

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

In re Agway, Inc.,

Debtor.

In re Agway General Agency, Inc.,

Debtor.

In re Brubaker Agronomic Consulting Service LLC,

Debtor.

In re Country Best Adams, LLC,

Debtor.

In re Country Best-DeBerry LLC,

Debtor.

In re Feed Commodities International LLC,

Debtor.

**Chapter 11
Case No. 02-65872 through
Case No. 02-65877**

Jointly Administered

**REPORT OF THE LIQUIDATING TRUSTEE FOR
THE PERIOD ENDING DECEMBER 31, 2006**

D. Clark Ogle, Trustee (the "Trustee") of the Agway Liquidating Trust (the "Trust"), established pursuant to the above-captioned Debtors' Second Amended Joint Plan of Liquidation Under Chapter 11 of the Bankruptcy Code (the "Plan") and the Order (the "Confirmation Order") confirming the Plan, entered on the docket of the United States Bankruptcy Court for the Northern District of New York (the "Court") on April 28, 2004, pursuant to Section 6.1 of the Liquidating Trust Agreement For The Agway Liquidating Trust, provides the following Report to Holders of Beneficial Interests in the Trust for the period ending December 31, 2006¹.

¹ Certain transactions discussed herein occurred after December 31, 2006 but have been included in this report to provide Trust beneficiaries with the most current information available on those topics.

I. INTRODUCTION

This Report reflects the financial activity of and other actions taken by the Trust during the period January 1, 2006 through and including December 31, 2006 (the "Reporting Period").

As described in greater detail below, during the Reporting Period the Trust converted certain assets to cash, collected certain accounts receivable, obtained the release of certain escrowed funds, continued prosecution of objections to claims, commenced adversary proceedings to collect on claims owed to the Trust, continued prosecution of pending actions, and effected the Fourth and Fifth Distributions under the Plan, as confirmed.

Attached to this report are summaries of the Trust's Valuation of Assets (Exhibits "A"), a Total Projected Recovery Calculation (Exhibit "B"), a statement of the Trust's Cash Receipts and Disbursements (Exhibit "C"), a Summary of Claim Payments (Exhibit "D"), and a Summary of Insured and Legal Claims – December 2005 v. December 2006 (Exhibit "E").

II. OVERVIEW OF ACTIONS TAKEN DURING THE REPORTING PERIOD

- **TRUST EXTENSION:** Pursuant to the Plan the term of LT was to expire three years from the Effective Date, or May 1, 2007. In order to complete the liquidation of the Trust, it was necessary to obtain the authority of the Court to extend the term of the Trust. That motion was made and the term of the Trust has been extended to May 1, 2009.
- **DISTRIBUTIONS:** The Trust made the Fourth and Fifth Distribution under Agway's Plan, in the amounts of 4.0% and 3.0%, respectively, of Allowed Claim amounts, to the holders of beneficial interests in the Trust. The total amount distributed to the holders of allowed beneficial interests in the Trust in the Fourth and Fifth Distributions was approximately \$23,885,000. As of December 31, 2006, the total amount distributed to the holders of allowed beneficial interest in the Trust equaled approximately \$232,628,000 or 50% of allowed claims.

- **DIRECTOR AND OFFICER CLAIMS:** The action against certain officers and directors, alleging, among other things, that the payment of interest on and redemption of the Debtors' securities was inappropriate and the amounts paid should be recovered on behalf of the estate, is still pending. Discovery in this litigation is ongoing.
- **PENSION PLAN TERMINATION:** Under the terms of the Plan, the Employees' Retirement Plan of Agway Inc. ("Agway Pension Plan") was to be amended by the addition of certain benefits, and then terminated, with the net amounts remaining after such termination to be delivered to the Trust for further distribution. Under the Plan, IRS action on the amendments was a prerequisite to (i) the termination of the Agway Pension Plan, (ii) payment of all Agway Pension Plan claims in full, and (iii) reversion of the remainder of the Agway Pension Plan funds, if any, to the Trust. Progress on the resolution of claims against the Agway Pension Plan is required to allow the Pension Benefit Guaranty Corporation (the "PBGC") to determine that the Agway Pension Plan is overfunded, so that a \$36 million reserve that has been established to secure the PBGC's \$36 million claim may be released for distribution to the Beneficial Holders of the Trust. Agway expected that the IRS would provide a letter of approval by the Fall of 2004. Since that time, Agway and the Official Retirees' Committee have been working to resolve the issues with the IRS. Agway was advised that the IRS suspended Agway's request for approval due to a Congressional moratorium on IRS rulings affecting plans like the Agway Retirement Plan. To ensure that Retirees, former Employees and surviving spouses received all of their anticipated benefits from the Agway Retirement Plan, Agway made a motion to the United States Bankruptcy Court in which the Court was asked to eliminate the "pre-condition" for approval by the IRS and to order the implementation of the proposed amendment to the Retirement Plan. The Retirees' Committee supported this motion. The Court approved that motion on February 28, 2006. The

amendment was effected and all benefits due to beneficiaries under the Retirement Plan have been paid to (or on behalf of) the beneficiaries, are currently being paid out to the beneficiaries, or, in the case of beneficiaries who have not been located or have not responded to multiple inquiries, are being held in the Retirement Plan. While the options for realizing the over-funding are still being investigated, it has become apparent that a change in the sponsorship of the Retirement Plan would enhance the LT's efforts, while having little or no impact on the beneficiaries of the Retirement Plan. Therefore in December 2006, the LT made a motion to the United States Bankruptcy Court requesting the transfer of the sponsorship of the Retirement Plan to Agway Widewaters Corporation ("AWC"), a wholly owned subsidiary of Agway, Inc. Transferring the sponsorship of the Retirement Plan from Agway to AWC will not reduce or eliminate Agway's financial responsibility for the Retirement Plan and will cause no adverse consequences to the Retirement Plan beneficiaries, but it will enhance the options available to the Liquidating Trustee to realize the over-funding from the Retirement Plan. That motion is still pending.

- **401(k) PLAN LITIGATIONS:** The Company Security Fund of the 401(k) Plan, through a Litigation Fiduciary, is continuing its action against certain former officers, directors, employee benefit committee members, accountants and 401(k) Plan fiduciaries with respect to the appropriateness of the Company Security Fund's investment in the Debtor's securities. Although not a party to that action, the Trustee has been advised that discovery is ongoing. In addition, during the Reporting Period the United States Department of Labor commenced a similar action against certain former officers, directors, employee benefit committee members, 401(k) Plan fiduciaries and the 401(k) Plan itself. Although not a party to that action, the Trustee has been advised that discovery is ongoing.

- **CLAIMS OBJECTIONS:** The Trustee, his staff and counsel have filed objections in the Bankruptcy Court to nearly 2,500 claims representing alleged liabilities of approximately \$177,184,000. As a result of the objections, during the Reporting Period, an additional 31 disputed claims asserting values of approximately \$21,380,000 have been resolved through the disallowance or reduction of approximately \$14,380,000 in claims and the allowance of approximately \$7,000,000 in claims. There remain approximately 32 disputed claims asserting liabilities of approximately \$19,196,000. Many of the remaining disputed claims, such as personal injury claims, must be resolved in a forum other than the Bankruptcy Court.
- **WELLS FARGO LITIGATION:** The Trust's adversary proceeding against Wells Fargo Financial for improper withdrawal of funds from a holdback account established in connection with the sale of the assets of Telmark was settled and the Trust recovered \$2,300,000.
- **LATE CLAIM MOTION:** The remaining two motions for authority to file late claims filed during the previous reporting period were denied by the Court during this Reporting Period. The movants in one of the motions filed an appeal of the denial of their motion and that appeal is still pending before the United States District Court for decision.

III. CONVERSION OF SPECIFIC ASSETS TO CASH

- **ASSET LIQUIDATION/DISPOSITION:** As reflected in the attached Statement of Receipts and Disbursements, during the Reporting Period the Trust recovered significant funds from a number of sources:
 - Delinquent Accounts Receivable in the amount of \$1,419,000 were collected;

- The release of \$1,700,000 of restricted cash from environmental reserves from the sale of properties and the settlement of liabilities was successfully negotiated;
- Interest income of approximately \$3,304,000 was received;
- Claims against the Disputed Claims Reserve were reduced from \$40 million to \$19 million (thereby releasing funds of approximately \$21 million from the reserve) while the allowed unsecured claims amount remained the same;
- Approximately 92 insured claims and legal claims were settled and/or paid, decreasing litigation reserves by \$3,706,000;
- The remaining fifty percent of the indemnification escrow established in connection with the Coop Milling sale was released, resulting in the receipt of \$300,000 by Agway, Inc.;
- The Trust received \$1,000,000 from the indemnification escrow held by CAN Holdings LLC arising out of the sale of assets of Agway's subsidiary, Agway Feed & Nutrition; and

IV. MAJOR ASSETS REMAINING TO BE LIQUIDATED

- The significant assets of the Trust yet to be liquidated include:
 - Cash pledged as collateral for surety companies and issuers of letters of credit which in turn secure performance of Agway's and its subsidiaries (both debtor and non-debtor) performance under workers compensation, general liability and automobile liability policies. Over \$50 million in cash is pledged to secure such performance. The Trustee has filed objections to certain of the insurance companies' claims, but it is impossible to predict how much of and when the cash will be released. In the worst case

scenario, the pledged cash would be held until all obligations under all insurance policies are satisfied.

- As described in Section II above, Agway has received Bankruptcy Court approval to make certain amendments to the Agway Pension Plan and is awaiting a hearing on its motion for approval of the termination of the Agway Pension Plan. The Pension Guaranty Benefit Corporation ("PBGC") has filed a "protective" proof of claim for underfunding in the amount of \$36 million. Agway agreed to segregate \$36 million to secure payment of any amounts ultimately determined to be due to the PBGC. The Trust expects there to be no unfunded liability, resulting in the withdrawal of the PBGC claim and the release of \$36 million in cash securing payment of the PBGC claim and the recovery by the Trust of at least \$7 Million in Pension Plan overfunding net proceeds.
- Miscellaneous other assets, including claims against an insolvent insurance company, various deposits and the cash surrender value of life insurance policies are expected to generate net proceeds of approximately \$2.7 million.
- The Trust is responsible for disposing of surplus real estate assets owned by Agway and its affiliates. Approximately 7 surplus properties remain. Most of the remaining properties are alleged to have environmental condition defects that impact on the ability to readily transfer title for valuable consideration. The Trust expects to ultimately receive proceeds of approximately \$1,700,000 from the disposition of the remaining properties once the environmental contingencies are resolved.

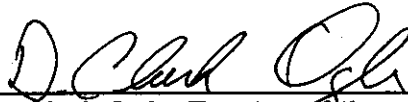
V. REMAINING LIABILITIES

- The Trust's major remaining liabilities for Agway and its debtor subsidiaries include:

- The self-insured retention portion of insured claims, estimated to equal \$21 million;
 - Obligations for environmental remediation, estimated to equal \$4 million;
 - The costs of administering the Trust, including occupancy, insurance, staff, accounting and legal costs of approximately \$3 million through June 2009; and
 - Miscellaneous other obligations including unresolved or as yet unknown claims estimated to equal \$2 million.
- The major remaining liabilities relating to Agway's non-debtor subsidiaries include:
 - The self-insured retention liability portion of insured claims estimated to equal \$9 million; and
 - Environmental remediation obligations of approximately \$2 million.

Dated: March 6, 2007

Respectfully submitted,



**D. Clark Ogle, Trustee of the
Agway Liquidating Trust**

MENTER, RUDIN & TRIVELPIECE, P.C.
Attorneys for Liquidating Trustee
Jeffrey A. Dove, Esq. (Bar Roll No. 101532)
Office and Post Office Address
308 Maltbie Street, Suite 200
Syracuse, New York 13204-1498
Telephone: (315) 474-7541
Facsimile: (315) 474-4040

Agway Liquidating Trust
Valuation of Assets
May 1, 2004

Valuation of Assets
Agway Liquidating Trust
(Thousands of Dollars)
May 1, 2004

Cash and cash equivalents	\$	75,104
Receivables, net		2,812
Other Assets		9,257
Restricted Cash and cash equivalents		58,264
Net Investment in Non-debtor subs at FMV		41,976
Net Investment in Agway Inc. at FMV		15,968
Cash reserved for Initial Distribution		131,224
Total Assets		\$334,605
Payables and admin claims		(9,503)
Estimated operating costs of LT incl. professional fees		(14,416)
Environmental and insured claim liabilities		(42,035)
Reserve for PBGC claim		(36,300)
Total Liabilities		(\$102,254)
Net Assets		\$232,351
Unsecured Allowed claims against Net Assets		\$436,809

Note: The Liquidating Trust has set aside \$40,899 in a Disputed Claims Reserve on behalf of Disputed Claims of \$138,640.

Agway Liquidating Trust
Valuation of Assets
December 31, 2006
(Thousands of Dollars)

	As of 12/31/05	As of 12/31/06	Notes
Cash and cash equivalents	\$ 69,715	\$ 55,394	
Other Assets	4,952	4,040	
Restricted Cash and cash equivalents	50,709	51,416	1
Net Investment in Non-debtor subs at FMV	16,926	12,581	2
Net Investment in Agway Inc. at FMV	12,579	13,585	3
Total Assets	\$ 154,881	\$ 137,016	
Payables and admin claims	(5,496)	(535)	
Estimated operating costs of LT incl. professional fees	(4,864)	(2,535)	4
Environmental and insured claim liabilities	(26,450)	(24,810)	5
Reserve for PBGC claim	(36,300)	(36,300)	6
Total Liabilities	(\$73,110)	(\$64,180)	
Net Assets	\$81,771	\$72,836	
Unsecured Allowed claims against Net Assets	\$454,709	\$454,716	7
Disputed Claims against Net Assets	\$40,576	\$19,196	7

Note 1: This includes \$25 million in Letter of Credit cash collateral and \$26 million in surety bond cash collateral. Balances have increased from interest earned.

Note 2: Nondebtor subsidiaries equity value decreased due to dissolution of Telmark and transfer of net cash to LT offset by settled liabilities and liquidation of assets with favorable results

Note 3: Agway Inc. has liquidated assets with favorable results.

Note 4: Payment of LT operating costs

Note 5: Reflects settlements and payments on insured claims and environmental liabilities

Note 6: The reserve for the PBGC claim exists today although the LT's projected final recovery assumes it will be released in full after the termination of the pension plan. This amount would increase the net assets to \$118,068.

Note 7: The Liquidating Trust has set aside \$9,598 in a Disputed Claims Reserve on behalf of Disputed Claims of \$19,196. The decrease in disputed claims reflects favorable claim settlements with almost no increase in allowed claims.

**Agway Liquidating Trust
Recovery Calculation Summary
Total Recovery Projected as of
December 31, 2006
(Millions of \$)**

	Total Recovery Projected As of 12/31/06
Current Cash (incl. non-debtors)	\$136
Future cash to be received	\$12
Subtotal Cash proceeds	\$148
Funding needed (incl. non-debtors):	
Admin claims & payables	(\$2)
Environmental liabilities (incl. non-debtors)	(\$6)
Non-debtor subs liabilities	\$0
LT operating expenses	(\$4)
Non-debtor insured claims	(\$9)
Debtor insured claims	(\$21)
Subtotal liabilities	(\$42)
Net Available for Future Distributions	\$106
1st - 5th Distribution to Unsecureds	\$227
Future Distributions projected above	\$106
Grand Total Distributions	\$333
Current Allowed Claims	\$454
Disputed Claims as of 12/31/06	\$18
Total Claims	\$472
1st Distribution	29.5%
2nd Distribution	8.5%
3rd Distribution	5.0%
4th Distribution	4.0%
5th Distribution	3.0%
Estimated Future Distributions Total	22.5%
Total Recovery Rate	72.5%

Agway Liquidating Trust
Statement of Receipts and Disbursements
(Thousands of Dollars)

	<u>12 months Ended 12/31/2005</u>	<u>12 months Ended 12/31/2006</u>
<u>Cash Receipts</u>		
Accounts Receivable collections	\$ 1,545	\$ 1,419
Escrow release from business sales	925	1,048
Escrow release from L/C cash collateral	1,972	0
Escrow release from Fidelity cash collateral	1,712	224
Interest income	2,511	3,304
Insurance premium refunds	315	0
Dividend from Yawga / Agway Inc.	8,000	8,353
Miscellaneous Cash Receipts	316	194
	<u>Total Cash Receipts</u>	<u>\$ 17,296</u>
	<u>\$</u>	<u>\$ 14,842</u>
<u>Cash Disbursements</u>		
Professional Services	\$ 2,891	\$ 1,853
Salaries & Wages	1,091	782
Letter of Credit and Bank fees	434	375
Insurance Expenses	223	376
Occupancy Expenses & Rent	254	229
Insured claim payments	357	531
Environmental liabilities payments	777	830
Miscellaneous Cash Disbursements	153	30
Check float and accounts payable	171	(28)
Bankruptcy Distributions payments	18,626	23,885
	<u>Total Cash Disbursements</u>	<u>\$ 24,977</u>
	<u>\$</u>	<u>\$ 28,863</u>
Net Increase (Decrease) in Cash	\$ (7,681)	\$ (14,321)
Cash Balance , Beginning of Period	\$ 77,396	\$ 69,715
Cash Balance , End of Period	\$ 69,716	\$ 55,394
Difference	0	0

Agway Liquidating Trust
Claim & Distribution Summary
December 31, 2006
(Thousands of Dollars)

	Dollars Paid
<u>Distributions - 1st thru 5th</u>	
Class 1	\$ -
Class 2	\$ 19
Administrative	\$ 1,167
Priority Tax	\$ 42
Class 4A Convenience	\$ 2,786
Class 4C Unsecured	\$ 227,497
FCI - all Classes	\$ 549
Reclamation claims	\$ 568
Total Distributed	\$ 232,628

Claims

Unsecured Allowed Claims	\$ 454,716
Disputed Claims	\$ 19,196
Total Claims	\$ 473,912

Distributions

Unsecured Rate Paid 6/25/04 - 1st Distribution	\$ 0.295
Unsecured Rate Paid 12/9/04 - 2nd Distribution	\$ 0.085
Unsecured Rate Paid 6/25/05 - 3rd Distribution	\$ 0.050
Unsecured Rate Paid 1/25/06 - 4th Distribution	\$ 0.040
Unsecured Rate Paid 6/25/06 - 5th Distribution	\$ 0.030
Total Unsecured Rate paid thru 12/31/06	\$ 0.500

Claims

	POC filed Amount	Unsecured Allowed Claim Amount	# of Claims
Total Claim database at 1st dist. 6/25/04	\$ 2,081,112		39,743
Less: Claims withdrawn or expunged	\$ (1,418,069)		(1,393)
Less: Claims allowed	\$ (435,867)	\$ 433,575	(35,735)
Subtotal 1st Distribution database	\$ 227,176	\$ 433,575	2,615
Less: PBGC claim allowed	\$ (36,300)		(1)
Less: Claims not paid by DRX	\$ (13,692)		(152)
Total Disputed claims at 6/25/04	\$ 177,184	\$ 433,575	2,462
New claims filed & other adjustments	\$ 13,485		
Less: Claims settled & allowed thru 12/31/04	\$ (87,331)	\$ 19,508	(2,383)
Less: Adjustment to disputed claims	\$ (47,364)		
Total Disputed claims at 12/31/04	\$ 55,974	\$ 453,083	79
Less: Claims settled & allowed thru 6/25/05	\$ (15,398)	\$ 1,626	(16)
Total Disputed claims at 6/25/05	\$ 40,576	\$ 454,709	\$ 63
Less: Claims settled & allowed thru 1/25/06	\$ (11,350)	\$ 971	(25)
Total Disputed claims at 1/25/06	\$ 29,226	\$ 455,680	\$ 38
Less: Claims settled & allowed thru 6/25/06	\$ (10,030)	\$ (964)	(6)
Total Disputed claims at 6/25/06	\$ 19,196	\$ 454,716	\$ 32

Insured and Legal Claims - December 2005 vs 2006							
Number of Claims							
	-----Insured-----			-----Legal & Other-----		-----Total-----	
	2005	2006		2005	2006	2005	2006
Debtor	95	61		39	39	134	100
Non-Debtor	97	44		16	11	113	55
Total	192	105		55	50	247	155

Reserves (thousands of \$)							
	-----Insured-----			-----Legal & Other-----		-----Total-----	
	2005	2006		2005	2006	2005	2006
Debtor	22,633	21,069		59	59	22,692	21,128
Non-Debtor	10,784	8,612		10	40	10,794	8,652
Total	33,417	29,681		69	99	33,486	29,780

