, but not limited to, all matters relating to the releases, exculpation, and injunction granted thereunder;

n. to hear any other matter consistent with the provisions of the Bankruptcy Code; and

o. to enter a final decree closing the chapter 11 cases.

L. DISSOLUTION OF THE COMMITTEE

On the date on which for all Debtors, either the Effective Date for the Plan has occurred or the chapter 11 case has been converted to a case under chapter 7 of the Bankruptcy Code, the Creditors' Committee will be dissolved and the members thereof will be released and discharged of and from all further authority, duties, responsibilities, and obligations related to and arising from and in connection with the chapter 11 cases, and the retention or employment of the Creditors' Committee's attorneys, accountants, and other agents will terminate, provided, however, the Creditors' Committee will continue to exist after such date solely to pursue, review, and object to all applications filed pursuant to sections 330 and 331 of the Bankruptcy Code seeking payment of fees and expenses incurred by any professional.

M. EXEMPTION FROM TRANSFER TAXES

Pursuant to section 1146(c) of the Bankruptcy Code, the assignment or surrender of any lease or sublease, or the delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any deeds, bills of sale, or assignments executed in connection with any disposition of assets contemplated by the Plan, will not be subject to any stamp, real estate transfer, mortgage recording, sales, use, or other similar tax.

N. MANAGEMENT INCENTIVE PLAN

Reorganized Farmland will offer its new management (as of the Effective Date), equity incentives to purchase Common Membership Interests (the “Management Incentive Plan”). The solicitation of votes on the Plan will include and be deemed to be a solicitation of the holders of equity interests for approval of the Management Incentive Plan and entry of the Confirmation Order will constitute such approval. The terms of the Management Incentive Plan will be included in the Plan Supplement.

IX. CERTAIN FACTORS TO BE CONSIDERED

A. CERTAIN BANKRUPTCY CONSIDERATIONS

Although each of the Debtors believes that the Plan will satisfy the requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes. In addition, although the Debtors believe that the Effective Date for each of the Plans will occur soon after the Confirmation Date for such Plan, there can be no assurance as to such timing.

The Bankruptcy Court may only confirm the Plan of a particular Debtor if at least one impaired class of claims against such Debtor votes to accept the Plan (with such acceptance being determined without including the vote of any “insider” in such class). Thus, for a Debtor’s Plan to be confirmed, one of the impaired classes of claims against such Debtor — PUSA Class 3 (General Unsecured Claims against PUSA), PUSA Class 4 (Equity Interests in PUSA), Farmland Class 3a (General Unsecured Claims against Farmland), Farmland Class 3b (Master Lease Claim), Farmland Class 3c (Convenience Claims), MPA Class 3 (General Unsecured Claims against MPA) or MPA Class 4 (Equity Interests in MPA) — must vote to accept the Plan.

The Plan provides for no distribution to Farmland Class 4 (Equity Interests in Farmland). The Bankruptcy Code conclusively deems this class to have rejected the Plan. Notwithstanding the fact that this class is deemed to have rejected the Plan and that additional classes may reject a Debtor’s Plan, a Debtor’s Plan may be confirmed if the Bankruptcy Court determines that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to Farmland Class 4. The Debtors believe the Plan satisfies these requirements. See Section X.

B. RISKS ASSOCIATED WITH THE BUSINESS

Holders of claims and equity interests in PUSA Class 3 (General Unsecured Claims against PUSA), PUSA Class 4 (Equity Interests in PUSA), Farmland Class 3a (General Unsecured Claims against Farmland), Farmland Class 3b (Master Lease Claim), Farmland Class 3c (Convenience Claims), MPA Class 3 (General Unsecured Claims against MPA), and MPA Class 4 (Equity Interests in MPA), should carefully consider the following factors, as well as the other information set forth in this Disclosure Statement, before deciding whether to vote to accept or to reject the Plan.

1. General Considerations

The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The Plan sets forth the means for satisfying the claims against the Debtors. Certain equity interests will receive no distributions pursuant to the Plan. Reorganization of Farmland's business and operations under the proposed Plan avoids the potentially adverse impact of a liquidation on Farmland's employees and many of its customers, trade creditors and the Lessor.

a. *Failure to Confirm the Plan.* Even if all impaired voting classes of a particular Debtor vote in favor of the Plan and, with respect to any impaired class deemed to have rejected the Plan, the requirements for "cramdown" are met, the Bankruptcy Court, as a court of equity, may exercise substantial discretion, and may still choose not to confirm the Plan. Section 1129 of the Bankruptcy Code requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization of Farmland, see Section X entitled "Confirmation of the Plan of Reorganization," and that the value of distributions to dissenting holders of claims and interests may not be less than the value such holders would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. Although each Debtor believes that its Plan will meet such tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

b. *Failure to Consummate the Plan.* The Plan provides for certain conditions that must be fulfilled before confirming each Plan and the Effective Date. As of the date of this Disclosure Statement, there can be no assurance that any or all of the conditions in the Plan will be met (or waived) with respect to a Debtor or that the other conditions to consummation, if any, will be satisfied. Accordingly, even if a Plan is confirmed by the Bankruptcy Court, there can be no assurance that the Plan will be consummated.

2. Material United States Federal Income Tax Considerations

THERE ARE A NUMBER OF MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS, RISKS AND UNCERTAINTIES ASSOCIATED WITH CONSUMMATION OF THE PLAN. INTERESTED PARTIES SHOULD READ CAREFULLY THE DISCUSSION SET FORTH IN SECTION XII OF THE DISCLOSURE STATEMENT, ENTITLED "CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN" FOR A DISCUSSION OF THE MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES AND RISKS FOR THE DEBTORS AND FOR HOLDERS OF CLAIMS AND EQUITY INTERESTS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN RESULTING FROM THE TRANSACTIONS OCCURRING IN CONNECTION WITH THE PLAN.

3. Risks Associated with Business and Competition

The overall demand for services in Farmland's core business has been declining in recent years. The markets in which Farmland operates are competitive. There can be no certainty that Farmland will not continue to lose customers to competitors.

Additionally, the dairy industry is a heavily regulated industry at both the state and federal levels. Farmland must meet Food and Drug Administration regulations in processing

its milk. Further, state and federal agricultural department regulations affect the price and supply of raw milk, and in some states, the price of milk and milk products is regulated at the retail consumer level. Accordingly, there is no guarantee that Farmland will experience a regulatory environment which will allow it to purchase, process, and sell milk products in a profitable manner.

4. **Inherent Uncertainty of Financial Projections**

The past performance of the Debtors has resulted in significant losses and negative cash flows. While partially due to the extraordinary expense and burden of the chapter 11 cases, such circumstances are also a result of continued weak financial performance on an operating basis. The Projections set forth in Section IV cover Reorganized Farmland's operations through the period ending December 31, 2008.

These Projections are based on numerous assumptions that are an integral part of the Projections, including confirmation and consummation of the Plan in accordance with its terms, realization of the operating strategy of Reorganized Farmland, the ability to transition work from Farmland's operations in Brooklyn, New York to Farmland's operations in Wallington, New Jersey, the ability to continue to license use of DASI technology, the ability to continue to license the use of the "Parmalat" name, industry performance, no material changes in applicable legislation or regulations, exchange rates, generally accepted accounting principles, general business and economic conditions, competition, adequate financing, absence of material contingent or unliquidated litigation or indemnity claims, and other matters, many of which are beyond the control of Reorganized Farmland and some or all of which may not materialize. In addition, unanticipated events and circumstances occurring subsequent to the date of this Disclosure Statement may affect the actual financial results of Reorganized Farmland's operations. Because the actual results achieved throughout the periods covered by the Projections may vary from the projected results, the Projections should not be relied upon as a guaranty, representation, or other assurance of the actual results that will occur.

Farmland has had discussions with Parmalat S.p.A. concerning use of the name "Parmalat" for Reorganized Farmland and use of the DASI technology, which Parmalat S.p.A. contends Farmland may not use without a license.¹³¹⁷ Parmalat S.p.A. alleges that it is the sole owner of the "Parmalat" name and TechHold alleges that it is the sole owner of the DASI patents. Parmalat S.p.A. alleges that the Debtors are infringing on the intellectual property rights of Parmalat S.p.A. and TechHold by their alleged continued use of the "Parmalat" name and DASI patents. The Debtors disagree with Parmalat S.p.A.'s and TechHold's allegations and they believe that to the extent that Parmalat S.p.A. has any valid claims, the Debtors have valid setoff rights against such claims. Parmalat S.p.A. and TechHold each allege that the Debtors owe

¹³¹⁷ DASI technology is utilized in connection with the steam pasteurization of milk for extended shelf life. DASI machines to utilize DASI technology have been used in the past at the Debtors' locations in Wallington, New Jersey, Grand Rapids, Michigan, and Decatur, Alabama. Following the Alabama Sale, Parmalat S.p.A. agreed to grant Dean Foods Company a license to continue use of DASI technology in connection with the Alabama Business. Currently, Farmland utilizes DASI technology in Grand Rapids, Michigan.

substantial sums for both prepetition and postpetition use of the “Parmalat” name and the use of the DASI patents, and Parmalat S.p.A. has made a proposal to Farmland for use of the “Parmalat” name and use of the DASI technology, ~~and~~ Farmland will continue to discuss and negotiate with Parmalat S.p.A. toward an agreement for the ongoing use of the name and DASI technology.

5. Risks Associated with the Exit Facility

Farmland’s operations are dependent on the availability and cost of working capital financing and may be adversely affected by any shortage or increased cost of such financing. Farmland anticipates entering into the Exit Facility, the terms of which will provide a credit availability, secured with liens on substantially all of Reorganized Farmland’s assets. Farmland anticipates that the Exit Facility will be used to (i) fund repayment of the Postpetition Credit Agreement, (ii) fund termination of the Citibank Receivables Purchase Agreement, (iii) provide short-term working capital needs, (iv) fund debt service on the Farmland Note, and (v) fund letters of credit.

Farmland believes that substantially all of its needs for funds necessary for post-Effective Date working capital financing will be met by projected operating cash flow or the Exit Facility. The proposed Exit Facility, however, may contain certain conditions and covenants that Reorganized Farmland may not be able to meet. Moreover, if Reorganized Farmland requires working capital greater than that provided by the Exit Facility, it may be required either to (i) seek to increase the availability under the Exit Facility, (ii) obtain other sources of financing, or (iii) curtail their operations. Some of the factors which may affect the amount of financing required to consummate the Plan include, without limitation, a delay in consummating the Plan, and whether Farmland’s cash flow prior to the Effective Date is more or less than budgeted. Farmland believes that the recapitalization to be accomplished through the Plan will facilitate Farmland’s ability to obtain additional or replacement working capital financing. No assurance can be given, however, that any additional replacement financing will be available on terms that are favorable or acceptable to Farmland. Moreover, there can be no assurance that Farmland will be able to obtain an acceptable credit facility upon expiration of the Exit Facility.

6. Substantial Leverage; Ability to Service Debt

Reorganized Farmland will have substantial indebtedness. On the Effective Date, after giving effect to the transactions completed by the Plan, Reorganized Farmland will have approximately \$75-85 million in secured indebtedness under the Exit Facility with \$7.2 million of letters of credit to be issued, and approximately \$7 million for the Farmland Note. Significant amounts of cash flows will be necessary to make payments of interest and repay the principal amount of this indebtedness.

7. Risks Associated with New Common and Preferred Membership Interests

The Common and Preferred Membership Interests (the “Membership Interests”) to be distributed under the Plan are securities for which there is no existing trading market. As discussed in Section II.G.5., the Membership Interests are to be issued under the Plan principally

on a private offering basis and Farmland does not intend to register the Membership Interests under the Securities Act or any state securities law apply for listing or quotation of the Membership Interests on any securities exchange, stock market or interdealer quotation system. Accordingly, it is not expected that any trading market will exist for the Membership Interests following the consummation of the Plan. As a result, a holder of the Membership Interests could find it difficult to dispose of, or to obtain accurate indications as to the market value of such securities, following the consummation of the Plan.

Holders of Membership Interests will be able to sell their shares of Membership Interests only pursuant to an effective registration statement under the Securities Act relating to such shares or if their sale is exempt from the registration requirements of the Act, and if such shares are qualified for sale or exempt from qualification under any applicable state securities laws. Certificates evidencing the Membership Interests also will be appropriately legended to reflect that the securities may not be sold without registration under the Securities Act and any applicable state securities law or the availability to Farmland's reasonable satisfaction of an exemption therefrom.

In addition, the shares of Membership Interests will be subject to certain transfer restrictions set forth in the Reorganized Farmland LLC Agreement. Such transfer restrictions will prohibit a holder of Membership Interests from transferring any shares to any person not already holding shares of Membership Interests after Membership Interests are held of record by 450 or more persons unless and until Reorganized Farmland has changed its status for tax purposes from its initial status as a partnership.

Given that the Membership Interests will not be registered under the Securities Act in connection with the Plan and the restrictions on transfer of such interests of the Reorganized Farmland LLC Agreement and consequently, the nature of the considerations of whether and when a particular person who receives Membership Interests may sell such interests, the Debtors make no representations concerning the right of any person to transfer such Plan Securities and recommend that potential recipients of Plan Securities consult their own counsel concerning if and when they may transfer such securities.

8. Risks Associated with Farmland Note

The Farmland Note to be distributed under the Plan is a new security for which there is no existing trading market. Farmland does not intend to register the Farmland Note under the Exchange Act or apply for listing or quotation of the Farmland Note on any securities exchange or interdealer quotation system. Accordingly, there can be no assurance that any trading market will exist for the Farmland Note following the consummation of the Plan. In such an event, the holder of the Farmland Note could find it difficult to dispose of, or to obtain accurate quotations as to the market value of such securities, following the consummation of the Plan. The Farmland Note will be distributed pursuant to the Plan without registration under the Exchange Act and without qualifications of registration under state securities laws, pursuant to exemptions from such registration and qualification contained in section 4(2) of the Exchange Act and Regulation D thereunder. Since the Farmland Note will not be registered under the Exchange Act, the holder of the Farmland Note may not offer, sell, pledge or otherwise transfer the Farmland Note within the United States or to, or for the account or benefit of U.S. persons,

unless a registration statement relating to the Farmland Note intended to be offered, sold, pledged or otherwise transferred is then in effect, or if such transaction is exempt from the registration requirements of the Exchange Act, and the Farmland Note is qualified for sale or exempt from qualification under the applicable securities laws of the states in which the purchaser of the Farmland Note resides.

Because the Farmland Note will be junior to the Exit Facility, if Reorganized Farmland becomes insolvent, it may not have sufficient assets to make payments on amounts due on any or all of the Farmland Note. If Reorganized Farmland subsequently becomes bankrupt, liquidates, dissolves, reorganizes or undergoes a similar proceeding, Reorganized Farmland's assets will be available to obligations on the Farmland Note only after all outstanding Exit Facility debt has been paid in full. In addition, an event of default under the Exit Facility may prohibit Reorganized Farmland from paying the Farmland Note. Additionally, the Farmland Note is contractually subordinated in right of payment to the Preferred Membership Interests in the event of a bankruptcy or Subordination Change of Control. See Plan Article 7.8(h). Therefore, if such an event were to occur, Reorganized Farmland will not be permitted to make payments on the Farmland Note until holders of Preferred Membership Interests receive their \$34,386,000 liquidation preference plus any payment-in-kind dividends at the rate of 11% per annum.

The inclusion of the Farmland Note in the Plan increases the financial risk of Reorganized Farmland, post-emergence. In the event that Reorganized Farmland is not able to satisfy the debt service requirements of the Farmland Note, Reorganized Farmland would be in default under these securities which could potentially trigger an insolvency. While Farmland believes that the amount of debt in the capital structure is supportable according to its business plan, there can be no assurance that Reorganized Farmland's actual financial performance will be sufficient to enable Reorganized Farmland to meet the debt service requirements of the Farmland Note.

9. Disruption of Operations Due to Failure to Confirm Plan

Farmland believes that relationships with their customers, suppliers and employees will be maintained if the chapter 11 process continues in a timely fashion. However, if there is a further protracted chapter 11 process, and if Farmland's relationships with their customers, suppliers and employees are adversely impacted, Farmland's operations could be materially affected. Weakened operating results could adversely affect Farmland's ability to complete the solicitation of acceptances of the Plan or, if such solicitation is successfully completed, to obtain confirmation of the Plan. In the event that Farmland fails to confirm the Plan, the risks associated with a protracted chapter 11 process or a liquidation must also be considered. See Section XI, entitled "Alternatives to Confirmation."

10. Claims Estimates

As set forth in Section II.D.3, the aggregate amount of General Unsecured Claims, not including claims asserted in unliquidated amounts, filed against (i) PUSA total \$737,565,581.24, (ii) Farmland total \$769,789,482.93, and (iii) MPA total \$625,040,346.77. The Debtors have been engaged in the process of evaluating the proofs of claim and believe there

exist objections to many of the claims. The estimated claim amounts reflected herein are the Debtors' best estimates as to the allowed amount of the claims, assuming that the Debtors' assumptions prove to be correct. There can be no assurance that the estimated percentage recovery amounts set forth herein for PUSA Class 3, MPA Class 3, and Farmland Classes 3a, 3b, and 3c are correct, and the actual allowed amount of claims in these classes may differ substantially from the estimates. See Section II.D.3. for discussion of General Unsecured Claims. Estimated amounts are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the actual allowed amount of claims in PUSA Class 3 and Farmland Classes 3a, 3b, and 3c, may vary from those estimated herein, and the Pro Rata distributions are subject to such variation. In addition, the ultimate decision with respect to the (i) rejection damage claims of Tuscan, in the amount of \$57,052,568.00, filed against both PUSA and Farmland (estimated at \$0) (for further discussion see Section VI.P.), (ii) claims of Parmalat S.p.A. and its affiliates against each of the Debtors (estimated at \$0) (for further discussion see Section VI.O.7.), (iii) claims of the PBGC against each of the Debtors (estimated at \$0) (for further discussion see Section VI.Q.), and (iv) claims of Stremicks/Western (the 20% owner of MPA) against each of the Debtors (estimated at \$0) may substantially increase the allowed amount of claims against the Debtors, thereby diluting recovery to general unsecured claims and/or possibly delaying any distribution to be made on account of such claims if allowed amounts differ significantly from estimated amounts. Additionally, if the claims of the PBGC, Parmalat S.p.A., and Stremicks/Western are not resolved with respect to MPA, there may be a delay in distribution to MPA Class 4 (Equity Interests in MPA). If Farmland experiences a delay in realizing a distribution on account of its MPA Class 4 Claim, Farmland may increase its borrowings under the Exit Facility to the high-end of the Exit Facility range upon its emergence from chapter 11.

11. Litigation

Farmland will be subject to various claims and legal actions arising in the ordinary course of its business. Farmland is not able to predict the nature and extent of any such claims and actions and cannot guarantee that the ultimate resolution of such claims and actions will not have a material adverse effect on Reorganized Farmland. There also exists the possibility of future environmental and related claims against Reorganized Farmland by virtue of its business and operation, in undetermined amounts.

12. Reliance on Key Personnel

One of Farmland's primary assets is its highly skilled personnel, who have the ability to leave Farmland and deprive Farmland of the skill and knowledge essential for performance of new and existing contracts. Farmland operates a business that is highly dependent on its customers' beliefs that Farmland will perform tasks of the highest standards over an extended period of time. Deterioration of Farmland's business, or loss of a significant number of key personnel, will have a material adverse effect on Reorganized Farmland and may threaten its ability to survive as a going concern.

Farmland's successful transition through the restructuring process is dependent in part on its ability to retain and motivate its officers and key employees. There can be no assurance that Reorganized Farmland will be able to retain or employ qualified management and

technical personnel. While Farmland has entered into employment agreements with certain members of its senior management, should any of these persons be unable or unwilling to continue their employment with Reorganized Farmland, the business prospects of Reorganized Farmland could be materially and adversely affected.

X. CONFIRMATION OF THE PLAN OF REORGANIZATION AND PLANS OF LIQUIDATION

A. CONFIRMATION HEARING

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to hold a hearing on confirmation of the Plan (the “Confirmation Hearing”). By order of the Bankruptcy Court dated ~~January 13, 2005~~, January 13, 2005, the Confirmation Hearing has been scheduled for ~~March 1, 2005~~, March 1, 2005 at 10:00 a.m. (New York Time) before the Honorable Robert D. Drain, United States Bankruptcy Judge, at the United States Bankruptcy Court, Room 610, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement made at the Confirmation Hearing or any adjourned hearing.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan of reorganization. Any objection to confirmation of the Plan must be made in writing, must conform to the Bankruptcy Rules and the Local Rules of the Bankruptcy Court, must set forth the name of the objector and the nature and amount of claims or interest held or asserted by the objector against the Debtors, the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court electronically in accordance with General Order M-242 (General Order M-242 and the User’s Manual for the Electronic Case Filing System can be found at <http://www.nysb.uscourts.gov>, the official website for the Bankruptcy Court), by registered users of the Bankruptcy Court’s case filing system and, by all other parties in interest, on a 3.5 inch disk, preferably in Portable Document Format (PDF), Wordperfect or any other Windows-based word processing format (with a hard-copy delivered directly to Judge Drain’s Chambers), and will be served in accordance with General Order M-182, upon (i) the United States Trustee for the Southern District of New York, 33 Whitehall Street, 21st Floor, New York, New York, 10004 (Attention: Deirdre A. Martini, Esq.), (ii) Weil, Gotshal & Manges LLP, attorneys for Debtors and Debtors in Possession, 767 Fifth Avenue, New York, New York 10153 (Attention: Gary T. Holtzer, Esq.), (iii) McDermott Will & Emery LLP, attorneys for Debtors and Debtors in Possession, 50 Rockefeller Plaza, New York, New York 10020 (Attention: Stephen B. Selbst, Esq.), (iv) Jenner & Block LLP, attorneys for the DIP Lender, One IBM Plaza, Room 3800, Chicago, IL 60611-3605 (Attention: Michael S. Terrien, Esq.), (v) Kaye Scholer LLP, attorneys for Citicorp, N.A., 425 Park Avenue, New York, NY 10022 (Attention: Arthur Steinberg, Esq.), (vi) Chadbourne & Parke LLP, attorneys for the Creditors’ Committee, 30 Rockefeller Plaza, New York, New York 10112 (Attention: David LeMay, Esq.), (vii) Cole, Schotz, Meisel, Forman & Leonard, P.A., Court Plaza North, 25 Main Street, P.O. Box 800, Hackensack, New Jersey, 07602-0800, conflicts counsel to the Creditors’ Committee (Attention: Michael Sirota, Esq.), and (viii) all other parties required by the Bankruptcy Court’s February 26, 2004 Order Pursuant to Section 105(a) of the Bankruptcy Code and Bankruptcy Rules 1015(c) and 9007 to Implement Certain Notice and Case

Management Procedures, so as to be **ACTUALLY RECEIVED** no later than January 18, 2005 at 4:00 p.m. (New York Time).

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

B. GENERAL REQUIREMENTS OF SECTION 1129

At the Confirmation Hearing, the Bankruptcy Court will determine whether the following confirmation requirements in section 1129 of the Bankruptcy Code have been satisfied with respect to each Plan:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtors have complied with the applicable provisions of the Bankruptcy Code.
- The Plan has been proposed in good faith and not by any means forbidden by law.
- Any payment made or promised by the Debtors or by a person issuing securities or acquiring property under the Plan for services or for costs and expenses in, or in connection with, the chapter 11 cases, or in connection with the Plan and incident to the chapter 11 cases, has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- Farmland has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer, or voting trustee of Reorganized Farmland, affiliates of Farmland participating in the Plan, or a successor to Farmland under the Plan, and the appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and equity holders and with public policy, and Farmland has disclosed the identity of any insider that will be employed or retained by Reorganized Farmland, and the nature of any compensation for such insider.
- With respect to each class of claims or equity interests, each holder of an impaired claim or impaired equity interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's claim or equity interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtor was liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test," below.

- Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each class of claims or equity interests has either accepted the Plan or is not impaired under the Plan. Farmland Class 4 is deemed to have rejected the Plan and, thus, the Farmland Plan can be confirmed only if the requirements of section 1129(b) of the Bankruptcy Code are met.
- Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the Plan provides that Administrative Expense Claims, Priority Tax Claims and Priority Non-Tax Claims will be paid in full on the Effective Date.
- At least one class of impaired claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a claim in such class.
- Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of Farmland or any successor to Farmland under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of “Feasibility,” in subsection “E” below.
- The Plan provides for the continuation after the Effective Date of payment of all retiree benefits (as defined in section 1114 of the Bankruptcy Code), at the level established pursuant to section 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code at any time prior to confirmation of the Plan, for the duration of the period Farmland has obligated itself to provide such benefits.

C. BEST INTERESTS TEST

As described above, the Bankruptcy Code provides that the plan of a debtor will not be confirmed, regardless of whether or not anyone objects to confirmation, unless the bankruptcy court finds that the plan is in the “best interests” of all classes of claims and equity interests which are impaired. The “best interests” test will be satisfied by a finding of the bankruptcy court that either (i) all holders of impaired claims or equity interests have accepted the plan or (ii) the plan will provide such a holder that has not accepted the plan with a recovery at least equal in value to the recovery such holder would receive if the debtor was liquidated under chapter 7 of the Bankruptcy Code.

THE PLAN IS IN THE BEST INTERESTS OF EACH CLASS OF CLAIMS OR EQUITY INTERESTS WHICH IS IMPAIRED UNDER THE PLAN.

The first step in determining whether this test has been satisfied is to determine the dollar amount that would be generated from the liquidation of the debtor’s assets and properties in the context of a chapter 7 liquidation case. The gross amount of cash that would be available for satisfaction of claims and equity interests would be the sum consisting of the

proceeds resulting from the disposition of the unencumbered assets and properties of the debtor and any preference recoveries, augmented by the unencumbered cash held by the debtor at the time of the commencement of the liquidation case.

The next step is to reduce that gross amount by the costs and expenses of liquidation and by such additional administrative and priority claims that might result from the termination of the debtor's business and the use of chapter 7 for the purposes of liquidation. Any remaining net cash would be allocated to creditors and equity interest holders in strict priority in accordance with section 726 of the Bankruptcy Code. Finally, the value of such allocations (not taking into account the time necessary to accomplish the liquidation) is compared to the value of the property that is proposed to be distributed under the Plan on the Effective Date.

A debtor's costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that such a trustee might engage. Other liquidation costs include the expenses incurred during the chapter 11 cases allowed in a chapter 7 case, such as compensation for attorneys, financial advisors, appraisers, accountants, and other professionals for the debtor and statutory committees of unsecured creditors appointed in the chapter 11 cases, and costs and expenses of members of the statutory committee of unsecured creditors, as well as other compensation claims. In addition, claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the debtor during the pendency of the chapter 11 cases.

The foregoing types of claims, costs, expenses, fees, and such other claims that may arise in a liquidation case would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay prepetition priority and unsecured claims. PUSA believes that in a chapter 7 case of PUSA, PUSA Class 3 (General Unsecured Claims against PUSA) would receive a distribution of 0.2% and PUSA Class 4 (Equity Interests in PUSA) would receive no distribution of property. Farmland believes that in a chapter 7 case of Farmland, Farmland Class 1 (Priority Non-Tax Claims against Farmland), Farmland Class 2 (Secured Claims against Farmland), Farmland Class 3a (General Unsecured Claims against Farmland), Farmland Class 3c (Convenience Claims), and Farmland Class 4 (Equity Interests in Farmland) would receive no distribution of property. MPA believes that in a chapter 7 case of MPA, MPA Class 4 (Equity Interests in MPA) would receive no distribution of property.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the chapter 11 cases, including (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) additional costs associated with the rapid transfer or cessation of operations at the facilities and the erosion in value of assets in a chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail, and (iii) the substantial increases in claims that would be satisfied on a priority basis, each of the Debtors has determined that confirmation of its Plan will provide each holder of an allowed claim with a recovery that is not less than such holder would receive pursuant to liquidation of the Debtors under chapter 7.

The Debtors also believe that the value of any distributions to each class of allowed claims in a chapter 7 case, including all secured claims, would be less than the value of distributions under the Plan because such distributions in a chapter 7 case would not occur for a substantial period of time. In this regard, it is possible that distribution of the proceeds of the liquidation could be delayed for one or more years after the completion of such liquidation to resolve claims and prepare for distributions. In the event litigation was necessary to resolve claims asserted in a chapter 7 case, the delay could be prolonged and administrative expenses increased.

The Debtors' liquidation analysis is an estimate of the proceeds that may be generated as a result of a hypothetical chapter 7 liquidation of each Debtor. The analysis is based on a number of significant assumptions which are described. The liquidation analysis does not purport to be a valuation of the Debtors' assets and is not necessarily indicative of the values that may be realized in an actual liquidation.

D. LIQUIDATION ANALYSIS

1. Introduction

The liquidation analysis (the "Liquidation Analysis") reflects the estimated cash proceeds, net of liquidation-related costs that would be realized if each Debtor were liquidated in accordance with chapter 7 of the Bankruptcy Code.⁺⁴¹⁸ The Liquidation Analysis is based on a number of estimates and assumptions that, although considered reasonable by management and Lazard, are inherently subject to significant business, economic and competitive uncertainties and contingencies beyond the Debtors' control, and which could be subject to material change. **ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE RECOVERIES FROM THE LIQUIDATION OF ASSETS REFLECTED IN THE LIQUIDATION ANALYSIS WOULD BE REALIZED IF THE DEBTORS WERE LIQUIDATED UNDER CHAPTER 7 AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE ESTIMATED IN THE LIQUIDATION ANALYSIS.**

The Liquidation Analysis illustrates that in a chapter 7 liquidation, holders of claims in (i) PUSA Class 3 (General Unsecured Claims against PUSA) would receive an estimated 0.2% recovery, (ii) Farmland Classes 3a (General Unsecured Claims against Farmland) and 3c (Convenience Claims) would receive no recovery, and (iii) MPA Class 3 (General Unsecured Claims against MPA), would receive an estimated 57.2% recovery. The Liquidation Analysis is based on information from the Debtors' projected balance sheet as of December 31, 2004 (the "Projected Balance Sheet"), unless noted otherwise, and assumes that the Debtors would commence a chapter 7 liquidation on December 31, 2004. The Liquidation Analysis also assumes that the Projected Balance Sheet is a reasonable proxy for the actual December 31, 2004 balance sheet. Because the Debtors have not yet completed financial statements for the year ending December 31, 2004 (see discussion in Section IV.A.1.), the Projections and the Liquidation Analysis set forth in this Disclosure Statement continue to use

⁺⁴¹⁸ Capitalized terms used but not defined will have the meaning ascribed to them herein, or are referenced in the "Notes to the Liquidation Analysis," beginning on pg. 127.

the projected December 31, 2004 financial statements, which were completed in October 2004. Although certain events occurred — including the approval of the LC Facility pursuant to the Supplemental Postpetition Financing Order (as discussed in Section VI.D.3.) and the realization of proceeds from the sale of certain Non-Operating Properties (as discussed in Section VI.G.2.) — which would make the actual figures for the period ending December 31, 2004 vary slightly from the Projections, such occurrences were determined not to affect materially the results of the Liquidation Analysis.

The Liquidation Analysis assumes the liquidation of Farmland would commence under the direction of a Bankruptcy Court appointed trustee and would continue for a period of approximately 12 months, during which time all of Farmland's significant assets would either be sold or conveyed to the respective lien holders, and the cash proceeds, net of liquidation related costs, would then be distributed to creditors. Although some assets could be liquidated in less than 12 months, other assets would be more difficult to collect or sell, thus requiring a liquidation period substantially longer than 12 months. During the liquidation, the trustee would generally undertake: (i) the orderly sale of inventory, buildings, land, and equipment and other fixed assets, and (ii) the orderly wind-down of daily operations. For certain assets, liquidation values were estimated for each asset. For other assets, liquidation values were assessed for assets in similar categories by estimating the percentage recoveries that a trustee might obtain for that category of asset. With respect to MPA, the Liquidation Analysis assumes that Farmland is liquidated.

With respect to Farmland, the Liquidation Analysis assumes that the chapter 7 trustee would be able to negotiate a charging lien against the assets which are subject to the claims of secured creditors. Under the Postpetition Financing Order and the LC Facility, liens were or will be granted to the DIP Lender, Citibank, the Lessor, and the LC Lender against all of Farmland's assets except for avoidance actions. Under the Postpetition Financing Order, these liens are not subject to a charging lien under section 506(c) of the Bankruptcy Code. Absent an agreement between the chapter 7 trustee and the secured creditors, funding for the chapter 7 trustee would be limited to the \$50,000 carve-out provided for in the Postpetition Financing Order and the proceeds of any avoidance actions, which are subject to liens in favor of MPA in accordance with the terms of the Postpetition Financing Order. It is assumed that without an agreement as to a charging lien between the chapter 7 trustee and the secured creditors that the chapter 7 trustee would likely abandon many of the assets in favor of the secured creditors.

The Liquidation Analysis also assumes that the gross amount of assets and the cash available for distribution would be the sum of the proceeds from the disposition of each Debtor's assets, recovery on preference claims and the cash held by each Debtor at the commencement of the chapter 7 case. Such amount then would be reduced by the costs and expenses of the chapter 7 liquidation to arrive at net proceeds available for distribution to creditors. The Liquidation Analysis assumes that liquidation proceeds would be distributed in accordance with the priorities required by Bankruptcy Code sections 726 and 507. Specifically, net value from the liquidation of assets after the payment of fees associated with the liquidation generally would be distributed first to satisfy secured claims to the extent of the collateral value securing such claims, in order of priority. Next, value would flow to unsecured claims beginning with unsecured superpriority administrative claims, second to other unsecured administrative claims (including any incremental administrative expense claims that may result from the

termination of Farmland's business and the liquidation of its assets), third to priority unsecured claims, fourth to general unsecured claims and fifth to equity.

Since Farmland's business operations would cease in a chapter 7 liquidation, all of Farmland's major executory contracts and leases would be rejected by the trustee. In addition, the Liquidation Analysis does not include an estimate for other unsecured claims, such as claims of customers and other agreements arising from failure of Farmland to perform and render services. These types of claims are difficult to estimate but are presumed to occur in a liquidation context due to the cessation of Farmland's business operations and the resulting rejection of contracts and lease agreements. These claims are likely substantial and would dilute any recovery estimated for unsecured creditors in the Liquidation Analysis.

The Liquidation Analysis includes an estimate of the amount of claims that could ultimately be allowed claims. Estimates for the various types of claims are based solely on the Debtors' estimates and do not constitute an admission of liability by the Debtors. Unless otherwise noted herein, no order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of claims at the projected levels set forth in this Liquidation Analysis.

In the event of a liquidation, it is likely that Farmland would pursue potential fraudulent conveyances, preference claims, intercompany receivables and other causes of action. This Liquidation Analysis attempts to estimate the recovery of Farmland from some of these potential claims. However, these estimated amounts are speculative and the actual recovery could differ substantially from the amounts estimated herein. In addition, unless otherwise noted herein, these estimates do not include the estimated costs of pursuing those actions.

2. Liquidation Analysis

Exhibit 1

FARMLAND DAIRIES LLC (Note 1) Liquidation Analysis

This Liquidation Analysis has been prepared in connection with the Disclosure Statement and the Plan. The Liquidation Analysis indicates the values that may be obtained by classes of claims upon disposition of assets, pursuant to a Chapter 7 liquidation, as an alternative to continued operation of the business under the Plan. Accordingly, collateral values discussed herein may be different than amounts referred to in the Plan. Because the Debtors have not yet completed financial statements for the year ending December 31, 2004, the Liquidation Analysis uses the Debtors' projected December 31, 2004 financial statements, which were completed in October. Although certain events, including the extension of the LC Facility and the realization of proceeds from the sale of certain idle properties, have occurred that would make the actual figures for the period ending December 31, 2004 differ from the Projections, to the extent that certain matters are not incorporated herein, they were deemed not to affect materially the results of this Liquidation Analysis.

STATEMENT OF ASSETS

(\$ in millions)

	Note	Projected Balance Sheet (Note 2) (Unaudited) [1]	Hypothetical Percentage Recovery [2]	Estimated Liquidation Value (Unaudited) [1] * [2] = [3]
Cash and Cash Equivalents	3	\$2.3	97.2%	\$2.2
Accounts Receivable, Gross	4	48.6	55.5%	26.9
Inventory	5	18.5	30.0%	5.5
Prepaid Expenses	6	18.2	0.0%	0.0
Other Current Assets	7	0.9	0.0%	0.0
PP&E	8			
Property and Plant		29.9	70.0%	20.9
Equipment		12.3	32.0%	3.9
Idle Properties		8.4	138.8%	11.7
Miscellaneous Other Assets	9	2.3	0.0%	0.0
Intercompany Receivables	10	172.1	7.8%	13.5
Other Intangible Assets	11	172.4	2.7%	4.7
Total Assets		\$485.9		\$89.4
Preference Claims	12	\$4.8	100.0%	\$4.8
Costs Associated with Liquidation:				
Payroll and Overhead Costs	13			(\$5.5)
Selling Commissions	14			(2.1)
Chapter 7 Trustee Fees	15			(2.0)
Chapter 7 Professional Fees	16			(0.9)
				(\$10.4)
Net Estimated Liquidation Proceeds Available for Distribution				\$83.8

<p align="center">Exhibit 2 FARMLAND DAIRIES LLC Liquidation Analysis</p>			
<p>DISTRIBUTION ANALYSIS SUMMARY (\$ in millions)</p>			
	Estimated Allowable Claims	Estimated Liquidation Value	Note
Farmland Sources of Cash			
Net Estimated Liquidation Proceeds Available for Distribution		\$83.8	
Farmland Administrative Claim Against PUSA	\$1.5	1.5	17
Net Estimated Proceeds Available for Distribution		\$85.3	
Citibank Secured Claims			
Citibank Receivables Purchase Agreement	\$27.8	\$26.9	18
Hypothetical Recovery to Citibank		97.0%	
Proceeds Available after Citibank Secured Claims		\$58.3	
Real Estate Tax Claims			
Real Estate Tax Claims	\$0.0	\$0.0	19
Total Secured Tax Claims	\$0.0	\$0.0	
Hypothetical Recovery to Secured Tax Claims		100.0%	
Postpetition Credit Agreement Secured Claims			
Carve-out for Professional Fees	\$4.6	\$4.6	20
Postpetition Credit Agreement	34.3	34.3	20
Total Postpetition Credit Agreement Secured Claims	\$38.9	\$38.9	
Hypothetical Recovery to Postpetition Credit Agreement Secured Claims		100.0%	
Proceeds Available after Postpetition Credit Agreement Secured Claims		\$19.4	
Master Lease Secured Claims			
Master Lease Claim	\$8.4	\$8.4	21
Hypothetical Recovery to Master Lease Claim		100.0%	
Proceeds Available after Master Lease Claim		\$11.0	
Secured Administrative Claims			
Net MPA Administrative Claim	\$6.7	\$6.7	22
Hypothetical Recovery to Secured Administrative Claims		100.0%	
Proceeds Available after Secured Administrative Claims		\$4.4	
Secured LC Facility Claim			
LC Facility Claim	\$7.2	\$4.4	23
Hypothetical Recovery to LC Facility Claim		60.6%	
Proceeds Available after Secured LC Facility Claim		\$0.0	
Administrative Claims			
Unsecured Chapter 11 Administrative Claims			
Salaries, Wages & Benefits	\$7.8	\$0.0	24
Postpetition Unpaid Master Lease Payments	8.5	0.0	25
Postpetition Accounts Payable	13.6	0.0	26
Postpetition Accrued Liabilities	21.4	0.0	26
Total Chapter 11 Administrative Claims	\$51.3	\$0.0	
Hypothetical Recovery to Unsecured Chapter 11 Administrative Claims		0.0%	
Proceeds Available after Administrative Claims		\$0.0	
Priority Unsecured Claims			
Priority Wage/Benefit Claims	\$1.9	\$0.0	27
Priority Tax Claims	0.5	0.0	28
Total Priority Unsecured Claims	\$2.3	\$0.0	
Hypothetical Recovery to Priority Unsecured Claims		0.0%	
Proceeds Available after Priority Unsecured Claims		\$0.0	
Unsecured Claims			
Unsecured Master Lease Rejection Claim	\$75.1	\$0.0	29
General Unsecured Claims	16.1	0.0	30
PBGC Claim	18.8	0.0	31
Parmalat USA Claim	10.4	0.0	32
Preference Claims	4.8	0.0	33
MPA Unsecured Claim	2.7	0.0	34
Total Unsecured Claims	\$127.9	\$0.0	
Hypothetical Recovery to Unsecured Claims		0.0%	
Net Estimated Deficiency to Unsecured Claims		(\$127.9)	
Proceeds Available after Unsecured Claims		\$0.0	
The accompanying notes are an integral part of the Liquidation Analysis			

Exhibit 3 FARMLAND STREMICKS SUB, L.L.C. (Note 1) Liquidation Analysis			
DISTRIBUTION ANALYSIS SUMMARY <i>(\$ in millions)</i>			
	Estimated Allowable Claims	Estimated Liquidation Value	Note
MPA Sources of Cash			2
Net Proceeds From Sale Available for Distribution		\$8.5	3
Net MPA Administrative Claim Against Farmland	\$6.7	6.7	4
MPA Unsecured Claim Against Farmland	2.7	0.0	5
Net Estimated Proceeds Available for Distribution		\$15.2	
Administrative Claims			
Chapter 11 Professional Fees	\$0.8	\$0.8	6
Hypothetical Recovery to Administrative Claims		100.0%	
Proceeds Available after Administrative Claims		\$14.4	
Unsecured Claims			
PBGC Claim	\$18.8	\$10.8	7
Parmalat USA Claim	5.0	2.8	8
General Unsecured Claims	1.3	0.8	9
Total Unsecured Claims	\$25.1	\$14.4	
Hypothetical Recovery to Unsecured Claims		57.2%	
Net Estimated Deficiency to Unsecured Claims		(\$10.7)	
Proceeds Available after Unsecured Claims		\$0.0	
The accompanying notes are an integral part of the Liquidation Analysis			

Exhibit 4

PARMALAT USA CORP. (Note 1)
Liquidation Analysis

DISTRIBUTION ANALYSIS SUMMARY

(\$ in millions)

	Estimated Allowable Claims	Estimated Liquidation Value	Note
PUSA Sources of Cash			2
PUSA Claims from MPA	\$5.0	\$2.8	3
PUSA Claims from Farmland	10.4	0.0	4
Net Estimated Proceeds Available for Distribution		\$2.8	
Secured Claims			
DIP Lender Claim	\$0.0	\$0.0	5
Farmland Claim for Chapter 11 Professional Fees	1.5	1.5	6
Total Secured Claims	<u>\$1.5</u>	<u>\$1.5</u>	
Hypothetical Recovery to Secured Claims		100.0%	
Proceeds Available after Secured Claims		\$1.3	
Priority Unsecured Claims			
Priority Unsecured Claims	\$1.2	\$1.2	7
Hypothetical Recovery to Priority Unsecured Claims		100.0%	
Proceeds Available after Priority Unsecured Claims		\$0.1	
Unsecured Claims			
PBGC Claim	\$18.8	\$0.0	8
Senior Unsecured Notes	20.1	0.0	9
Other Unsecured Claims	7.6	0.0	10
Total Unsecured Claims	<u>\$46.5</u>	<u>\$0.1</u>	
Hypothetical Recovery to Unsecured Claims		0.2%	
Net Estimated Deficiency to Unsecured Claims		(\$46.4)	
Proceeds Available after Unsecured Claims		\$0.0	
The accompanying notes are an integral part of the Liquidation Analysis			

3. Notes to Liquidation Analysis

a. *Farmland Dairies LLC (Exhibits 1 and 2)*

(i) **Note 1** – Organization and Ownership. Farmland is a wholly owned subsidiary of PUSA.

(ii) **Note 2** – Scheduled Asset Values. Unless otherwise noted, the asset values used in this Liquidation Analysis are based on information from Farmland's Projected Balance Sheet as of December 31, 2004, and are assumed to be a proxy for the asset values as of December 31, 2004.

(iii) **Note 3** – Cash and Cash Equivalents. Cash and Cash Equivalents include cash in Farmland's bank accounts and cash equivalents, such as notes receivable. It is assumed that during the liquidation period, operations would not generate additional cash available for distribution and that interest income that could be earned on cash proceeds pending distribution is immaterial. It is assumed that the \$2 million of cash held in Farmland's accounts based on Farmland's Projected Balance Sheet is fully recoverable.

Notes Receivable includes miscellaneous receivables not purchased under the Citibank Receivables Purchase Agreement. A 75% recovery is assumed on Notes Receivable based on the creditworthiness of customers and their past payment history.

(iv) **Note 4** – Accounts Receivable, Gross. Accounts Receivable, Gross includes receivables from convenience stores, foodservice customers, chain grocery stores and the U.S. government.

The estimated recovery of Accounts Receivable, Gross is based on Farmland's Projected Balance Sheet. Accounts Receivable, Gross excludes estimated amounts of receivables that are designated as ineligible under the Citibank Receivables Purchase Agreement, including, among others: receivables from an obligor with greater than 10% defaulted receivables; receivables greater than 91 days past due (defaulted receivables); excess concentrations; and unapplied cash and credits. The liquidation value of Accounts Receivable, Gross is estimated to be 65% of eligible receivables. Management estimates the recovery based on analysis of rebates, bad debt, accounts payable offsets, the effect of liquidation on collections due to customer concentration, history of collections with each account and the creditworthiness of customers.

The recovery on Accounts Receivable, Gross also assumes that the receivables will be turned over to Citibank for collection as Citibank has purchased an undivided interest in all of the receivables (see Note 18). Farmland has a residual claim on the accounts receivable to the extent that the receivables are sufficient to satisfy all of Citibank's interest in those receivables. The estimate of the proceeds that would be available in an orderly liquidation process take into account the inevitable difficulty a liquidating company has in collecting its receivables and any concessions which might be required to facilitate the collection of certain accounts. The recovery on Accounts Receivable, Gross may be further depressed by potential

damage claims for breach of customer contracts that may be offset against outstanding receivables.

(v) **Note 5 – Inventory.** Inventory includes raw materials such as milk and ingredients, finished goods, packaging and spare parts. A 30% recovery is assumed on Inventory based on a third party appraisal performed in connection with the Debtors' Postpetition Credit Agreement.

(vi) **Note 6 – Prepaid Expenses.** Prepaid Expenses include prepayments for insurance, promotion, real estate tax, pension and other miscellaneous expenses. It is assumed that the probability of recovering prepayments would be zero and that they would be consumed during the liquidation period. The recovery on Prepaid Expenses may be further depressed by potential damage claims for breaches of or the likely rejection of contracts that may be offset against outstanding amounts owed to Farmland.

(vii) **Note 7 – Other Current Assets.** Other Current Assets include deferred federal taxes, other receivables and the workers' compensation trust fund. Zero recovery value is assumed for Other Current Assets.

(viii) **Note 8 – Property, Plant & Equipment.**

(a) Property and Plant. Property and Plant include the owned land and buildings at Farmland's Wallington, Grand Rapids, Atlanta, Cartersville and Lawrenceville facilities. Also included is the land that is owned at Farmland's Brooklyn facility. The value of Property and Plant was estimated considering the appraised values in a forced-sale scenario performed by third party appraisers in June 2004.

(b) Equipment. Equipment includes the owned equipment and trucks located at Farmland's Wallington, Brooklyn, Grand Rapids and Atlanta facilities. Leased equipment is assumed to be returned to the Lessor. The value of Equipment was estimated considering the appraised values in a forced-sale scenario performed by third party appraisers in June 2004.

(c) Idle Properties. Idle Properties includes Non-Operating Properties (see Section VI.G.2.), idle plants, and vacant land which are not used by Farmland. Farmland is currently engaged in selling these Idle Properties. The recovery value is based on bids received for each of the Idle Properties.

(ix) **Note 9 – Miscellaneous Other Assets.** Miscellaneous Other Assets include prepaid slotting and marketing costs. Zero recovery is assumed for these assets.

(x) **Note 10 – Intercompany Receivables.** Intercompany Receivables are those receivables owed to Farmland by various other Parmalat entities. Farmland currently believes that it will recover approximately \$13.5 million of these receivables. This estimate does not include recovery of certain amounts for which Farmland has issued demand letters and/or is currently engaged in litigation to recover.

(xi) **Note 11 – Other Intangible Assets.** Other Intangible Assets include investments in trademarks, deferred pension expense, goodwill, trade names and customer lists. It is estimated that certain trademarks could be sold in a liquidation for approximately \$4.7 million.

(xii) **Note 12 – Preference Claims.** Farmland believes that it will be able to recover approximately \$4.8 million of preference claims made to parties in the 90 days prior to the bankruptcy for non-insider payments and one year for insider payments.

(xiii) **Note 13 – Payroll / Overhead Costs.** Corporate payroll and certain operating costs incurred during the liquidation of Farmland are based upon the assumption that certain operational and corporate functions would be retained to oversee the liquidation process. This staff would maintain and close the accounting records and complete certain administrative tasks including payroll, tax forms and records. Furthermore, certain minimum staff would be required at the physical locations to complete the closure of the facilities and to oversee the sale process for inventory, plant, property and equipment.

(xiv) **Note 14 – Selling Commissions.** It is estimated that Selling Commissions are based on the recovery value associated with the liquidation of the inventory, property, plant and equipment. These Selling Commissions are 5% for inventory, property, plant and equipment.

(xv) **Note 15 – Chapter 7 Trustee Fees.** Chapter 7 Trustee Fees include those fees associated with the appointment of a chapter 7 trustee in accordance with section 326 of the Bankruptcy Code. Trustee fees are estimated based on historical experience in other similar cases and are calculated at 3% of the total liquidation value of Farmland (not including cash and accounts receivable).

(xvi) **Note 16 – Chapter 7 Professional Fees.** Chapter 7 Professional Fees for Farmland include legal, accounting and other fees expected to be incurred during the 12-month liquidation period and not already deducted from liquidation values.

(xvii) **Note 17 – Farmland Administrative Claim against PUSA.** Over the course of the Debtors' chapter 11 cases, Farmland retained professionals to perform work, which had ancillary benefits for PUSA. This claim represents PUSA's share of the chapter 11 professional fees for work performed that benefited PUSA and was paid for by Farmland.

(xviii) **Note 18 – Citibank Receivables Purchase Agreement.** The balance of the Citibank Receivables Purchase Agreement is projected to be \$27.8 million on December 31, 2004. The Citibank Receivables Purchase Agreement has a non-recourse, undivided interest in all of the receivables of Farmland. If the underlying accounts receivable do not cover the outstanding balance under the Citibank Receivables Purchase Agreement, Citibank does not receive an unsecured deficiency claim. Citibank has a superpriority administrative claim and first priority lien on the postpetition collateral on a *pari passu* basis with the DIP Lender to the extent of any purchase price overpayments in excess of \$1.5 million, but less than \$4.5 million. Citibank also has a superpriority administrative claim and a second priority

adequate protection lien in certain of the postpetition collateral on a *pari passu* basis with the Lessor for any purchase price overpayments made in excess of \$4.5 million. In the event that the underlying accounts receivable exceed Citibank's claim, the residual value is returned to Farmland.

(xix) **Note 19** – Real Estate Tax Claims. Real Estate Tax Claims are the taxes related to the value of the land sold in the liquidation. These taxes must be paid in order for the land to be sold.

(xx) **Note 20** – Postpetition Credit Agreement Secured Claim. On December 31, 2004, Farmland's obligation under the Postpetition Credit Agreement is estimated to be \$34.3 million. Any remaining availability on the Postpetition Credit Agreement is not drawn. The chapter 11 professional fee carve-out is estimated to be \$2.4 million plus all accrued and unpaid chapter 11 professional fees through termination of the Postpetition Credit Agreement. The professional fees listed here are that portion of the professional fees which are attributable to Farmland. The Liquidation Analysis assumes that the chapter 7 trustee would be able to negotiate a charging lien against the assets which are subject to the secured claims. The Postpetition Credit Agreement Secured Claims and the professional fee carve-out for accrued and unpaid professional fees from the chapter 11 estate are assumed to be paid after the chapter 7 liquidation costs, with the professional fee carve-out paid in its entirety first and the Postpetition Credit Agreement Secured Claims paid subsequently. The Postpetition Credit Agreement is secured by a first priority lien and superpriority administrative claim against all assets of Farmland except for avoidance actions. With respect to the accounts receivable, this lien extends only to Farmland's residual interest in these receivables.

(xxi) **Note 21** – Master Lease Claim. Farmland owes approximately \$96 million under the Master Lease Financing Agreement, which is secured by half of the real property value at Farmland's Wallington, Brooklyn and Grand Rapids facilities. In the event of a liquidation, Farmland would return the leased equipment to the Lessor. This equipment would not be sold by Farmland and the amount owed under the Master Lease Claim would be reduced by the liquidation value of the returned equipment. It is assumed that the Master Lease Claim is secured up to the liquidation value of the remaining underlying collateral (half the real property value of the Wallington, Brooklyn and Grand Rapids facilities). The portion of the Master Lease Claim that came due during the postpetition period, but is unpaid, is an administrative claim under section 365(d)(10) of the Bankruptcy Code (see Note 25 below). The balance of the Master Lease Claim that is not satisfied by the liquidation value of the underlying collateral and is not a postpetition administrative claim is an unsecured claim. The Liquidation Analysis projects an estimated recovery of \$8.4 million on the Master Lease Claim.

(xxii) **Note 22** – Net MPA Administrative Claim. MPA has a secured superpriority administrative claim against Farmland to the extent that payments it made on account of the Postpetition Credit Agreement exceeded its fair share. This is netted against a Farmland secured administrative claim and lien for expenses Farmland paid on behalf of MPA. The Net MPA Administrative Claim is secured by a postpetition lien on Farmland's assets that is junior in priority to the postpetition liens in favor of the Lessor, Citibank and the DIP Lender, as set forth in the Postpetition Financing Order, except to the extent of any recovery on avoidance actions, which are not subject to liens in favor of the Lessor, Citibank, and the DIP Lender.

(xxiii) **Note 23** – LC Facility Claim. On January 6, 2005, the Bankruptcy Court entered the Supplemental Postpetition Financing Order. The Supplemental Postpetition Financing Order approved the LC Facility between Farmland and the LC Lender, and provides Farmland with up to \$15 million of letter of credit accommodations. The Supplemental Postpetition Financing Order provides the LC Lender with (i) a superpriority administrative claim, and (ii) a subordinated priming lien in all of Farmland's property (other than the equipment subject to the Master Lease Financing Agreement, certain equipment leased from De Lage Landen Financial Services, Inc., and avoidance actions arising under chapter 5 of the Bankruptcy Code). The LC Facility is subject to the Carve Out and the postpetition liens and claims granted in favor of the DIP Lender, Citibank, the Lessor, and the Debtors under the Postpetition Financing Order. Farmland intends to use the letters of credit issued in connection with the LC Facility to replace cash deposits currently being used by various milk boards and an insurance carrier. ~~The Debtors are currently negotiating an extension of the termination date of the LC Facility until April 15, 2005.~~ On December 31, 2004, \$7.2 million of the LC Facility is projected to be outstanding.

(xxiv) **Note 24** – Salaries, Wages & Benefits. It is assumed that employment agreements and labor agreements are rejected as of December 31, 2004. Damages arising from the rejection of these contracts are 12 months of severance pay for Farmland executives and approximately 60 days of pay for Farmland employees.

(xxv) **Note 25** – Postpetition Unpaid Master Lease Payments. Pursuant to the Postpetition Financing Order, all quarterly payments under the Master Lease Financing Agreement were deferred. As of December 31, 2004, Farmland will owe approximately \$8.5 million in Postpetition Unpaid Master Lease Payments. Under section 365(d)(10) of the Bankruptcy Code, these unpaid postpetition obligations are administrative claims.

(xxvi) **Note 26** – Postpetition Accounts Payable and Postpetition Accrued Liabilities. The Postpetition Accounts Payable balance is based on an estimate of trade payables incurred during the administration of the chapter 11 bankruptcy case and outstanding as of December 31, 2004. Postpetition Accrued Liabilities include direct operating accruals and other accruals. The Postpetition Accrued Liabilities amount is based on an estimate of accrued liabilities incurred during the administration of the chapter 11 bankruptcy case and outstanding as of December 31, 2004.

(xxvii) **Note 27** – Priority Wage/Benefit Claims. Farmland was current on all wages, benefits and accrued vacation time as of the Petition Date or received authorization from the Bankruptcy Court pursuant to first day orders to bring these amounts current. It is also assumed that there are no payments remaining under any key employee retention plan, no WARN Act claims, and no other benefits such as healthcare outstanding as of December 31, 2004.

(xxviii) **Note 28** – Priority Tax Claims. Priority Tax Claims include, among others, property taxes and excise taxes.

(xxix) **Note 29** – Unsecured Master Lease Rejection Claim. Unsecured Master Lease Rejection Claim is equal to the Master Lease Claim less (i) liquidation value of the property securing such claim and the equipment returned to the Lessor upon termination of the Master Lease Financing Agreement, and (ii) any postpetition payments made in connection with the Lessor's 365(d)(10) claim.

(xxx) **Note 30** – General Unsecured Claims. General Unsecured Claims include management's best estimate of prepetition accounts payable and accrued liabilities after taking into account payments already made to critical vendors. General Unsecured Claims also includes real property and equipment lease rejection claims (other than the Master Lease Claim) and rejection damage claims for certain other executory contracts. The Liquidation Analysis does not include an estimate for other unsecured claims, such as claims of customers and other agreements arising from failure of Farmland to perform and render services. These types of claims are difficult to estimate but are presumed to occur in a liquidation context due to the cessation of Farmland's business operations and the resulting rejection of contracts and lease agreements. However, because the Liquidation Analysis estimates no recovery for General Unsecured Claims, there is no need to estimate these other unsecured claims.

(xxxi) **Note 31** – PBGC Claim. The termination of the Debtors' pension plans and their assumption by the Pension Benefit Guarantee Corporation (the "PBGC") could result in a PBGC Claim of up to \$19 million. This claim can be pursued against Farmland and any of its related entities in the control group such as MPA and PUSA.

(xxxii) **Note 32** – PUSA Claim. PUSA has a claim against Farmland for a loan extended to Farmland and for trade expenses paid by PUSA on behalf of Farmland. As set forth in the Inter-Debtor Settlement Motion (discussed in Section VIII.A.), as of the Commencement Date the inter-debtor balances reflected that Farmland had an outstanding balance due and owing to PUSA of approximately \$9.8 million. However, it was determined that certain additional adjustments to the inter-debtor balances were required. Specifically, PUSA's claim against Farmland was adjusted to approximately \$10.4 million. For purposes of the Liquidation Analysis, use of the \$9.8 million for the PUSA claim against Farmland in the Liquidation Analysis instead of \$10.4 million would have no material effect on distributions that the PUSA claim would receive from Farmland's estate.

(xxxiii) **Note 33** – Preference Claims. Farmland believes that it will be able to recover approximately \$4.8 million in Preference Claims made to parties in the 90 days prior to the bankruptcy for non-insider payments and one year for insider payments.

(xxxiv) **Note 34** – MPA Unsecured Claim. MPA has a claim against Farmland for, among other things, overpayment by MPA for services rendered by Farmland. As set forth in the Inter-Debtor Settlement Motion (discussed in Section VIII.A.), as of the Commencement Date the inter-debtor balances reflected that Farmland had a claim against MPA for approximately \$3.9 million (the "Farmland/MPA Balance"). However, following an analysis of the prepetition inter-debtor balances, it was determined that certain additional adjustments to the inter-debtor balances were required. Specifically, certain adjustments resulted in a determination that MPA actually has a prepetition claim against Farmland totaling approximately \$2.7 million. A significant adjustment to the Farmland/MPA Balance included

the reversal of approximately \$9.2 million in management fees, because there was no support for such fee established by the inter-debtor balances. If the \$3.9 million Farmland claim against MPA were used in the Liquidation Analysis instead of the \$2.7 million MPA claim against Farmland, MPA's unsecured creditors' recovery would be reduced by \$1.9 million, and Farmland's LC Facility claimants would receive an additional \$1.9 million.

b. *Farmland Stremicks Sub, L.L.C. (f/k/a Milk Products of Alabama L.L.C.) (Exhibit 3)*

(i) **Note 1 – Organization and Ownership.** MPA is 80% owned by Farmland and 20% owned by Stremicks Heritage Foods, LLC ("Stremicks").

(ii) **Note 2 – MPA Sources of Cash.** The Liquidation Analysis assumes no recovery for preference or litigation claims for MPA. Since MPA had been current on its outstanding payments and had been making few of its own disbursements, it is assumed that preference claims would be *de minimis*. While it is possible that MPA may receive funds from litigation filed and yet to be filed, it is difficult to estimate the recovery from such litigation. Additionally, any funds received by MPA from litigation would be received both in a liquidation and a non-liquidation scenario. Consequently, it should not affect creditors' comparative recovery in a liquidation and non-liquidation scenario.

(iii) **Note 3 – Net Proceeds from Sale Available for Distribution.** On September 17, 2004 the Bankruptcy Court entered an order approving the Alabama Sale, which closed on October 15, 2004. The proceeds of the Alabama Sale were used to pay a portion of the Postpetition Credit Agreement, the National Dairy Holdings, L.P. break-up fee and expense reimbursement, the Lazard transaction fee for the Alabama Sale, professional fees, and postpetition payables. A portion of the proceeds was placed in escrow in connection with the Citibank Receivables Purchase Agreement. The net proceeds from the Alabama Sale and the release of the escrow after collections of accounts receivable are available for distribution.

(iv) **Note 4 – Net MPA Administrative Claim Against Farmland.** MPA has a postpetition superpriority administrative claim and lien against Farmland to the extent that payments it made on account of the Postpetition Credit Agreement exceeded its fair share. This is netted against a Farmland secured administrative claim and lien for expenses Farmland paid for MPA.

(v) **Note 5 – MPA Unsecured Claim Against Farmland.** MPA has a claim against Farmland for, among other things, overpayment by MPA for services rendered by Farmland. As set forth in the Inter-Debtor Settlement Motion (discussed in Section VIII.A.), as of the Commencement Date the inter-debtor balances reflected that Farmland had a claim against MPA for approximately \$3.9 million (the "Farmland/MPA Balance"). However, following an analysis of the prepetition inter-debtor balances, it was determined that certain additional adjustments to the inter-debtor balances were required. Specifically, certain adjustments resulted in a determination that MPA actually has a prepetition claim against Farmland totaling approximately \$2.7 million. A significant adjustment to the Farmland/MPA Balance included the reversal of approximately \$9.2 million in management fees, because there

was no support for such fee established by the inter-debtor balances. If the \$3.9 million Farmland claim against MPA were used in the Liquidation Analysis instead of the \$2.7 million MPA claim against Farmland, MPA's unsecured creditors' recovery would be reduced by \$1.9 million, and Farmland's LC Facility claimants would receive an additional \$1.9 million.

(vi) **Note 6** – Chapter 11 Professional Fees. These fees represent MPA's share of the Debtors' chapter 11 professional fees.

(vii) **Note 7** – PBGC Claim. The termination of the Debtors' pension plans and their assumption by the PBGC results in a PBGC Claim of approximately \$19 million. The PBGC Claim can be pursued against MPA and any of its related entities in the control group such as Farmland and PUSA.

(viii) **Note 8** –PUSA Claim. PUSA has a claim against MPA for monies loaned to MPA. Recovery value is based on MPA's Liquidation Analysis. As set forth in the Inter-Debtor Settlement Motion (discussed in Section VIII.A.), as of the Commencement Date the inter-debtor balances reflected that PUSA had a claim against MPA for approximately \$4.4 million. However, following an analysis of the prepetition inter-debtor balances, it was determined that certain adjustments to the inter-debtor balances were required. PUSA should have a prepetition claim against MPA in the approximate amount of \$5 million. Using \$4.4 million in the Liquidation Analysis instead of \$5 million would shift approximately \$0.2 million of recovery from PUSA's priority unsecured creditors to MPA's general unsecured creditors and \$0.1 million from PUSA's unsecured creditors to MPA's general unsecured creditors.

(ix) **Note 9** – General Unsecured Claims. MPA has approximately \$1.3 million of trade claims and rejection claims.

c. *Parmalat USA Corp. (Exhibit 4)*

(i) **Note 1** – Organization and Ownership. PUSA is the 100% owner of Farmland and is itself owned 100% by Parmalat S.p.A.

(ii) **Note 2** – PUSA Sources of Cash. The Liquidation Analysis assumes no recovery for preference or litigation claims for PUSA. Because PUSA has no operations and makes few disbursements, it is unlikely that material preference payments were made by PUSA. While it is possible that PUSA may receive funds from litigation filed, and yet to be filed, it is difficult to estimate the recovery from such litigation. Additionally, any funds received by PUSA from litigation would be received both in a liquidation and a non-liquidation scenario. Consequently, it should not affect creditors' comparative recovery in a liquidation and non-liquidation scenario.

(iii) **Note 3** – PUSA Claims against MPA. PUSA has a claim against MPA for monies lent to MPA. As set forth in the Inter-Debtor Settlement Motion (discussed in Section VIII.A.), as of the Commencement Date the inter-debtor balances reflected that PUSA had a claim against MPA for approximately \$4.4 million. However, following an analysis of the prepetition inter-debtor balances, it was determined that certain adjustments to the inter-debtor balances were required. PUSA should have a prepetition claim against MPA in the approximate amount of \$5 million. Using \$4.4 million in the Liquidation Analysis instead of \$5

million would shift approximately \$0.2 million of recovery from PUSA's priority unsecured creditors to MPA's general unsecured creditors and \$0.1 million from PUSA's unsecured creditors to MPA's general unsecured creditors.

(iv) **Note 4** – PUSA Claim against Farmland. PUSA has a claim against Farmland for a loan extended to Farmland and for trade expenses paid by PUSA on behalf of Farmland. As set forth in the Inter-Debtor Settlement Motion (discussed in Section VIII.A.), as of the Commencement Date the inter-debtor balances reflected that Farmland had an outstanding balance due and owing to PUSA of approximately \$9.8 million. However, it was determined that certain additional adjustments to the inter-debtor balances were required. Specifically, PUSA's claim against Farmland was adjusted to approximately \$10.4 million. For purposes of the Liquidation Analysis, use of the \$9.8 million for the PUSA claim against Farmland in the Liquidation Analysis instead of \$10.4 million would have no material effect on distributions that the PUSA claim would receive from Farmland's estate.

(v) **Note 5** – DIP Lender Claim. The DIP Lender has a first priority lien and a superpriority administrative expense claim of approximately \$25,000 arising from the Postpetition Credit Agreement.

(vi) **Note 6** – Farmland Claim for Chapter 11 Professional Fees. Over the course of these chapter 11 cases, Farmland retained professionals to render services that had ancillary benefit for PUSA. These fees represent PUSA's share of the Debtors' chapter 11 professional fees for services rendered that benefited PUSA and were paid for by Farmland. Farmland has a postpetition superpriority administrative claim and lien against PUSA for the benefit received by PUSA for such work.

(vii) **Note 7** – Priority Unsecured Claims. PUSA has priority unsecured claims related to income taxes.

(viii) **Note 8** – PBGC Claim. The termination of the Debtors' pension plans and their assumption by the PBGC results in a PBGC claim of approximately \$19 million. The PBGC Claim can be pursued against PUSA and any of its related entities in the control group such as Farmland and MPA.

(ix) **Note 9** – Senior Unsecured Notes. Senior Unsecured Notes consist of: \$5.0 million due to Banca Di Roma; \$5.0 million due to IntesaBci S.p.A.; and \$10.0 million due to Comerica Bank. The obligations to IntesaBci and Comerica are guaranteed by Parmalat S.p.A.

(x) **Note 10** – Other Unsecured Claims. Other Unsecured Claims relate to trade claims and intercompany charges for legal and consulting services. This estimated allowable claim does not include the claims of affiliates filed in the amount of \$704 million or the claims of Tuscan/Lehigh Dairies, Inc. filed in the amount of approximately \$57 million. See Section VI.O – P. If these claims were allowed, the projected recovery to unsecured creditors would be significantly reduced. Disallowing these claims would require litigation, which PUSA is unlikely to pursue in the case of a liquidation given PUSA's lack of cash to pay professional fees and zero projected recovery for unsecured creditors.

E. FEASIBILITY

In connection with confirmation of the Plan, the Bankruptcy Court will have to determine that the Plan is feasible pursuant to section 1129(a)(11) of the Bankruptcy Code, which means that the confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors.

1. PUSA/MPA

Since the Plan provides for the liquidation of PUSA and MPA, the Bankruptcy Court will find that the Plan is feasible with respect to PUSA and MPA if it determines that PUSA and MPA will be able to satisfy the conditions precedent to the Effective Date and otherwise have sufficient funds to meet their post-confirmation obligations to pay for the costs of administering and fully consummating the Plan and closing the chapter 11 cases of PUSA and MPA. PUSA and MPA believe that the Plan satisfies the financial feasibility requirement imposed by the Bankruptcy Court.

2. Farmland

To support Farmland's belief in the feasibility of the Plan, Farmland has relied upon pro forma financial projections covering Reorganized Farmland's operations through December 31, 2008, as discussed in Section IV of this Disclosure Statement.

The Projections indicate that Reorganized Farmland should have sufficient cash flow to pay and service its debt obligations, including the Farmland Note and the Exit Facility, and to fund its operations as contemplated by the Farmland business plan. Accordingly, Farmland believes that the Plan complies with the financial feasibility standard of section 1129(a)(11) of the Bankruptcy Code.

F. CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN

The Debtors believe that the Plan meets the classification requirements of the Bankruptcy Code which require that a chapter 11 plan place each claim or equity interest into a class with other claims or equity interests that are "substantially similar." The Plan establishes classes of claims and equity interests as required by the Bankruptcy Code and summarized above. Administrative Expense Claims and Priority Tax Claims are not classified.

G. SECTION 1129(B)

The Bankruptcy Court may confirm a plan of reorganization over the rejection or deemed rejection of the plan of reorganization by a class of claims or equity interests if the plan of reorganization "does not discriminate unfairly" and is "fair and equitable" with respect to such class.

1. **No Unfair Discrimination**

This test applies to classes of claims or equity interests that are of equal priority and are receiving different treatment under the plan of reorganization. The test does not require that the treatment be the same or equivalent, but that such treatment be “fair.”

2. **Fair and Equitable Test**

This test applies to classes of different priority and status (e.g., secured versus unsecured) and includes the general requirement that no class of claims receive more than 100% of the allowed amount of the claims in such class. As to the dissenting class, the test sets different standards, depending on the type of claims or interests in such class:

a. *Secured Creditors.* Each holder of an impaired secured claim either (i) retains its liens on the property, to the extent of the allowed amount of its secured claim and receives deferred cash payments having a value, as of the effective date, of at least the allowed amount of such claim, or (ii) has the right to credit bid the amount of its claim if its property is sold and retains its liens on the proceeds of the sale (or if sold, on the proceeds thereof), or (iii) receives the “indubitable equivalent” of its allowed secured claim.

b. *Unsecured Creditors.* Either (i) each holder of an impaired unsecured creditor receives or retains under the plan property of a value equal to the amount of its allowed claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

c. *Equity Interests.* Either (i) each equity interest holder will receive or retain under the plan property of a value equal to the greater of (a) the fixed liquidation preference or redemption price, if any, of such stock and (b) the value of the stock or (ii) the holders of interests that are junior to the equity interests of the dissenting class will not receive or retain any property under the plan of reorganization.

These requirements are in addition to other requirements established by case law interpreting the statutory requirements.

The Debtors believe the Plan satisfies the “fair and equitable” requirement. Under the Plan, Farmland Class 4 (Equity Interests in Farmland) is deemed to reject the Plan. However, the Debtors believe that the Plan can be confirmed over the deemed rejection of Farmland Class 4 because (i) there will be at least one class of impaired accepting claims, (ii) the Plan does not discriminate unfairly, and (iii) the Plan is fair and equitable.

**IF ALL OTHER CONFIRMATION REQUIREMENTS ARE SATISFIED
AT THE CONFIRMATION HEARING, THE DEBTORS WILL ASK THE
BANKRUPTCY COURT TO RULE THAT THE PLAN MAY BE CONFIRMED ON THE
GROUND THAT THE SECTION 1129(b) REQUIREMENTS HAVE BEEN SATISFIED.**

XI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Plan reflects discussions held among Farmland, the Creditors' Committee and the Lessor. Farmland has determined that the Plan is the most practical means of providing maximum recoveries to creditors. The Plan also provides for liquidation of PUSA and MPA, with payment in accordance with priorities afforded in the Bankruptcy Code. Alternatives to the Plan that have been considered and evaluated by the Debtors during the course of the chapter 11 cases include (a) liquidation of PUSA's and MPA's assets under chapter 7 of the Bankruptcy Code, (b) liquidation of Farmland's assets under chapter 7 of the Bankruptcy Code, and (c) an alternative chapter 11 plan. The Debtors' thorough consideration of these alternatives to the Plan has led them to conclude that the Plan, in comparison, provides a greater recovery to creditors on a more expeditious timetable and in a manner that minimizes inherent risks in any other course of action available to the Debtors.

A. LIQUIDATION UNDER CHAPTER 7

If a particular Debtor's chapter 11 Plan cannot be confirmed, that Debtor's chapter 11 case may be converted to a case under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. A discussion of the effect that a chapter 7 liquidation would have on the recoveries of holders of claims is set forth in Section X.D. above. Each Debtor believes that liquidation under chapter 7 would not provide each holder of an allowed claim a higher recovery than such holder would receive under the Plan because of (i) the likelihood that other assets of Farmland would have to be sold or otherwise disposed of in a less orderly fashion, (ii) additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, and (iii) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation, including expenses and claims of Farmland related to rejection of leases and other executory contracts in connection with a cessation of operations. In a chapter 7 liquidation, (i) PUSA believes there would be no distribution to: PUSA Class 4 (Equity Interests in PUSA), ⁺⁵¹⁹ (ii) Farmland believes there would be no distribution to: Farmland Class 1 (Priority Non-Tax Claims against Farmland), Farmland Class 2 (Secured Claims against Farmland), Farmland Class 3a (General Unsecured Claims against Farmland), Farmland Class 3c (Convenience Claims), Farmland Class 4 (Equity Interests in Farmland), and (iii) MPA believes there would be no distribution to: MPA Class 4 (Equity Interests in MPA).

B. ALTERNATIVE PLAN OF REORGANIZATION

If the Farmland Plan is not confirmed, Farmland or any other party in interest (if the Debtors' exclusive period in which to file a plan of reorganization has expired) could attempt to formulate a different plan of reorganization. Such a plan might involve either a reorganization and continuation of Farmland's business or an orderly liquidation of Farmland's assets under

⁺⁵¹⁹ In a chapter 7 liquidation PUSA believes there would be a 0.2% distribution to PUSA Class 3 (General Unsecured Claims against Farmland).

chapter 11. Farmland has concluded that the Plan enables creditors and equity holders to realize the most value under the circumstances. In a liquidation under chapter 11, Farmland would still incur the expenses associated with closing or transferring numerous facilities to new operators. The process would be carried out in a more orderly fashion over a greater period of time. Further, if a trustee were not appointed, because such appointment is not required in a chapter 11 case, the expenses for professional fees would most likely be lower than those incurred in a chapter 7 case. However, Farmland does not believe there is sufficient financing available to support a chapter 11 liquidation. Accordingly, although preferable to a chapter 7 liquidation, Farmland believes that liquidation under chapter 11 is a much less attractive alternative to creditors and equity holders than the Plan because of the greater return provided by the Plan.

C. CERTAIN RISK FACTORS

In the event that the Plan is not confirmed or the chapter 11 cases are converted to cases under chapter 7 of the Bankruptcy Code, the Debtors believe that such action or inaction, as the case may be, will cause the Debtors to incur substantial expenses and otherwise serve only to negatively affect creditors' recoveries on their claims.

XII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. INTRODUCTION

The following discussion summarizes certain material U.S. federal income tax consequences of the implementation of the Plan to the Debtors and to certain holders of allowed claims and equity interests. The following summary does not address the federal income tax consequences to holders (i) whose claims or equity interests are extinguished without a distribution in exchange therefor (*e.g.*, holders of equity interests in Farmland) or (ii) whose claims are entitled to or projected to receive payment in full in cash or are otherwise unimpaired under the Plan (*e.g.*, General Unsecured Claims against MPA).

The following summary is based on the Internal Revenue Code of 1986, as amended (the "IRC"), Treasury regulations promulgated thereunder, judicial decisions and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS") as in effect on the date hereof. All of the foregoing are subject to change, possibly on a retroactive basis, and any such change could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given that the IRS will not take a contrary view to that which is described herein. In addition, this summary does not address state, local or foreign income or other tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-exempt organizations, persons holding an equity interest or a claim as part of a hedging, integrated, constructive sale or straddle transaction, and investors in pass-through entities that hold a claim).

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN MATERIAL FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE PARTICULAR CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR EQUITY INTEREST. EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES APPLICABLE TO THEM UNDER THE PLAN.

B. CONSEQUENCES TO THE DEBTORS

1. PUSA

For U.S. federal income tax purposes, PUSA files a separate federal income tax return that takes into account the operations of Farmland (which is treated as a disregarded entity for federal income tax purposes) and its respective share of the taxable income or loss of MPA (which is treated as a partnership for federal income tax purposes). PUSA has substantial net operating loss (“NOL”) carryforwards for federal income tax purposes and expects to incur additional operating losses prior to the Effective Date. The amount of such NOL carryforwards and other losses remains subject to audit and adjustment by the IRS.

The Debtors intend to treat the Plan as a plan of liquidation of PUSA for federal income tax purposes, in that PUSA will remain in existence following the Effective Date solely for the purpose of winding up its affairs (including, but not limited to, resolving any outstanding Administrative and Priority Claims).

As discussed below, the Debtors anticipate that certain of PUSA’s favorable tax attributes (such as its NOL carryforwards, any losses incurred through the end of the taxable year in which the Plan goes effective, and its tax basis in assets) will be substantially reduced or eliminated as a result of the implementation of the Plan and, to the extent otherwise available, could become subject to significant limitations under certain tax rules applicable to direct or indirect changes in stock ownership.

a. *Cancellation of Debt.* The IRC provides that a debtor in a bankruptcy case must reduce certain of its tax attributes – such as NOL carryforwards, current year NOLs, tax credits and tax basis in assets – by the amount of any cancellation of debt (“COD”). COD is the amount by which the indebtedness discharged exceeds any consideration given in exchange therefor, subject to certain statutory or judicial exceptions that can apply to limit the amount of COD (such as where the payment of the cancelled debt would have given rise to a tax deduction). To the extent the amount of COD exceeds the tax attributes available for reduction, the excess COD is simply forgiven without any tax consequences to the debtor. If advantageous, a debtor can elect to reduce the basis of depreciable property prior to any reduction in its NOLs or other tax attributes.

As a result of the implementation of the Plan, PUSA (including through Farmland) will incur significant COD and potential attribute reduction. To a significant extent, however, the amount and timing of such COD is uncertain. Nevertheless, attribute reduction

does not occur until the end of the taxable year following the taxable year in which the COD is incurred. Accordingly, regardless of whether the COD is incurred as of the Effective Date (as in the case of claims against Farmland) or possibly some later date after all distributions have been made pursuant to the Plan (as in the case of claims against PUSA), the Debtors anticipate that PUSA's current year losses and NOL carryforwards should be available to offset any gain recognized by PUSA upon the disposition of the assets of MPA and in connection with the transfer of Farmland's assets on the Effective Date pursuant to the Plan (absent a possible "ownership change" of PUSA in advance of the Effective Date, as discussed below, see "*b. Limitations on NOL Carryforwards and Other Tax Attributes*," below).

b. *Limitations on NOL Carryforwards and Other Tax Attributes.*

Under section 382 of the IRC, if a corporation undergoes an "ownership change," the amount of its loss and tax credit carryforwards and certain other tax attributes of the reorganized debtors allocable to periods prior to the effective date (including current year NOLs, and certain losses or deductions that are "built-in," *i.e.*, economically accrued, but unrecognized, as of the date of the ownership change) (collectively, "pre-change losses") that may be utilized to offset future taxable income generally are subject to an annual limitation. This limitation is in addition to, and not in lieu of, any reduction in such tax attributes on account of COD.

Although there is no definitive guidance, the Debtors do not believe that PUSA should be regarded as undergoing an ownership change as a result of the implementation of the Plan (while PUSA is in the process of liquidating). There is no assurance, however, that the IRS would not take a contrary position. Moreover, the Debtors do anticipate that an ownership change of PUSA will be deemed to occur if and when the beneficial ownership of the equity interests in PUSA are transferred (either directly or indirectly) in connection with the bankruptcy of Finanziaria. Such transfer could occur either before or after the Effective Date. Accordingly, PUSA's ability to utilize its NOLs carryforwards and other tax attributes following such transfer would be subject to an annual limitation under section 382.

In general, the amount of the annual limitation imposed by section 382 is equal to the product of (i) the fair market value of the stock of the corporation immediately before the ownership change (with certain adjustments) multiplied by (ii) the "long-term tax-exempt rate" in effect for the month in which the ownership change occurs. However, if the corporation does not continue its historic business or use a significant portion of its assets in a new business for two years after the ownership change – as would be the situation in the present case – the annual limitation resulting from the ownership change is zero. Accordingly, in general, an ownership change of PUSA would result in the effective elimination of the pre-change losses of PUSA against future income.

Section 382 can operate to limit the deductibility of built-in losses recognized subsequent to the date of the ownership change. If a loss corporation has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of "built-in" income and deduction), then any built-in losses recognized during the following five years (up to the amount of the original net built-in loss) generally will be treated as pre-change losses and similarly will be subject to the annual limitation. Conversely, if the loss corporation has a net unrealized built-in gain at the time of an ownership change, any built-in gains recognized during the following five years (up to the amount of the original net built-in gain) generally will

increase the annual limitation in the year recognized, such that the loss corporation would be permitted to use its pre-change losses against such built-in gain income in addition to its regular annual allowance.

c. *Transfer of Farmland Assets and Membership Interests.* Pursuant to the Plan, on the Effective Date, Farmland will (i) assign and transfer to the Litigation Trust all of its rights, title and interests in and to the Litigation Trust Assets, (ii) transfer the Initial Cash Payment, the Initial Funding Amount and the Farmland Note to the Unsecured Creditors' Trust; and (iii) new membership interests to the holders of certain Claims against Farmland. As discussed below (*see* "C. Consequences to Holders of Certain Claims"), as a result of such transfers, PUSA will be treated for U.S. federal income tax purposes as if it transferred all of Farmland's assets to Farmland's creditors in satisfaction and discharge of their Claims. Accordingly, the transfer of such assets may result in the recognition of income or loss by PUSA, depending in part on the value of Farmland's assets on the Effective Date. Nevertheless, due to anticipated additional losses, available NOL carryforwards and the substantial tax basis in Farmland's assets, the Debtors do not anticipate that a significant tax liability (if any) will be incurred as a result of such transfer.

d. *Federal Alternative Minimum Tax.* In general, a federal alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income at a 20% tax rate to the extent such tax exceeds the corporation's regular federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. For example, a corporation is generally not allowed to offset more than 90% of its taxable income for AMT purposes by available NOL carryforwards. In addition, if a corporation undergoes an "ownership change" within the meaning of section 382 of the IRC and is in a net unrealized built-in loss position (as determined for AMT purposes) on the date of the ownership change, the corporation's aggregate tax basis in its assets would be reduced for certain AMT purposes to reflect the fair market value of such assets as of the change date.

2. Farmland

Farmland is a single member limited liability company wholly-owned by PUSA. Accordingly, as discussed in the preceding section, Farmland is treated for federal income tax purposes as a disregarded entity and as a division of PUSA. Farmland is similarly so treated for state and local income tax purposes.

3. MPA

MPA is treated as a partnership for federal income tax purposes. Accordingly, as discussed above with respect to PUSA, any gain or loss recognized upon the disposition of MPA's assets flows through and is taxable to the partners of MPA, in accordance with their relative interests in MPA. Because the Plan contemplates the payment in full of all claims against MPA, the Debtors do not anticipate incurring any additional COD with respect to the satisfaction and discharge of such claims.

C. CONSEQUENCES TO THE HOLDERS OF CERTAIN CLAIMS

1. Holders of Farmland Convenience Claims and of General Unsecured Claims Against PUSA

Pursuant to the Plan, each holder of an allowed Farmland Class 3c Claim (Convenience Claims), and each holder of an allowed PUSA Class 3 Claim (General Unsecured Claim against PUSA) will receive, in satisfaction of its claim, cash on the Effective Date or as soon as is reasonably practical thereafter.

Accordingly, in general, each holder of an allowed Convenience Claim and an allowed General Unsecured Claim against PUSA will recognize gain or loss in an amount equal to the difference between (x) the amount of cash received by the holder in satisfaction of its claim (other than any claim for accrued but unpaid interest and excluding any portion required to be treated as imputed interest due to the distribution of such cash post-Effective Date, as discussed below) and (y) the holder's adjusted tax basis in its claim (other than any basis attributable to accrued but unpaid interest). For a discussion of the tax consequences of any claims for accrued but unpaid interest, see "3. Distributions in Discharge of Accrued But Unpaid Interest," below.

Due to the possibility that a holder of an allowed General Unsecured Claim against PUSA may receive additional cash distributions subsequent to the Effective Date of the Plan (in particular, upon a subsequent disallowance of any disputed claims in that class), the imputed interest provisions of the IRC may apply to treat a portion of such subsequent distributions as imputed interest.

Additionally, because additional distributions may be made to holders of allowed General Unsecured Claims against PUSA after the initial distribution, any loss and a portion of any gain realized by such holder may be deferred until such time as such holder has received its final distribution.

Where gain or loss is recognized by a holder, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, as to whether the claim constitutes a capital asset in the hands of the holder and how long it has been held, whether the claim was acquired at a market discount, and whether and to what extent the holder previously had claimed a bad debt deduction. A holder of an allowed claim which purchased its claim from a prior holder at a market discount may be subject to the market discount rules of the IRC. Under those rules, assuming that the holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized by a holder in respect of its claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such claim.

2. Holders of General Unsecured Claims Against Farmland and of the Master Lease Claim

Pursuant to the Plan, the holders of allowed General Unsecured Claim against Farmland (Farmland Class 3a) will receive, in satisfaction of their Claims, the beneficial interests

in the Unsecured Creditors' Trust. The assets of the Unsecured Creditors' Trust will include (i) a portion of the beneficial interests in the Litigation Trust, (ii) the remaining Initial Cash Payment after payment of allowed Convenience Claims, and (iii) the Farmland Note (which, as discussed below, the Debtors presently expect to treat as a preferred equity interest in Reorganized Farmland, *see* "a. *Constructive Transfer of Farmland Assets to Holders*"). In addition, the Unsecured Creditors' Trust will be entitled to receive certain additional cash payments in the event PUSA's Claim against Farmland is not determined by final order as of the Effective Date (and the Initial Cash Payment is reduced as a result), and in the event there are more than \$1 million in creditor claims against Farmland as a result of successful preference actions.

Pursuant to the Plan, Farmland Class 3b (the Master Lease Claim) will receive, in satisfaction of its claim, (i) equity interests representing 80% of the Common Membership Interests of Reorganized Farmland on a fully diluted basis and (ii) a portion of the beneficial interests in the Litigation Trust. In addition, the Plan provides for the holder of the Master Lease Claim to receive the (i) Preferred Membership Interests of Reorganized Farmland and (ii) a release of any obligation the Lessor has under the Postpetition Financing Order to share or distribute any proceeds received from the sale of real property subject to the Second Mortgages with or to Farmland or Reorganized Farmland in consideration for: (a) unencumbered right, title and interest in the equipment subject to Master Lease Financing Agreement, (b) the real property subject to the Second Mortgages pledged to the Lessor under the Postpetition Financing Order to further secure the Master Lease, and (c) the Lessor's claim for postpetition lease payments pursuant to 365(d)(10) of the Bankruptcy Code. See discussion in Section II.D.4.

The Debtors believe – and the following discussion assumes – that the lease underlying the Master Lease Claim should be treated from inception as indebtedness, and not as a lease, for federal income tax purposes, and that the equipment should be treated as having been continuously owned by Farmland. Accordingly, for federal income tax purposes, the receipt of the Preferred Membership Interests by the holder of the Master Lease Claim should be treated in the same manner as the Common Membership Interests.

a. *Constructive Transfer of Farmland Assets to Holders.* In accordance with Articles 7.3 and 7.4 of the Plan, the holders of allowed General Unsecured Claims and of the Master Lease Claim are required, for all federal income tax purposes, to treat the transfer of assets to the Unsecured Creditors' Trust and the Litigation Trust as (i) a transfer of such assets to the holders of such Claims with each holder receiving an undivided beneficial interest in such assets in accordance with their respective interests in such trusts (thus, the holder of the Master Lease Claim would *only* be treated as receiving an undivided interest in the underlying assets of the Litigation Trust), followed by (ii) such holder's transfer of such assets to the applicable trusts in exchange for their beneficial interests therein. As discussed below (*see* "4. Tax Treatment of the Trusts and Holders of Beneficial Interests"), the Unsecured Creditors' Trust and the Litigation Trust are intended to be treated as "grantor trusts" for federal income tax purposes. Accordingly, each person that holds an interest in such trusts will be treated for federal income tax purposes, even after the Effective Date, as a direct owner of an undivided beneficial interest in the respective assets of such trusts. Pursuant to the Plan, the Litigation Trustee and the Unsecured Creditors' Trustee are required to make a good faith valuation of the respective assets transferred to such trusts as of the Effective Date, and all parties (including the

Debtors, the respective trustees, and the holders of allowed claims) must consistently use such valuation for all federal income tax purposes.

The Litigation Trust will hold the Litigation Trust Claims and will receive a loan from Reorganized Farmland to fund the fees, expenses and costs of the Litigation Trust. The Unsecured Creditors' Trust will hold a portion of the beneficial interests in the Litigation Trust, the Initial Funding Amount, and the Farmland Note. (Although the Unsecured Creditors' Trust will also receive the Initial Cash Payment, such amount will be immediately distributed, subject to any amount required to be retained pending the resolution of disputed General Unsecured Claims.)

Similarly, pursuant to IRS pronouncements, the initial transfer of the membership interests in Reorganized Farmland to the holder of the Master Lease Claim and the transfer of the Farmland Note to the Unsecured Creditors' Trust (which, as discussed above, will be treated as held directly by the holders of beneficial interests in the trust and, as discussed below, the Debtors presently expect to treat as a preferred equity interest in Reorganized Farmland) will be treated, for federal income tax purposes, as if the Debtor had transferred all of its assets directly to such holders, with the holders thereafter contributing such assets to Reorganized Farmland in exchange for their equity interests in Reorganized Farmland.

Following the transfer of the membership interests in Reorganized Farmland to the holder of the Master Lease Claim and the transfer of the Farmland Note to the Unsecured Creditors' Trust, Reorganized Farmland will be treated as a partnership for federal income tax purposes. Accordingly, any subsequent transfer of any interest in Reorganized Farmland (such as by reason of a disputed General Unsecured Claim against Farmland becoming an allowed claim, such that the holder of such Claim is treated as having received an interest in the Farmland Note through its receipt of an interest in the Unsecured Creditors' Trust) will be treated as a transfer of a partnership interest. See "5. Tax Status of Reorganized Farmland as a Partnership and Ownership of Membership Interests," below.

Pursuant to the Plan, the Farmland Note will be issued on the Effective Date in a fixed principal amount, subject to adjustment in the event that the allowed amount of PUSA's Claim against Farmland has not been determined by final order as of the Effective Date. Although the note will be payable in full over a five-year period, in the event of a Subordination Change in Control (as defined in the Plan) or a bankruptcy filing of Reorganized Farmland, the Farmland Note will be contractually subordinated in right of repayment to the Preferred Membership Interests. Accordingly, the Debtors presently intend to treat – and the following discussion assumes that – the Farmland Note will be treated for federal income tax purposes as a preferred equity interest in Reorganized Farmland, rather than indebtedness of Farmland. ***Holders of General Unsecured Claims against Farmland are urged to consult their tax advisors regarding the effective receipt and ownership of a partnership interest for federal income tax and other tax purposes.***

b. *Gain or Loss.* In general, upon implementation of the Plan, holders of Farmland allowed General Unsecured Claims and of the Master Lease Claim will recognize gain or loss in an amount equal to the difference between (i) the "amount realized" by the holder in satisfaction of its claim (other than in respect of any claim for accrued but unpaid

interest, and excluding any portion required to be treated as imputed interest due to the post-Effective Date distribution of such consideration upon the resolution of disputed General Unsecured Claims against Farmland) and (ii) the holder's adjusted tax basis in its claim (other than any claim for accrued but unpaid interest). For a discussion of the federal income tax consequences of any Claim for accrued interest, see "3. Distributions in Discharge of Accrued But Unpaid Interest," below.

The "amount realized" by a holder generally will equal the fair market value of any property (including, as discussed above, the holder's undivided interest in the assets transferred to the Litigation Trust and the Unsecured Creditors' Trust and in the assets of Reorganized Farmland and, in the case of the Master Lease Claim, the preference actions that may be brought by Reorganized Farmland) received by the holder in satisfaction of its claim. The treatment of a holder's effective right to receive (through its interest in the Unsecured Creditors' Trust) additional cash payments, or even an increased interest in the assets of the Unsecured Creditors' Trust, as any disputed General Unsecured Claims are resolved (including, in particular, PUSA's Claim against Farmland) is unclear.

For example, a holder's contingent right to receive additional cash payments from Reorganized Farmland could be subject to the tax rules governing contingent payment debt obligations, in which event the tax effect of such payments generally would be deferred until the amount of such payments became fixed (and a portion of such payment would be treated as imputed interest under the IRC) or could be treated in the nature of a separate property right that has to be valued and taken into account in the determination of gain or loss on the Effective Date. Similarly, in the event a holder of a previously allowed General Unsecured Claim effectively becomes entitled to an increased share of the assets held in the Unsecured Creditors' Trust as a result of a subsequent disallowance of any disputed General Unsecured Claim against Farmland, it is possible that the holder may be taxed on such increased interest as such disputed claims are disallowed, with a portion of such increased share treated as imputed interest under the IRC. In addition, it is possible that any loss realized by a holder in respect of its allowed claim as of the Effective Date may be deferred until all disputed General Unsecured Claims against Farmland are determined and such holder's share can no longer increase, and that a portion of any gain realized may be deferred under the "installment method" of reporting. *Holders are urged to consult their tax advisors regarding the tax consequences to them of any contingent cash payments or possible increased share of the Unsecured Creditors' Trust as disputed General Unsecured Claims are resolved following the Effective Date, including upon the determination and timing of gain or loss.*

After the Effective Date, any amount a holder receives as a distribution from the Litigation Trust, the Unsecured Creditors' Trust or Reorganized Farmland in respect of its beneficial interests in such entities (other than the additional cash payments referred to in the preceding paragraphs, or any increased interest in the assets of the Unsecured Creditors' Trust as a result of the subsequent disallowance of any disputed General Unsecured Claim) should not be included, for federal income tax purposes, in the holder's amount realized in respect of its allowed claim, but should be separately treated as a distribution received in respect of such holder's beneficial ownership interests in such entity. See 4(b) below, "General Tax Reporting by the Trust and Beneficiaries."

Where gain or loss is recognized by a holder in respect of its claim, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the claim constitutes a capital asset in the hands of the holder and how long it has been held, whether the claim was acquired at a market discount and whether and to what extent the holder had previously claimed a bad debt deduction. A holder that purchased its claim from a prior holder at a market discount may be subject to the market discount rules of the IRC. Under those rules, assuming that the holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such claim (subject to a de minimis rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such claim as of the date of the exchange.

In general, a holder's tax basis in any assets received (including the holder's undivided interest in the assets of the Unsecured Creditors' Trust and/or the Litigation Trust) will equal the fair market value of such assets upon receipt, and a holder's aggregate tax basis in its equity (partnership) interest(s) in Reorganized Farmland (including for this purpose, as discussed in the preceding section, the Farmland Note) will equal the fair market value of the holder's share of the underlying assets of Reorganized Farmland increased for the holder's allocable portion of any liabilities of Reorganized Farmland under the federal income tax rules applicable to partnerships. The holding period for any assets received and the equity interests in Reorganized Farmland will begin the day following the closing date.

3. Distributions in Discharge of Accrued But Unpaid Interest

In general, to the extent that property received by a holder of an allowed claim is received in satisfaction of accrued interest or amortized original issue discount ("OID") during its holding period, such amount will be taxable to the holder as interest income (if not previously included in the holder's gross income). Conversely, a holder will generally will recognize a deductible loss to the extent any accrued interest claimed or amortized OID was previously included in its gross income and is not paid in full. However, the IRS has privately ruled that a holder of a security, in an otherwise tax-free exchange, could not claim a current deduction with respect to any unpaid OID. Accordingly, it is also unclear whether, by analogy, a holder of a claim with previously included OID that is not paid in full would be required to recognize a capital loss rather than an ordinary loss.

Pursuant to the Plan, all distributions in respect of any claim will be allocated first to the principal amount of such claim, as determined for federal income tax purposes, and, thereafter, to the remaining portion of such claim, if any. However, there is no assurance that such allocation would be respected by the IRS for federal income tax purposes.

4. Tax Treatment of the Trusts and Holders of Beneficial Interests

Upon the Effective Date, the Unsecured Creditors' Trust will be established for the benefit of holders of allowed General Unsecured Claims against Farmland, whether allowed on or after the Effective Date, and the Litigation Trust will be established for the benefit of such

holders as well as the holder of the Master Lease Claim. The Unsecured Creditors' Trust and the Litigation Trust are herein collectively referred to as the "Trusts."

a. *Classification as Liquidating Trusts.* The Trusts are intended to qualify as liquidating trusts for federal income tax purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for federal income tax purposes as a "grantor" trust (i.e., a pass-through entity). However, merely establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for federal income tax purposes. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684, set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Trusts have been structured with the intention of complying with such general criteria. Pursuant to the Plan, and in conformity with Revenue Procedure 94-45, all parties (including, without limitation, the Debtors, the respective trustees, the holders of allowed General Unsecured Claims against Farmland and the holder of the Master Lease Claim) are required to treat, for federal income tax purposes, the Trusts as grantor trusts of which the holders of allowed General Unsecured Claims against Farmland and the holder of the Master Lease Claim are (as applicable) the owners and grantors, and the following discussion assumes that the Trusts will be so respected for federal income tax purposes. However, no ruling has been requested from the IRS and no opinion of counsel has been requested concerning the tax status of the Trusts as grantor trusts. Accordingly, there can be no assurance that the IRS would not take a contrary position. If the IRS were to challenge successfully such classification, the federal income tax consequences to the Trusts, the holders of claims and the Debtors could vary from those discussed herein (including the potential for an entity level tax on any income of the Trusts).

b. *General Tax Reporting by the Trusts and Beneficiaries.* For all federal income tax purposes, all parties (including, without limitation, the Debtors, the respective trustees, the holders of allowed General Unsecured Claims against Farmland and the holder of the Master Lease Claim) must treat the transfer of assets to the applicable Trusts, and any amounts subsequently transferred to the applicable Trust in accordance with the terms of the Plan (but only at such time as actually transferred), as a transfer of such assets directly to the holders of allowed General Unsecured Claims against Farmland or to the holder of the Master Lease Claim (as the case may be), followed by the transfer of such assets by such holders to the applicable Trust. Consistent therewith, all parties must treat the Trusts as grantor trusts of which such holders are the owners and grantors. Thus, such holders (and any subsequent holders of interests in the applicable Trust) will be treated as the direct owners of an undivided interest in the assets of the applicable Trust for all federal income tax purposes (which assets will have a tax basis equal to their fair market value on the date transferred to the Trusts). Pursuant to the Plan, the applicable trustee will determine the fair market value of the assets transferred to the applicable trust, as soon as possible after the Effective Date, and all parties must consistently use such valuation for all federal income tax purposes.

Accordingly, except as discussed below (in connection with pending disputed General Unsecured Claims against Farmland), each holder of an allowed General Unsecured Claim against Farmland and the holder of the Master Lease Claim will be required to report on its federal income tax return its allocable share of any income, gain, loss, deduction or credit recognized or incurred by the applicable Trust, in accordance with its relative economic interest in such Trust. The character of items of income, deduction and credit to any holder and the

ability of such holder to benefit from any deduction or losses may depend on the particular situation of such holder.

In the case of the Litigation Trust, allocations of taxable income will be determined in the same manner in which an amount of cash equal to such taxable income would be distributed (without regard to any restrictions on distribution) if, immediately prior to the deemed distribution, the Trust had distributed all of its other assets (valued at their tax book value) in accordance with the Plan, up to the tax book value of the assets treated as contributed by such holders, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Trust. Similarly, taxable loss of the Litigation Trust will be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining trust assets.

The federal income tax obligations of a holder are not dependent upon the applicable Trust distributing any cash or other proceeds. Therefore, a holder may incur a federal income tax liability with respect to its allocable share of the income of the applicable trust regardless of the fact that the Trust has not made any concurrent distribution to the holder. In general, other than in respect of cash originally retained on account of a disputed General Unsecured Claim against Farmland and distributions resulting from unclaimed distributions, a distribution of cash or property by the applicable Trust will not be taxable to the holders since such holders are already regarded for federal income tax purposes as owning the underlying assets. Holders are urged to consult their tax advisors regarding the appropriate federal income tax treatment of any subsequent distributions of cash originally retained by the Unsecured Creditors' Trust on account of disputed General Unsecured Claims against Farmland. See "c. *Tax Reporting for Assets of the Unsecured Creditors' Trust Allocable to Disputed General Unsecured Claims Against Farmland*," below.

The trustee for each of the Trusts will file with the IRS returns for such Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). The trustee will also send to each holder of a beneficial interest in the trust, a separate statement setting forth such holder's share of items of income, gain, loss, deduction or credit and will instruct the holder to report such items on its federal income tax return. The Unsecured Creditors' Trustee will also file, or cause to be filed, all appropriate tax returns with respect to any assets of the Unsecured Creditors' Trust allocable to disputed General Unsecured Claims against Farmland, as discussed below.

c. *Tax Reporting for Assets of the Unsecured Creditors' Trust Allocable to Disputed General Unsecured Claims Against Farmland.* From and after the Effective Date and until such time as all disputed General Unsecured Claims against Farmland are resolved, a portion of the assets of the Unsecured Creditors' Trust will be retained on account of such claims and, as discussed below, will be treated for federal income tax purposes as if held in a separate trust (the "Disputed Unsecured Creditors Reserve"). Periodically as any disputed General Unsecured Claims are resolved, an allocable portion of the net assets held in reserve will be released, thereby entitling either (i) a holder of a disputed General Unsecured Claim that became an allowed claim to a beneficial interest in the Unsecured Creditors' Trust and (assuming prior distributions from the Unsecured Creditors' Trust to holders of beneficial interests) an actual cash distribution or (ii) the holders of previously allowed General Unsecured Claims to an increased beneficial interest in the Unsecured Creditors' Trust and (assuming prior distributions

from the Unsecured Creditors' Trust to holders of beneficial interests) an additional cash distribution. Pending the resolution of PUSA's Claim against Farmland, it is possible that substantially all of the assets of the Unsecured Creditors' Trust could be treated as held in the Disputed General Unsecured Creditors Reserve.

Under Section 468B(g) of the IRC, amounts earned by an escrow account, settlement fund, or similar fund are subject to current tax. Although certain Treasury regulations have been issued under this section, no final Treasury regulations have yet been promulgated to address the tax treatment of such accounts in a bankruptcy setting. Thus, depending on the facts of a particular situation, such an account could be treated as a separately taxable trust, as a grantor trust treated as owned by the holders of disputed General Unsecured Claims, or otherwise. On February 1, 1999, the IRS issued proposed Treasury regulations that, if finalized in their current form, would specify the tax treatment of escrows of the type here involved that are escrows established after such Treasury regulations became final. In general, such Treasury regulations would tax such an escrow in a manner similar to a corporation. As to previously established escrows, such Treasury regulations would provide that the IRS would not challenge any reasonably and consistently applied method of taxation for income earned by the escrow, and any reasonably and consistently applied method for reporting such income.

Absent definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the issuance of applicable Treasury regulations, the receipt by the Unsecured Creditors' Trustee of a private letter ruling if the Unsecured Creditors' Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Unsecured Creditors' Trustee), the Unsecured Creditors' Trustee will:

- (1) treat all the assets of the Trust allocable to, or retained on account of, the disputed General Unsecured Claims against Farmland, as a discrete trust for federal income tax purposes, consisting of separate and independent shares to be established in respect of each disputed claim, in accordance with the trust provisions of the IRC (section 641 et seq. of the IRC);
- (2) treat as taxable income or loss of this separate trust with respect to any given taxable year the portion of the taxable income or loss of the Unsecured Creditors' Trust that would have been allocated to the holders of such disputed claims had such claims been allowed on the Effective Date (but only for the portion of the taxable year with respect to which such claims are unresolved);
- (3) treat as a distribution from this separate trust any increased amounts distributed by the Unsecured Creditors' Trust as a result of any disputed General Unsecured Claim against Farmland resolved earlier in the taxable year, to the extent such distribution relates to taxable income or loss of this separate trust determined in accordance with the provisions hereof; and
- (4) to the extent permitted by applicable law, report consistently for state and local income tax purposes.

In addition, pursuant to the Plan, all holders of claims are required to report consistently with such treatment. Accordingly, subject to issuance of definitive guidance, the Unsecured Creditors' Trustee will report on the basis that any amounts earned by this separate trust and any taxable income of the Unsecured Creditors' Trust allocable to it are subject to a separate entity level tax, except to the extent such earnings are distributed during the same taxable year. Any amounts earned by or attributable to the separate trust and treated as distributed to a holder during the same taxable year will be includible in such holder's gross income.

5. Tax Status of Reorganized Farmland as a Partnership and Holders of Membership Interests

Following the distribution on the Effective Date of the equity interests in Reorganized Farmland to the holder of the allowed Master Lease Claim and the Farmland Note (which is assumed for purposes of this discussion to represent a preferred equity interest, see "2.a. Holders of General Unsecured Claims Against Farmland and of the Master Lease Claim – *Constructive Transfer of Farmland Assets to Holder*," above), Reorganized Farmland is intended to be treated as a partnership (and not as an association taxable as a corporation) for federal income tax purposes and, to the extent allowed under applicable law, for state and local purposes. To this end, it is important that Reorganized Farmland not be treated as a "publicly traded partnership," as in such event Reorganized Farmland would likely be taxable as a corporation for federal income tax purposes. Accordingly, the operating agreement for Reorganized Farmland will provide for appropriate restrictions on transfer intended to prevent Reorganized Farmland from being a publicly traded partnership. These generally are: (1) transfers will not be made on an established securities market within the meaning of applicable Treasury regulations including, without limitation, an over-the-counter market or an interdealer quotation system or on a secondary market or the substantial equivalent thereof; and (2) each transferee will be required to make certain representations, including that it did not acquire its interest through any such market. Reorganized Farmland will not recognize any transfers made in violation of such restrictions.

An entity classified as a partnership for federal income tax purposes generally is not a taxable entity and incurs no federal income tax liability. Rather, any taxable income or loss of Reorganized Farmland will be allocated among the holders of membership interests in Reorganized Farmland in accordance with their proportionate interests in Reorganized Farmland. Each holder will be required in determining its own taxable income for federal income tax purposes to take into account its allocable share of the Reorganized Farmland income, loss, deduction or credit, generally with the same character as if realized directly by the holder, regardless of the amount of cash, if any, distributed by Reorganized Farmland to such holder in such taxable year. Distributions of money by Reorganized Farmland to a holder will generally not be taxable to the holder unless the amount of such distributions exceeds the holder's adjusted basis in its interests in Reorganized Farmland. A holder's tax basis in its equity interest in Reorganized Farmland will be adjusted for the holder's allocable share of income or loss of Reorganized Farmland and any cash distributions.

Reorganized Farmland will file informational returns and will distribute information statements to the holders of interests in Reorganized Farmland setting forth each holder's allocable share of the Reorganized Farmland income, loss, deduction or credit.

Reorganized Farmland will be authorized to collect such tax and fiscal information from holders of equity interests in Reorganized Farmland (including, without limitation, social security numbers and/or other tax identification numbers) as it in its reasonable discretion, deems necessary for tax purposes to effectuate the Plan. The failure of a holder of interests in Reorganized Farmland to furnish this information in a timely fashion may result in the suspension or waiver of any distributions on account of such holder's interest in Reorganized Farmland until the requisite information is supplied.

6. Withholding and Certain Information Reporting

All distributions to holders of claims under the Plan (whether by the Debtors, the Litigation Trustee, the Unsecured Creditors' Trustee or the Plan Administrators) are subject to any applicable tax withholding, including employment tax withholding. Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then applicable withholding rate (currently 28%). Backup withholding generally applies if the holder (a) fails to furnish its social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

Recent Treasury regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, the following: (1) certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds; and (2) certain transactions in which the taxpayer's book-tax differences exceed a specified threshold in any tax year. These categories are very broad; however, there are numerous exceptions. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these regulations and require disclosure on the holders' tax returns.

The foregoing summary has been provided for informational purposes only. All holders of claims and equity interests are urged to consult their tax advisors concerning the federal, state, local, and foreign tax consequences applicable under the Plan.

XIII. CONCLUSION

EACH DEBTOR SUBMITS THAT ITS PLAN COMPLIES IN ALL RESPECTS WITH CHAPTER 11 OF THE BANKRUPTCY CODE AND RECOMMENDS TO HOLDERS OF CLAIMS WHO ARE ENTITLED TO VOTE ON THE PLAN THAT THEY VOTE TO ACCEPT THE PLAN.

Dated: New York, New York
January ~~10~~13, 2005

Respectfully submitted,

PARMALAT USA CORP.
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FARMLAND STREMICKS SUB, L.L.C. (F/K/A MILK
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