2-19-2010

Taylor v. AIA Services Corp. Clerk's Record v. 9 Dckt. 36916

Vol 9

In the
SUPREME COURT
of the
STATE OF IDAHO

Reed J. Taylor,

Plaintiff-Appellant,

v.

AIA Services Corporation, et al,

Defendants-Respondents.

FILED - COPY
FEB 19 2010
Supreme Court ____ Court of Appeals ____
Entered on ATS by: ____

CLERK'S RECORD ON APPEAL

VOLUME IX

Appealed from the District Court of the
Second Judicial District of the State of Idaho,
in and for the County of Nez Perce

The Honorable Jeff M. Brudie

Supreme Court No. 36916-2009

RODERICK C. BOND
ATTORNEY FOR PLAINTIFF-APPELLANT

GARY D. BABBITT
ATTORNEY FOR DEFENDANT AIA CORP-RESPONDENTS

36916

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person,	)	
	)	
Plaintiff-Counterdefendant-Appellant-Cross Respondent,	)	SUPREME COURT NO. 36916-2009
	)	
v.	)	
	)	
AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof, BRIAN FREEMAN, a single person; JOLEE DUCLOS, a single person and JAMES BECK and CORRINE BECK,	)	TABLE OF CONTENTS VOLUME IX
	)	
Defendants-Counterclaimants-Respondents-Cross Appellants-Cross Respondents,	)	
	)	
and	)	
	)	
CROP USA INSURANCE AGENCY, INC., an Idaho corporation;	)	
	)	
Defendant-Respondent-Cross Respondent,	)	
	)	
and	)	
	)	
401(k) PROFIT SHARING PLAN FOR THE AIA SERVICES CORPORATION,	)	
	)	
Intervenor-Cross Appellant-Cross Respondent.	)	
	)	

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff-Counterdefendant-Appellant-Cross Respondent, v. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof, BRIAN FREEMAN, a single person; JOLEE DUCLOS, a single person and JAMES BECK and CORRINE BECK, Defendants-Counterclaimants-Respondents-Cross Appellants-Cross Respondents, and CROP USA INSURANCE AGENCY, INC., an Idaho corporation; Defendant-Respondent-Cross Respondent, and 401(k) PROFIT SHARING PLAN FOR THE AIA SERVICES CORPORATION, Intervenor-Cross Appellant-Cross Respondent.	SUPREME COURT NO. 36916-2009 INDEX VOLUME IX

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CLERK OF THE DIST. COURT
DEPUTY

Gary D. Babbitt ISB No. 1486
D. John Ashby ISB No. 7228
HAWLEY TROXELL ENNIS & HAWLEY LLP
877 Main Street, Suite 1000
P.O. Box 1617
Boise, ID 83701-1617
Telephone: (208) 344-6000
Facsimile: (208) 342-3829
Email: gdb@hteh.com
jash@hteh.com

Attorneys for AIA Services Corporation,
AIA Insurance, Inc., and CropUSA Insurance
Agency, Inc.

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff, vs. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof, Defendants.	Case No. CV-07-00208 AFFIDAVIT OF JOHN TAYLOR IN OPPOSITION TO MOTION FOR PRELIMINARY INJUNCTION
AIA SERVICES CORPORATION, an Idaho corporation; and AIA INSURANCE, INC., an	

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Idaho corporation,)
)
Counterclaimants,)
vs.)
)
REED J. TAYLOR, a single person,)
)
Counterdefendant.)
)
)

I, JOHN TAYLOR, duly swear and state:

1. This affidavit is based upon my personal knowledge.

2. I am the President and CEO of AIA Services Corporation and AIA Insurance, Inc. I have read the motion and memorandum of law for preliminary injunction submitted by Reed J. Taylor.

3. The injunction seeks all commission and related receivables of AIA Services and AIA Insurance and the original of the promissory note of Washington Bank properties payable to the order of Universal Life Insurance Company along with barring AIA Services and AIA Insurance for encumbering or selling or transferring any assets.

4. The financial effect of depositing all the commissions and receivables and the promissory note payable to the order of Universal Life and the Registry of Court will force AIA Services and AIA Insurance out of business.

5. This requested injunction will strip all income producing assets from AIA Services and AIA Insurance. This means AIA Services and AIA Insurance will not be able to pay its bills in the ordinary course of business, pay salaries, and pay taxes. Many of the employees have long tenure with the Company of fifteen and twenty years. The collective knowledge and information which is invaluable to an insurance company will be forever lost, not to mention the loyalty that these employees have shown. Moreover, the injunction will have an

immediate and severe affect on the 401(k) plan. The 401(k) plan has 92,500 shares of preferred stock with a market value of $8.54 per share. This means that the 401(k) plan will be devalued by approximately $1 million with the entry of the preliminary injunction affecting many past and present employees.

6. AIA Services and AIA Insurance has the option of filing a petition for Chapter 11 Bankruptcy with the U.S. Bankruptcy Court in the event the preliminary injunction is entered. This alternative would have long term adverse affects on AIA Insurance and AIA Services and can be viewed only as the last resort.

7. In my opinion, this preliminary injunction is not designed to protect Reed Taylor but to destroy AIA Services and AIA Insurance.

John Taylor

STATE OF NEW YORK)
) ss.
County of New York)

SUBSCRIBED AND SWORN before me this 6th day of December, 2007.

FRANKLIN RODRIGUEZ
Notary Public - State of New York
NO. 01RO6140064
Qualified in New York County
My Commission Expires 1/17/2010

Name: Franklin Rodriguez
Notary Public for New York
Residing at 210 W 26th st NY NY 10001
My commission expires 1/17/2010

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 6 day of December, 2007, I caused to be served a true copy of the foregoing AFFIDAVIT OF JOHN TAYLOR IN OPPOSITION TO MOTION FOR PRELIMINARY INJUNCTION by the method indicated below, and addressed to each of the following:

Roderick C. Bond Ned A. Cannon Smith, Cannon & Bond PLLC 508 Eighth Street Lewiston, ID 83501 [Attorneys for Plaintiff]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy _X_ Email
Paul R. Cressman, Jr. Ahlers & Cressman PLLC 999 Third Avenue, Suite 3100 Seattle, WA 98104-4088 [Attorneys for Plaintiff]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy _X_ Email
David A. Gittins Law Office of David A. Gittins P.O. Box 191 Clarkston, WA 99403 [Attorney for Defendants Duclos and Freeman]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy _X_ Email
Michael E. McNichols Clements Brown & McNichols 321 13th Street Lewiston, ID 83501 [Attorneys for Defendant R. John Taylor]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy _X_ Email
Jonathan D. Hally Clark & Feeney P.O. Box 285 Lewiston, ID 83501 [Attorneys for Defendants Connie Taylor, James Beck and Corrine Beck]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy _X_ Email

James J. Gatziolis
Charles E. Harper
QUARLES & BRADY LLP
500 West Madison Street, Suite 3700
Chicago, Illinois 60661-2511
[Attorneys for Crop USA Insurance]

_____ U.S. Mail, Postage Prepaid
_____ Hand Delivered
_____ Overnight Mail
__X__ E-mail
_____ Telecopy

Gary D. Babbitt

C/cle/

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Telephone: (208) 344-6000
Facsimile: (208) 342-3829
Email: gdb@hteh.com
jash@hteh.com

Attorneys for AIA Services Corporation,
AIA Insurance, Inc., and CropUSA

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff, vs. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof, Defendants. AIA SERVICES CORPORATION, an Idaho corporation; and AIA INSURANCE, INC., an	Case No. CV-07-00208 AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

Idaho corporation,	)
	)
Counterclaimants,	)
vs.	)
	)
REED J. TAYLOR, a single person,	)
	)
Counterdefendant.	)
	)

GARY D. BABBITT, being first duly sworn upon oath, deposes and says:

1. I am an attorney with the law firm of Hawley Troxell Ennis & Hawley LLP, counsel of record for Defendants AIA Services Corporation and AIA Insurance, Inc., in the above-referenced matter. I make this affidavit based upon my own personal knowledge.

2. Attached hereto as Exhibit A is a true and accurate copy of AIA Services Corporation Statement of Cash Flows dated June 30, 2006 – June 30, 2007.

3. Attached hereto as Exhibit B is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Balance Sheets dated December 31, 2006 – September 30, 2007.

4. Attached hereto as Exhibit C is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Statements of Operations dated September 30, 2006 – September 30, 2007.

5. Attached hereto as Exhibit D is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Statements of Stockholders' Equity (Deficit) for the Quarter Ended September 30, 2007 and the Years Ended December 31, 2006, 2005, 2004, and 2003.

6. Attached hereto as Exhibit E is a true and accurate copy of AIA Services Corporation Consolidated Balance Sheet dated September 30, 2007.

7. Attached hereto as Exhibit F is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Financial Statements dated September 30, 2006.

8. Attached hereto as Exhibit G is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Financial Statements dated December 31, 2005.

9. Attached hereto as Exhibit H is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Financial Statements dated December 31, 2003.

10. Attached hereto as Exhibit I is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Financial Statements dated December 31, 2002 and December 31, 2001.

11. Attached hereto as Exhibit J is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Financial Statements Years Ended December 31, 1997 and 1996.

12. Attached hereto as Exhibit K is a true and accurate copy of AIA Services Corporation and Subsidiaries Consolidated Financial Statements Years Ended December 31, 1996 and 1995.

Further your affiant sayeth naught

Gary D. Babbitt

STATE OF IDAHO)
) ss.
County of Ada)

SUBSCRIBED AND SWORN before me this 6th day of December, 2007.

MICHELLE A. GONZALES
NOTARY
PUBLIC
STATE OF IDAHO

Name: Michelle A. Gonzales
Notary Public for Idaho
Residing at Boise
My commission expires 2/17/10

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 6 day of December, 2007, I caused to be served a true copy of the foregoing AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION by the method indicated below, and addressed to each of the following:

Roderick C. Bond Ned A. Cannon Smith, Cannon & Bond PLLC 508 Eighth Street Lewiston, ID 83501 [Attorneys for Plaintiff]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
Paul R. Cressman, Jr. Ahlers & Cressman PLLC 999 Third Avenue, Suite 3100 Seattle, WA 98104-4088 [Attorneys for Plaintiff]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
David A. Gittins Law Office of David A. Gittins P.O. Box 191 Clarkston, WA 99403 [Attorney for Defendants Duclos and Freeman]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
Michael E. McNichols Clements Brown & McNichols 321 13th Street Lewiston, ID 83501 [Attorneys for Defendant R. John Taylor]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
Jonathan D. Hally Clark & Feeney P.O. Box 285 Lewiston, ID 83501 [Attorneys for Defendants Connie Taylor, James Beck and Corrine Beck]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email

James J. Gatziolis
Charles E. Harper
QUARLES & BRADY LLP
500 West Madison Street, Suite 3700
Chicago, Illinois 60661-2511
[Attorneys for Crop USA Insurance]

____ U.S. Mail, Postage Prepaid
____ Hand Delivered
____ Overnight Mail
_✓_ E-mail
____ Telecopy

Gary D. Babbitt

Gary D. Babbitt

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AIA SERVICES CORPORATION

Statement of Cash Flows

	June 30, 2007	June 30, 2006
Cash flows from operating activities:		
Net income (loss)	$ (418,077)	$ (356,026)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Permanent write down of investments	-	-
Write off of account receivable	-	-
Depreciation and amortization	7,865	15,507
Deferred income taxes	-	-
Changes in assets and liabilities:		-
Accounts receivable and agent advances	2,584	8,085
Prepaid expenses	5,160	12,687
Due from related companies, net	227,689	243,435
Related party receivable	(88,044)	(147,842)
Accounts payable and accrued expenses	130,795	177,490
Income taxes payable	-	(5,000)
Unearned commissions	(15,000)	(14,000)
Net cash provided by operating activities	(147,028)	(65,664)
Cash flows from investing activities:		
Capital expenditures	(1,959)	-
Proceeds from sale of investment securities	-	-
Net cash used in investing activities:	(1,959)	-
Cash flows from financing activities:		
Repayment of mortgages and notes payable	(1,646)	(2,040)
Change in Series A preferred stock	(41,187)	(40,152)
Retired Treasury Stock	-	-
Purchase of common stock	-	-
Repayment of obligation to former majority stockholder	150,000	136,877
Net cash (used in) provided by financing activities:	107,167	94,685
Net increase (decrease) in cash	(41,820)	29,021
Cash and cash equivalents, beginning of year	118,031	101,576
Cash and cash equivalents, end of period	$ 76,214	$ 130,598

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

Assets	September 30, 2007	December 31, 2006
Cash and cash equivalents	$ 75,176	$ 118,031
Investment securities available-for-sale	30	30
Accounts receivable	14,681	163,348
Agent advances	64,793	74,088
Related party receivable	547,002	437,245
Due from related companies	21,120	20,539
Prepaid expenses	62,314	74,863
Deferred income taxes	387,430	387,430
Lewis Clark Mortgage	992,607	-
Net real estate	94,861	98,534
Net property, equipment and vehicles	22,658	28,684
Total assets	$ 2,282,672	$ 1,402,792
Liabilities:		
Accounts payable and accrued expenses	$ 465,389	$ 351,425
Due to related companies	915,753	490,091
Income taxes payable	230,991	230,991
Unearned commissions	53,000	75,000
Notes payable	28,650	30,296
Total liabilities	$ 1,693,783	$ 1,177,803
Obligation to Former Stockholder:	$ 8,425,864	$ 8,189,614
Series A preferred stock:	$ 478,520	$ 536,059
Stockholders' deficit:		
Series C convertible preferred stock	$ 92,500	$ 92,500
Common stock	17,378	17,378
Additional paid-in capital	(14,471)	(14,471)
Accumulated deficit	(8,410,902)	(8,596,091)
Treasury stock - at cost	-	-
Total stockholders' deficit	$ (8,315,495)	$ (8,500,684)
Total liabilities and stockholders' equity	$ 2,282,672	$ 1,402,792

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AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	Quarter Ended September 30, 2007		2006	
Revenues:				
Commissions	$	541,017	$	729,227
Administrative fees		262,338		378,728
Gain on ULIC Settlement		837,117		-
Investment income		81,532		106,433
Total revenues	$	1,722,004	$	1,214,388
Expenses:				
General and administrative expense	$	979,874	$	1,100,197
Commission expense		141,654		194,252
Change in estimated advanced commissions		-		-
Total operating expenses	$	1,121,528	$	1,294,449
Operating income:	$	600,476	$	(80,061)
Other income (expense):				
Interest expense	$	418,671	$	427,726
Equity in net loss (income) of affiliate		-		-
Total other expense	$	418,671	$	427,726
Income (loss) from continuing operations before income tax (expense) benefits:	$	181,805	$	(507,787)
Income tax (expense) benefit:	$	(3,381)	$	28,911
Net income (loss):	$	185,187	$	(536,697)

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AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
For the Quarter Ended September 30, 2007 and the Years Ended December 31, 2006, 2005, 2004 and 2003

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)
Balance, December 31, 2003	$ 297,500	$ 12,907	$ 1,303,834	$ -	$ (8,795,549)
Net income (loss)					762,536
BDO 2004 Audit Adjustments Corrected in 2005					(168,258)
Treasury stock retired		(136)	(7,078)		
Unrealized Gain (Loss) on Investments			2,072		61,580
Intercompany Stock Transactions	(205,000)		(1,305,693)		-
Balance, December 31, 2004	$ 92,500	$ 12,771	$ (6,865)	$ -	$ (8,139,691)
Net income (loss)					(150,721)
Unrealized Gain (Loss) on Investments					(900)
Purchase by JT 475,000 sh		4,750			-
Balance, December 31, 2005	$ 92,500	$ 17,521	$ (6,865)	$ -	$ (8,291,312)
Net income (loss)					(304,043)
Treasury Stock retired		(144)	(7,605)		
Unrealized Gain (Loss) on Investments					(735)
Balance, December 31, 2006	$ 92,500	$ 17,377	$ (14,470)	$ -	$ (8,596,091)
Net income (loss)					185,187
Treasury Stock retired					
Balance, September 30, 2007	$ 92,500	$ 17,378	$ (14,471)	$ -	$ (8,410,902)

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

EXHIBIT

D

AIA Services Corporation
Consolidated Balance Sheet
9/30/2007

Assets	AIA Services Corp	AIA Insurance, Inc.	Combined Balance	Discontinued and Eliminations	Consolidated Balance
Cash	264	11,729	11,993		11,993
Certificate of Deposit	-	63,183	63,183		63,183
Investment securities avail for sale	30	-	30		30
Investment in Services	-	1,510,693	1,510,693	(1,510,693)	-
Investment in subs	1,607,895	-	1,607,895	(1,607,895)	-
Accounts receivable	-	14,681	14,681		14,681
Related party receivable	353,622	193,380	547,002		547,002
Agents' advances	-	64,793	64,793		64,793
Intercompany receivables	-	723,462	723,462	(702,342)	21,120
Prepaid expenses	-	62,314	62,314		62,314
Advanced commissions receivable	-	-	-		-
Lewis Clark Mortgage	992,607	-	992,607		992,607
Deferred income taxes	308,430	79,000	387,430		387,430
Notes receivable	-	-	-		-
Airplane Liabilities	-	-	-		-
Net real estate	-	94,861	94,861	-	94,861
Property, equipment, vehicles - net	-	22,658	22,658	-	22,658
Total assets	3,262,848	2,840,753	6,103,601	(3,820,929)	2,282,673

AIA Services Corporation
Consolidated Balance Sheet
9/30/2007

Liabilities and Equity	AIA Services Corp	AIA Insurance, Inc.	Combined Balance	Discontinued and Eliminations	Consolidated Balance
Intercompany payables	702,342	-	702,342	(702,342)	-
Checks in excess of funds	-	-	-		-
Accounts payable	72,429	392,960	465,389		465,389
Due to related companies/parties	131,300	784,453	915,753		915,753
Income taxes payable	230,991	-	230,991		230,991
Unearned commissions	-	53,000	53,000		53,000
Mortgages & notes payable	26,204	2,446	28,650		28,650
Covenant not to compete payable	-	-	-		-
Advance commissions payable	-	-	-	-	-
Total liabilities	1,163,266	1,232,859	2,396,125	(702,342)	1,693,784
Obligation to former majority shareholder	8,425,864	-	8,425,864	-	8,425,864
Stated value preferred stock	478,520	-	478,520	-	478,520
Preferred C stock	297,500	-	297,500	(205,000)	92,500
Common stock	17,378	6,279	23,657	(6,279)	17,378
Treasury stock	-	-	-	-	-
Additional paid in capital	1,291,223	-	1,291,223	(1,305,693)	(14,471)
Retained earnings	(8,410,902)	1,601,615	(6,809,287)	(1,601,615)	(8,410,902)
Total equity & capitalization	2,099,582	1,607,894	3,707,476	(3,118,587)	588,889
Total liabilities and equity	3,262,848	2,840,753	6,103,603	(3,820,929)	2,282,673

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EXHIBIT
E

AIA SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2006

EXHIBIT

F

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet
For the Quarter Ended September 30, 2006 and the Year Ended December 31, 2005

Assets	September 2006	December, 31 2005
Cash and cash equivalents	$ 109,050	$ 101,576
Investment securities available-for-sale	765	765
Accounts receivable	163,348	163,348
Agent advances	76,678	89,866
Related party receivable	369,673	164,622
Due from related companies	7,775	27,310
Prepaid expenses	55,486	65,332
Deferred income taxes	395,430	395,430
Net real estate	99,781	104,399
Net property, equipment and vehicles	32,555	54,077
Total assets	$ 1,310,541	$ 1,166,725
Liabilities:		
Accounts payable and accrued expenses	$ 575,540	$ 438,286
Due to related companies	841,423	422,686
Income taxes payable	87,590	92,590
Unearned commissions	68,000	93,000
Notes payable	30,953	33,793
Total liabilities	$ 1,603,506	$ 1,080,355
Obligation to Former Stockholder:	$ 7,885,199	$ 7,669,572
Series A preferred stock:	$ 546,690	$ 604,955
Stockholders' deficit:		
Series C convertible preferred stock	$ 92,500	$ 92,500
Common stock	17,521	17,521
Additional paid-in capital	(6,865)	(6,865)
Accumulated deficit	(8,828,011)	(8,291,313)
Treasury stock - at cost	-	-
Total stockholders' deficit	$ (8,724,855)	$ (8,188,157)
Total liabilities and stockholders' equity	$ 1,310,541	$ 1,166,725

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
For the Quarters Ended September 30, 2006 and September 30, 2005

	September 30, 2006	September 30, 2005
Revenues:		
Commissions	$ 729,227	$ 859,560
Administrative fees	378,728	487,957
Investment income	106,433	106,271
Total revenues	$ 1,214,388	$ 1,453,788
Expenses:		
General and administrative expense	$ 1,100,197	$ 1,117,039
Commission expense	194,252	203,153
Change in estimated advanced commissions	-	-
Total operating expenses	$ 1,294,449	$ 1,320,192
Operating income:	$ (80,061)	$ 133,596
Other income (expense):		
Interest expense	$ 427,726	$ 420,097
Equity in net loss (income) of affiliate	-	-
Total other expense	$ 427,726	$ 420,097
Income (loss) from continuing operations before income tax (expense) benefits:	$ (507,787)	$ (286,501)
Income tax (expense) benefit:	$ 28,911	$ 198
Net income (loss):	$ (536,697)	$ (286,699)

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
For the Quarter Ended September 30, 2006 and the Years Ended December 31, 2005, 2004 and 2003

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)
Balance, December 31, 2003	$ 297,500	$ 12,907	$ 1,303,834	$ -	$ (8,795,549)
Net income (loss)					762,536
BDO 2004 Audit Adjustments Corrected in 2005					(168,258)
Treasury stock retired		(136)	(7,078)		
Unrealized Gain (Loss) on Investments			2,072		61,580
Intercompany Stock Transactions	(205,000)		(1,305,693)		-
Balance, December 31, 2004	$ 92,500	$ 12,771	$ (6,865)	$ -	$ (8,139,691)
Net income (loss)					(150,721)
Unrealized Gain (Loss) on Investments					(900)
Purchase by JT 475,000 sh		4,750			
Balance, December 31, 2005	$ 92,500	$ 17,521	$ (6,865)	$ -	$ (8,291,312)
Net income (loss)					(536,697)
Unrealized Gain (Loss) on Investments					-
Balance, September 30, 2006	$ 92,500	$ 17,521	$ (6,865)	$ -	$ (8,828,011)

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

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AIA SERVICES CORPORATION

Statement of Cash Flows
For the Quarter Ended September 30, 2006 and the Year Ended December 31, 2005

	September 30, 2006	December, 31 2005
Cash flows from operating activities:		
Net income (loss)	$ (536,697)	$ (150,721)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Permanent write down of investments	-	-
Depreciation and amortization	15,355	20,309
Equity in net income of affiliate	-	-
Write off of account receivable	-	-
Deferred income taxes	-	33,000
Changes in assets and liabilities:		
Accounts receivable and agent advances	13,188	(89,508)
Prepaid expenses	9,846	17,632
Due from related companies, net	438,272	288,045
Related party receivable	(205,051)	(200,135)
Accounts payable and accrued expenses	137,254	(183,982)
Income taxes payable	(5,000)	38,262
Unearned commissions	(25,000)	(10,000)
Net cash (used in) provided by operating activities	(157,833)	(237,098)
Cash flows from investing activities:		
Capital expenditures	10,786	-
Proceeds from sale of investment securities	-	-
Net cash provided by (used in) investing activities	10,786	-
Cash flows from financing activities:		
Repayment of mortgages, notes payable, and noncompete covenant	(2,840)	(16,682)
Change in Series A preferred stock	(58,265)	(84,891)
Options exercised for common stock	-	-
Prior Period Adj. for directors fees accrued	-	-
Change in acct. princ.(cost acct for common stock)	-	-
Prior Period Adj. for Reed Taylor's note	-	-
Prior Period Adj. for Common Stock Issued	-	-
Purchase of common stock	-	4,750
Repayment of obligation to former majority common stockholder	215,627	322,500
Net cash (used in) provided by financing activities	154,522	225,677
Net increase (decrease) in cash	7,475	(11,421)
Cash at beginning of period	101,576	112,999
Cash at end of period	$ 109,050	$ 101,578

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2005

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet
December 31, 2005 and December 31, 2004

Assets	December, 31 2005	December, 31 2004
Cash and cash equivalents	$ 101,576	$ 112,999
Investment securities available-for-sale	765	1,665
Accounts receivable	163,348	50,208
Agent advances	89,866	105,641
Related party receivable	164,622	17,487
Due from related companies	27,310	273,576
Prepaid expenses	65,332	82,964
Deferred income taxes	395,430	428,430
Vehicles	36,871	45,487
Net real estate	104,399	108,525
Net property and equipment	17,206	24,772
Total assets	$ 1,166,725	$ 1,251,754
Liabilities:		
Accounts payable and accrued expenses	$ 438,286	$ 622,268
Due to related companies	422,686	426,049
Income taxes payable	92,590	54,328
Unearned commissions	93,000	103,000
Notes payable	33,793	50,475
Total liabilities	$ 1,080,355	$ 1,256,120
Obligation to former Stockholder:	$ 7,669,572	$ 7,347,070
Series A preferred stock:	$ 604,955	$ 689,846
Stockholders' deficit:		
Series C convertible preferred stock	$ 92,500	$ 92,500
Common stock	17,521	12,771
Additional paid-in capital	(6,865)	(6,865)
Accumulated deficit	(8,291,313)	(8,139,691)
Treasury stock - at cost	-	-
Total stockholders' deficit	$ (8,188,157)	$ (8,041,285)
Total liabilities and stockholders' equity	$ 1,166,725	$ 1,251,754

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
For the Years Ended December 31, 2005 and December 31, 2004

	December, 31 2005	December, 31 2004
Revenues:		
Commissions	$ 1,142,243	$ 734,632
Administrative fees	639,684	1,478,957
Investment income	230,626	1,643,267
Total revenues	$ 2,012,553	$ 3,856,856
Expenses:		
General and administrative expense	$ 1,198,542	$ 1,670,594
Commission expense	265,860	365,248
Change in estimated advanced commissions	-	-
Total operating expenses	$ 1,464,402	$ 2,035,842
Operating income:	$ 548,151	$ 1,821,014
Other income (expense):		
Interest expense	$ 555,872	$ 553,860
Equity in net loss (income) of affiliate	-	-
Total other expense	$ 555,872	$ 553,860
Income (loss) from continuing operations before income tax (expense) benefits:	$ (7,721)	$ 1,267,154
Income tax (expense) benefit:	$ 143,000	$ 673,109
Net income (loss):	$ (150,721)	$ 594,045

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
For the Year Ended December 31, 2005 and the Year Ended December 31, 2004

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)
Balance, December 31, 2003	$ 297,500	$ 12,907	$ 1,303,834	$ -	$ (8,795,549)
Net income (loss)					594,278
Treasury stock retired		(136)	(7,078)		
Unrealized Gain (Loss) on Investments			2,072		61,580
Intercompany Stock Transactions	(205,000)		(1,305,693)		-
Balance, December 31, 2004	$ 92,500	$ 12,771	$ (6,865)	$ -	$ (8,139,691)
Net income (loss)					(150,721)
Unrealized Gain (Loss) on Investments					(900)
Purchase by JT 475,000 sh		4,750			-
Balance, December 31, 2005	$ 92,500	$ 17,521	$ (6,865)	$ -	$ (8,291,313)

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

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AIA SERVICES CORPORATION

Statement of Cash Flows
For the Year Ended December 31, 2005 and December 31, 2004

	December, 31 2005	December, 31 2004
Cash flows from operating activities:		
Net income (loss)	$ (150,721)	$ 762,536
Adjustments to reconcile net income (loss) to net cash		
(used in) provided by operating activities:		
Permanent write down of investments	-	-
Depreciation and amortization	20,309	25,872
Equity in net income of affiliate	-	-
Write off of account receivable	-	-
Deferred income taxes	33,000	645,834
Changes in assets and liabilities:		
Accounts receivable and agent advances	(97,365)	27,052
Prepaid expenses	17,632	12,425
Due from related companies, net	242,903	220,984
Related party receivable	(147,135)	-
Accounts payable and accrued expenses	(183,982)	(333,782)
Income taxes payable	38,262	(42,569)
Unearned commissions	(10,000)	(35,997)
Net cash (used in) provided by operating activities	(237,097)	1,282,356
Cash flows from investing activities:		
Capital expenditures	-	(72,808)
Proceeds from sale of investment securities	-	72,927
Net cash provided by (used in) investing activities	-	119
Cash flows from financing activities:		
Repayment of mortgages, notes payable, and noncompete covenant	(16,682)	(19,092)
Repayment of obligation to former majority common stockholder	322,502	279,651
Change in Series A preferred stock	(84,891)	(45,867)
Options exercised for common stock	-	(1,515,699)
Prior Period Adj. for directors fees accrued	-	-
Change in acct. princ.(cost acct for common stock)	-	-
Prior Period Adj. for Reed Taylor's note	-	-
Prior Period Adj. for Common Stock Issued	-	-
Purchase of common stock	4,750	(136)
Net cash (used in) provided by financing activities	225,679	(1,301,143)
Net increase (decrease) in cash	(11,418)	(18,668)
Cash at beginning of period	112,999	131,667
Cash at end of period	$ 101,576	$ 112,999

AIA SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2005

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AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet
December 31, 2005 and December 31, 2004

Assets	December, 31 2005	December, 31 2004
Cash and cash equivalents	$ 101,576	$ 112,999
Investment securities available-for-sale	765	1,665
Accounts receivable	163,348	50,208
Agent advances	89,866	105,641
Related party receivable	164,622	17,487
Due from related companies	27,310	273,576
Prepaid expenses	65,332	82,964
Deferred income taxes	395,430	428,430
Vehicles	36,871	45,487
Net real estate	104,399	108,525
Net property and equipment	17,206	24,772
Total assets	$ 1,166,725	$ 1,251,754
Liabilities:		
Accounts payable and accrued expenses	$ 438,286	$ 622,268
Due to related companies	422,686	426,049
Income taxes payable	92,590	54,328
Unearned commissions	93,000	103,000
Notes payable	33,793	50,475
Total liabilities	$ 1,080,355	$ 1,256,120
Obligation to former Stockholder:	$ 7,669,572	$ 7,347,070
Series A preferred stock:	$ 604,955	$ 689,846
Stockholders' deficit:		
Series C convertible preferred stock	$ 92,500	$ 92,500
Common stock	17,521	12,771
Additional paid-in capital	(6,865)	(6,865)
Accumulated deficit	(8,291,313)	(8,139,691)
Treasury stock - at cost	-	-
Total stockholders' deficit	$ (8,188,157)	$ (8,041,285)
Total liabilities and stockholders' equity	$ 1,166,725	$ 1,251,754

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
For the Years Ended December 31, 2005 and December 31, 2004

	December, 31 2005	December, 31 2004
Revenues:		
Commissions	$ 1,142,243	$ 734,632
Administrative fees	639,684	1,478,957
Investment income	230,626	1,643,267
Total revenues	$ 2,012,553	$ 3,856,856
Expenses:		
General and administrative expense	$ 1,198,542	$ 1,670,594
Commission expense	265,860	365,248
Change in estimated advanced commissions	-	-
Total operating expenses	$ 1,464,402	$ 2,035,842
Operating income:	$ 548,151	$ 1,821,014
Other income (expense):		
Interest expense	$ 555,872	$ 553,860
Equity in net loss (income) of affiliate	-	-
Total other expense	$ 555,872	$ 553,860
Income (loss) from continuing operations before income tax (expense) benefits:	$ (7,721)	$ 1,267,154
Income tax (expense) benefit:	$ 143,000	$ 673,109
Net income (loss):	$ (150,721)	$ 594,045

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
For the Year Ended December 31, 2005 and the Year Ended December 31, 2004

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)
Balance, December 31, 2003	$ 297,500	$ 12,907	$ 1,303,834	$ -	$ (8,795,549)
Net income (loss)					594,278
Treasury stock retired		(136)	(7,078)		
Unrealized Gain (Loss) on Investments			2,072		61,580
Intercompany Stock Transactions	(205,000)		(1,305,693)		-
Balance, December 31, 2004	$ 92,500	$ 12,771	$ (6,865)	$ -	$ (8,139,691)
Net income (loss)					(150,721)
Unrealized Gain (Loss) on Investments					(900)
Purchase by JT 475,000 sh		4,750			-
Balance, December 31, 2005	$ 92,500	$ 17,521	$ (6,865)	$ -	$ (8,291,313)

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

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AIA SERVICES CORPORATION

Statement of Cash Flows
For the Year Ended December 31, 2005 and December 31, 2004

	December, 31 2005	December, 31 2004
Cash flows from operating activities:		
Net income (loss)	$ (150,721)	$ 762,536
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Permanent write down of investments	-	-
Depreciation and amortization	20,309	25,872
Equity in net income of affiliate	-	-
Write off of account receivable	-	-
Deferred income taxes	33,000	645,834
Changes in assets and liabilities:		
Accounts receivable and agent advances	(97,365)	27,052
Prepaid expenses	17,632	12,425
Due from related companies, net	242,903	220,984
Related party receivable	(147,135)	-
Accounts payable and accrued expenses	(183,982)	(333,782)
Income taxes payable	38,262	(42,569)
Unearned commissions	(10,000)	(35,997)
Net cash (used in) provided by operating activities	(237,097)	1,282,356
Cash flows from investing activities:		
Capital expenditures	-	(72,808)
Proceeds from sale of investment securities	-	72,927
Net cash provided by (used in) investing activities	-	119
Cash flows from financing activities:		
Repayment of mortgages, notes payable, and noncompete covenant	(16,682)	(19,092)
Repayment of obligation to former majority common stockholder	322,502	279,651
Change in Series A preferred stock	(84,891)	(45,867)
Options exercised for common stock	-	(1,515,699)
Prior Period Adj. for directors fees accrued	-	-
Change in acct. princ.(cost acct for common stock)	-	-
Prior Period Adj. for Reed Taylor's note	-	-
Prior Period Adj. for Common Stock Issued	-	-
Purchase of common stock	4,750	(136)
Net cash (used in) provided by financing activities	225,679	(1,301,143)
Net increase (decrease) in cash	(11,418)	(18,668)
Cash at beginning of period	112,999	131,667
Cash at end of period	$ 101,576	$ 112,999

AIA SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2003

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AIA SERVICES CORPORATION AND SUBSIDIARIES

Final Consolidated Balance Sheets
December 31, 2003 and December 31, 2002

Assets:	December 31, 2003	December 31, 2002
Cash and cash equivalents	$ 131,667	$ 66,003
Investment securities available-for-sale	13,012	16,127
Accounts receivable	57,499	46,751
Agent advances	121,545	269,719
Related party receivable	-	-
Due from related companies	244,032	152,841
Prepaid expenses	95,389	81,129
Advanced commissions receivable	-	73,825
Covenant not to compete, net of amortization	-	12,104
Deferred income taxes	1,074,264	1,420,000
Net real estate	113,616	118,729
Net property and equipment	31,231	44,502
Total assets	$ 1,882,255	$ 2,301,730
Liabilities:		
Accounts payable and accrued expenses	$ 759,552	$ 840,172
Due to related companies	195,416	578,565
Income taxes payable	96,896	131,678
Unearned commissions	139,000	161,000
Notes payable	69,567	134,561
Covenant not to compete payable	-	8,780
Advanced commissions payable	-	498,914
Total liabilities	$ 1,260,431	$ 2,353,670
Obligation to former Shareholder:	$ 7,067,421	$ 6,723,039
Series A preferred stock:	$ 735,713	$ 735,713
Stockholders' deficit:		
Series C convertible preferred stock	$ 297,500	$ 297,500
Common stock	12,907	13,103
Additional paid-in capital	1,303,834	1,309,211
Accumulated deficit	(8,795,549)	(9,130,504)
Treasury stock - at cost	-	-
Total stockholders' deficit	$ (7,181,308)	$ (7,510,690)
Total liabilities and stockholders' equity	$ 1,882,255	$ 2,301,730

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
For the Years Ended December 31, 2003 and December 31, 2002

	December 31, 2003	December 31, 2002
Revenues:		
Commissions	$ 942,356	$ 1,184,332
Administrative fees	1,782,886	2,232,769
Investment income	978,933	177,941
Total revenues	$ 3,704,175	$ 3,595,042
Expenses:		
General and administrative expense	$ 1,782,252	$ 2,071,513
Commission expense	652,394	653,954
Change In estimated advanced commissions	-	-
Total operating expenses	$ 2,434,646	$ 2,725,467
Operating income:	$ 1,269,529	$ 869,575
Other income (expense):		
Interest expense	$ 581,619	$ 705,832
Equity in net loss (income) of affiliate	-	-
Total other expense	$ 581,619	$ 705,832
Income (loss) from continuing operations before income tax (expense) benefits:	$ 687,910	$ 163,743
Income tax (expense) benefit:	$ (349,839)	$ (67,168)
Net income (loss)	$ 338,071	$ 96,575

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)

For the Years Ended December 31, 2003 and December 31, 2002

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)
Balance, December 31, 2001	$ 297,500	$ 13,103	$ 1,316,378	$ -	$ (9,166,200)
Net income (loss)					96,575
Treasury stock retired			(7,167)		
Unrealized Gain (Loss) on Investments					(60,881)
Balance, December 31, 2002	$ 297,500	$ 13,103	$ 1,309,211	$ -	$ (9,130,504)
Net income (loss)					338,071
Treasury stock retired		(196)	(5,377)		
Unrealized Gain (Loss) on Investments					(3,115)
Balance, December 31, 2003	$ 297,500	$ 12,907	$ 1,303,834	$ -	$ (8,795,549)

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

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AIA SERVICES CORPORATION

Statement of Cash Flows
For the Years Ended December 31, 2003 and December 31, 2002

	December 31, 2003	December 31, 2002
Cash flows from operating activities:		
Net income (loss)	$ 338,071	$ 96,575
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Permanent write down of investments	-	-
Depreciation and amortization	31,456	72,240
Equity in net income of affiliate	-	-
Write off of account receivable	-	-
Deferred income taxes	345,736	63,000
Changes in assets and liabilities:		
Accounts receivable and agent advances	137,426	32,056
Prepaid expenses	(14,260)	21,157
Due from related companies, net	(474,340)	285,755
Related party receivable	-	-
Advanced commissions receivable	73,825	147,648
Advanced commissions payable	(498,914)	(872,646)
Accounts payable and accrued expenses	(80,620)	(40,734)
Income taxes payable	(34,782)	(16,109)
Unearned commissions	(22,000)	(38,000)
Net cash (used in) provided by operating activities	(198,401)	(249,058)
Cash flows from investing activities:		
Capital expenditures	(969)	(14,086)
Investment in affiliate	-	-
Proceeds from sale of investment securities	-	-
Net cash provided by (used in) investing activities	(969)	(14,086)
Cash flows from financing activities:		
Repayment of mortgages, notes payable, and noncompete covenant	(73,774)	(67,884)
Repayment of obligation to former majority common stockholder	344,382	378,486
Redemption of Series A preferred stock	-	-
Options exercised for common stock	(5,377)	(7,167)
Prior Period Adj. for directors fees accrued	-	-
Change in acct. princ.(cost acct for common stock)	-	-
Prior Period Adj. for Reed Taylor's note	-	-
Prior Period Adj. for Common Stock Issued	-	-
Purchase of common stock	(196)	-
Net cash (used in) provided by financing activities	265,035	303,435
Net increase (decrease) in cash	65,665	40,292
Cash at beginning of period	66,003	25,711
Cash at end of period	$ 131,668	$ 66,003

AIA SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2002 (Final Unaudited)
and December 31, 2001 (Final Unaudited)

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AIA SERVICES CORPORATION AND SUBSIDIARIES

Final Consolidated Balance Sheets
December 31, 2002 and December 31, 2001 (Unaudited)

	2002	2001
Cash and cash equivalents	$ 66,003	$ 25,711
Investment securities available-for-sale	16,127	77,008
Investment in affiliate	-	-
Accounts receivable	46,751	108,570
Agent advances	269,719	239,956
Related party receivable	-	-
Due from related companies	152,841	272,609
Prepaid expenses	81,129	102,286
Advanced commissions receivable	73,825	221,473
Covenant not to compete, net of amortization	12,104	60,464
Deferred income taxes	1,420,000	1,483,000
Net real estate	118,729	123,918
Net property and equipment	44,502	49,108
Total assets	$ 2,301,730	$ 2,764,103

Liabilities and Stockholders' Equity (Deficit)

	2002	2001
Liabilities:		
Accounts payable and accrued expenses	$ 840,172	$ 880,906
Due to related companies	578,565	412,578
Income taxes payable	131,678	147,787
Unearned commissions	161,000	199,000
Notes payable	134,561	170,423
Covenant not to compete payable	8,780	40,802
Advanced commissions payable	498,914	1,371,560
Obligation to former majority common stockholder	6,723,039	6,344,553
Total liabilities	9,076,709	9,567,609
Series A preferred stock	735,713	735,713
Stockholders' deficit:		
Series C convertible preferred stock	297,500	297,500
Common stock	13,103	13,103
Additional paid-in capital	1,309,211	1,316,378
Accumulated deficit	(9,130,504)	(9,166,200)
Treasury stock - at cost	-	-
Total stockholders' deficit	(7,510,690)	(7,539,219)
Total liabilities and stockholders' equity	$ 2,301,730	$ 2,764,103

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
For the Years Ended December 31, 2002 and December 31, 2001 (Unaudited)

	2002	2001
Revenues		
Commissions	$ 1,184,332	$ 1,420,477
Administrative fees	2,232,769	3,019,582
Investment income	177,941	284,829
Total revenues	3,595,042	4,724,888
Expenses		
General and administrative expense	2,071,513	2,882,349
Commission expense	653,954	1,067,083
Change in estimated advanced commissions	-	-
Total operating expenses	2,725,467	3,949,432
Operating income	869,575	775,456
Other income (expense)		
Interest expense	705,832	893,468
Equity in net loss (income) of affiliate	-	-
Total other expense	705,832	893,468
Income (loss) from continuing operations before income tax (expense) benefits	163,743	(118,012)
Income tax (expense) benefit	(67,168)	(120,672)
Net income (loss)	$ 96,575	$ (238,684)

AIA SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
Before Income Tax Expense
For Years Ended December 31, 2002 and December 31, 2001 (Unaudited)

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)
Balance, January 1, 1999	297,500	11,511	1,699,015	(180,460)	(7,881,005)
Net income (loss)	-	-	-	-	(798,799)
Debt issued for common stock	-	-	-	(214,837)	-
Issuance of stock options in exchange for covenant not to compete	-	-	23,620	-	-
Balance, December 31, 1999	297,500	11,511	1,722,635	(395,297)	(8,679,804)
Net income (loss)	-	-	-	-	(218,308)
Debt issued for common stock				(3,194)	
Options exercised		4,522	348,225		
Treasury stock retired	-	(1,665)	(396,826)	398,491	-
Balance, December 31, 2000	$ 297,500	$ 14,368	$ 1,674,034	$ -	$ (8,898,112)
Net income (loss)					(238,684)
Debt issued for common stock					
Options exercised					
Treasury stock retired		(331)	(52,193)		
Prior Period Adj. for directors fees accrued					26,800
Change in acct. princ.(cost acct for common stock)					(10,846)
Prior Period Adj. for Reed Taylor's note					(45,357)
Prior Period Adj. for Pref. Ser. C option exercise			(233,517)		
Prior Period Adj. for Common Stock Issued		(934)	(71,945)		
Balance, December 31, 2001	$ 297,500	$ 13,103	$ 1,316,378	$ -	$ (9,166,200)
Net income (loss)					96,575
Treasury stock retired			(7,167)		
Unrealized Gain (Loss) on Investments					(60,881)
Balance, December 31, 2002	$ 297,500	$ 13,103	$ 1,309,211	$ -	$ (9,130,504)

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

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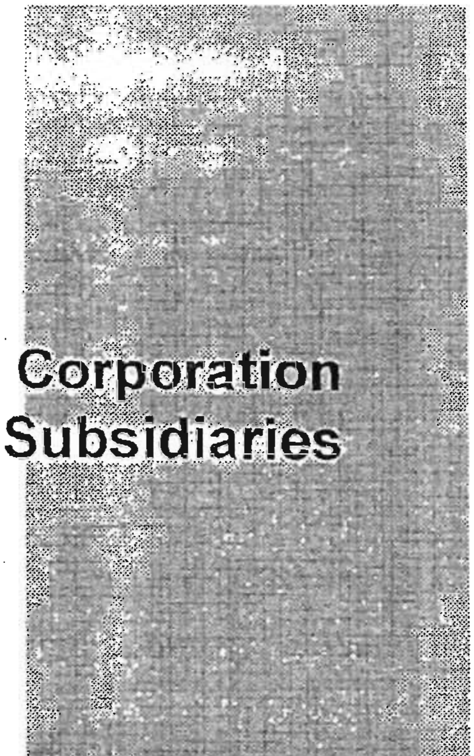
AIA SERVICES CORPORATION

Statement of Cash Flows
For the Years Ended December 31, 2002 and December 31, 2001 (Unaudited)

	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ 96,575	$ (238,684)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Permanent write down of investments	-	-
Depreciation and amortization	72,240	74,231
Equity in net income of affiliate	-	-
Write off of account receivable	-	-
Deferred income taxes	63,000	(7,000)
Changes in assets and liabilities:		
Accounts receivable and agent advances	32,056	437,442
Prepaid expenses	21,157	35,057
Due from related companies, net	285,755	(162,795)
Related party receivable	-	102,693
Advanced commissions receivable	147,648	147,648
Advanced commissions payable	(872,646)	(669,822)
Accounts payable and accrued expenses	(40,734)	(73,388)
Income taxes payable	(16,109)	147,787
Unearned commissions	(38,000)	31,000
Net cash (used in) provided by operating activities	(249,058)	(175,831)
Cash flows from investing activities:		
Capital expenditures	(14,086)	-
Investment in affiliate	-	349,763
Proceeds from sale of investment securities	-	-
Net cash provided by (used in) investing activities	(14,086)	349,763
Cash flows from financing activities:		
Repayment of mortgages, notes payable, and noncompete coven	(67,884)	(41,375)
Redemption of Series A preferred stock	-	(37,293)
Options exercised for common stock	(7,167)	(285,711)
Prior Period Adj. for directors fees accrued	-	26,800
Change in acct. princ.(cost acct for common stock)	-	(10,846)
Prior Period Adj. for Reed Taylor's note	-	(45,357)
Prior Period Adj. for Common Stock Issued	-	(72,879)
Purchase of common stock	-	(331)
Repayment of obligation to former majority common stockhold	378,486	311,471
Net cash (used in) provided by financing activities	303,435	(155,521)
Net increase (decrease) in cash	40,292	18,411
Cash at beginning of period	25,711	7,300
Cash at end of period	$ 66,003	$ 25,711



AIA Services Corporation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 1997 and 1996

EXHIBIT

J

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

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AIA Services Corporation and Subsidiaries

Contents

BDO

BDO Seidman, LLP
Accountants and Consultants

900 Seafirst Financial Center
601 West Riverside Avenue
Spokane, Washington 99201-0611
Telephone: (509) 747-8095
Fax (509) 747-0415

Independent Auditor's Report

The Board of Directors
AIA Services Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of AIA Services Corporation and Subsidiaries (the Company) as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIA Services Corporation and Subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company suffered significant losses in prior years, primarily attributable to its insurance underwriting operations. These operations were discontinued effective October 1, 1995; however, disposal is not complete and the recovery of the operation's assets and settlement of continuing and terminated obligations are being negotiated. The status of Management's efforts to transfer its insurance risk and settle its insurance obligations is described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these negotiations.

BDO Seidman, LLP

March 11, 1998

December 31,	1997	1996
Assets		
Cash and cash equivalents	$ 284,552	$ 474,137
Short-term investments	864,470	-
Accrued investment income	55,525	12,228
Investment and mortgage-backed securities (Note 3):		
Available-for-sale	1,195,095	254,449
Held-to-maturity	1,398,148	-
Accounts receivable	456,681	152,560
Mortgage loans	224,031	-
Agent advances	814,186	746,144
Related party receivable (Note 7)	349,542	283,736
Prepaid expenses	469,969	471,969
Deferred income taxes (Note 6)	30,000	203,747
Real estate, net of accumulated depreciation of $111,315 and $107,280, respectively	157,529	161,565
Property and equipment, net (Note 4)	185,452	96,301
Cost of licenses acquired	1,046,252	-
Deferred acquisition costs	161,765	-
Net assets to be disposed (Note 2)	67,646	-
Total assets	$ 7,760,843	$ 2,856,836

AIA Services Corporation and Subsidiaries

Consolidated Balance Sheets

December 31,	1997	1996
Liabilities and Stockholders' Deficit		
Liabilities:		
Accounts payable and accrued expenses	$ 2,441,358	$ 1,466,876
Policy benefits and other policy liabilities	1,211,891	-
Income taxes payable (Note 6)	290,000	65,216
Unearned commissions	441,790	761,000
Mortgages and notes payable (Note 5)	65,937	131,670
Obligation to former majority common stockholder (Note 7)	7,164,783	7,394,472
Net liabilities to be disposed (Note 2)	-	6,293,944
Total liabilities	11,615,759	16,113,178
Series A preferred stock - redeemable and convertible, no par value, 200,000 shares authorized, issued and outstanding, 136,852 and 153,613 shares (Note 8)	1,368,517	1,536,134
Commitments and Contingencies (Notes 2 and 10)		
Stockholders' deficit (Note 8):		
Series C convertible preferred stock - $1 par value, 500,000 shares authorized, issued and outstanding, 297,500 and 286,500 shares (Note 8)	297,500	286,500
Common stock - $0.01 par value, 11,000,000 authorized, issued 1,125,997 and 1,079,520 shares, outstanding 1,058,477 and 1,079,520 shares (Notes 7 and 8)	11,260	10,795
Additional paid-in capital	1,773,641	1,947,902
Accumulated deficit, including retained earnings (accumulated deficit) from discontinued operations of $67,646 and ($14,245,921)	(7,247,168)	(17,037,673)
Unrealized gains on investment and mortgage-backed securities available-for-sale, net of taxes	92,544	-
Treasury stock - at cost, 67,520 and 0 shares	(151,210)	-
Total stockholders' deficit	(5,223,433)	(14,792,476)
Total liabilities and stockholders' deficit	$ 7,760,843	$ 2,856,836

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	1997	1996
Revenues:		
Commissions (Note 7)	$ 5,552,039	$ 6,255,197
Administrative fees	2,662,344	3,382,553
Investment income	98,330	120,476
Total revenues	8,312,713	9,758,226
Expenses:		
General and administrative expenses	4,078,120	5,212,644
Commission expense	2,267,079	2,857,256
Interest expense	804,614	820,293
Total expenses	7,149,813	8,890,193
Income from continuing operations before income tax expense	1,162,900	868,033
Income tax expense (Note 6)	192,395	46,084
Income from continuing operations	970,505	821,949
Income from discontinued operations, net of applicable income taxes (Note 2)	8,820,000	900,505
Net income	$ 9,790,505	$ 1,722,454

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Deficit

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Unrealized Gains (Losses) on Investment and Mortgage-Backed Securities Available-for-Sale, Net of Taxes	Accumulated Deficit
Balance, January 1, 1996	$ 200,000	$ 10,795	$ 1,419,295	$ -	$ 111,199	$ (18,760,127)
Net income	-	-	-	-	-	1,722,454
Unrealized gains on investment securities available-for-sale, net of taxes	-	-	-	-	4,563	-
Issuance of Series C convertible preferred shares	86,500	-	778,501	-	-	-
Series C preferred dividends paid or accrued	-	-	(249,894)	-	-	-
Transfer to net liabilities to be disposed	-	-	-	-	(115,762)	-
Balance, December 31, 1996	286,500	10,795	1,947,902	-	-	(17,037,673)
Net income	-	-	-	-	-	9,790,505
Issuance of common stock	-	465	16,441	-	-	-
Purchase of common stock	-	-	-	(151,210)	-	-
Issuance of Series C convertible preferred shares	11,000	-	99,000	-	-	-
Series C preferred dividends paid or accrued	-	-	(289,702)	-	-	-
Unrealized gains on investment and mortgage-backed securities available-for-sale, net of taxes	-	-	-	-	92,544	-
Balance, December 31, 1997	$ 297,500	$ 11,260	$ 1,773,641	$ (151,210)	$ 92,544	$ (7,247,168)

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years Ended December 31,	1997	1996
Cash flows from operating activities:		
Net income	$ 9,790,505	$ 1,722,454
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	51,023	101,451
Deferred income taxes	185,698	(35,170)
Write off of account receivable	-	260,706
Changes in assets and liabilities:		
Accounts receivable and agent advances	(186,649)	(323,354)
Prepaid expenses and other assets	124,237	(54,117)
Accounts payable and accrued expenses	242,018	(1,751,232)
Income taxes payable	224,784	68,249
Unearned commissions	(319,210)	115,000
Discontinued operations	38,751	(5,751,605)
Net cash used in operating activities	10,151,157	(5,647,618)
Cash flows from investing activities:		
Capital expenditures	(35,905)	(11,352)
Issuance of notes receivable	(65,806)	(157,079)
Discontinued operations investing activities	1,544,240	5,748,399
Proceeds from sale of property and equipment	-	246
Net cash provided by investing activities	1,442,529	5,580,214

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years Ended December 31,	1997	1996
Cash flows from financing activities:		
Repayment of mortgages and notes payable	(65,733)	(710,334)
Redemption of Series A preferred stock	(167,617)	(169,486)
Dividends paid to preferred stockholders	(289,702)	(249,894)
Net proceeds from issuance of Series C preferred stock	110,000	865,001
Proceeds from issuance of common stock	16,906	-
Purchase of common stock	(151,210)	-
Repayment of obligation to former majority common stockholder	(229,689)	-
Issuance of notes payable	-	269,938
Net cash provided by (used in) financing activities	(777,045)	5,225
Net increase (decrease) in cash and cash equivalents	10,816,641	(62,179)
Cash and cash equivalents, beginning of year, including $1,143,257 and $504,484 from discontinued operations	1,617,394	1,679,573
Cash and cash equivalents, end of year, including $12,149,483 and $1,143,257 from discontinued operations	$ 12,434,035	$ 1,617,394
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 808,119	$ 785,253
Income taxes	$ -	$ -
Noncash investing and financing activities:		
Exchange of investment in preferred stock for investment in common stock and advertising	$ 245,474	$ -
Exchange of accounts receivable for investment in common stock	$ 109,000	$ -
Unrealized loss on securities available-for-sale, net of taxes	$ 23,218	$ -

See accompanying summary of accounting policies and notes to consolidated financial statements.

Business Activities

AIA Services Corporation (the Company) is an insurance holding company based in Lewiston, Idaho. Prior to October 1, 1995, the Company had two business segments. The insurance underwriting operations are contained within the Company's wholly-owned subsidiary, The Universe Life Insurance Company (Universe) and Universe's wholly-owned subsidiary, Great Fidelity Life Insurance Company (Great Fidelity). Effective October 1, 1995, the Company adopted a plan of disposal of its insurance underwriting operations. (See Notes 1 and 2 for further discussion.)

The Company's continuing operations consist of its insurance marketing segment. The principal business of this segment is marketing insurance products and services to ranchers and farmers, many of whom are members of agricultural associations. The Company's current products include group health and life insurance and long-term care insurance. These products are marketed through two subsidiaries, AIA Insurance, Inc. (AIA) and AIA MidAmerica, Inc. (MidAmerica).

The Company has established relationships with state and regional associations including the National Association of Wheat Growers, American Soybean Association, and the National Contract Poultry Growers Association (Association). These Associations were formed through the common interests of their members to promote specific segments of the agriculture industry. They are the primary recognized organizations representing the interests of the grain growers, soybean growers and poultry growers in the United States.

The Company sells group health insurance to these Associations and their members and provides administrative services for such insurance in accordance with the terms of marketing and administrative agreements between the Company and the underwriting insurance company. The Company also acts as the marketer and administrator for a multiple-association trust whose participants engage in farming, ranching or other agriculture related businesses. As part of the Company's administrative duties, the Company collects association dues through its regular customer billing procedure, thereby creating an important link between the Company and the Associations. In return, the Associations endorse the Company and certain of its products and services.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: AIA, MidAmerica, AIA Pacific Marketing Corporation, Universe, Great Fidelity and AIA Bancard Services Corporation. All material intercompany transactions have been eliminated in consolidation. The long-term care and group universal health operations of Universe and Great Fidelity are shown as discontinued operations in 1997. The entire insurance underwriting operations of Universe and Great Fidelity are shown as discontinued operations in 1996 (see Notes 1 and 2).

Investments

The Company accounts for investments according to the provisions of Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities". SFAS No. 115 requires that investments in all debt securities and those equity securities with readily determinable market values be classified into one of three categories: held-to-maturity, trading, or available-for-sale. Classification of investments is based upon management's current intent. Debt securities which management has a positive intent and ability to hold until maturity are classified as securities held-to-maturity and are carried at amortized cost adjusted for unamortized premium or discount. Unrealized holding gains and losses on securities held-to-maturity are not reflected in the consolidated financial statements. Debt and equity securities that are purchased for short-term resale are classified as trading securities. Trading securities are carried at market value, with unrealized holding gains and losses included in earnings. All other debt and equity securities not included in the above two categories are classified as securities available-for-sale. Securities available-for-sale are carried at market value, with unrealized holding gains and losses reported as a separate component of stockholders' equity, net of applicable income taxes. At December 31, 1997 and 1996, the Company did not have any investments categorized as trading securities.

The Company's carrying value for investments in the held-to-maturity and available-for-sale category is reduced to its estimated realizable value if a decline in the market value is deemed other than temporary. Such reductions in carrying value are recognized as realized losses and charged to income. The Company has no investments where a decline in market value is deemed other than temporary. Premiums and discounts on debt securities are amortized over the life of the security as an adjustment to yield using the effective interest method. Realized gains and losses on disposition of investments are included in net income. The cost of investments sold is determined on the specific identification method.

Deferred Acquisition Costs

Costs of acquiring insurance business which vary with and are primarily related to the production of such business are deferred and amortized over the estimated life of the underlying policy. Such costs include certain expenses related to policy issuance and underwriting. These costs are being amortized over five to forty years on a straight-line basis.

Cost of Licenses Acquired

The cost of licenses acquired related to the insurance underwriting operations is being amortized on a straight-line basis over 30 to 40 years

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Where applicable, cost includes interest and real estate taxes incurred during construction and other construction related costs. Depreciation is computed principally by the straight-line method using lives of 31 to 40 years for buildings and five to seven years for equipment.

Commission Income Commission income is recognized ratably over the policy period.

Administrative Fees AIA is a third-party administrator for Trustmark, Universe and various Association trusts providing administrative and data processing services. Through December 1, 1997, the Company was a third-party administrator for Centennial Life Insurance Company (Centennial) (see Note 1). All administrative fees result from such arrangements and are recorded as income upon receipt, which approximates the time period over which the fees are earned. The administrative fees are calculated on a per policy basis, on a percentage of certain future policy benefits, and also as specific administrative functions are performed.

Mortgage and Policy Loans Mortgage loans and policy loans are carried at unpaid principal balances.

Policy Benefits and Other Policy Liabilities Ordinary life insurance and annuity policy benefit liabilities are computed on a net level premium method using assumptions with respect to current investment yield, mortality, morbidity, withdrawal rates, and other assumptions determined to be appropriate as of the date the business was issued or purchased by the Company. Such estimates were based upon past experience adjusted to provide for possible adverse deviation from the estimates.

Reserves for the Universal Benefit (UB), the Withdrawal Value (WV), and the Supplemental Benefit Accumulation (SBA) components of the group accident and health insurance contracts are computed on a graduated scale from 25% to 100% of the certificate holders' UB, WV, or SBA balance over a 10 to 15 year period.

The liability for unpaid is an estimate of payments to be made on insurance claims for reported losses and estimates of incurred but not reported claims.

Reinsurance

The Company accounts for reinsurance of insurance contracts according to the provisions of SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." Under SFAS No. 113, reinsurance receivables and prepaid reinsurance premiums are accounted for and reported separately as assets, net of valuation allowance, rather than being deducted from the liability for future policy benefits and claims. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. Contracts not resulting in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and are to be accounted for as deposits.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts.

Recognition of Premium Revenues, Benefits and Costs

Premiums on life insurance are recognized as revenue when due. Benefits, losses and related expenses are matched with earned premiums in order to recognize income over the term of the contracts. This matching is accomplished by means of the provision for future policyholder benefits and estimated unpaid losses.

Income Taxes

The Company files a consolidated income tax return. In 1996, the Company filed a separate consolidated income tax return for its non life insurance subsidiaries and a separate consolidated income tax return for the Company's life insurance subsidiaries.

The Company accounts for income taxes according to the provisions of SFAS No. 109 "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock Options

The Company accounts for stock options issued to employees under the provisions of Accounting Principles Board Opinion No. 25 ("APB 25"). Under APB 25, because the exercise price of the Company's employee stock options approximates the fair value of the underlying stock at the date of grant, no compensation cost is recognized. SFAS No. 123 "Accounting for Stock-Based Compensation," requires the Company to provide pro forma information regarding net income (loss) as if compensation cost for the Company's stock option plans had been determined in accordance with the fair value method prescribed in SFAS No. 123.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and funds temporarily invested (with original maturities not exceeding three months) as part of the Company's management of day-to-day operating cash receipts and disbursements.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. **Disposal of Insurance Underwriting Operations**

In 1995, the Company adopted a plan to dispose of its insurance underwriting operations (the Plan) and recognized a net loss from discontinued operations of $9.0 million. This loss included management's estimate of the liabilities to be incurred by the Company in disposing of the insurance underwriting operations according to the Plan, in excess of the assets available to satisfy these liabilities (see Note 2) and the operating results of the insurance underwriting operations. During 1997, the Company revised the Plan whereby it intends to transfer or settle only the long-term care and group universal health insurance underwriting risk of its insurance subsidiaries, Universe and Great Fidelity. As such, discontinued operations for 1997 includes only those assets and liabilities and operating results of the long-term care and group universal health operations of Universe and Great Fidelity. Discontinued operations for 1996 includes all of the assets and liabilities and operating results of Universe and Great Fidelity. As the Plan is carried out, management re-estimates its net liability to dispose of the discontinued operations. In 1997 and 1996, net income from discontinued operations of approximately $9 million and $900,000 included changes in estimates of liabilities and recoverable amounts of assets and the operating results of the discontinued operations.

Effective December 1, 1997, in connection with a formal Plan of Rehabilitation, Universe completed the cancellation of substantially all of the Group Universal Health insurance policies previously reinsured, assumed or written by Centennial and arranged for the certificateholders to obtain similar coverage from Trustmark Insurance Company (Trustmark). The cash value obligation for the related Supplemental Benefit Accounts (SBA) and Universal Benefits (UB) of the certificateholders remained with Universe, and was subsequently paid in January 1998 (See Note 2).

During 1996 and 1997, Great Fidelity continued to retain 10% of the risk on long-term care policies with 90% of risk being assumed by The American Long Term-Care Reinsurance Group (ALTCRG).

In March 1998, the Company transferred the agreement with ALTCRG and executed an assumption reinsurance agreement with Central States Health and Life Company (Central States) to transfer all long-term care in force policies as of an effective date of January 1, 1998. The Company is currently negotiating the sale of a majority of its common stock ownership interests in Great Fidelity to an unrelated third party investor. No adjustments have been recorded to reflect this possible sale of Great Fidelity common stock.

2. Discontinued Operations

The net assets (liabilities) to be disposed, recorded in the consolidated financial statements, include management's estimates in accordance with Accounting Principles Board (APB) Opinion No. 30 "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and consist of the following assets and liabilities of the discontinued insurance operations at December 31:

	1997	1996
Cash and cash equivalents	$12,149,483	$ 1,143,257
Investment and mortgage backed securities:		
Available-for-sale	5,745,068	8,028,768
Held-to-maturity	-	1,402,031
Mortgage loans on real estate	2,315,758	3,224,774
Policy loans	-	58,545
Short-term investments	16,160	289,561
Accrued investment income	37,973	90,392
Receivables	1,556,417	14,341,496
Prepaid expenses	-	119,684
Net property and equipment	-	153,900
Deferred acquisition costs	-	163,396
Cost of insurance and licenses acquired	-	1,509,896
Total assets	21,820,859	30,525,700

	1997	1996
Policy liabilities	12,445,834	32,327,665
Accounts payable and accrued expenses	9,307,379	4,491,979
Total liabilities	21,753,213	36,819,644
Net assets (liabilities) to be disposed	$ 67,646	($ 6,293,944)

Summary consolidated statements of income for the discontinued insurance operations are as follows:

Years ended December 31,	1997	1996
Revenues:		
Premiums	$ 14,131,803	$ 5,631,049
Net investment income	816,868	945,380
Gain on termination of reinsurance agreements	1,542,235	-
Total revenues	16,490,906	6,576,429
Benefits and expenses:		
Benefits	3,623,163	1,520,581
Commissions	2,677,743	815,519
General and administrative expenses	1,180,000	3,339,824
Total benefits and expenses	7,480,906	5,675,924
Income before income tax expense	9,010,000	900,505
Income tax expense	190,000	-
Net income	$ 8,820,000	$ 900,505

Operating results of the long-term care and group universal health operations of Universe and Great Fidelity for 1997 (the entire insurance underwriting operating results of Universe and Great Fidelity for 1996), including changes in the estimate of net assets (liabilities) to be disposed, have been shown separately as income from discontinued operations, net of applicable income taxes, in the accompanying consolidated statements of income.

Management anticipates no future significant operating gain or loss for the discontinued operations through final disposal date. However, the final settlement of liabilities and recovery of assets may result in a change in management's current estimates of these assets and liabilities, which will be included in the income (loss) from discontinued operations.

Investment and Mortgage-Backed Securities

The amortized cost and market value of investment and mortgage-backed securities as of December 31, 1997 and 1996 follows. The market values are based on quoted market prices, where available, or on value obtained from independent pricing services.

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available-for-sale:				
Government:				
U.S. Treasury bonds	$ 2,703,403	$ 79,531	$ (150)	$ 2,782,784
Mortgage backed securities	2,635,334	-	(26,444)	2,608,890
Corporate bonds	250,000	25	-	250,025
Total debt securities	5,588,737	79,556	(26,594)	5,641,699
Common stocks	83,705	19,664	-	103,369
Total available-for-sale	$ 5,672,442	$ 99,220	$ (26,594)	$ 5,745,068

	December 31, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available-for-sale:				
Government:				
U.S. Treasury bonds	$2,705,536	$ 104,278	$ -	$ 2,809,814
Mortgage backed securities	4,505,200	-	(38,234)	4,466,966
Corporate bonds	249,726	-	(6,818)	242,908
Total debt securities	7,460,462	104,278	(45,052)	7,519,688
Common stocks	392,918	116,162	-	509,080
Total available-for-sale	$7,853,380	$ 220,440	$ (45,052)	$ 8,028,768

	December 31, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Held-to-maturity:				
U.S. Treasury bonds	$ 1,302,031	$ 49,009	$ -	$ 1,351,040
Corporate bonds	100,000	1,159	-	101,159
Total held-to-maturity	$ 1,402,031	$ 50,168	$ -	$ 1,452,199

At December 31, 1997 and 1996 securities held with a carrying value of $3,955,469 and $3,963,445, respectively, were on deposit with certain state insurance departments in order to meet regulatory requirements

At December 31, 1996, a U.S. Treasury note with a carrying value of $766,875 was held in a Texas district court as security for payment of a judgment. In 1997, the judgment was settled and the note was released.

The amortized cost and market value of debt securities available-for-sale at December 31, 1997, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations. Securities not due at a single maturity date are collateralized mortgage obligations of government backed securities which have principal payments throughout the life of the investment, the timing of which may vary with market conditions.

	Available-for-Sale Amortized Cost	Available-for-Sale Market Value
Due one year or less	$1,398,435	$ 1,399,247
Due one through five years	1,857,322	1,933,532
Not due at a single maturity date	2,332,980	2,308,920
	$5,588,737	$ 5,641,699

Net investment income consists of the following:

Year ended December 31,	1997	1996
Bonds	$ 469,919	$ 559,184
Mortgage loans	234,858	276,502
Short-term investments	84,791	91,142
Real estate	32,842	32,842
Policy loans	3,332	13,084
Other	14,708	3,339
	840,450	976,093
Less investment expenses	23,582	30,713
	$ 816,868	$ 945,380

Realized gains and losses on investments are as follows:

Year ended December 31,	1997	1996
Gross gains	$ -	$ -
Gross losses	(20,483)	(74,440)
	$ (20,483)	$ (74,440)

Proceeds from the sales of fixed maturity securities during 1997 and 1996 were $50,000 and $1,025,000, respectively.

Sale of Real Estate

On December 30, 1993, Universe sold its home office building for $2,650,000 in connection with a sale and lease back agreement. Universe received a note secured by a deed of trust for $1,987,500 at 8% per annum and the balance in cash. AIA entered into a 15 year lease with an option to purchase the property. Universe reported a deferred gain of $492,629 in 1993 which is being recognized over the term of the lease. Universe recognized $32,842 of the deferred gain in both 1997 and 1996.

Policy Liabilities

Policy liabilities at December 31 are as follows:

	1997	1996
Future policy benefits	$ 5,308,576	$ 30,965,857
Unpaid claims	7,105,306	1,069,916
Other policy liabilities	31,952	291,892
	$ 12,445,834	$ 32,327,665

Activity in the liability for claims in the course of settlement and unrecorded claims as it applies to accident and health policies are as follows (includes unpaid claims included in continuing operations of $64,050 at December 31, 1997):

	1997	1996
Balance, beginning of year, accident and health	$ 1,069,916	$ 5,853,825
Less reinsurance recoverable	(167,418)	(190,040)
Net balance, beginning of year	902,498	5,663,785
Total incurred during year	22,618,930	1,794,107
Paid in current year related to:		
Current year	11,452,120	2,923,908
Prior years	4,902,968	3,631,486
Total paid	16,355,088	6,555,394
Net balance, end of year	7,166,340	902,498
Plus reinsurance recoverable	-	167,418
Balance, end of year, accident and health	7,166,340	1,069,916
Net life claims liability	3,016	-
Total unpaid claims, end of year	$ 7,169,356	$ 1,069,916

Dispositions and Reinsurance

During 1995 and 1994, Universe entered into various agreements with Centennial, pursuant to which Universe sold or reinsured its group universal health (GUH) business. Under a transfer agreement and related reinsurance agreements, Universe transferred all of its GUH morbidity underwriting risk, other than that related to totally disabled claimants, to Centennial. Effective December 1, 1997, in connection with a formal Plan of Rehabilitation, Universe completed the cancellation of substantially all of the GUH insurance policies previously reinsured, assumed or written by Centennial and arranged for the certificateholders to obtain similar coverage from Trustmark. The cash value obligation for the SBA and UB of the certificateholders remained with Universe, which was subsequently paid in January 1998.

Effective July 1, 1995, 90% of the long-term care business of Great Fidelity was ceded to ALTCRG on a quota-share basis. In March 1998, the Company transferred the agreement with ALTCRG and executed an assumption reinsurance agreement with Central States to transfer all long-term care in force policies as of an effective date of January 1, 1998. The insurance agreement with Central States provides for the Company to receive a monthly fee equal to 3.5% of the net gross premiums collected on all reinsured contracts.

Summary of significant reinsurance amounts affecting the accompanying financial statements as of and for the years ended December 31, 1997 and 1996 is presented below. The ceded balance sheet amounts have been classified as assets in the balance sheets of Universe and Great Fidelity in accordance with the provision of SFAS 113.

	1997 Assumed	1997 Ceded
Balance sheets:		
Nonaffiliates:		
Future policy benefits and claims:		
Accident and health	$ -	$ 158,406
Amounts recoverable from reinsurer	-	1,394
Reinsurance receivables	$ -	$ 159,800

	1997 Assumed	1997 Ceded
Statements of income:		
Nonaffiliates:		
Life insurance premiums	$ -	$ 3,744
Accident and health insurance premiums	$ -	$ 3,245,726
Benefits and claims	$ -	$ 2,240,088
Commission and expense allowances on reinsurance ceded	$ -	$ 1,209,991

	1996 Assumed	1996 Ceded
Balance sheets:		
Nonaffiliates:		
Future policy benefits and claims:		
Accident and health	$ -	$ 13,330,533
Amounts recoverable from reinsurer	-	781,830
Reinsurance receivables	$ -	$ 14,112,363

	1996	
	Assumed	Ceded
Statements of income:		
Nonaffiliates:		
Life insurance premiums	$ -	$ 192,548
Accident and health insurance premiums	$ -	$ 18,825,289
Benefits and claims	$ -	$ 13,956,351
Commission and expense allowances on reinsurance ceded	$ -	$ 4,428,378

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Amounts for ceded future policy benefits and claims would represent a liability of the Company in the unlikely event that its reinsurers would be unable to meet existing obligations under reinsurance agreements.

Income Taxes

The significant components of the Company's net deferred tax assets and liabilities related to discontinued operations at December 31 are summarized as follows:

	1997	1996
Deferred tax assets:		
Policy reserves	$ 130,000	$ 69,807
Net operating loss carryforwards	1,018,000	4,730,934
Other	150,000	274,380
	1,298,000	5,075,121

	1997	1996
Deferred tax liabilities:		
Tax over book depreciation and amortization	(10,000)	(136,616)
Deferred gains on installment sales on real estate	(210,000)	(327,467)
Net unrealized gains on available-for-sale securities	(60,000)	(59,631)
Deferred policy acquisition costs	-	(55,555)
Other	-	(12,478)
	(280,000)	(591,747)
Valuation allowance	(1,018,000)	(4,483,374)
Net deferred tax asset (liability)	$ -	$ -

At December 31, 1997, the long-term care and group universal health operations of Universe and Great Fidelity have approximately $3 million in net operating loss carryforwards available to offset future taxable income which expire through 2011.

Regulatory Requirements and Other Matters

Generally, the net assets of Universe and Great Fidelity available for transfer to the Company are limited to the amounts by which the net assets exceed minimum capital requirements.

Under Idaho insurance law, dividends may be paid by Universe only from profits or earned surplus and require Idaho Insurance Department (Department) approval if the dividend is in excess of the greater of 10% of surplus or net gain from operations of the prior year. Universe may not pay a dividend without prior approval from the Department.

Under Indiana insurance law, the minimum statutory capital and surplus required is $450,000. Great Fidelity may not pay dividends that reduce surplus to less than 50% of capital stock. Extraordinary dividend payments which exceed the greater of the net gain from operations or 10% of surplus from the preceding year require approval from the Indiana Commissioner of Insurance.

Universe and Great Fidelity file annual statements with the Department of Insurance of the states of Idaho and Indiana, respectively, prepared on the basis of accounting practices prescribed or permitted by such regulatory authorities. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company has no material permitted statutory accounting practices.

On March 5, 1996, at the direction of its Board of Directors, Universe and the Idaho Department of Insurance (the Department) entered into a Stipulation and Order of Rehabilitation (the Order) in the District Court of the Fourth Judicial District of the State of Idaho (the Court). Pursuant to the Order, the rehabilitator appointed by the Department took possession of Universe's assets. In addition, Great Fidelity consented to a modified supervision order issued by the Indiana Department of Insurance on March 6, 1996. Under both orders, the present management of both companies was retained. A formal Plan of Rehabilitation (the Plan) was filed with the Court on August 8, 1997 and was amended and approved on October 7, 1997. The Plan became effective upon an offer of replacement coverage from Trustmark, an acceptable third party insurer to all certificateholders insured under the group universal health policies originally issued by Universe. The Plan required Centennial to deposit $14.5 million plus net premiums (defined as gross premiums less claims, commissions, taxes and administration and trust fees) from September 1, 1997, into a segregated trust account under the control of the rehabilitator, and rescinded or terminated all contracts and agreements between Centennial and Universe (see Note 1).

Universe and Centennial reserved the right to continue negotiations to resolve their respective claims relating to Centennial's activities associated with the administration of these policies.

On February 4, 1998, the Commission of the Kansas Insurance Department (the Centennial Rehabilitator) was appointed as rehabilitator of Centennial.

On February 19, 1998, the Court entered a Judgment against Centennial for restitution and return by Centennial of Universe's assets held by Centennial and/or the Centennial Rehabilitator in the aggregate amount of $19.3 million. The Court further ordered that Universe was entitled to interest on its net assets held while in the possession of Centennial. Universe received a transfer of $13.5 from the segregated trust account in December 1997. The Court ordered Centennial to place $9.5 million on deposit in the same segregated trust account, which represented the remaining Universe assets of $5.8 million plus the interest on the total assets of $3.7 million, as calculated over the period for which theses assets were under the control of Centennial.

Universe estimates that if the entire $9.5 million is ultimately collected from Centennial, Universe will incur liabilities approximating $8.1 million for the payment of certain administrative costs, legal fees and for future policy benefits. Should the amount collected be less than $9.5 million, the related liability would also be reduced by an amount which management believes would approximate the uncollected judgment amount.

The following reconciles the statutory net income (loss) of Universe and Great Fidelity, as filed with regulatory authorities, to the net income included in the accompanying consolidated financial statements (as discontinued operations) based on generally accepted accounting principles (GAAP) for the years ended December 31, 1997 and 1996:

	1997	1996
Statutory net income (loss)	$ 7,225,795	$ (2,458,247)
Adjustments to reconcile to the basis of GAAP:		
Future policy benefits	688,397	4,129,443
Depreciation and amortization	(15,646)	74,504
Deferred gain on sale of real estate	32,842	32,842
Deferred acquisition costs	(163,397)	(351,483)
Cost of insurance and licenses acquired	(106,612)	(54,816)
Prepaid expenses	(33,599)	(60,150)
Interest maintenance reserve	(61,021)	(38,885)
GUH gain	1,542,235	-
Other	(288,994)	(372,703)
Net income in accordance with GAAP	$ 8,820,000	$ 900,505

The following reconciles the statutory capital and surplus (deficit) of Universe and Great Fidelity, as filed with regulatory authorities, to stockholder's equity (deficit) of Universe and Great Fidelity in accordance with GAAP which includes the net assets (liabilities) to be disposed and stockholder's equity ($1,822,242 at December 31, 1997) included in continuing operations in the accompanying consolidated financial statements for the years ended December 31, 1997 and 1996:

	1997	1996
Statutory capital and surplus (deficit)	$ 1,508,667	$ (3,537,883)
Cumulative effect of adjustments to reconcile to the basis of GAAP:		
Non-admitted assets	362,249	709,775
Asset valuation reserve	184,515	280,006
Interest maintenance reserve	740,941	801,962
Future policy benefit	(492,041)	(900,675)
Difference between amortized cost and fair value of debt and equity securities available for sale, net of deferred taxes	47,915	(26,725)
Deferred gain on sale of real estate	(361,261)	(423,917)
Deferred income taxes	(101,097)	(113,054)
Deferred acquisition costs	-	164,843
Cost of insurance and licenses acquired	-	1,618,125
Gain on sale of GUH business	-	(4,900,000)
Prepaid expenses	-	33,599
Stockholder's equity (deficit) in accordance with GAAP	$ 1,889,888	$ (6,293,944)

Risk Based Capital

The annual statement instructions of the National Association of Insurance Commissioners require the calculation of risk-based capital (RBC) for all life insurance enterprises. The RBC serves as a benchmark for the regulation of life insurance companies by state insurance regulators. RBC provides for surplus formulas similar to target surplus formulas used by commercial rating agencies. The formulas specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements.

Such formulas focus on four general types of risk: (a) the risk with respect to the Company's assets (assets or default risk); (b) the risk of adverse insurance experience with respect to the Company's liabilities and obligations (insurance or underwriting risk); (c) the interest rate risk with respect to the Company's business (asset/liability matching); and, (d) all other business risks (management, regulatory action, and contingencies). The amount determined under such formulas is called the authorized control level RBC (ACLC).

The RBC guidelines define specific capital levels based on a company's ACLC that are determined by the ratio of the Company's total adjusted capital (TAC) to its ACLC. TAC is equal to statutory capital, plus the Asset Valuation Reserve and any voluntary investment reserves, 50% of dividend liability, and certain other specified adjustments. The specific capital levels, in declining order, and applicable ratios are generally as follows: "Company Action Level" where TAC is less than or equal to 2.0 times ACLC; "Regulatory Action Level" where TAC is less than or equal to 1.5 times ACLC; "Authorized Control Level" where TAC is less than or equal to 1.0 times ACLC; "Mandatory Control Level" where TAC is less than or equal to 0.7 times ACLC. Companies at the Company Action Level must submit a comprehensive financial plan to the insurance commissioner of the state of domicile. Companies at the Regulatory Action Level are subject to a mandatory examination or analysis by the commissioner and possible required corrective actions. At the Authorized Control Level, a company may be subject to, among other things, the commissioner placing it under regulatory control. At the Mandatory Control Level, the insurance commissioner is required to place a company under regulatory control.

At December 31, 1997, Universe's TAC was $1,693,181 or 6.3 times its ACLC. At December 31, 1995, Universe fell into the mandatory control level as its TAC was a deficit. As Universe's TAC was still a deficit at December 31, 1996, Universe remained in the mandatory control level.

At December 31, 1997 Great Fidelity's TAC was $2,511,297 or 31.6 times its ACLC ($2,731,839 or 12.2 times its ACLC in 1996). Accordingly, Great Fidelity does not currently fall into one of the above levels.

Contingencies

Various lawsuits against Universe have arisen in the ordinary course of business. Management believes that contingent liabilities that may arise from these lawsuits will not be material in relation to the financial position or results of operations of Universe.

3. Investment and Mortgage-Backed Securities

The amortized cost and market value of investment and mortgage-backed securities as of December 31, 1997 and 1996 follow. The market values are based on quoted market prices, where available, or on values obtained from independent pricing services.

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Held-to-maturity:				
U.S. Treasury bonds	$ 1,298,148	$ 65,717	$ -	$ 1,363,865
Corporate bonds	100,000	2,271	-	102,271
Total held-to-maturity	$ 1,398,148	$ 67,988	$ -	$ 1,466,136

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available-for-sale:				
Government:				
Mortgage backed securities	$ 502,840	$ -	$ (5,046)	$ 497,794
Total debt securities	502,840	-	(5,046)	497,794
Common stocks	624,662	72,639	-	697,301
Total available-for-sale	$ 1,127,502	$ 72,639	$ (5,046)	$ 1,195,095

	December 31, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available-for-sale:				
Preferred stocks	$ 245,474	$ -	$ -	$ 245,474
Common stocks	8,975	-	-	8,975
Total available-for-sale	$ 254,449	$ -	$ -	$ 254,449

The amortized cost and market value of debt securities segregated by held-to-maturity and available-for-sale at December 31, 1997, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations. Securities not due at a single maturity date are collateralized mortgage obligations of government backed securities which have principal payments throughout the life of the investment, the timing of which may vary with market conditions.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due one through five years	$ 1,398,148	$ 1,466,136	$ -	$ -
Not due at a single maturity date	-	-	502,840	497,794
	$ 1,398,148	$ 1,466,136	$ 502,840	$ 497,794

4. Property and Equipment

Property and equipment at December 31 consist of the following:

	1997	1996
Leasehold improvements	$ 136,143	$ 87,794
Furniture and equipment	2,311,100	596,475
	2,447,243	684,269
Less accumulated depreciation	2,261,791	587,968
	$ 185,452	$ 96,301

5. Mortgages and Notes Payable

Mortgages and notes payable at December 31 consist of the following:

	1997	1996
Mortgages on real estate - 11.75% at December 31, 1997, due 2000	$ 65,433	$ 71,357
Notes payable:		
Term loan - 8%, due 1998, unsecured	504	60,313
	$ 65,937	$ 131,670

Aggregate maturities of mortgages and notes payable over the next five years are as follows:

Year ending December 31,	Amount
1998	$ 6,743
1999	7,013
2000	52,181
	$ 65,937

6. Income Taxes

Income tax expense (benefit) at December 31 consists of the following:

	1997	1996
Current	$ 196,697	$ 81,254
Deferred	185,698	(35,170)
Income tax expense	$ 382,395	$ 46,084

The allocation of income tax expense between continuing and discontinued operations at December 31 is as follows:

	1997	1996
Continuing operations	$ 192,395	$ 46,084
Discontinued operations	190,000	-
Income tax expense	$ 382,395	$ 46,084

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

The significant components of the Company's net deferred tax assets and liabilities at December 31 are summarized as follows:

	1997	1996
Deferred tax assets:		
Net operating loss carryforwards	$ 1,716,000	$ 5,374,405
AMT credit carryforwards	226,000	6,967
Accrued wages	126,000	136,000
Policy reserves	140,000	69,807
Other	207,000	301,787
Total deferred tax assets	2,415,000	5,888,966
Deferred tax liabilities:		
Tax over book depreciation	(128,000)	(164,149)
Deferred gains on installment sales on real estate	(251,000)	(327,467)
Net unrealized gains on available-for-sale securities	(71,000)	(59,631)
Deferred policy acquisition costs	-	(55,555)
Other	-	(12,478)
Total deferred tax liabilities	(450,000)	(619,280)
Valuation allowance	(1,935,000)	(5,065,939)
Net deferred tax asset	$ 30,000	$ 203,747

The Company's effective income tax on income from continuing operations differs from the expected corporate statutory federal income tax rate primarily as a result of the change in valuation allowance.

At December 31, 1997, the Company has approximately $ 5 million in net operating loss carryforwards which are available to offset future taxable income which expire through 2011.

The Company's ability to use its net operating loss carryforwards to offset future taxable income is subject to annual restrictions contained in the United States Internal Revenue Code of 1986, as amended (the Code). These restrictions act to limit the Company's future use of its net operating losses following certain substantial stock ownership changes as enumerated in the Code. There was such a change in ownership during 1995 and there are substantial annual restrictions limiting the Company's future use of its net operating loss carryforwards.

7. **Related Party Transactions**

The Company had transactions with stockholders as follows:

	1997	1996
Related party receivable, beginning of year	$ 283,736	$ 126,657
Advances	65,806	157,079
Reductions	-	-
Related party receivable, end of year	$ 349,542	$ 283,736

In July 1995, the Company acquired all the outstanding shares (613,494 shares) of its former majority stockholder in exchange for the following:

$7.5 million of debt as described in the paragraph below and the following items with an aggregate fair market value of $240,000:

* Three aircraft, net of related encumbrances;
* Elimination of approximately $570,000 in debt to the Company;
* Non-competition agreement through December 31, 1998; and
* Miscellaneous furniture and fixtures.

A down payment of $1.5 million originally due on October 22, 1995 was renegotiated in July 1996 to be due October 31, 1996. Interest on this note (as renegotiated in July 1996) is 9.5% (14%

while in default) and principal and interest payments of $33,750 per month are due beginning August 1, 1996. The balance at December 31, 1997 and 1996 was $1,164,783 and $1,394,472, respectively. The remaining $6 million is payable in the form of a note with interest at 8.25%, monthly payments of interest only, principal due and payable August 1, 2005. These notes are secured by the Company's stock and commission income. In addition, in July 1996, the Company agreed to reimburse the former majority stockholder for attorney's fees related to the restructuring.

8. Preferred and Common Stock

Series A Preferred Stock

The Company has 136,852 outstanding shares of no par, nonparticipating Series A preferred stock at December 31, 1997 (153,613 in 1996).

Pursuant to the preferred stock agreement, the holder of the Series A preferred stock has the right to require the Company to redeem the stock at any time after September 14, 1993. The right was exercised by giving the Company written notice of demand for redemption effective December 2, 1993.

The Company began redeeming the Series A preferred shares at $10 per share over a fifteen year period with interest at 1-1/2% below the First Interstate Bank of Idaho, N.A. prime rate, adjusted quarterly. In 1995, the Company agreed to restructure the redemption over a ten year period with interest at 1/4% above the First Interstate Bank of Idaho, N.A. prime rate, adjusted quarterly. The Company redeemed 16,761 shares in 1997 and 16,949 shares in 1996. On July 1, 1996, the Company further restructured the Series A shareholder agreement such that in addition to the regular ten-year amortization agreed to in 1995, a payment of $100,000 will be made at the end of each six-month period commencing upon the full payment of the down payment note to the Company's former majority stockholder (see Note 7). Also, no principal payment shall be made on the $6 million note payable to the

Company's former majority stockholder (see Note 7) until the Series A preferred stock has been fully redeemed.

The redemption over the next five years and thereafter according to the regular ten year amortization schedule is as follows:

Year ending December 31,	Amount
1998	$ 181,400
1999	197,925
2000	215,955
2001	235,628
2002	257,093
Thereafter	280,516
	$ 1,368,517

If the Company dissolves, the Series A preferred stock has liquidating preference over common and Series C Stockholders in amounts equal to its redemption value. The holder of the Series A preferred stock has the right, voting separately as a class, to elect one member to the Board of Directors.

Series C Preferred Stock

During 1995, the Company initiated a private placement of preferred stock in which 150,000 shares of the 500,000 shares authorized of the Series C 10% convertible preferred stock and attendant Series C warrants were sold for $1.5 million in August of 1995. An additional 50,000 shares with proceeds of approximately $200,000 were placed by December 31, 1995. During 1996, 86,500 shares with proceeds of $865,000 were placed. During 1997, 11,000 shares with proceeds of $110,000 were placed. At December 31, 1997, 297,500 shares were outstanding. Each Series C warrant issued to the preferred stock investors is exercisable upon the earlier of two years or the completion of a stock offering which raises a minimum of $5 million and entitles the investors to acquire .0000307% of the Company's common stock on a fully diluted basis at a price below market value. The terms of the Series C preferred shares are as follows:

> The holders shall have no right to receive notice of or to vote on any matter at any regular or special meeting of stockholders of the corporation.
>
> The holders shall be entitled to receive, when and as declared by the Company's Board of Directors, cumulative cash dividends at the per annum rate of 10% of the liquidation rate. The liquidation rate is $10 per share and the dividends are payable annually in preference to any dividends upon the Company's common stock, but only if redemption payments to the Series A stockholder are current.
>
> Upon dissolution, liquidation, or winding-up affairs of the Company, the Series C convertible preferred stockholders receive preference before any payment is made to the holders of common stock. The liquidation value per share is $10 plus any declared and unpaid dividends.
>
> Preferred stock is subject to certain mandatory redemption features and the Company has the right to redeem the preferred shares at any time. The redemption value at December 31, 1997 totaled approximately $3.0 million ($2.9 million at December 31, 1996).
>
> Each holder of Series C preferred stock shall have the right, exercisable beginning at the earlier of the date of receipt of notice of mandatory redemption of the Series C preferred stock or two years after the first Issuance of the stock and ending on the closing date of an equity offering, to convert each share of preferred stock into that number of shares of common stock which equals .0000693% of the common stock on a fully diluted basis at the effective date of exercise.

Common Stock

See Note 7 for discussion regarding purchase of common stock from former majority stockholder.

Employee Benefits Plans

The Company may grant options to purchase shares of common stock to key employees of the Company under a stock option plan. The exercise price shall be no less than the fair market value of the shares on the grant date. The options vest immediately upon issuance and generally expire within five years.

The following table summarizes stock option activity:

	Number of Shares	Exercise Price Per Share
Outstanding at January 1, 1996	507,157	$0.01-$1.22
Granted	48,174	$1.95
Expired or canceled	-	-
Exercised	-	-
Outstanding at December 31, 1996	555,331	$ 0.01-$1.95
Granted	101,219	$3.42
Expired or canceled	-	-
Exercised	-	-
Outstanding at December 31, 1997	656,550	$0.01-$3.42

The following table summarized information about fixed-price stock options outstanding and exercisable at December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0.01	475,000	5.00	$0.01	475,000	$0.01
$1.22	32,157	5.00	$1.22	32,157	$1.22
$1.95	48,174	3.75	$1.95	48,174	$1.95
$3.42	101,219	4.75	$3.42	101,219	$3.42
$0.01-$3.42	656,550	4.87	$2.65	656,550	$2.65

Under the provisions of SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

Years ending December 31,	1997	1996
Net income		
As reported	$ 9,790,505	$ 1,722,454
Pro forma	$ 9,703,014	$ 1,698,712

The Company maintains a profit sharing retirement plan with an IRS Code Section 401(k) feature covering substantially all employees who have completed one year of service. Employee elective deferral contributions are 100% vested and Company contributions are fully vested after seven years of participation. The Company's contributions to the plan were $59,000 and $124,847 in 1997 and 1996, respectively.

The Company has an employee stock ownership plan covering employees who have completed one year of service. Employees are fully vested after five years of participation. There were no contributions to the plan in 1997 or 1996. Non-vested participants'

AIA Services Corporation and Subsidiaries

Consolidated Financial Statements
Years Ended December 31, 1996 and 1995

EXHIBIT

K

AIA Services Corporation and Subsidiaries

Contents

BDO

BDO Seidman, LLP
Accountants and Consultants

900 Seafirst Financial Center
601 West Riverside Avenue
Spokane, Washington 99201-0611
Telephone: (509) 747-8095
Fax: (509) 747-0415

Independent Auditor's Report

The Board of Directors
AIA Services Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheet of AIA Services Corporation (an Idaho corporation) and subsidiaries as of December 31, 1996, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of AIA Services Corporation as of December 31, 1995, were audited by other auditors whose report dated April 5, 1996, except notes 8 and 9 which are as of July 1, 1996, and note 3(i) which is as of October 7, 1997, expressed an unqualified opinion except for the effects of not writing off or fully reserving intangible assets included in the net liabilities to be disposed of approximately $2,233,000 and included an explanatory paragraph regarding the Company's ability to continue as a going concern.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIA Services Corporation and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has suffered significant losses, primarily attributable to its insurance underwriting segment. This segment was discontinued effective October 1, 1995; however, disposal is not complete and the recovery of the segment's assets and settlement of continuing and terminated obligations are being negotiated. The status of Management's efforts to transfer its insurance risk and settle its insurance obligations is described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these negotiations.

BDO Seidman, LLP

June 17, 1997, except from the last paragraph on page 29 through the second full paragraph on page 30 which is as of October 8, 1997 and Note 1 and the first paragraph on page 25 which are as of December 1, 1997

December 31,	1996	1995
Assets		
Cash and cash equivalents	$ 474,137	$ 1,175,089
Accrued investment income	12,228	15,123
Investments (Note 3)	254,449	254,449
Real estate, net of accumulated depreciation of $107,280 and $110,155, respectively	161,565	167,124
Receivables	898,704	833,161
Related party receivable (Note 7)	283,736	126,657
Prepaid expenses	471,969	417,852
Income tax refund receivable (Note 6)	-	3,033
Deferred income taxes (Note 6)	203,747	168,577
Property and equipment, net (Note 4)	96,301	181,087
Total assets	$ 2,856,836	$ 3,342,152

Consolidated Balance Sheets

December 31,	1996	1995
Liabilities and Stockholders' Deficit		
Liabilities:		
Accounts payable and accrued expenses	$ 1,466,876	$ 3,218,108
Income taxes payable (Note 6)	65,216	-
Unearned commissions	761,000	646,000
Mortgages and notes payable (Note 5)	131,670	842,011
Net liabilities to be disposed (Note 2)	6,293,944	6,824,717
Obligation to former majority common stockholder (Note 7)	7,394,472	7,124,534
Total liabilities	16,113,178	18,655,370
Series A preferred stock - redeemable and convertible, no par value, 200,000 shares authorized, issued and outstanding, 153,613 and 170,562 shares (Note 8)	1,536,134	1,705,620
Commitments and Contingencies (Notes 2 and 10)		
Stockholders' deficit (Note 8):		
Series C convertible preferred stock - $1 par value, 500,000 shares authorized, issued and outstanding, 286,500 and 200,000 shares (Note 8)	286,500	200,000
Common stock - $0.01 par value, 11,000,000 authorized, issued and outstanding 1,079,520 shares (Notes 7 and 8)	10,795	10,795
Additional paid-in capital	2,197,796	1,419,295
Unrealized gains on investment securities available-for-sale, net of taxes	–	111,199
Accumulated deficit, including accumulated deficit from discontinued operations of ($14,245,921) and ($15,146,426)	(17,287,567)	(18,760,127)
Total stockholders' deficit	(14,792,476)	(17,018,838)
Total liabilities and stockholders' deficit	$ 2,856,836	$ 3,342,152

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Operations

Year Ended December 31,	1996	1995
Revenues:		
Commissions (Note 7)	$ 6,255,197	$ 7,473,932
Administrative fees	3,382,553	3,439,955
Investment income	120,476	82,866
Total revenues	9,758,226	10,996,753
Expenses:		
Commission expense	2,857,256	3,025,205
General and administrative expense	5,187,974	7,491,331
Interest expense	844,963	564,714
Write-off of deferred acquisition costs	-	2,331,166
Total expenses	8,890,193	13,412,416
Income (loss) from continuing operations before income taxes	868,033	(2,415,663)
Income tax expense (benefit)	46,084	(770,633)
Income (loss) from continuing operations	821,949	(1,645,030)
Income (loss) from discontinued operations, net of applicable income taxes (Note 2)	900,505	(9,005,120)
Net income (loss)	$ 1,722,454	$(10,650,150)

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Deficit

	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Unrealized Gains (Losses) on Investment Securities Available-for-Sale, Net of Taxes	Accumulated Deficit
Balance, January 1, 1995	$ –	$ 1,033,380	$ 771,318	$(1,244,153)	$ (493,219)	$ (919,700)
Net loss	–	–	–	–	–	(10,650,150)
Unrealized gains on investment securities available-for-sale	–	–	–	–	604,418	–
Purchase of common stock from former majority stockholder	–	–		(7,740,027)		
Change in par value of common stock and split stock	–	(349,045)	349,045	–	–	–
Cancellation of outstanding treasury stock	–	(673,540)	(1,120,363)	8,984,180	–	(7,190,277)
Issuance of Series C convertible preferred shares	200,000	–	1,486,418	–	–	–
Series C preferred dividends paid or accrued	–	–	(67,123)	–	–	–
Balance, December 31, 1995	200,000	10,795	1,419,295	–	111,199	(18,760,127)
Net income	–	–	–	–	–	1,722,454
Unrealized gains on investment securities available-for-sale	–	–	–	–	4,563	–
Issuance of Series C convertible preferred shares	86,500	–	778,501	–	–	–
Series C preferred dividends paid or accrued	–	–	–	–	–	(249,894)
Transfer to net liabilities to be disposed of	–	–	–	–	(115,762)	–
Balance, December 31, 1996	$ 286,500	$ 10,795	$ 2,197,796	$ –	$ –	$ (17,287,567)

See accompanying summary of accounting policies and notes to consolidated financial statements.

AIA Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Year Ended December 31,	1996	1995
Cash flows from operating activities:		
Net income (loss)	$ 1,722,454	$ (10,650,150)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	101,451	2,560,265
Write off of account receivable	260,706	–
Other (gains) losses	–	(649)
Deferred income taxes	(35,170)	(772,818)
Change in assets and liabilities:		
Receivables	(323,354)	112,357
Prepaid expenses	(54,117)	155,554
Accounts payable and accrued expenses	(1,751,232)	1,165,157
Income taxes payable (receivable)	68,249	–
Unearned commissions	115,000	(120,000)
Discontinued operations	(5,751,605)	(9,365,528)
Net cash used in operating activities	(5,647,618)	(16,915,812)
Cash flows from investing activities:		
Capital expenditures	(11,352)	(24,940)
Proceeds from sale of securities available for sale	–	8,432
Proceeds from sale of property and equipment	246	(28)
Issuance of notes receivable	(157,079)	(126,661)
Discontinued operations investing activities	5,748,399	24,239,945
Net cash provided by investing activities	5,580,214	24,096,748

AIA Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	1996	1995
Cash flows from financing activities:		
Repayment of mortgages and notes payable	(710,334)	(701,743)
Capital paid in to discontinued operations	–	(1,500,000)
Redemption of preferred stock	(169,486)	(197,481)
Dividends paid to preferred stockholders	(249,894)	(67,123)
Net proceeds from issuance of Series C preferred stock	865,001	1,686,418
Issuance of notes payable	269,938	–
Discontinued operations financing activities	–	(5,154,000)
Net cash provided by (used in) financing activities	5,225	(5,933,929)
Net increase (decrease) in cash and cash equivalents	(62,179)	1,247,007
Cash and cash equivalents, beginning of year, including $504,484 and $39,188 from discontinued operations	1,679,573	432,566
Cash and cash equivalents, end of year, including $1,143,257 and $504,484 from discontinued operations	$ 1,617,394	$ 1,679,573
Supplemental Disclosures of Cash Flow Information:		
Cash paid for the period for:		
Interest	$ 785,253	$ 757,413
Income taxes	$ –	$ (220,209)

See accompanying summary of accounting policies and notes to consolidated financial statements.

AFFIDAVIT OF GARY D. BABBITT IN SUPPORT OF AIA SERVICES CORPORATION'S AND AIA INSURANCE, INC.'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

AIA Services Corporation and Subsidiaries

Summary of Accounting Policies

Business Activities

AIA Services Corporation (the Company) is an insurance holding company based in Lewiston, Idaho. Prior to October 1, 1995, the Company had two business segments. The Insurance Underwriting segment was comprised of the Company's wholly-owned subsidiary, The Universe Life Insurance Company (Universe), and its wholly-owned subsidiary, Great Fidelity Life Insurance Company, (Great Fidelity). Effective October 1, 1995, the Company adopted a plan of disposal of its insurance underwriting segment. (See Notes 1 and 2 for further discussion.)

The Company's continuing operations consist of its Insurance Marketing segment. The principal business of this segment is marketing insurance products and services to ranchers and farmers, many of whom are members of agricultural associations. The Company's current products include group health and life insurance and long-term care insurance. These products are marketed through two subsidiaries, AIA Insurance, Inc. and AIA MidAmerica, Inc.

The Company has established relationships with state and regional associations including the National Association of Wheat Growers, American Soybean Association, and the National Contract Poultry Growers Association (Association). These Associations were formed through the common interests of their members to promote specific segments of the agriculture industry. They are the primary recognized organizations representing the interests of the grain growers, soybean growers and poultry growers in the United States.

The Company sells group health insurance to these Associations and their members and provides administrative services for such insurance in accordance with the terms of marketing and administrative agreements between the Company and the underwriting insurance company. The Company also acts as the marketer and administrator for a multiple-association trust whose participants engage in farming, ranching or other agriculture related businesses. As part of the Company's administrative duties, the Company collects association dues through its regular customer billing procedure, thereby creating an important link between the Company and the Associations. In return, the Associations endorse the Company and certain of its products and services.

Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: AIA Insurance, Inc. (AIA), AIA MidAmerica, Inc., AIA Pacific Marketing Corporation, The Universe Life Insurance Company (Universe), Great Fidelity Life Insurance Company (Great Fidelity), and AIA Bancard Services Corporation. All material intercompany transactions have been eliminated in consolidation. Universe and Great Fidelity are shown as discontinued operations (see Notes 1 and 2).

Investments

The Company accounts for investments according to the provisions of Statement of Financial Accounting Standards No. 115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities". SFAS 115 requires that investments in all debt securities and those equity securities with readily determinable market values be classified into one of three categories: held-to-maturity, trading, or available-for-sale. Classification of investments is based upon management's current intent. Debt securities which management has a positive intent and ability to hold until maturity are classified as securities held-to-maturity and are carried at amortized cost adjusted for unamortized premium or discount. Unrealized holding gains and losses on securities held-to-maturity are not reflected in the consolidated financial statements. Debt and equity securities that are purchased for short-term resale are classified as trading securities. Trading securities are carried at market value, with unrealized holding gains and losses included in earnings. All other debt and equity securities not included in the above two categories are classified as securities available-for-sale. Securities available-for-sale are carried at market value, with unrealized holding gains and losses reported as a separate component of stockholders' equity, net of applicable income taxes. At December 31, 1996 and 1995, the Company did not have any investments categorized as trading securities.

The Company's carrying value for investments in the held-to-maturity and available-for-sale category is reduced to its estimated realizable value if a decline in the market value is deemed other than temporary. Such reductions in carrying value are recognized as realized losses and charged to income. The Company has no investments where a decline in market value is deemed other than temporary. Premiums and discounts on debt securities are amortized over the life of the security as an adjustment to yield using the effective interest method. Realized gains and losses on disposition of investments are included in net income. The cost of investments sold is determined on the specific identification method.

Deferred Policy Acquisition Costs

Prior to 1995, costs of acquiring insurance business which vary with and are primarily related to the production of such business were deferred and amortized over the estimated life of the underlying policy. Such costs include certain expenses related to policy issuance and underwriting. These costs were being amortized over five years on a straight-line basis. During 1995, the Company began the disposal of its life and health underwriting operations. This involved the disposal of the risk taking segments of Universe and Great Fidelity and the planned disposition of these two companies. The Company determined that as a result of actions taken to dispose of these two insurance companies, which issue and underwrite the policies related to the costs deferred, it was no longer appropriate to defer these costs. As a result, at December 31, 1995, the Company wrote off $2,331,166 in deferred acquisition costs, increasing 1995 expenses by this amount.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Where applicable, cost includes interest and real estate taxes incurred during construction and other construction related costs. Depreciation is computed principally by the straight-line method using lives of 31 to 40 years for buildings and five to seven years for equipment.

Commission Income

Commission income is recognized ratably over the policy period.

Administrative Fees

AIA is a third-party administrator for Universe, Centennial Life Insurance Company and various Association trusts providing administrative and data processing services. All administrative fees result from such arrangements and are recorded as income upon receipt, which approximates the time period over which the fees are earned. The administrative fees are calculated on a per policy basis, on a percentage of certain future policy benefits, and also as specific administrative functions are performed.

Income Taxes

The Company files a consolidated income tax return for its non life insurance subsidiaries. A separate return is filed for the Company's life insurance subsidiaries.

The Company accounts for income taxes according to the provisions of Statements of Accounting Financial Standards No. 109 (SFAS 109) "Accounting for Income Taxes." Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash and funds temporarily invested (with original maturities not exceeding three months) as part of the Company's management of day-to-day operating cash receipts and disbursements.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Disposal of Insurance Underwriting Segment

In 1995, the Company adopted a plan to dispose of its insurance underwriting segment (the Plan) and recognized a net loss from discontinued operations of $9.0 million. This loss includes management's estimate of the liabilities to be incurred by the Company in disposing of the insurance underwriting segment according to plan, in excess of the assets available to satisfy these liabilities (see Note 2) and the operating results of the insurance underwriting segment. The Plan requires that the Company transfer or settle the insurance underwriting risk of its insurance subsidiaries, Universe and Great Fidelity, and liquidate these insurance subsidiaries' remaining assets and liabilities. As the Plan is carried out, management re-estimates its net liability to dispose of the insurance underwriting segment. In 1996, net income from discontinued operations of $900,000 included changes in estimates of liabilities and recoverable amounts of assets and the operating results of the insurance underwriting segment.

Effective December 1, 1997, Universe completed the cancellation of substantially all of the Group Universal Health insurance policies previously reinsured, assumed or written by Centennial Life Insurance Company (Centennial) and arranged for the certificateholders to obtain similar coverage from Trustmark Insurance Company (Trustmark). The cash value obligation for the related Supplemental Benefit Accounts (SBA) and Universal Benefits (UB) of the certificateholders remains with Universe until satisfied by payment. Approximately $13.5 million was placed in trust by Centennial and management believes these funds will be sufficient to satisfy the remaining prepaid premium obligations, claim liabilities, withdrawal values and vested SBA and UB obligations of Universe. The Company and Centennial are continuing negotiations to resolve their respective claims relating to Centennial's activities associated with the administration of these policies. Agreements to formalize the Company's marketing and administration services relating to the Associations and their certificateholders, now covered by Trustmark, are near completion and the Company expects that the new arrangements for commissions and administrative fees will provide the Company a continued source of revenue sufficient to meet its operating obligations. No adjustments to record the effects of these 1997 transactions have been included in the Company's 1996 financial statements.

Great Fidelity continues to retain 10% of the risk on long-term care policies (90% of risk assumed by The American Long Term Care Reinsurance Group) and management has included an estimate of reserves necessary to fund policy liabilities in the net liabilities to dispose of the insurance underwriting segment as of December 31, 1996. The Company is currently negotiating the sale of all or a portion of its common stock ownership interests in Great Fidelity to an unrelated third party investor and continuing to pursue a reinsurance arrangement to transfer the remaining 10% long-term care risk. No adjustments have been recorded to reflect this possible sale of Great Fidelity common stock or reinsurance arrangement as the negotiations have not been finalized.

2. Discontinued Operations

The net liabilities to be disposed in the consolidated financial statements include management's estimates in accordance with Accounting Principles Board (APB) Opinion No. 30 "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and consist of the following assets and liabilities of the insurance subsidiaries at December 31:

	1996	1995
Cash and cash equivalents	$ 1,143,257	$ 504,484
Investment and mortgage-backed securities:		
Held-to-maturity	1,402,031	–
Available-for-sale	8,028,768	14,033,604
Mortgage loans on real estate	3,224,774	3,521,680
Policy loans	58,545	74,316
Short-term investments	289,561	1,032,564
Other invested assets	–	85,351
Accrued investment income	90,392	137,952
Income taxes receivable	–	96,433
Receivables	14,341,496	22,818,800
Prepaid expenses	119,684	234,554
Net property and equipment	153,900	250,495

	1996	1995
Deferred acquisition costs	163,396	514,880
Cost of insurance and licenses acquired	1,509,896	1,717,757
Total assets	30,525,700	45,022,870
Policy liabilities	32,327,665	43,111,963
Accounts payable and accrued expenses	4,378,925	8,735,624
Deferred income taxes	113,054	–
Total liabilities	36,819,644	51,847,587
Net liabilities to be disposed of	$ 6,293,944	$ 6,824,717

Summary consolidated statements of operations for the insurance subsidiaries to be disposed of are as follows:

Year ended December 31,	1996	1995
Revenues:		
Premiums	$ 5,631,049	$ 24,319,529
Investment income	945,380	1,498,819
Total revenues	6,576,429	25,818,348
Benefits and expenses:		
Benefits	1,520,581	22,294,342
Commissions	815,519	5,263,431
General and administrative expenses	3,339,824	6,650,656
Interest	–	210,186
Total benefits and expenses	5,675,924	34,418,615
Income (loss) before income taxes	900,505	(8,600,267)
Income tax expense (benefit)	–	404,853
Net income (loss)	$ 900,505	$ (9,005,120)

Operating results of Universe and Great Fidelity, including changes in the estimate of net liabilities to be disposed, have been shown separately as income (loss) from discontinued operations, net of applicable income taxes, in the accompanying consolidated statements of operations.

All business remaining with Universe and Great Fidelity is in a runoff mode. Management anticipates no significant operating gain or loss for either company through final disposal date. However, the final settlement of liabilities and recovery of assets may result in a change in management's current estimates of these assets and liabilities, which will be included in the income (loss) from discontinued operations.

Summary of Accounting Policies

In addition to the accounting policies for continuing operations, the following accounting policies relate only to discontinued operations:

Investment and Mortgage-Backed Securities

Mortgage-backed securities represent participating interests in pools of first mortgage loans originated and serviced by the issuers of the securities. Premiums and discounts on mortgage-backed securities are amortized over the estimated life of the security as an adjustment to yield using the effective interest method. Mortgage-backed securities are accounted for under SFAS 115.

Mortgage and Policy Loans

Mortgage loans and policy loans are carried at unpaid principal balances. Real estate is carried at cost, less accumulated depreciation.

Deferred Acquisition Costs

Costs of acquiring insurance business which vary with and are primarily related to the production of such business are deferred and amortized over the estimated life of the underlying policy. Such costs include certain expenses related to policy issuance and underwriting. These costs were written off in 1995.

Cost of Insurance and Licenses Acquired

The cost of licenses acquired related to discontinued operations is being amortized on a straight-line basis over 30 to 40 years. The cost of insurance acquired is being amortized over the premium-paying period of the related policies, estimated to be 5 to 15 years.

Policy Benefits and Other Policy Liabilities

Ordinary life insurance and annuity policy benefit liabilities are computed on a net level premium method using assumptions with respect to current investment yield, mortality, morbidity, withdrawal rates, and other assumptions determined to be appropriate as of the date the business was issued or purchased by the Company. Such estimates were based upon past experience adjusted to provide for possible adverse deviation from the estimates.

Reserves for the Universal Benefit (UB), the Withdrawal Value (WV), and the Supplemental Benefit Accumulation (SBA) components of the group accident and health insurance contracts are computed on a graduated scale from 25% to 100% of the certificated holders' UB, WV, or SBA balance over a 10 to 15 year period.

The liability for unpaid claims included in the net liability to be disposed is an estimate of payments to be made on insurance claims for reported losses and estimates of incurred but not reported claims.

Reinsurance

The Company accounts for reinsurance of insurance contracts according to the provisions of Statement of Financial Standards No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" (SFAS 113). Under SFAS 113, reinsurance receivables and prepaid reinsurance premiums are accounted for and reported separately as assets, net of valuation allowance, rather than being deducted from the liability for future policy benefits and claims. As the Company's insurance subsidiaries' operations are discontinued, the reinsurance receivables and prepaid reinsurance are included in net liabilities to be disposed in the accompanying consolidated financial statements. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. Contracts not resulting in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and are to be accounted for as deposits.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts.

Recognition of Revenues and Costs

Premiums on life insurance are recognized as revenue when due. Benefits, losses and related expenses are matched with earned premiums in order to recognize income over the term of the contracts. This matching is accomplished by means of the provision for future policyholder benefits and estimated unpaid losses.

Investment and Mortgage-Backed Securities

The amortized cost and market value of investment and mortgage-backed securities as of December 31, 1996 and 1995 follows. The market values are based on quoted market prices, where available, or on value obtained from independent pricing services.

	December 31, 1996			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Held-to-maturity				
Bonds:				
U.S. Treasury bonds	$ 1,302,031	$ 49,009	$ –	$ 1,351,040
Corporate bonds	100,000	1,159	–	101,159
Total held-to-maturity	$ 1,402,031	$ 50,168	$ –	$ 1,452,199

	December 31, 1996			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Available-for-sale				
Bonds:				
Government:				
U.S. Treasury bonds	$ 2,705,536	$ 104,278	$ –	$ 2,809,814
Mortgage backed securities	4,505,200	–	(38,234)	4,466,966
Corporate bonds	249,726	–	(6,818)	242,908
Total debt securities	7,460,462	104,278	(45,052)	7,519,688
Common stocks	392,918	116,162	–	509,080
Total available-for-sale	$ 7,853,380	$ 220,440	$ (45,052)	$ 8,028,768

	December 31, 1995			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Available for sale:				
Bonds:				
U.S. Treasury bonds	$ 4,294,047	$236,337	$ (746)	$ 4,529,638
Mortgage backed securities	8,940,498	–	(137,408)	8,803,090
Corporate bonds	348,362	2,800	(237)	350,925
Total debt securities	13,582,907	239,137	(138,391)	13,683,653
Common stocks	392,918	15,304	(58,271)	349,951
Total available-for-sale	$13,975,825	$254,441	$(196,662)	$14,033,604

At December 31, 1996 and 1995 securities held with a carrying value of $3,963,445 and $3,915,311, respectively, were on deposit with certain state insurance departments in order to meet regulatory requirements.

A U.S. Treasury note with a carrying value of $766,875 and $727,098 at December 31, 1996 and 1995, respectively, was held in a Texas district court as security for payment of a judgment currently under appeal.

The amortized cost and market value of debt securities segregated by held-to-maturity and available-for-sale at December 31, 1996, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations. Securities not due at a single maturity date are collateralized mortgage obligations of government backed securities which have principal payments throughout the life of the investment, the timing of which may vary with market conditions.

	Held-to-Maturity Amortized cost	Held-to-Maturity Market value	Available-for-Sale Amortized cost	Available-for-Sale Market value
Contractual maturity:				
Due one year or less	$ 50,067	$ 50,315	$ 649,767	$ 637,965
Due one through five years	1,351,964	1,401,884	746,740	771,009
Due six through ten years	–	–	1,558,755	1,643,748
Due after ten years	–	–	–	–
Not due at a single maturity date	–	–	4,505,200	4,466,966
	$ 1,402,031	$ 1,452,199	$ 7,460,462	$ 7,519,688

Investment income consists of the following:

Year ended December 31,	1996	1995
Bonds	$ 559,184	$ 1,267,947
Common stocks	-	(16,500)
Mortgage loans	276,502	299,666
Policy loans	13,084	4,320
Real estate	32,842	32,842
Short-term investments	91,142	124,807
Other	3,339	5,859
	976,093	1,718,941
Less investment expenses	30,713	220,122
	$ 945,380	$ 1,498,819

Realized gains and losses on investments are as follows:

Year ended December 31,	1996	1995
Gross gains	$ –	$ 78,585
Gross losses	(74,440)	(382,039)
	$ (74,440)	(303,454)

Proceeds from the sales of fixed maturity securities during 1996 and 1995 were $1,025,000 and $601,914, respectively.

Property and Equipment

Property and equipment included as part of discontinued operations at December 31 consist of the following:

	1996	1995
Company occupied properties	$ 32,075	$ 32,075
Furniture and equipment	1,786,238	1,795,485
	1,818,313	1,827,560
Less accumulated depreciation	1,664,413	1,577,065
	$ 153,900	$ 250,495

Sale of Real Estate

On December 30, 1993, Universe sold its home office building for $2,650,000 in connection with a sale and lease back agreement. Universe received a note secured by a deed of trust for $1,987,500 at 8% per annum and the balance in cash. AIA entered into a 15 year lease with an option to purchase the property. Universe reported a deferred gain of $492,629 in 1993 which is being recognized over the term of the lease. Universe recognized $32,842 of the deferred gain in both 1996 and 1995.

Policy Liabilities

Policy liabilities at December 31 are as follows:

	1996	1995
Future policy benefits	$30,965,857	$36,988,825
Unpaid claims	1,069,916	5,877,615
Other policy liabilities	291,892	245,523
	$32,327,665	$43,111,963

Activity in the liability for claims in the course of settlement and unrecorded claims as it applies to accident and health policies are as follows:

	1996	1995
Balance, beginning of year, accident and health	$ 5,853,825	$ 6,687,155
Less reinsurance recoverable	(190,040)	(3,178,590)
Net balance, beginning of year	5,663,785	3,508,565
Total incurred during year	1,794,107	25,704,188
Paid in current year related to:		
Current year	2,923,908	15,177,666
Prior years	3,631,486	8,371,302
Total paid	6,555,394	23,548,968

	1996	1995
Net balance, end of year	902,498	5,663,785
Plus reinsurance recoverable	167,418	190,040
Balance, end of year, accident and health	1,069,916	5,853,825
Net life claims liability	–	23,790
Total unpaid claims, end of year	$ 1,069,916	$ 5,877,615

Dispositions and Reinsurance

During 1995 and 1994, Universe entered into various agreements with Centennial, pursuant to which Universe sold or reinsured its group universal health (GUH) business. Under a transfer agreement and related reinsurance agreements, Universe transferred all of its GUH morbidity underwriting risk, other than that related to totally disabled claimants, to Centennial. Effective December 1, 1997, these agreements were rescinded and Centennial placed in trust approximately $13.5 million to pay the remaining policy obligations. Management believes these funds will be sufficient to satisfy the remaining policy obligations of Universe. The Company and Centennial are continuing negotiations to resolve their respective claims relating to Centennial's activities associated with the administration of these policies.

Effective July 1, 1995, 90% of the long-term care business of Great Fidelity was ceded to a consortium of reinsurers on a quota-share basis. Great Fidelity will receive a ceding fee of 15% of first year premium and 8% of renewal premiums ceded.

A summary of significant reinsurance amounts affecting the accompanying financial statements as of and for the years ended December 31, 1996 and 1995 is presented below. The ceded balance sheet amounts have been classified as assets in the balance sheets of Universe and Great Fidelity in accordance with the provision of SFAS 113.

	1996	
	Assumed	Ceded
Balance sheets:		
Nonaffiliates:		
Future policy benefits and claims:		
Accident and health	$ –	$13,330,533
Amounts recoverable from reinsurer	–	781,830
Reinsurance receivables	$ –	$14,112,363

	1996	
	Assumed	Ceded
Statement of operations:		
Nonaffiliates:		
Life insurance premiums	$ –	$ 192,548
Accident and health insurance premiums	$ –	$18,825,289
Benefits and claims	$ –	$13,956,351
Commission and expense allowances on reinsurance ceded	$ –	$ 4,428,378

	1995	
	Assumed	Ceded
Balance sheets:		
Nonaffiliates:		
Future policy benefits and claims:		
Accident and health	–	21,214,355
Accounts recoverable from reinsurers	–	67,933
Reinsurance receivables	$	$21,282,288

	1995 Assumed	1995 Ceded
Statements of operations:		
Nonaffiliates:		
Life insurance premiums	$ (9,903)	$ 102,752
Accident and health insurance premiums	$ 858,125	$11,798,574
Benefits and claims	$ 1,371,852	$16,924,365
Commission and expense allowance on reinsurance ceded	$ 150,179	$ 5,784,026

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Amounts for ceded future policy benefits and claims would represent a liability of the Company in the unlikely event that its reinsurers would be unable to meet existing obligations under reinsurance agreements.

Income Taxes

The significant components of the Company's net deferred tax assets and liabilities related to discontinued operations at December 31 are summarized as follows:

	1996	1995
Deferred tax assets:		
Policy reserves	$ 69,807	$ 194,114
Net unrealized losses on available-for-sale securities	–	61,328
Net operating loss carryforwards	4,730,934	3,956,882
Other	274,380	302,521
	5,075,121	4,514,845

	1996	1995
Deferred tax liabilities:		
Deferred policy acquisition costs	**(55,555)**	(172,422)
Tax over book depreciation and amortization	**(136,616)**	(155,793)
Deferred gains on installment sales on real estate	**(327,467)**	(319,954)
Net unrealized gains on available-for-sale securities	**(59,631)**	–
Other	**(12,478)**	(44,480)
	(591,747)	(692,649)
Valuation allowance	**(4,483,374)**	(3,822,196)
Net deferred tax asset (liability)	**$ –**	$ –

At December 31, 1996, The Universe Life Insurance Company consolidated group has approximately $13,900,000 in net operating loss carryforwards available to offset future taxable income which expire through 2010.

The Company's ability to use its net operating loss carryforwards to offset future taxable income is subject to annual restrictions contained in the United States Internal Revenue Code of 1986, as amended (the Code). These restrictions act to limit the Company's future use of its net operating losses following certain substantial stock ownership changes as enumerated in the Code. There was such a change in ownership during the year ended December 31, 1995 and there are substantial annual restrictions limiting the Company's future use of its net operating loss carryforwards.

Regulatory Requirements and Other Matters

Generally, the net assets of Universe and Great Fidelity available for transfer to the Company are limited to the amounts by which the net assets exceed minimum capital requirements.

Under Idaho insurance law, dividends may be paid by Universe only from profits or earned surplus and require Idaho Insurance Department (Department) approval if the dividend is in excess of the greater of 10% of surplus or net gain from operations of the prior year. Universe may not pay a dividend without prior approval from the Department.

Under Indiana insurance law, the minimum statutory capital and surplus required is $450,000. Great Fidelity may not pay dividends that reduce surplus to less than 50% of capital stock. Extraordinary dividend payments which exceed the greater of the net gain from operations or 10% of surplus from the preceding year require approval from the Indiana Commissioner of Insurance.

Universe and Great Fidelity file annual statements with the Department of Insurance of the states of Idaho and Indiana, respectively, prepared on the basis of accounting practices prescribed or permitted by such regulatory authorities. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company has no material permitted statutory accounting practices.

On March 5, 1996, at the direction of its Board of Directors, Universe and the Idaho Department of Insurance (the Department) entered into a Stipulation and Order of Rehabilitation (the Order) in the District Court of the Fourth Judicial District of the State of Idaho (the Court). Pursuant to the Order, the rehabilitator appointed by the Department has taken possession of Universe's assets. In addition, Great Fidelity consented to a modified supervision order issued by the Indiana Department of Insurance on March 6, 1996. Under both orders, the present management of both companies was retained. A formal Plan of Rehabilitation (the Plan) was filed with the Court on August 8, 1997 and was amended and approved on October 7, 1997. The Plan becomes effective upon an offer of replacement coverage from an acceptable third party insurer to all certificateholders insured under the group universal health policies originally issued by Universe. The Plan requires Centennial to deposit $14.5 million plus net premiums (defined as gross premiums less claims, commissions, taxes and administration and trust fees) from September 1, 1997, into a segregated trust account under the control of the rehabilitator, and rescinds or terminates all contracts and agreements between Centennial and Universe (see Note 1).

Universe and Centennial reserve the right to continue negotiations to resolve their respective claims relating to Centennial's activities associated with the administration of these policies.

The following reconciles the statutory net loss of Universe and Great Fidelity, as filed with regulatory authorities, to the net income (loss) included in the accompanying consolidated financial statements (as discontinued operations) based on generally accepted accounting principles (GAAP) for the years ending December 31, 1996 and 1995:

	1996	1995
Statutory net loss	$ (2,458,247)	$ (823,709)
Adjustments to reconcile to the basis of GAAP:		
Future policy benefits	4,129,443	(391,053)
Gain on sale of GUH business	–	(2,717,080)
Deferred income taxes	–	(404,853)
Depreciation and amortization	74,504	(153,231)
Deferred gain on sale of real estate	32,842	32,842
Deferred acquisition costs	(351,483)	(1,580,945)
Cost of insurance and licenses acquired	(54,816)	(1,792,328)
Prepaid expenses	(60,150)	(27,059)
Interest maintenance reserve	(38,885)	(987,805)
Other	(372,703)	(159,899)
Net income (loss) in accordance with GAAP	$ 900,505	$ (9,005,120)

The following reconciles the statutory capital and surplus (deficit) of Universe and Great Fidelity, as filed with regulatory authorities, to the net liabilities to be disposed included in the accompanying consolidated financial statements (as discontinued operations) based on GAAP for the years ending December 31, 1996 and 1995:

	1996	1995
Statutory capital and surplus (deficit)	$ (3,537,883)	$ (1,243,215)
Cumulative effect of adjustments to reconcile to the basis of GAAP:		
Deferred acquisition costs	164,843	425,974
Cost of insurance and licenses acquired	403,784	469,704
Non-admitted assets	709,775	1,495,258
Gain on sale of GUH business	(4,900,000)	(4,900,000)
Cost of licenses	1,214,341	1,235,511
Asset valuation reserve	280,006	187,105
Interest maintenance reserve	801,962	840,847
Future policy benefit	(900,675)	(5,119,297)
Difference between amortized cost and fair value of debt and equity securities available for sale, net of deferred taxes	(26,725)	100,744
Prepaid expenses	33,599	93,749
Property and equipment, net	–	15,848
Deferred gain on sale of real estate	(423,917)	(426,945)
Deferred income taxes	(113,054)	–
Net liabilities to be disposed	$ (6,293,944)	$ (6,824,717)

Risk Based Capital

The annual statement instructions of the National Association of Insurance Commissioners require the calculation of risk-based capital (RBC) for all life insurance enterprises. The RBC serves as a benchmark for the regulation of life insurance companies by state insurance regulators. RBC provides for surplus formulas similar to target surplus formulas used by commercial rating agencies. The formulas specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. Such formulas focus on four general types of risk: (a) the risk with respect to the Company's assets (assets or default risk); (b) the risk of adverse insurance experience with respect to the Company's liabilities and obligations (insurance or underwriting risk); (c) the interest rate risk with respect to the Company's business (asset/liability matching); and, (d) all other business risks (management, regulatory action, and contingencies). The amount determined under such formulas is called the authorized control level RBC (ACLC).

The RBC guidelines define specific capital levels based on a company's ACLC that are determined by the ratio of the Company's total adjusted capital (TAC) to its ACLC. TAC is equal to statutory capital, plus the Asset Valuation Reserve and any voluntary investment reserves, 50% of dividend liability, and certain other specified adjustments. The specific capital levels, in declining order, and applicable ratios are generally as follows: "Company Action Level" where TAC is less than or equal to 2.0 times ACLC; "Regulatory Action Level" where TAC is less than or equal to 1.5 times ACLC; "Authorized Control Level" where TAC is less than or equal to 1.0 times ACLC; "Mandatory Control Level" where TAC is less than or equal to 0.7 times ACLC. Companies at the Company Action Level must submit a comprehensive financial plan to the insurance commissioner of the state of domicile. Companies at the Regulatory Action Level are subject to a mandatory examination or analysis by the commissioner and possible required corrective actions. At the Authorized Control Level, a company may be subject to, among other things, the commissioner placing it under regulatory control. At the Mandatory Control Level, the insurance commissioner is required to place a company under regulatory control.

At December 31, 1995, Universe fell into the mandatory control level as its TAC was a deficit of $1,056,110 or a negative 3.6 times its ACLC. As Universe's TAC was still a deficit at December 31, 1996, Universe remained in the mandatory control level.

At December 31, 1996 Great Fidelity's TAC was $2,731,839 or 12.2 times its ACLC ($3,617,855 or 45.9 times its ACLC in 1995). Accordingly, Great Fidelity does not currently fall into one of the above levels.

Contingencies

Various lawsuits against Universe have arisen in the ordinary course of business. Management believes that contingent liabilities arising from these litigation are not material.

3. Investments

The amortized cost and market value of investments as of December 31, 1996 and 1995 follow. The market values are based on quoted market prices, where available, or on values obtained from independent pricing services.

	December 31, 1996	
	Amortized cost	Market value
Available for sale:		
Preferred stocks	$ 245,474	$ 245,474
Common stocks	8,975	8,975
Total investments available-for-sale	$ 254,449	$ 254,449

	December 31, 1995	
	Amortized cost	Market value
Available for sale:		
Preferred stocks	$ 245,474	$ 245,474
Common stocks	8,975	8,975
Total investments available-for-sale	$ 254,449	$ 254,449

4. Property and Equipment

Property and equipment at December 31 consist of the following:

	1996	1995
Company occupied properties	$ 87,794	$ 87,794
Furniture and equipment	596,475	586,345
Transportation equipment	–	1,650
	684,269	675,789
Less accumulated depreciation	587,968	494,702
	$ 96,301	$ 181,087

5. Mortgages and Notes Payable

Mortgages and notes payable at December 31 consist of the following:

	1996	1995
Mortgages on real estate - 11.75% at December 31, 1996, due 2003	$ 71,357	$ 76,665
Notes payable:		
Bank loan - at prime plus 1%, due 1996. collateralized by Universe stock and certain cash balances, restructured July 1994, repaid March 29, 1996	–	625,919
Term loans - 8% to 10%, due 1997 to 1998, unsecured	60,313	139,427
	$ 131,670	$ 842,011

Aggregate maturities of mortgages and notes payable over the next five years are as follows:

Year ending December 31,	Amount
1997	$ 65,815
1998	6,184
1999	6,951
2000	7,813
2001	8,782
Thereafter	36,125
	$ 131,670

6. Income Taxes

The provision for income taxes from continuing operations at December 31 consists of the following:

	1996	1995
Current	$ 81,254	$ 2,184
Deferred	(35,170)	(772,817)
Income tax expense (benefit)	$ 46,084	$ (770,633)

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

The significant components of the Company's net deferred tax assets and liabilities related to continuing operations at December 31 are summarized as follows:

	1996	1995
Deferred tax assets:		
Net operating loss carryforwards	$ 643,471	$ 824,357
Accrued wages	136,000	85,000
Accrued vacation	17,997	14,479
Other	16,377	92,430
	813,845	1,016,266
Deferred tax liabilities:		
Tax over book depreciation and amortization	(27,533)	(16,922)
	(27,533)	(16,922)
Valuation allowance	(582,565)	(830,767)
Net deferred tax asset	$ 203,747	$ 168,577

The Company's effective income tax on income from continuing operations differs from the expected corporate statutory federal income tax rate primarily as a result of the change in valuation allowance.

At December 31, 1996, the Company has approximately $1,900,000 in net operating loss carryforwards which are available to offset future taxable income which expire through 2009.

The Company's ability to use its net operating loss carryforwards to offset future taxable income is subject to annual restrictions contained in the United States Internal Revenue Code of 1986, as amended (the Code). These restrictions act to limit the Company's future use of its net operating losses following certain substantial stock ownership changes as enumerated in the

Code. There was such a change in ownership during the year ended December 31, 1995 and there are substantial annual restrictions limiting the Company's future use of its net operating loss carryforwards.

7. Related Party Transactions

The Company had transactions with stockholders as follows:

	1996	1995
Related party receivable, beginning of year	$ 126,657	$ 344,214
Advances	157,079	335,884
Reductions	–	(553,441)
Related party receivable, end of year	$ 283,736	$ 126,657

In July 1995, the Company acquired all the outstanding shares (613,494 shares) of its former majority stockholder in exchange for the following:

* In exchange for $7.5 million of debt as described in the paragraph below and the following items with an aggregate fair market value of $240,000:

  * Three aircraft, net of related encumbrances;
  * Elimination of approximately $570,000 in debt to the Company;
  * Non-competition agreement through December 31, 1998; and
  * Miscellaneous furniture and fixtures.

A down payment of $1.5 million originally due on October 22, 1995 was renegotiated in July 1996 to be due October 31, 1996. Interest on this note (as renegotiated in July 1996) is 9.5% (14% while in default) and principal and interest payments of $33,750 per month are due beginning August 1, 1996. The remaining $6 million is payable in the form of a note with interest at 8.25%, monthly payments of interest only, principal due and payable August 1, 2005. These notes are secured by the Company's stock and commission income. An escrow agreement was signed in July 1996 providing payments on these notes to be transferred directly from the Company's lock box. In addition, in July 1996, the Company agreed to reimburse the former majority stockholder for attorney's fees related to the restructuring.

During 1995, AIA paid off four loans for one of the Company's stockholders totalling $126,657. AIA has set up a related party receivable for this amount. The receivable has no stated maturity or interest. During 1996, this receivable increased to $283,736.

8. Preferred and Common Stock

Series A Preferred Stock

The Company has 153,613 outstanding shares of no par, nonparticipating Series A preferred stock (170,562 in 1995).

Pursuant to the preferred stock agreement, the holder of the Series A preferred stock has the right to require the Company to redeem the stock at any time after September 14, 1993. The right was exercised by giving the Company written notice of demand for redemption effective December 2, 1993.

The Company began redeeming the Series A preferred shares at $10 per share over a fifteen year period with interest at 1-1/2% below the First Interstate Bank of Idaho, N.A. prime rate, adjusted quarterly. In 1995, the Company agreed to restructure the redemption over a ten year period with interest at 1/4% above the First Interstate Bank of Idaho, N.A. prime rate, adjusted quarterly. The Company redeemed 16,949 shares in 1996 and 19,748 shares in 1995. On July 1, 1996, the Company further restructured the Series A shareholder agreement such that in addition to the regular ten-year amortization agreed to in 1995, a payment of $100,000 will be made at the end of each six-month period commencing upon the full payment of the down payment note to the Company's former majority stockholder (see Note 7). Also, no principal payment shall be made on the $6 million note payable to the Company's former majority stockholder (see Note 7) until the Series A preferred stock has been fully redeemed.

The redemption over the next five years and thereafter according to the regular ten year amortization schedule is as follows:

Year ending December 31,	Amount
1997	$ 168,548
1998	182,519
1999	198,652
2000	216,211
2001	235,322
Thereafter	534,882
	$ 1,536,134

If the Company dissolves, the Series A preferred stock has liquidating preference over common and Series C Stockholders in amounts equal to its redemption value. The holder of the Series A preferred stock has the right, voting separately as a class, to elect one member to the Board of Directors.

Series C Preferred Stock

During 1995, the Company initiated a private placement of preferred stock in which 150,000 shares of the 500,000 shares authorized of the Series C 10% convertible preferred stock and attendant Series C warrants were sold for $1,500,000 in August of 1995. An additional 50,000 shares with proceeds of approximately $200,000 were placed by December 31, 1995. During 1996, 86,500 shares with proceeds of $865,000 were placed. At December 31, 1996, 286,500 shares were outstanding. Each Series C warrant issued to the preferred stock investors is exercisable upon the earlier of two years or the completion of a stock offering which raises a minimum of $5 million and entitles the investors to acquire .0000307% of the Company's common stock on a fully diluted basis at a price below market value. The terms of the Series C preferred shares are as follows:

The holders shall have no right to receive notice of or to vote on any matter at any regular or special meeting of stockholders of the corporation.

The holders shall be entitled to receive, when and as declared by the Company's Board of Directors, cumulative cash dividends at the per annum rate of 10% of the liquidation rate. The liquidation rate is $10 per share and the dividends are payable annually in preference to any dividends upon the Company's common stock, but only if redemption payments to the Series A stockholder are current.

Upon dissolution, liquidation, or winding-up affairs of the Company, the Series C convertible preferred stockholders receive preference before any payment is made to the holders of common stock. The liquidation value per share is $10 plus any declared and unpaid dividends.

Preferred stock is subject to certain mandatory redemption features and the Company has the right to redeem the preferred shares at any time. The redemption value at December 31, 1996 totaled $2.9 million (2.0 million at December 31, 1995).

Each holder of Series C preferred stock shall have the right, exercisable beginning at the earlier of the date of receipt of notice of mandatory redemption of the Series C preferred stock or two years after the first Issuance of the stock and ending on the closing date of an equity offering, to convert each share of preferred stock into that number of shares of common stock which equals .0000693% of the common stock on a fully diluted basis at the effective date of exercise.

Common Stock

See Note 7 for discussion regarding purchase of common stock from former majority stockholder.

In July of 1995 the Company made certain capital structure changes to the Company's common stock. This restructuring included a decrease in the par value from $1 to $.01 per share and an increase in the number of shares authorized from 5 million to 11 million. The Company also had a three for one common stock split on August 26, 1995 for stockholders of record as of June 26, 1995.

Employee Benefits Plans

Options for 12,500 shares of common stock, exercisable at $1.22 per share, were granted to certain corporate officers under a nonqualified stock option plan in 1987. In return, such officers agreed to loan the Company an amount not to exceed $90,000 in the aggregate, if certain earnings targets were not achieved over the seven-year period beginning in 1987. The loans are convertible to common stock at $1.22 per share. None of these options have been exercised and no loans have been made.

The Company maintains a profit sharing retirement plan with an IRS Code Section 401(k) feature covering substantially all employees who have completed one year of service. Employee elective deferral contributions are 100% vested and Company contributions are fully vested after seven years of participation. The Company's contribution to the plan was $200,000 and $172,428 in 1996 and 1995, respectively.

The Company has an employee stock ownership plan covering employees who have completed one year of service. Employees are fully vested after five years of participation. The Company contributed $120,787 to the plan in 1995. There were no contributions in 1996. Non-vested participants' amounts are forfeited upon departure from the Company and reallocated to remaining participants.

The Company also has an agents' stock ownership plan. No contributions were made to the plan in 1996 or 1995.

9. Operating Leases

The Company leases data processing and office equipment as lessee under lease agreements which are accounted for as operating leases. The data processing and office equipment leases expire over the next five years. The Company leases its home office building under a 15 year operating lease which expires December 31, 2008. In most cases, management expects the leases to be renewed or replaced by other leases upon expiration of current lease terms.

Minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Year ending December 31,	Amount
1997	$ 407,496
1998	375,454
1999	333,243
2000	283,200
2001	283,200
Thereafter	2,088,900
	$ 3,771,493

Total rent expense for all operating leases was $443,575 and $856,189 in 1996 and 1995, respectively.

10. Contingencies

Various other lawsuits against the Company have arisen in the ordinary course of business. Management believes that contingent liabilities arising from this litigation are not considered material in relation to the financial position or results of operations of the Company.

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RODERICK C. BOND
NED A. CANNON, ISB #2331
Smith, Cannon & Bond PLLC
Attorneys for Plaintiff
508 Eighth Street
Lewiston, ID 83501
Telephone: (208) 743-9428
Fax: (208) 746-8421

PAUL R. CRESSMAN, JR., ISB #7563
BRETT M. HILL
Ahlers & Cressman PLLC
Attorneys for Plaintiff
999 Third Avenue, Suite 3100
Seattle, Washington 98104-4088
Telephone: (206) 287-9900
Fax: (206) 287-9902

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff, v. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof; Defendants.	Case No.: CV-07-00208 PLAINTIFF REED TAYLOR'S REPLY IN SUPPORT OF HIS MOTION FOR PARTIAL SUMMARY JUDGMENT ON PROMISSORY NOTE

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ORIGINAL

I. FACTS AND ARGUMENT

Throughout its Response, AIA Services argues facts and defenses based upon the false assertion that evidence exists indicating that Reed agreed to the terms of the alleged oral modification. *See* AIA Services' Memorandum in Opposition to Plaintiff's Motion for Summary Judgment ("Response").

To be clear, there is no evidence to suggest that Reed even knew of the terms of the alleged oral modification, let alone any evidence to suggest that Reed agreed to such terms. Reed was questioned at the Preliminary Injunction Hearing held on March 1, 2007, where he testified that he never agreed to modify the terms of the transaction. *See* Affidavit of Roderick C. Bond filed on March 26, 2007, Ex. A, p. 160, ll. 7-8.

The undisputable facts only show that Reed was accepting payments that he was entitled to received under the Note. *See* Hearing, Ex. AJ. Reed, in his sole discretion, elected to provide AIA Services notice of default on December 12, 2006. *See* Hearing, Ex. F.

Reed was forced to file his Compliant in this action on January 29, 2007. *See* Complaint. On February 1, 2007, Reed reiterated to AIA Services in writing that it was in default for "failure to pay principal or interest of the $6 Million Note..." Affidavit of Reed Taylor dated February 26, 2007, Ex. I.

On February 2, 2007, Reed reiterated to AIA Services in writing that it was in default "for the failure to pay interest or principal due on [his] $6,000,000 Promissory Note..." Hearing, Ex. J.

On February 6, 2007, Reed advised AIA Services in writing that "[m]y acceptance of any partial payments should not be construed as a waiver of AIA Services

Corporations' default under the $6,000,000 promissory note…All amounts owed remain due and payable in full…" Hearing, Ex. AH. The purpose of Reed's letter dated February 6, 2007, is unmistakably clear in that it notified AIA Services that any partial payments would not act as a waiver, cure the defaults, or negates Reed's numerous demands to be paid in full. *Id.*

AIA Services' arguments pertaining to alleged oral modification are based exclusively on selected portions of the testimony of John and almost exclusively on John's First Affidavit (AIA Services also relies on a few select portions of John's deposition which happen to support his initial testimony). *See* Affidavit of D. John Ashby ("Ashby Aff."), Ex. A-B. The terms of the alleged oral modification do not have a definite date for payment. *See* Reed's Motion for Partial Summary Judgment; AIA Services' Response. John provided no new testimony in opposition to Reed's Motion for Partial Summary Judgment. *Id.*

A. The Court Should Enter an Order of Partial Summary Judgment Because AIA Services is in Default of the Promissory Note.[1]

Where a promissory note has been accelerated after notice of default and a legal action for collection has been instituted to collect the entire balance due, the defaulting debtor cannot cure by tendering payment of the past due amount. This fundamental principle is stated in 11 Am.Jur.2d, Bills and Notes, § 197 (2007), which provides:

> However, **mere acceptance of a payment on a delinquent note does not constitute a waiver or cancel an acceleration which the creditor has previously initiated, where the acceptance of the payment is preceded by the filing of suit to collect the entire balance and is followed by notice that the creditor still considers the acceleration to be in effect…the acceptance of the**

[1] AIA Services does not dispute that a default of the Promissory Note does not constitute a default of the Amended Stock Pledge Agreement. Thus, Reed will not address the issue as he is also entitled to partial summary judgment on the default of the Amended Stock Pledge Agreement.

payee of late payments which do not include required interest does not constitute a waiver of the payee's right to declare the entire balance to be due and payable.

Id. (emphasis added).

Here, Reed's acceptance of partial payments after the maturity date of the Note does not constitute an acknowledgement of an extension of time to pay the full balance due. It only provides an indication that Reed did not assert his contractual rights against his brother until December 12, 2006. *See* Hearing, Ex. F. Likewise, once Reed provided notice of a default under the terms of the allegedly modified Note (which AIA Services admits that the remaining terms of the Note are valid and that only the time of payment has been modified) and AIA Services fails to timely cure, no further notice is required to accelerate the remaining balance. *See* Hearing, Ex. A, p. 1 (If AIA Services fails to cure a default in 5 days, "the remaining unpaid balance of principal and all interest accrued thereon may, at the option of [Reed], be declared to be immediately due and payable without notice…").

As a matter of law, Reed is entitled to partial summary judgment on the Note under any possible scenario—AIA Services admitted as much when it made its belated payment on December 3, 2007.[2]

1. AIA Services is in Default of the $6,000,000 Promissory Note.

AIA Services is in default of the Promissory Note ("Note"). Under the terms of the Note, AIA Services promised to pay Reed $6,000,000, plus any accrued interest on August 1, 2005. *See* Hearing, Ex. A. AIA Services failed to pay the Note in full on

[2] Although the issue is moot because of AIA Services' default, this date assumes that the alleged $15,000 payment was actually made and received on December 3, 2007 (almost 1 year after AIA Services received Reed's written notice of default on December 12, 2006). The record is void of any evidence indicating that the payment was actually tendered or received.

August 1, 2005. *See* Affidavit of Aimee Gordon dated February 28, 2007; Hearing, Ex. AJ. Although Reed was not required to give notice of default after the Note matured on August 1, 2005, Reed notified AIA Services in writing that it was in default of the Note on December 12, 2006.

AIA Services has failed to pay the required principal and accrued interest of over $8,425,864. Reed is entitled to partial summary judgment.

2. Even if the $6,000,000 Promissory Note Was Orally Modified, AIA Services is in Default of the Alleged Modification and Admitted the Default by Making the Belated Payment to Reed Almost 1 Year After Receiving Reed's First Notice of Default.

Assuming that the alleged oral modification actually occurred and is enforceable, it is undisputed that AIA Services was in default of its own alleged oral modification. *See* Affidavit of Cori Cleveland, ¶ 3; AIA Services' Response, pp. 17-18.

In giving every benefit of doubt and inference to AIA Services, the only way that AIA Services could have cured the default of the alleged orally modified Note and prevented the acceleration of all amounts owed would have been to pay the $15,000 on or before December 19, 2006 (5 business days after receiving the notice of default on December 12, 2006). By AIA Services' own admission, it is undisputed that the past due installment was not paid within 5 business days as required.

Thus, assuming the oral modified Note was valid and enforceable, AIA Services was in default and failed to timely cure. The full remaining $6,000,000 principal, plus all accrued interest, remains due and Reed is entitled to partial summary judgment.

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3. AIA Services Has Received Numerous Notices of the Default and that the Full $6,000,000, Plus Accrued Interest Was Due and Payable.

When Reed demonstrated in his Motion for Partial Summary Judgment that there was no issue of fact or law pertaining to AIA Services' default under the Note and its own alleged oral modification, AIA Services was forced to resort to contending that Reed only "generically" provided written notice of the default. *See* AIA Services' Response, p. 17. Significantly, however, AIA Services' argument is factually and legally incorrect. AIA Services cites no law for this argument, and not surprising, it fails as a matter of law.

As explained by the Ninth Circuit Court of Appeals: "[w]hen all facts are considered and it appears that enough has been done by the party attempting to give notice to put the party to be affected on inquiry into the contents of the written notice which he has in his hands, it should be held that notice has been given." *N.L.R.B. v. Vapor Recovery Systems Co.*, 311 F.2d 782, 786 (9th Cir. 1962).

Here, on December 12, 2006, Reed provided written notice that "AIA Services [was] in default of the…$6M Note…" Hearing, Ex. F. Under the terms of the Note (originally or as allegedly modified), AIA Services had 5 business days to cure the default. *Id.* Thus, AIA Services was required to cure all defaults under the Note on or before December 19, 2006. However, AIA Services failed to do so.

In addition to the notice of default received on December 12, 2006, AIA Services also received additional notices of default, all of which it failed to timely cure.

Reed filed his Complaint against AIA Services on January 29, 2007. *See* Complaint. In Reed Complaint, he alleged: "AIA Services failed "to pay the Promissory Note as required…[and has] failed to cure the defaults. As of the date of this Complaint, the $6 Million principal owed to Reed, plus accrued interest of over $2 Million, has not been paid in full as required." *Id.* at p. 3, ¶ 2.8, p. 7.

On February 1, 2007, Reed reiterated to AIA Services in writing that it was in default for "failure to pay principal or interest of the $6 Million Note..." Affidavit of Reed Taylor dated February 26, 2007, Ex. I.

On February 2, 2007, Reed reiterated to AIA Services in writing that it was in default "for the failure to pay interest or principal due on [his] $6,000,000 Promissory Note..." Hearing, Ex. J.

On February 6, 2007, Reed advised AIA Services in writing that "[m]y acceptance of any partial payments should not be construed as a waiver of AIA Services Corporations' default under the $6,000,000 promissory note...All amounts owed remain due and payable in full..." Hearing, Ex. AH.

On September 13, 2007, AIA Services received Reed's Proposed Fifth Amended Complaint, in which Reed stated that he denied there was an oral modification and that AIA Services was in breach of its alleged oral modification. *See* Reed Taylor's Motion to Amend and Supplement Complaint, Ex. A, p. 23, ¶ 3.3; p. 46, ¶ 15.34.

Finally, Reed's Complaints and Motion for Partial Summary Judgment also constitute written notices. *See Union Central Life Ins. Co. v. Schultz*, 45 Idaho 185, 261 P. 235 (1927); *Mullen v. Gooding Implement & Hardware Co.*, 20 Idaho 348 (1911).

There is no issue of fact or law pertaining to whether AIA Services received written notice of its default of the Note on December 12, 2006. Moreover, AIA Services received at least 11 written notices of default pertaining to the Note (including notice received by the filing of the original complaint and the 1st-4th Amended Complaints, but excluding notice received by the proposed amended complaints attached to Reed's motions to amend for the 2nd and 3rd Amended Complaints). AIA Services failed to cure all such defaults within 5 business days. Moreover, AIA Services has received at least 10 written notices that the full balance remained due and payable in full under the Note, despite the partial payments made to Reed.

AIA Services' argument that it never received sufficient notice of default lacks merit both legally and factually, and fails as a matter of law.

B. The Only Way that the Alleged Oral Modification Would Be Permitted By the Statute of Frauds Would Be if the Parties Entered Into an Entirely New Agreement.

As explained in Reed's Motion for Partial Summary Judgment, "[p]arties [may] orally extend the time for performance of their agreements, so long as no other material terms is changed and the agreement is made before the underlying contract's expiration." *Kelly v. Hodges*, 119 Idaho 872, 875, 811 P.2d 48 (Ct. App. 1991).

In *Kelly*, 119 Idaho 872, the Idaho Court of Appeals explained the two competing rules pertaining to oral modification of a contract within the statute of frauds. The minority rule not adopted by the Idaho Court of Appeals is that an agreement required to be in writing by the statute of frauds cannot be orally modified. *Id.* at 875. However, the rule adopted by the Idaho Court of Appeals holds that an agreement required to be in writing by the statute of frauds may be orally modified **to extend the time of performance only**. *Id.* (emphasis added).

Thus, the alleged oral modification is barred by the statute of frauds under either of the two competing rules. *Id.* AIA Services does not dispute that the Note and Amended Stock Pledge Agreement were not required to be in writing. Assuming that the alleged oral modification was clear and not indefinite, the alleged oral modification would change the amount of monthly interest to be paid to Reed and create condition precedents to payment of accrued interest and principal, i.e. that the payments may never be made unless certain premium targets are not met. Specifically, Reed would only be entitled to receive approximately $25,000 in interest per month instead of the required $41,250 per month. Moreover, AIA Services would never be required to pay the accrued interest owed to Reed unless it obtained $35,000,000 in annual premium. Likewise, AIA Services would never be required to pay the principal to Reed unless it obtained $60,000,000 in annual premium. All of these targets may never be reached. Finally, AIA Services argues that "[Reed] agreed to defer his receipt of the unpaid principal and interest on his note until the companies were financially able to be restructured and to redeem his note." Ashby Aff., Ex. B. p. 4, ¶ 16.

The same holds true for the material terms allegedly changed and deleted from the Amended Stock Pledge Agreement and other agreements. They too are barred from being orally modified by the statute of frauds because material terms would be changed.

As a matter of law, the alleged oral modification would change material terms of the Note and Amended Stock Pledge Agreement and is barred by the statute of frauds. *See Kelly,* 119 Idaho at 875; I.C. § 9-505.

1. The Cases Cited By AIA Services Do Not Hold That Material Terms May Be Orally Changed.

AIA Services attempts to again convolute the facts and law by citing *Whitlock v. Haney Seed Co.*, 110 Idaho 347, 715 P.2d 1017 (Ct. App. 1986) (an employment law case dealing with an alleged oral employment agreement) for the proposition that the alleged oral modification is not barred by the statute of frauds.[3] However, *Whitlock* applies to the general rule that an original oral agreement to be performed over 1 year is not required to be in writing if such an agreement as able to be performed within 1 year. *Id.*

Here, as with other arguments, AIA Services misconstrues the law. In order for *Whitlock* to apply to the facts in this case, the parties would have been required to enter into an entirely new agreement. Significantly, AIA Services admits that the agreements were only orally modified, not that a new agreement was entered into. Thus, the alleged modifications must be in writing since material terms are changed. *Kelly v. Hodges*, 119 Idaho 872, 875, 811 P.2d 48 (Ct. App. 1991).

AIA Services' argument is equally flawed in citing *Idaho Migrant Council, Inc. v. Northwestern Mut. Life Ins. Co.*, 110 Idaho 804, 718 P.2d 1242 (Ct. App. 1986). AIA Services has provided no evidence of detrimental reliance. Instead, AIA Services relies exclusively on its allegations that Reed agreed to an illusory promise to be paid when the companies met certain premium targets that may never be reached.

As a matter of law, AIA Services' alleged oral modification is barred by the statue of frauds.

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[3] Even if material terms were not changed, AIA Services' argument nevertheless fails because the Note stated that it could not be prepaid without Reed's written consent. *See Davis v. Hinton*, 519 S.W.2d 776 (Tenn. 1975) (Holding that a debtor may not prepay a note). The Note specifically required that '[t]his Note may not be prepaid in whole or in part without prior written consent of Payee." Hearing, Ex. A, p. 1. AIA Services admits that the remaining terms of the Note remained intact, which would include the no prepayment clause. The Note was due on August 1, 2005, and the alleged oral modification occurred over 2 years earlier in March 2003. Therefore, AIA Services' argument fails as a matter of law because the Note could not have been paid within 1 year of the date of the alleged oral modification.

C. <u>The Alleged Oral Modification Fails as A Matter of Law.</u>

1. The Terms of the Alleged Oral Modification Construed in the Light Most Favorably to AIA Services are Too Indefinite and Fail as a Matter of Law.

The issue of whether an alleged oral modification exists is <u>not</u> an issue for the jury when the terms of the alleged oral modification as alleged by the party asserting the modification are not sufficiently definite or certain. *See Irwin Rogers Insurance Agency, Inc. v. Murphy,* 122 Idaho 270, 833 P.2d 128 (Ct. App. 1992) (Holding that the right to pay an account "as funds become available...are too indefinite and uncertain to constitute an enforceable contract right"); *Black Canyon Racquetball Club, Inc. v. Idaho First*, 119 Idaho 171, 173, 804 P.2d 900 (1991)(Affirming summary judgment under the "well-established rule that the terms of a contract must be sufficiently definite and certain in order to be enforceable.").

Here, AIA Services has failed to submit evidence necessary for the Court to find an enforceable oral modification. This is true even if the Court ignores John's contradictory testimony and only accepts the facts as selectively presented by AIA Services.

First, it should be noted that John's testimony is based upon Crop USA and AIA Services jointly reaching both premium goals. What happens if Crop USA files bankruptcy, dissolves, or is sold? The same question holds true for AIA Services. Under the terms of AIA Services' alleged oral modification, Reed would have no rights because neither premium goal was reached. This is a textbook example of an illusory promise and such a promise is unenforceable. *See Black Canyon*; *Irwin Rogers*.

Significantly, however, the illusory nature of the alleged oral modification can be best illustrated by the fact that the companies may never reach $35,000,000 in premiums, which would result in there never being the triggering of the alleged condition precedent to pay accrued interest. Similarly, what would happen if the companies reached $35,000,000 in premium and then never reached the $60,000,000 in premium required to pay the $6,000,000 principal owed to Reed? Would AIA Services be required to continue paying interest indefinitely? If so, what if premiums dipped below $35,000,000 again? What happens if the companies reach $59,000,000 and decide to wind-up operations and distribute all assets to shareholders? What happens if AIA Services is purchased before reaching either premium goal? What happens if management decides to purposely never reach $60,000,000 so that the shareholders could make distributions year after year without paying Reed's Note? Thus, AIA Services could control when, if ever, Reed was paid and unilaterally elect to never reach the premium goals so as to never trigger the payments to Reed. The terms of the alleged oral agreement is illusory.

The terms of the alleged oral modification are so uncertain and indefinite that it is impossible to enforce such an agreement. Therefore, the alleged oral modification fails as a matter of law.

a. AIA Services Provides No Authority to Support the Indefinite Terms of the Alleged Oral Modification.

Instead of setting forth facts of a definite date of payment necessary to form a valid contract to avoid summary judgment, AIA Services mistakenly relies upon *Hamlin v. Steward*, 622 N.E.2d 535 (Ind. App. 1993), for the proposition that an agreement to pay someone upon the sale of a parcel of real property is the same as the payment of Reed's accrued interest upon reaching $35,000,000 in premiums and the payment of

Reed's $6M principal upon reaching $60,000,000 in premiums. The facts in *Hamlin* couldn't be more different than the facts in this case. In *Hamlin,* both parties admitted to an oral modification in pleadings and acknowledged the oral agreement. *Id.* at 538-539. The parties had also agreed in the original contract that the motel would be sold to pay the loans, thus, the idea of the selling the house was merely extending time for payment. *Id.* at 539. Finally, and most importantly, selling a motel is an event that is certain to happen at some point in time in the future and the Court noted that the Stewards were required to do so in a reasonable amount of time:

> The underlying debt is owed, and the only issue is when the Note is due. Thus, good faith is implied because fulfillment of [selling the motel] rests with the promisor, and without good faith, **the mere promise to pay the Note subject to a condition precedent to be performed by the promisor would be an illusory promise**.

Hamlin, 622 N.E.2d at 541 (emphasis added). In other words, *Hamlin* supports Reed's argument because AIA Services' obligation to pay him based upon reaching certain premium targets is an illusory promise as the premium goals may never be met.

2. As a Matter of Law, the Alleged Oral Modification Also Fails For Lack of Mutuality and No Meeting of the Minds.

Proof of a meeting of the minds requires evidence of mutual understanding as to the terms of the agreement and assent of both parties. *Potts Const. Co. V. North Kootenai Water Dist.*, 141 Idaho 678, 681, 116 P.3d 8 (2005). The making of certain payments is insufficient by itself to create a binding contract. *Id.*

"There is no more settled rule of law applicable to actions based upon contracts than an agreement, in order to be binding, must be sufficiently definite to enable the court to determine its exact meaning and fix exactly the legal liability of the parties. *Thomas v. Cate*, 78 Idaho 29, 32, 296 P.2d 1033 (1956) (Affirming the trial court's pre-trial dismissal of an action because the "law will not hold a party bound to a contract against his will, when the substance of what he is to get in return is executor, and is so shadowy in its outline that the other party can refuse to perform…").

AIA Services fails to offer any evidence that there was a meeting of the minds, let alone a meeting in John's mind. This is supported by the vast inconsistent and contradictory testimony of John. As demonstrated in Reed's Motion for Partial Summary Judgment, John's inconsistent and contradictory testimony indicates that it is impossible for there to be a meeting of the minds or mutual assent because there is no meeting of John's mind or individual assent of John as to the exact terms of the alleged oral modification.

3. As a Matter of Law, Reed Received No Consideration for the Alleged Oral Modification.

AIA Services argues that consideration was provided in the form of John taking no salary and the substitution of consideration through promissory estoppel.[4]

Under AIA Services' alleged oral modification, Reed received no consideration for the honor to wait indefinitely for the payment of his Note. AIA Services' argument makes no logical sense. There is no reason for Reed to give up substantial contract rights in exchange for nothing. Reed received no consideration or benefit, and there is no evidence that he acquiesced or agreed with the alleged oral modification. *See Rule Sales and Service, Inc. v. U.S. Bank Nat. Ass'n,* 133 Idaho 669, 674, 991 P.2d 857 (Ct. App. 1999).

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[4] The promissory estoppel element of AIA Services' argument is discussed below and incorporated by reference into this argument.

a. John Received a Significant Salary in 2001.

AIA Services also attempts to argue, without citing any legal authority, that consideration was replaced by John not taking any salary. This argument is irrelevant, flawed, and unsupported by the evidence. The only evidence relied upon by AIA Services pertaining to John's salary is set forth in his Affidavit wherein he states that "[d]uring this period, I was not taking a monthly salary in order to assist in conserving cash." Ashby Aff., Ex. B, p. 4, ¶ 16 (referring to the period "[f]rom 2000 to 2003."). However, this statement is factually incorrect as specifically noted in relevant portions of AIA Services' 2001 tax returns that indicate John was paid $224,139 in compensation. *See* Hearing, Ex. T, p. 2. Moreover, John cannot simply state that he received no salary without submitting documentation to support such false allegations.[5] Most significantly, this argument also makes no logical sense. John should be happy that he has been able to take hundreds of thousands of dollars out of AIA Services since 2003.

4. The Alleged Oral Modification Is NOT an Issue for the Jury.

For the reasons set forth above, Reed is entitled to partial summary judgment on the Note as a matter of law. However, in response to Reed's Motion for Partial Summary Judgment, AIA Services as with its other arguments mistakenly asserts that "[t]he question of whether there has been an oral modification of the Note is not a question for the Court to determine." AIA Services' Response, pp. 5-6, Section 1. But the cases cited by AIA Services do NOT apply to the facts or law in this case. *See e.g., Dennett v. Kuenzli*, 130 Idaho 21, 26, 936 P.2d 219 (Ct. App. 1997) (Holding that "[t]he question, however, of whether an oral modification has been **proven** is one for the trier of fact.");

[5] Although not in the record, AIA Services' tax returns show that John never received less than $120,000 in compensation in any year in the past decade.

Johnson v. Allied Stores Corp., 106 Idaho 363, 368, 679 P.2d 640 (1984) (Holding that an employee suing for severance pay was a question for the jury because the evidence was conflicting, i.e., the plaintiff relied upon the 1962 policy manual, while the defendant relied upon the 1977 policy manual).

Similarly, the other authority cited by AIA Services are equally inapplicable or support Reed's arguments. *See e.g., Lunceford v. houghtlin,* 170 S.W.3d 453, 464 (Mo. App. 2005); *Signing River Mall Co. v. Mark Fields, Inc.*, 599 So.2d 938, 947 (Miss. 1992); 10 C.J.S. Bills and Notes § 110 (1995) ("In order for an extension of time to be binding, the time to which payment is extended must be as definite as is required in a promissory note when originally made."). In addition, AIA Services mistakenly relies on other inapplicable cases dealing with sales or extensions to complete a project. *See Ore-Idaho Potato Products, Inc. v.* Larsen, 83 Idaho 290, 362 P.2d 384 (1961)(dealing with a contract to harvest potatoes which was completed); *Great Plains Equipment v. Northwest Pipeline Corp.*, 132 Idaho 754, 979 P.2d 627 (1999) (Contractor stayed on the job and completed the pipe stringing at additional costs and involves associated claims of quantum meruit as frequently seen in construction projects); *Spencer v. Allpress Logging, Inc.*, 134 Idaho 856, 11 P.3d 475 (2000) (defendant continued delivering logs until the advance was repaid). These cases are not on point and do not apply to this case.

In addition, there are no facts provided by Reed to support the alleged oral modification and he has not testified to even having knowledge of it. There is no definite date for payment. AIA Services is logically required to meet the burden that the alleged oral modification complies with general contract principles before its allegations can be submitted to a jury, but it has failed to do so. Reed's acceptance of payments due to him is nothing more than evidence of amounts that should be credited against the Note. There is no evidence to suggest that Reed acquiesced in any oral modification.

The only question before the Court is whether the alleged oral modification fails as a matter of law under the theories articulated by Reed. The answer to that question is yes.

5. The Alleged Oral Modification Is Not Supported By Any Evidence Other than John's Testimony.

The only evidence that AIA Services alleged oral modification is the testimony provided by John. The inconsistencies of John's testimony merely support a finding that an agreement was never reached. *See Black Canyon*, 119 Idaho at 173. AIA Services cites *Johnson v. Allied Stores Corp.*, 106 Idaho 363, 368, 679 P.2d 640 (1984), which simply holds that whether a contract has been modified is "**ordinarily**" an issue for the jury. *Id.* (emphasis added). In *Johnson*, the parties were arguing over which employee policy manual determined the amount of severance pay. *Id.* Because there was conflicting views through two different written policy manuals, the Court believed the issue should be determined by a jury. *Id.* In this case, the conflicting testimony at issue pertains to John's indefinite terms, which constitute an unenforceable contract. *See Black Canyon* at 173.

D. AIA Services' Alleged Defenses Are Not Supported by Any Facts and Also Fail as a Matter of Law.

No estoppel or waiver of rights can result from a party's taking receipt of an installment payment that is due and owing. This fundamental principle is succinctly stated in 28 Am.Jur.2d, Estoppel and Waiver, § 66 (2007), which provides:

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> **One cannot be estopped by reason of accepting that which he is legally entitled to receive in any event. This is true even under the doctrine of quasi-estoppel**. Hence, estoppel against attacking or disputing a contract or transaction is not ordinarily created by the acceptance of a benefit purporting to be derived therefrom if in fact the party is entitled thereto, regardless of whether the contract or transaction is sustained or overthrown. **The payment of a valid and undisputed past-due debt cannot be the basis of an estoppel, and is not a bar to the subsequent assertion of a claim for the balance, especially where such acceptance is accompanied by an express reservation of rights or where it is manifest that the party does not intend to surrender them**.

28 Am.Jur.2d, Estoppel and Waiver, § 66 (2007) (emphasis added).

AIA Services has misapplied the doctrines of estoppel and waiver in an factually unsupported effort to avoid partial summary judgment. AIA Services has failed to submit any evidence to support such defenses. AIA Services continuous allegations pertaining to Reed agreeing to the alleged oral modification are not supported by any evidence.

First, it should be noted that the defenses discussed below do not apply because AIA Services was in breach of its own alleged oral modification—the same alleged oral modification that supplies the allegations for all of the defenses. In other words, AIA Services is estopped from asserting any defenses because it is in breach of the alleged modification that provided the basis for such defenses. Second, the defenses are inapplicable because the record is void of any action taken by Reed other than to be the recipient of partial interest payments. Reed's silence carries no weight for any of these defenses. Finally, because waiver and estoppel are related, all of the legal arguments set forth below are incorporated by reference into each section to respond to all waiver and estoppel arguments.

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1. Waiver.

The doctrine of implied waiver by silence is disfavored and waiver will only be inferred from a clear and unequivocal act manifesting an intent to waive. *Jones v. Maestas*, 108 Idaho 69, 71, 696 P.2d 920 (Ct. App. 1985). A party's failure to exercise his contractual rights does not constitute waiver. *Dannett v. Kuenzli*, 130 Idaho 21, 26, 936 P.2d 219 (Ct. App. 1997) ("Dennett did not promise or lead the Kuenzlis to believe that he would not exercise his option to purchase the property. It follows that he did not voluntarily and intentionally relinquish his right to exercise the option."). "A court first must find whether the facts alleged to constitute waiver are true. The court then must decide whether these facts, as a matter of law, suffice to show waiver." *Jones*, 108 Idaho at 71.

AIA Services can point to no voluntary or intentional act of Reed to support waiver. The record is void of any representation or act by Reed manifesting any intent to waive his rights under the agreements. Reed was merely accepting payments due to him under the Note. Reed's silence of accepting payments can be construed as nothing more than evidence of him accepting payments on moneys owed under the Note and do not constitute any evidence of waiver or other representation.

2. Estoppel.

Equitable estoppel is based on the concept that it would be inequitable to allow a person to induce reliance by taking a certain position and, thereafter, take an inconsistent position when it becomes advantageous to do so. *Regjovich v. First Western Investments, Inc.*, 134 Idaho 154 (2000). All factors of estoppel are of equal importance, and there can be no estoppel absent any of the elements. *Id.*

No estoppel or waiver of rights can result from a party's taking receipt of an installment payment that is due and owing:

> **One cannot be estopped by reason of accepting that which he is legally entitled to receive in any event. This is true even under the doctrine of quasi-estoppel**. Hence, estoppel against attacking or disputing a contract or transaction is not ordinarily created by the acceptance of a benefit purporting to be derived therefrom if in fact the party is entitled thereto, regardless of whether the contract or transaction is sustained or overthrown. **The payment of a valid and undisputed past-due debt cannot be the basis of an estoppel, and is not a bar to the subsequent assertion of a claim for the balance**, especially where such acceptance is accompanied by an express reservation of rights or where it is manifest that the party does not intend to surrender them.

28 Am.Jur.2d, Estoppel and Waiver, § 66 (2007) (emphasis added).

To reiterate, AIA Services' payment was made too late on the Note and the alleged orally modified version of the Note. The doctrines of estoppel and waiver have no application. No estoppel or waiver of rights can result from Reed's taking receipt of the delinquent payment that was due and owing. No estoppel can result from Reed not exercising his contractual rights. No estoppel can result from AIA Services' untimely payment of the delinquent payment on December 3, 2007, and its failure to cure the default within the required 5 business days. No estoppel can result from AIA Services' failure to pay the entire outstanding balance of the Note, which is due and owing as a matter of law.

3. Promissory Estoppel.

In order to allege the defense of promissory estoppel under contract law, it must be shown that:

> (1) the detriment suffered in reliance was substantial in an economic sense; (2) substantial loss to the pomisee acting in reliance was or should have been foreseeable by the promisor; and (3) the promise must have acted reasonably in justifiable reliance on the promise as made.

Mohr v. Shultz, 86 Idaho 531, 540, 388 P.2d 1002 (1964).

Under contract law, promissory estoppel is simply a substitute for consideration in "situations where injustice would otherwise result." *Mohr*, 86 Idaho at 540. A substitution for consideration is not a substitute for an agreement between parties. *Black Canyon Racquetball Club, Inc. v. Idaho First*, 119 Idaho 171, 178, 804 P.2d 900 (1991); *Smith v. Boise Kenworth Sales, Inc.*, 102 Idaho 63, 68, 625 P.2d 417 (1981). "While promissory estoppel may provide consideration for a contract, there must be a sufficient definite agreement to have an enforceable contract." *Id.*

There was no consideration because Reed was merely accepting payment of money due to him under the Note. AIA Services has offered no evidence of detrimental reliance or foreseeable loss, nothing. Moreover, AIA Services' argument that it is somehow better off financially than in 2003 is equally flawed. The revenues, net income, and assets of AIA Services have dropped virtually every year since 2003. *See* Hearing, Ex. W and AR-AT. Moreover, AIA Services' subsidiary guaranteed a $15,000,000 loan for an entity in which it holds no ownership interest. *See* Hearing Ex. R and Q.

For the reasons articulated in the sections above (which are incorporated by reference into this Section) and in Reed's Motion for Partial Summary Judgment, there was also no definitive agreement. Moreover, the alleged oral modification contained terms that are too uncertain and too indefinite. Thus, promissory AIA Services' misplaced reliance upon estoppel fails as a matter of law.

4. Quasi-Estoppel.

A party cannot be estopped from asserting contractual rights simply because he delayed in doing so, even if he has knowledge of certain facts that arguably should have resulted in him asserting his rights earlier. *Dennett v. Kuenzli*, 130 Idaho 21, 26, 936 P.2d 219 (Ct. App. 1997). The party asserting quasi-estoppel has "the burden of demonstrating, among other things, that [the other party] maintained inconsistent positions." *Id.* at 27. The element of unconscionability must be present in order for the doctrine of quasi-estoppel to apply. *In re Estate of Elliott*, 141 Idaho 177, 183, 108 P.3d 324 (2005).

In *Estate of Elliot*, the Idaho Supreme Court that quasi-estoppel was inapplicable because Elliot was entitled to receive the Medicaid payments. Like *Estate of Elliot*, Reed was merely accepting payments that he was entitled to receive under the terms of the Note. Reed never changed his position. Reed did not obtain some "unconscionable" advantage by allowing his brother additional time to pay the Note by not placing the Note in default. There is absolutely nothing unconscionable about Reed receiving the payments that he was entitled to receive under the Note or the alleged orally modified Note.

II. CONCLUSION

There are no issues of material fact and Reed is entitled to partial.

DATED: This 10th day of December, 2007.

SMITH, CANNON & BOND PLLC
AHLERS & CRESSMAN PLLC

By: ______________________
Roderick C. Bond
Ned A. Cannon
Paul R. Cressman, Jr.
Attorneys for Plaintiff Reed J. Taylor

CERTIFICATE OF SERVICE

I, Roderick C. Bond, declare that, on the date indicated below, I served a true and correct copy of Reed Taylor's Reply in Support His Motion for Partial Summary Judgment on the Promissory Note on the following parties via the methods indicated below:

David A. Gittins
Law Office of David A. Gittins
P.O. Box 191
Clarkston, WA 99403
Attorney for Defendants JoLee Duclos and Bryan Freeman

Via:
( ) U.S. Mail, Postage Prepaid
( ) Hand Delivered
( ) Overnight Mail
( ) Facsimile
(**X**) Email (pdf attachment)

Michael E. McNichols
Clements Brown & McNichols
321 13th Street
Lewiston, ID 83501
Attorney for R. John Taylor

Via:
( ) U.S. Mail, Postage Prepaid
( ) Hand Delivered
( ) Overnight Mail
( ) Facsimile
(**X**) Email (pdf attachment)

Jonathan D. Hally
Clark & Feeney
P.O. Box 285
Lewiston, ID 83501
Attorney for Connie Taylor, James Beck and Corrine Beck

Via:
( ) U.S. Mail, Postage Prepaid
( ) Hand Delivered
( ) Overnight Mail
( ) Facsimile
(**X**) Email (pdf attachment)

Gary D. Babbitt
D. John Ashby
Hawley Troxell Ennis & Hawley LLP
877 Main Street, Suite 1000
P.O. Box 1617
Boise, Idaho 83701-1617
Attorneys for AIA Services, AIA Insurance, and Crop USA Insurance Agency

Via:
( ) U.S. Mail, Postage Prepaid
( ) Hand Delivered
( ) Overnight Mail
( ) Facsimile
(**X**) Email (pdf attachment)

Signed this 10th day of December, 2007, at Lewiston, Idaho.

RCB

Roderick C. Bond

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PATTY O. WEEKS
CLERK OF THE DIST. COURT
DEPUTY

Gary D. Babbitt ISB No. 1486
D. John Ashby ISB No. 7228
HAWLEY TROXELL ENNIS & HAWLEY LLP
877 Main Street, Suite 1000
P.O. Box 1617
Boise, ID 83701-1617
Telephone: (208) 344-6000
Facsimile: (208) 342-3829
Email: gdb@htch.com
jash@htch.com

Attorneys for AIA Services Corporation and
AIA Insurance, Inc.

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person,

Plaintiff,

vs.

AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof,

Defendants.

AIA SERVICES CORPORATION, an Idaho corporation; and AIA INSURANCE, INC., an

Case No. CV-07-00208

SUPPLEMENTAL AUTHORITIES IN OPPOSITION TO MOTION FOR SUMMARY JUDGMENT

Idaho corporation,)
)
Counterclaimants,)
vs.)
)
REED J. TAYLOR, a single person,)
)
Counterdefendant.)
)

At the December 13, 2007 hearing on Plaintiff's Motion for Summary Judgment, the Court inquired as to the effect of a "no oral modification" clause on a subsequent oral modification. In response to that inquiry, AIA submits this supplemental authority:

Rule Sales and Service, Inc. v. U.S. Bank Nat. Ass'n, 133 Idaho 669, 991 P.2d 857 (Ct. App. 1999) ("It is the general common law rule in this country that an oral modification of a written contract may be enforceable, notwithstanding a clause prohibiting unwritten modifications, at least in circumstances where one party has relied upon the modification.") (citing Allan Farnsworth, FARNSWORTH ON CONTRACTS § 7.6 (2d ed. 1998); 6 a. Corbin, CORBIN ON CONTRACTS § 1295 (1963));

Harrington v. McCarthy, 91 Idaho 307, 310, 420 P.2d 790, 793 (1966) ("The provision in a private building or construction contract that alterations or extras must be ordered in writing can be avoided by the parties to the contract where their words, acts or conduct amount to a waiver, modification, rescission or abandonment of that provision or where the owner by his acts or conduct is estopped to rely on it.");

Idaho Migrant Council, Inc. v. Northwestern Mut. Life Ins. Co., 110 Idaho 804, 806, 718 P.2d 1242, 1244 (Ct. App. 1986) ("We have found no reason why a clause requiring contract modifications be in writing . . . may not be waived. Further, a waiver need not be express but may be implied from conduct. More specifically, an implied waiver occurs where a party's neglect to insist upon enforcing a right results in prejudice to another party.").

DATED THIS 21 day of December, 2007.

HAWLEY TROXELL ENNIS & HAWLEY LLP

By ______________________________
D. John Ashby ISB No. 7228
Attorneys for AIA Services Corporation and
AIA Insurance, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 21 day of December, 2007, I caused to be served a true copy of the foregoing SUPPLEMENTAL AUTHORITIES IN OPPOSITION TO MOTION FOR SUMMARY JUDGMENT by the method indicated below, and addressed to each of the following:

Roderick C. Bond Ned A. Cannon Smith, Cannon & Bond PLLC 508 Eighth Street Lewiston, ID 83501 [Attorneys for Plaintiff]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
Paul R. Cressman, Jr. Ahlers & Cressman PLLC 999 Third Avenue, Suite 3100 Seattle, WA 98104-4088 [Attorneys for Plaintiff]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
David A. Gittins Law Office of David A. Gittins P.O. Box 191 Clarkston, WA 99403 [Attorney for Defendants Duclos and Freeman]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
Michael E. McNichols Clements Brown & McNichols 321 13th Street Lewiston, ID 83501 [Attorneys for Defendant R. John Taylor]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
Jonathan D. Hally Clark & Feeney P.O. Box 285 Lewiston, ID 83501 [Attorneys for Defendants Connie Taylor, James Beck and Corrine Beck]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ____ Telecopy ✓ Email
James J. Gatziolis Charles E. Harper QUARLES & BRADY LLP 500 West Madison Street, Suite 3700 Chicago, Illinois 60661-2511 [Attorneys for Crop USA Insurance]	____ U.S. Mail, Postage Prepaid ____ Hand Delivered ____ Overnight Mail ✓ E-mail ~~✓~~ Telecopy

D. John Ashby

VCLLC

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PATTY O. WEEKS
CLERK OF THE DIST. COURT
[signature]
DEPUTY

RODERICK C. BOND
NED A. CANNON, ISBA #2331
SMITH, CANNON & BOND PLLC
Attorneys for Plaintiff
508 Eighth Street
Lewiston, Idaho 83501
Telephone: (208) 743-9428
Fax: (208) 746-8421

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff, v. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof; Defendants.	Case No.: CV-07-00208 REED TAYLOR'S RESPONSE IN OPPOSITION TO CONNIE TAYLOR'S MOTION FOR PROTECTION ORDER AND REED TAYLOR'S REQUEST FOR ORDER TO COMPEL AND FOR AWARD OF ATTORNEYS' FEES AND COSTS

Reed Taylor ("Reed") submits this Response to Connie Taylor's Motion for Protective Order and further requests that the Court enter an order to compel and award fees:

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I. FACTS

Reed Taylor served his First Set of Requests for Production, First Set of Interrogatories and First Requests for Admission to Connie Taylor on October 21, 2007. *See* Affidavit of Roderick C. Bond, Ex. A. Connie Taylor served her responses and objections on December 4, 2007. *See* Affidavit of Jon Hally, Ex. A, p. 60. Connie Taylor did not produce any documents to Reed Taylor's First Requests for Production. *See* Affidavit of Roderick C. Bond, ¶ 3.

Counsel for Connie Taylor and Reed Taylor held an I.R.C.P. 37 discovery conference on December 6, 2007. *See* Affidavit of Roderick C. Bond, ¶ 4. Counsel for Connie Taylor declined to revise the responses and produce responsive documents. *Id.* at ¶ 4.

Through December 27, 2007, Counsel for Connie Taylor has not produced any documents to Reed Taylor's First Set of Requests for Production of Documents. *Id.* at ¶¶ 3-4.

Connie Taylor and R. John Taylor were divorced on December 16, 2005. *See* Affidavit of Roderick C. Bond, Ex. C. Connie Taylor was appointed to the board of AIA Services and AIA Insurance on April 30, 2007. *See* Affidavit of Roderick C. Bond, Ex. B.

II. LEGAL AUTHORITY AND ARGUMENT

A. Connie Taylor Has Failed to Meet the Burden Required for a Protective Order.

I.R.C.P. 26(c) governs the entry of protective orders, which states in part:

> Upon motion by a party or by the person from whom discovery is sought, **and for good cause shown**, the court in which the action is pending...may make any order which justice requires to protect a party or person...

I.R.C.P. 26(c) (emphasis added). "**This puts the burden on the party seeking relief to show some plainly adequate reason therefor**." 8 Fed. Prac. & Proc. Civ.2d § 2035 (2007) (emphasis added). "It is not sufficient to merely state a generalized objection; instead, the objecting party must demonstrate that a particularized harm is likely to occur if the discovery be had by the party seeking it." *G-69 v. Degnan*, 130 F.R.D. 326, 331 (D.C.N.J. 1990).

An objection that a "request is overly-broad, not specific, and creates a hardship on the producing party" is insufficient to warrant entering a protective order. *McLeod, Alexander, Powel & Apffel, P.C. v. Quarles*, 894 F.2d 1482, 1484 (5th Cir. 1990) citing 8 Fed. Prac. & Proc. Civ.2d § 2035 (2007). Objections must be specific to each request and the party resisting discovery must show how each discovery request is not relevant. *McLeod* at 1485.

Here, Connie Taylor has failed to meet the required burden necessary to obtain an protective order. Instead of complying with the law and Idaho Rules of Civil Procedure, Connie Taylor has unilaterally elected to not comply with Reed Taylor's Requests for Production and Interrogatories by submitting generic and inappropriate objections. She has failed to show good cause. She has not met the required burden. Because Connie Taylor has utterly failed to meet her burden or make a good faith showing, Reed Taylor should be awarded fees as provided under I.R.C.P. 26(c).

1. Connie Taylor Has Cited No Authority for Her Motion.

In her Motion, Connie Taylor has failed to cite a single case or any legal authority to support her arguments. The only authority she cites is I.R.C.P. 26, which does not support her arguments. Moreover, Connie Taylor's ill-conceived Motion for a Protective Order also fails as a matter of law for the reasons set forth below.

///

///

B. **Reed Requests that the Court Enter an Order Compelling Connie Taylor to Provide Full and Complete Responses, Answers, and Responsive Documents.**

I.R.C.P. 26(b)(1), provides as follows in pertinent part:

> Unless otherwise limited by order of the court in accordance with these rules, the scope of discovery is as follows: (1) Parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defense of any other party... **It is not ground for objection that the information sought will be inadmissible at the trial if the information sought appears reasonably calculated to lead to the discovery of admissible evidence.**

I.R.C.P. 26(b)(1) (emphasis added). Federal Courts interpreting the identical Federal Rule have consistently held that the rule allowed the broadest possible discovery. *See e.g.*, *Hickman v. Taylor*, 329 U.S. 495, 67 S.Ct. 385, 91 L.Ed. 451 (1947). In *Hickman*, the U.S. Supreme Court discussed the scope of discovery under this rule and observed that:

> No longer can the time-honored cry of 'fishing expedition' serve to preclude a party from inquiring into the facts underlying his opponent's case.

Hickman at 392. The only limitation on discovery of unprivileged material under the rule is that it could lead to the discovery of admissible evidence, which is such a broad standard that at the discovery stage a party may in fact engage in a fishing expedition. *See* 8 Wright & Miller, Federal Prac. & Proc., § 2008 (2007).

Under the broad I.R.C.P. 26(b)(1), **evidence is discoverable even if it is not admissible** at trial, if the "information sought is reasonably calculated to lead to the discovery of admissible evidence." I.R.C.P. 26(b)(1) (emphasis added).

I.R.C.P. 26(c) expressly authorizes the Court to require the party moving for a protective order to compel discovery and award attorneys' fees to the responding party:

> If the motion for a protective order is denied in whole or in part, the court may, on such terms and conditions are just, order that any party or person provide or permit discovery. The provisions of Rule 37(a)(4) apply to the award of expenses incurred in relation to the motion.

I.R.C.P. 26(c). In other words, it is unnecessary for the party responding to contemporaneously file a motion to compel. *Id.*

Here, not only does Connie Taylor fail to meet the burden required to obtain a protective order, but she has failed to produce responsive documents and answers. She has completely ignored her obligations under the Idaho Rules of Civil Procedure, including, I.R.C.P. 26.

1. Connie Taylor Has Failed to Produce a Single Document or Provide Full and Complete Answers and Responses.

Instead of asserting proper objections and producing responsive documents, Connie Taylor failed to produce even a single document to Reed Taylor's 117 Requests for Production of Documents. Moreover, Connie Taylor failed to provide full and complete answers to Reed Taylor's First Set of Interrogatories. An order compelling Connie Taylor to produce responsive documents and to provide full and complete answers and responses is appropriate and warranted. *See* I.R.C.P. 26(c).

2. All Emails and Electronic Files and Documents Must Be Produced.

Electronic information, including e-mails, are discoverable under the recently enacted I.R.C.P. 34(a), which provides that a party may obtain discovery of "electronic and data storage devices in any medium which constitute or contain matters within the scope of Rule 26(b)..." I.R.C.P. 34(a). Although no reported decisions in Idaho have addressed this rule, Federal courts interpreting the analogous Federal rules have consistently held that electronic data, including e-mails, are discoverable. *Rowe Entertainment, Inc. v. William Morris Agency, Inc.*, 205 F.R.D.

421, 428 (S.D.N.Y. 2002) (There is no justification for precluding discovery of defendants' e-mails on the ground that such discovery was unlikely to provide relevant information or would invade the privacy of non-parties); *Playboy Enterprises. v. Welles*, 60 F. Supp. 2d 1050, 1053 (S.D. Cal. 1999) (E-mails contained on defendant's hard drive are discoverable).

Here, Connie Taylor has refused to produce any emails or any other electronic files or documents. The Court should order her to produce all responsive electronic information, including all responsive emails.

3. Connie Taylor Must Produce Her Tax Returns and Related Financial Information.

It has been held that a party's financial information is relevant for discovery purposes when it implicates elements of a claim or defense asserted in a dispute. *Daval Steel Products, Div. of Francosteel Corp. v. M/V Fakredine*, 951 F.2d 1357 (2nd Cir. 1991). A plaintiff's alter-ego claim is sufficient to warrant the production of tax returns and financial information. *McLeod,* 894 F.2d at 1484-85. In addition, "[t]ax returns are generally discoverable if they contain information relevant or material to the issues in the action or may lead to the discovery of admissible evidence. 23 Am Jur 2d Depositions and Discovery § 261 (2001) (internal footnotes omitted). Reed has stated causes of action for fraud, breach of fiduciary duties, fraudulent conveyances, conversion and constructive trust.

4. All Responsive Documents Must Be Produced Pertaining to Communications and Documents Exchanged Between Connie Taylor and AIA's Attorneys and AIA's Accountants Prior to April 30, 2007, and All other Parties From 1995 Through the Present Time.

"It is the corporation, and not the shareholder, who is the holder of the [attorney-client privilege...Shareholders do not enjoy access to such privileged information merely because the attorney's actions also benefit them." *McDermott, Will & Emery v. Superior Court*, 83 Cal. App.4th378, 99 Cal.Rptr.2d 622, 626 (Cal. App. 2000) (internal citations omitted); *see also In re O.P.M. Leasing Services, Inc.*, 670 F.2d 383 (N.Y. 1982) (holding that management of a corporation is a function vested in the board of directors and the shareholders have no power to do anything except elect members of the board).

Here, Connie Taylor was appointed as a member of the board of directors of AIA Services and AIA Insurance on April 30, 2007. Therefore, all responsive communications and documents, including those involving law firms or accountants for AIA Services, AIA Insurance or Crop USA, are discoverable prior to April 30, 2007. Finally, the narrow exception described above does not preclude Connie Taylor from providing responsive answers and documents pertaining to all other parties dating back to 1995.

5. No Husband and Wife Privilege Applies to John Taylor and Connie Taylor's Communications after December 16, 2005.

"A person has a privilege to prevent testimony as to any confidential communication between the person and his or her spouse made during the marriage." I.R.E. 504.

Here, Connie Taylor and R. John Taylor were divorced on December 16, 2005. *See* Affidavit of Roderick C. Bond, Ex. C.

Therefore, all communications between Connie and John are discoverable to the extent that they relate in any way to this action after their dissolution, except those protected by way of her membership on the board of AIA Services or AIA Insurance on or after April 30, 2007. Moreover, all communications or documents exchanged by them that were not confidential are discoverable during their marriage, i.e., all non-privileged emails in which others were carbon copied, stock certificates, stock subscription agreements, stock purchase agreements, etc.

6. Connie Taylor Must Provide All Responsive Documents Under Her Possession, Custody or Control.

A party must produce all responsive documents which are in his or her "possession, custody or control. I.R.C.P. 34(a).

Here, Connie Taylor has stated that certain documents are not in her possession. However, she must also state that no such responsive documents are in her custody or control. She must be specific that she does not have nor can obtain responsive documents.

7. Connie Taylor Must Provide a Privilege Log.

Connie Taylor must provide a log for all privileged communications and documents as provided for in I.R.C.P. 26. Connie Taylor failed to provide a privilege log. The Court should order her to do so.

C. <u>Reed Requests an Award of His Attorneys' Fees and Costs Incurred in Defending Connie Taylor's Motion and Compelling Discovery.</u>

The Court has the authority to award attorneys' fees and costs to the party defending a motion for protective order. *See* I.R.C.P. 26(e); I.R.C.P. 37(a)(4).

Here, Connie Taylor has failed to meet the burden required to have a protective order entered and Reed is entitled to Connie Taylor providing full and complete discovery. Significantly, Connie has failed to produce a single document in response to Reed's First Requests for Production of Documents. Thus, Reed should be awarded his attorneys' fees and costs incurred in defending against Connie Taylor's Motion and those insurred obtaining an order compelling discovery.

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III. CONCLUSION

For the reasons articulated above, the Court should deny Connie Taylor's Motion for a Protective Order and enter an order compelling her to provide full and complete responses, the production of responsive documents, to provide a privilege log, and to provide full and complete answers to interrogatories. Finally, Reed should be awarded his attorneys' fees and costs incurred in responding to Connie Taylor's Motion and compelling her to fully and appropriately respond to Reed's Requests for Production and Interrogatories.

DATED: This 27th day of December, 2007.

SMITH, CANNON & BOND PLLC

By: ______________________
Roderick C. Bond
Ned A. Cannon
Attorneys for Plaintiff Reed J. Taylor

CERTIFICATE OF SERVICE

I, Roderick C. Bond, declare that, on the date indicated below, I served a true and correct copy of Reed Taylor's Response in Opposition to Connie Taylor's Motion and Request for Motion to Compel and Award of Attorneys' Fees and Costs and the Affidavit of Roderick C. Bond w/ Exhibits on the following parties via the methods indicated below:

David A. Gittins Law Office of David A. Gittins P.O. Box 191 Clarkston, WA 99403 Attorney for Defendants JoLee Duclos and Bryan Freeman	**Via:** ( ) U.S. Mail, Postage Prepaid ( ) Hand Delivered ( ) Overnight Mail ( ) Facsimile **(X)** Email (pdf attachment)
Michael E. McNichols Clements Brown & McNichols 321 13th Street Lewiston, ID 83501 Attorney for R. John Taylor	**Via:** ( ) U.S. Mail, Postage Prepaid ( ) Hand Delivered ( ) Overnight Mail ( ) Facsimile **(X)** Email (pdf attachment)
Jonathan D. Hally Clark & Feeney P.O. Box 285 Lewiston, ID 83501 Attorney for Connie Taylor, James Beck and Corrine Beck	**Via:** ( ) U.S. Mail, Postage Prepaid ( ) Hand Delivered ( ) Overnight Mail ( ) Facsimile **(X)** Email (pdf attachment)
Gary D. Babbitt D. John Ashby Hawley Troxell Ennis & Hawley LLP 877 Main Street, Suite 1000 P.O. Box 1617 Boise, Idaho 83701-1617 Attorneys for AIA Services, AIA Insurance, and Crop USA Insurance Agency	**Via:** ( ) U.S. Mail, Postage Prepaid ( ) Hand Delivered ( ) Overnight Mail ( ) Facsimile **(X)** Email (pdf attachment)

James J. Gatziolis
Charles E. Harper
Quarles & Brady LLP
Citigroup Center, 500 West Madison Street
Suite 3700
Chicago, IL 60661-2511
Attorneys for Crop USA Insurance Agency

Via:
( ) U.S. Mail, Postage Prepaid
( ) Hand Delivered
( ) Overnight Mail
( ) Facsimile
(**X**) Email (pdf attachment)

Signed this 27th day of December, 2007, at Lewiston, Idaho.

Roderick C. Bond

cc

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PATTY O. WEEKS
CLERK OF THE DIST. COURT

DEPUTY

RODERICK C. BOND
NED A. CANNON, ISBA #2331
SMITH, CANNON & BOND PLLC
Attorneys for Plaintiff
508 Eighth Street
Lewiston, Idaho 83501
Telephone: (208) 743-9428
Fax: (208) 746-8421

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff, v. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof; Defendants.	Case No.: CV-07-00208 AFFIDAVIT OF RODERICK C. BOND IN OPPOSITION TO CONNIE TAYLOR'S MOTION FOR PROTECTIVE ORDER AND IN SUPPORT OF ORDER COMPELLING DISCOVERY AND AWARD OF ATTORNEYS' FEES AND COSTS

STATE OF IDAHO)
) ss:
COUNTY OF NEZ PERCE)

ORIGINAL

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I, Roderick C. Bond, being first duly sworn on oath, deposes and says:

1. I am one of the attorneys for the Plaintiff Reed J. Taylor in the above-entitled action. I make this Affidavit on my personal knowledge.

2. Attached as **Exhibit A** is a copy of Reed Taylor's First Set of Requests for Production of Documents, First Set of Interrogatories and First Request for Admission, which were served on October 21, 2007.

3. On December 4, 2007, Reed Taylor was served with Connie Taylor's Responses and Objections to Reed Taylor's First Set of Requests for Production and First Set of Interrogatories. No documents were produced at this time and anytime thereafter.

4. On December 6, 2007, I held an I.R.C.P. 37 conference with counsel for Connie Taylor. Mr. Hally refused to produce any documents or otherwise revise Connie Taylor's discovery responses. During the I.R.C.P. 37 conference, Mr. Hally objected to Reed Taylor's definition of "you" as it included friends. I advised Mr. Hally that Reed was trying to ensure that all responsive documents were produced to him and not just later produced at trial by Connie, and that Connie can state her objection and produce otherwise responsive documents to Reed Taylor's requests. Despite the discovery conference, Connnie Taylor failed to produce a single document to Reed Taylor's extensive requests for production and failed to answer interrogatories.

5. Attached as **Exhibit B** is the board resolution in which Connie Taylor was appointed to the board of AIA Services and AIA Insurance on April 30, 2007.

6. Attached as **Exhibit C** is the Interlocutory Decree of Dissolution filed on December 16, 2005, in which Connie Taylor and R. John Taylor were divorced.

DATED: This 27th day of December, 2007.

RB

Roderick C. Bond

SUBSCRIBED AND SWORN to before me this 27th day of December, 2007.

AMY B. STEWART NOTARY PUBLIC STATE OF IDAHO

Amy B. Stewart
Notary Public for Idaho
Residing at: Lewiston
My commission expires: 1/24/2012

Exhibit A

Roderick C. Bond
Ned A. Cannon, ISBA #2331
SMITH, CANNON & BOND PLLC
Attorneys for Plaintiff
508 Eighth Street
Lewiston, Idaho 83501
Telephone: (208) 743-9428
Fax: (208) 746-8421

Paul R. Cressman, Jr., ISBA #7563
AHLERS & CRESSMAN PLLC
Attorneys for Plaintiff
999 Third Avenue, Suite 3100
Seattle, Washington 98104-4088
Telephone: (206) 287-9900
Fax: (206) 287-9902

IN THE DISTRICT COURT OF THE SECOND JUDICIAL DISTRICT OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF NEZ PERCE

REED J. TAYLOR, a single person, Plaintiff, v. AIA SERVICES CORPORATION, an Idaho corporation; AIA INSURANCE, INC., an Idaho corporation; R. JOHN TAYLOR and CONNIE TAYLOR, individually and the community property comprised thereof; BRYAN FREEMAN, a single person; JOLEE DUCLOS, a single person; CROP USA INSURANCE AGENCY, INC., an Idaho Corporation; and JAMES BECK and CORRINE BECK, individually and the community property comprised thereof; Defendants.	Case No.: CV-07-00208 PLAINTIFF'S FIRST SET OF REQUESTS FOR PRODUCTION, FIRST SET OF INTERROGATORIES, AND FIRST SET OF REQUESTS FOR ADMISSION TO DEFENDANT CONNIE TAYLOR

TO: CONNIE TAYLOR, Defendant; and Jon Hally, her attorney.

Plaintiff Reed Taylor submits the following Requests for Admission, Interrogatories and Requests for Production of Documents ("Requests" or "Request"). Pursuant to Rules 26, 33, 34 and 36 of the Idaho Rules of Civil Procedure, you are required to provide Admissions, Answers and Responses (and requested documents) within thirty (30) days from the date of service. Each Request is required to be answered on the basis of your entire knowledge. You must furnish all requested information that is known by you (whether or not in your control or possession), possessed by you or any other party, available to you, or possessed or available to any of your attorneys, consultants, representatives, experts, or other agents and supplement such information as required under Civil Rules. Each Request for Admission must be answered in accordance with Civil Rules. Type the Admission, Answers and Responses in the spaces provided, adding additional pages if more space is required. Return the original to this office.

1. DEFINITIONS

A. The term "document" or "documents" shall mean and include, without limitation, the original (or any copy when the original is not available) unless otherwise stated, and any non-identical copy (whether different from the original because of notes made on such copy or otherwise) or writings of every kind and description whether inscribed by hand, mechanical, Dictaphone, electronic, magnetic, computer, PDA, microfilm, digital photographs, photographs or other means, as well as other phonic statements, conversations or events and including, but not limited to, any and all: papers, general ledgers, check registers, agreements (including modifications), contracts (including all modifications), letters, flow charts, court orders, court stipulations, e-mails, e-mail attachments, electronic files, PDF files, OCR files, Tiff files, all electronic documents and files (including, without limitation, Microsoft Word, Microsoft Excel, Corel WordPerfect, Microsoft PowerPoint, Microsoft Publisher, and all other files or programs), website pages, website files, check requests, expense reports, adjusting journal entries, reports, cables, wire transfers, loan applications, credit applications, loan documents, appraisals, valuations, loan closing documents, loan guarantees, checks, canceled checks, deposit slips, cashier's checks, copies of cashier's checks, wire transfer instructions or authorizations, interoffice memos, automatic deposits, automatic withdrawals, credit authorizations, account inquires, financial statements and balance sheets presented to any lender or prospective lender, opinion letters, valuations, appraisals, stock valuations or appraisals, spreadsheets, stock certificates, meeting minutes (including board of directors and advisory boards), board resolutions (including advisory boards), state or federal securities filings or forms (whether in paper or electronic form), all tax forms (including, without limitation, 1099, W-2 and W-4 forms) prospectuses (including, without limitation 1-A prospectuses), private placement memorandums, subscription agreements, shareholder resolutions, shareholder agreements, confidentiality agreements, employment agreements, non-compete agreements, accounting analyses, all papers and writings referencing any action taken by the board of directors or shareholders (including advisory boards), notes of board meetings or advisory board meetings, notes of office meetings, financial statements, balance sheets, statements, payroll documents, notes, memoranda, deeds, mortgages, deeds of trust, options, correspondence, telegrams, documents in employee files, commission reports, income statements, vouchers, estimates, patents, books, planners, annual reports, correspondence, notes, training manuals or documents, manuals, employee handbooks, internal messages and memoranda, letters, demand letters, notices, reports, studies, invoices, compilations, studies, tables and tabulations, tallies, maps, telegrams, requests for information, records, diaries, reports, logs, photographs, illustrations, models, time sheets, administrative files, working papers, employee notebooks, accountant work papers, applications, account signature cards, letters of transmittal, fax cover sheets, account opening forms or related forms, laboratory data, press releases, option grants, brochures, vouchers, credit reports, credit applications, bond applications, proxies, voting agreements, bonds, bank account statements, drawings, estimates, bids, plaques, diagrams, plans, photographs, video tapes or recordings, audio tapes or recordings, plans, summaries, revisions, drafts, compilations, tallies, tables and tabulations, studies, maps, schedules, schedule updates, records, reports (including, without limitation, daily, weekly and monthly reports, diaries, and logs), computer stores or computer-readable data, computer print-outs, purchase orders, instruments, certificates, stock certificates, canceled stock certificates, bonds, documents that support any document or entries in any documents, documents that support the conclusions or opinions of any document, exhibits, journals, messages, emails and email attachments (including, without limitation, all emails, draft emails, emails or electronic attachments and/or files sent or received in an original, carbon copy or blind carbon copy form), electronic calendar entries and notes (e.g., Microsoft Outlook), expert witness reports, pleadings, deposition transcripts, hearing transcripts, administrative documents and transcripts, affidavits, declarations, any and all communications whatsoever, and any other writing of whatever description or form <u>contained in</u>

any storage device or in any computer although not yet printed, including documents stored on computer tape, back-up tapes or drives, computer runs, electronic files, computer cards, PDAs, disks, diskettes, email devices, laptop computers, CD-ROMS, Zip Disks, hard drives, removable storage device, flash drives, tape drives, removable and/or portable hard drives or storage device of any type, laptop and tablet computers, portable electronic devices, cell phones or any other storage device, carbon copy, photographic copy, preliminary tape, or all versions of any such materials the contents of which differ in any respect from the originals. If a document has been prepared in more than one copy, or if additional copies have been made, and the copies are not identical, or have undergone alteration, each non-identical copy must be produced. If a document has been lost, destroyed, or is otherwise unavailable, please list the document, state the status of the document (e.g., lost or destroyed), state the date the document was created or received, and state the subject matter of the document.

B. The term "identify" when used with respect to a document, or the description or identification of a document, shall be deemed to include a request for the following information with respect to that document:

1) The nature and substance of the document;

2) The date, if any, which the document bears;

3) The "identity" of the persons to whom the document is addressed;

4) The "identity" of all persons having possession, custody, or control of each original or legible copy of the document.

C. The term "identity" or "identify," when used with respect to a person or entity or a request for the description or identification of a person or entity, shall be deemed to include a request for the following information with respect to such person:

1) The person's or entity's name;

2) The person's or entity's last known address; and

3) The person's or entity's telephone number.

D. The term "relating to" or "relate in any way" or "relates" or "pertains" or "pertain to" or "pertaining to" as used herein shall mean any document which is relevant in any way to the subject matter, including, without limitation to the foregoing, all documents which contain, record, reflect, summarize, evaluate, comment upon, transmit, or discuss the subject matter of any request, as well as drafts, work papers, or other preparation materials, exhibits shown or circulated at any meeting, the text or notes of any oral or written presentation or conversation.

E. The term "person" shall include the plural as well as the singular and includes any natural person, group of natural persons acting as individuals, or groups of natural persons acting in collegial capacity, agency capacity, corporation, partnership, joint venture and any other incorporated or unincorporated business or social entity.

F. The phrase "state with particularity" or the term "describe" means that you shall set forth every aspect of every fact, circumstance, act, omission, or course of conduct known to you, relating in any way to the matter inquired about.

G. The term "produce" refers to the request for production of documents contained in these Requests for Production.

H. The terms "you" or "your" or "Connie Taylor" shall mean Connie Taylor and/or all of her representatives, spouses, friends, employees, agents, business managers, publicists, joint ventures, independent contractors, personal managers, attorneys (except with respect to privileged matters), accountants, auditors, consultants, expert witnesses, employees, managers, superintendents, and other entities or persons acting or purporting to act on her behalf, or persons, including entities, employed for any purpose whatsoever with respect to the subject matter of this litigation, regardless of whether or not still employed, contracted, or otherwise associated with Connie Taylor.

I. The terms "R. John Taylor" or "John Taylor" shall mean R. John Taylor and/or all of his representatives, spouses, friends, employees, agents, business managers, publicists, joint ventures, entities in which you hold or have held an ownership interest, entities in which you have acted as a director or officer or advisory board member, partners, independent contractors, personal managers, attorneys (except with respect to privileged matters), accountants, auditors, consultants, expert witnesses, employees, managers, superintendents, and other entities or persons acting or purporting to act on his behalf, or persons, including entities, employed for any purpose whatsoever with respect to the subject matter of this litigation, regardless of whether or not still employed, contracted, or otherwise associated with R. John Taylor.

J. The term "AIA Insurance" shall mean AIA Insurance, Inc. and/or all of its officers, directors, shareholders, advisory board members, representatives, employees, agents, business managers, publicists, subsidiaries, joint ventures, independent contractors, personal managers, attorneys (except with respect to privileged matters), accountants, auditors, consultants, expert witnesses, employees, managers, superintendents, and other entities or persons acting or purporting to act on its behalf, or persons, including entities, employed for any purpose whatsoever with respect to the subject matter of this litigation, regardless of whether or not still employed, contracted, or otherwise associated with AIA Insurance.

K. The term "AIA Services" shall mean AIA Services Corporation and/or all of its officers, directors, shareholders, advisory board members, representatives, employees, agents, business managers, publicists, subsidiaries, joint ventures, independent contractors, personal managers, attorneys (except with respect to privileged matters), accountants, auditors, consultants, expert witnesses, employees, managers, superintendents, and other entities or persons acting or purporting to act on its behalf, or persons, including entities, employed for any purpose whatsoever with respect to the subject matter of this litigation, regardless of whether or not still employed, contracted, or otherwise associated with AIA Services Corporation.

L. The term "Crop USA" shall mean Crop USA Insurance Agency, Inc. and/or all of its officers, directors, shareholders, advisory board members, representatives, employees, agents, business managers, publicists, subsidiaries, joint ventures, independent contractors, personal managers, attorneys (except with respect to privileged matters), accountants, auditors, consultants, expert witnesses, employees, managers, superintendents, and other entities or persons acting or purporting to act on your behalf, or persons, including entities, employed for any purpose whatsoever with respect to the subject matter of this litigation, regardless of whether or not still employed, contracted, or otherwise associated with Crop USA.

M. The singular of any word, term or number includes the plural, and the plural includes the singular.

N. Words or terms in the masculine gender include the feminine and neuter.

O. If you claim privilege or work product protection for any document, identify each such document and, with respect to each document, state the specific basis for the claim of privilege or protection, and provide the following information:

1. The subject matter of each document.
2. The title, heading, or caption of each document, if any.
3. The identifying number(s), letter(s) or combination thereof, if any, and the significance or meaning of such number(s), letter(s) or combination thereof.
4. The date appearing on each document or, if no date appears thereon, the date or approximate date on which the document was prepared.
5. The general nature and description of each document and the number of pages of which it consists.
6. The identity of the person who signed each document and, if it was not signed, the identity of each person who prepared it.
7. The identity of each person to whom each document was addressed and the identity of each person to whom a copy was sent.
8. The identity of each person with custody of a copy of each such document.
9. ANY OBJECTION WHICH IS NOT SO ASSERTED MAY BE DEEMED WAIVED.

P. If you claim privilege or work product protection for any conversation or communication, provide the following information with respect to each such conversation or communication:

1. Date of the conversation or communication.
2. The identity of each participant.
3. The place(s) where the conversation took place.
4. The general nature of the conversation or communication.
5. Specific basis for the claim of privilege or protection.
6. The identity of each document relating to the conversation or communication.
7. If you object to answering only part of any Discovery Request, specify the part to which you object and answer the remainder.

8. ANY OBJECTION WHICH IS NOT SO ASSERTED MAY BE DEEMED WAIVED.

2. **REQUESTS ARE CONTINUING / TIME PERIOD**

These Requests are ongoing, and you have a duty to supplement and provide additional information as it becomes available to you. Unless otherwise specified, these Requests cover the time period from January 1, 1995, through the date that this litigation is concluded.

REQUEST FOR PRODUCTION NO. 1: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to any payments or loans of funds, assets, labor, or services that you or any entity in which have hold or have held an ownership interest have received from AIA Services, AIA Insurance or Crop USA.

RESPONSE:

REQUEST FOR PRODUCTION NO. 2: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to all notes of communications, communications, agreements, transactions, or correspondence between you and any advisory board or member of any advisory board of AIA Services, AIA Insurance or Crop USA or involve any advisory board meeting, decision, resolution or minutes of any meeting, decision, or resolution thereof.

RESPONSE:

REQUEST FOR PRODUCTION NO. 3: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that have been provided to your attorney or received from your attorney that relate in any way to the subject matter of this litigation or the parties to this litigation (Please note that all documents that you assert are privileged must be specifically listed and addressed in a privilege log).

RESPONSE:

REQUEST FOR PRODUCTION NO. 4: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to any insurance policies which may have coverage (whether or not such coverage was accepted or denied) for directors or officers of AIA Insurance, AIA Services, or Crop USA (including policies and correspondence to or from all such insurance companies).

RESPONSE:

INTERROGATORY NO. 1: State with particularity all facts (e.g., the amount or value, date of payment or use, name of entity or person, reason for payment or use, etc.) pertaining to the payment or use of AIA Services or AIA Insurance's labor, services, accounts, credit, loan guarantees, loans, office space, funds, or assets to R. John Taylor, Crop USA or any entity in which you or R. John Taylor hold or have held an ownership interest.

ANSWER:

REQUEST FOR PRODUCTION NO. 5: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to the information requested or provided by you in the preceding Interrogatory.

RESPONSE:

REQUEST FOR PRODUCTION NO. 6: Produce all of your tax returns and the tax returns of all privately held entities in which you hold or have held an ownership interest, together with all related documents (including, without limitation, all schedules, forms, attachments, and/or exhibits to your tax returns) for the 1995 tax year through the 2007 tax year.

RESPONSE:

REQUEST FOR PRODUCTION NO. 7: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to all agreements or arrangements of any type between you and Crop USA, AIA Services, AIA Insurance, or any other entity in which you hold or have held an ownership interest.

RESPONSE:

INTERROGATORY NO. 2: Provide a list of all loans or credit arrangements of any type used by you or any entity in which you hold or have held an ownership interest that were guaranteed or provided by AIA Insurance or AIA Services (or both), including, without limitation, any loans or credit arrangements guaranteed by AIA Insurance or AIA Services (or both) since 1995. For each such loan or credit arrangement, state the amount of credit available under each loan or credit arrangement, the purpose of each loan or credit arrangement, the financial institution or creditor who made each loan or credit arrangement, and the present balance of each loan or credit arrangement.

ANSWER:

REQUEST FOR PRODUCTION NO. 8: Produce all documents pertaining to damages incurred by you or any of the defendants in this action or for the calculation or determination of any damages.

RESPONSE:

REQUEST FOR PRODUCTION NO. 9: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to the information requested or provided by you in the preceding Interrogatory (including, without limitation, all documents provided to or received from any lending party, creditor, or financial institution, e.g., documents held in the lenders file that were provided by you such as financial statements, loan applications, account opening forms, balance sheets, etc.).

RESPONSE:

REQUEST FOR PRODUCTION NO. 10: Produce all documents (*See* above definition for "documents" e.g., notes, emails, bank statements, loan statements, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your contention that Reed Taylor did not have the right to vote the shares of AIA Insurance on February 1, 2007.

RESPONSE:

REQUEST FOR PRODUCTION NO. 12: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your receipt of proceeds, dividends, distributions, loans, compensation or the cost of benefits of any type or nature provided to you by AIA Services, AIA Insurance, Crop USA, Pacific Empire Holdings Corporation, Pacific Empire Radio Corporation, Pacific Empire Communications Corporation, and all other entities in which you or R. John Taylor hold or have held an ownership interest.

RESPONSE:

REQUEST FOR PRODUCTION NO. 11: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to all opinion letters relating in any way to AIA Services, AIA Insurance, or Crop USA (including, without limitation, opinion letters from attorneys to lenders, attorneys to accountants, opinion letters from accountants or auditors, or opinion letters from auditors or accountants to you, AIA Services, AIA Insurance, Crop USA, or any of their/your attorneys, agents, officers, directors, advisory board members or accountants).

RESPONSE:

INTERROGATORY NO. 3: State with particularity the details and facts pertaining to your counterclaim(s), if any, against Reed Taylor and cross claims against any of the other defendants in this action. For each counterclaim and cross claim, state the date the counterclaim or cross claim accrued, provide a breakdown of all damages (including all components), provide the legal basis for each damage component, identify the persons who are witnesses to each counterclaim and cross claim together with the applicable damages, and state with particularity the knowledge held by each such person as to each of your counterclaims and cross claims.

RESPONSE:

REQUEST FOR PRODUCTION NO. 12: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to the information requested or provided by you in the preceding Interrogatory.

RESPONSE:

REQUEST FOR PRODUCTION NO. 13: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to any notes of communications, communications, or correspondence between you or any other person or entity in which you act as an officer, or director and Alan Coalson (or any entity or firm relating in any way to Alan C. Coalson, e.g., BDO Seidman or Alan C. Coalson CPA PS).

RESPONSE:

REQUEST FOR PRODUCTION NO. 14: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to any valuation reports or appraisals performed to value the Series C Preferred Shares of AIA Services, including, without limitation, appraisals and valuations specifically conducted for AIA Insurance's purchase of the Preferred C Shares of AIA Services from Crop USA.

RESPONSE:

REQUEST FOR PRODUCTION NO. 15: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to private placement memorandums, securities filings or forms (state or federal, electronic form or paper), prospectuses, 1-A prospectuses, forms filed with the Securities and Exchange Commission, state agency, and/or any other document relating in any way to securities or the sale or purchase of securities (shares of stock, bonds or any other security) of AIA Services, AIA

Insurance, or Crop USA.

RESPONSE:

REQUEST FOR PRODUCTION NO. 16: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Crop USA (and any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 17: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of AIA Services (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 18: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of any entity in which R. John Taylor holds or has held an ownership interest (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 19: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of any privately held entity in which you hold or have held an ownership interest (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 20: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Pacific Empire Holdings Corporation (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 21: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Pacific Empire Radio Corporation (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 22: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Pacific Empire Communications Corporation (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 23: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Radio Leasing, LLC (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 24: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Radio Leasing II, LLC (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 25: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your acquisition, purchase, exchange, transfer, or sale of shares or assets of Crop USA Financial LLC (or any portion thereof), including, without limitation, copies of all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, and all related documents.

RESPONSE:

REQUEST FOR PRODUCTION NO. 26: Produce all documents (*See* above definition for "documents" e.g., notes, emails, canceled checks, statements, agreements, agreements, electronic files, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to financial statements prepared by you, prepared on your behalf, or submitted to any of your lenders, financial institutions, prospective lenders or creditors, or any other party.

RESPONSE:

REQUEST FOR PRODUCTION NO. 27: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to all Joint Defense Agreements or any other defense agreement or arrangement of any type pertaining to any individual, joint or combined legal representation of you or any of the defendants in this lawsuit.

RESPONSE:

REQUEST FOR PRODUCTION NO. 28: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, agreements, correspondence, letters, expert witness reports, etc.) that have not been produced by AIA Insurance or AIA Services that evidence, refer, or relate in any way to the $15 Million line of credit loan to Crop USA from Lancelot Investors Fund, L.P. dated October 27, 2006, and all modifications and extensions of such loan (including, without limitation, all correspondence pertaining to such loan, defaults, all negotiations for such loan or post-closing negotiations or communications).

RESPONSE:

REQUEST FOR ADMISSION NO. 1: Admit that it was a violation of the Articles of Amendment to the Articles of Incorporation of AIA Services, filed May 8, 1996, for AIA Insurance, as a subsidiary of AIA Services, to guarantee the $15 Million line of credit loan to Crop USA from Lancelot Investors Fund, L.P., dated October 27, 2006.

RESPONSE:

REQUEST FOR PRODUCTION NO. 29: If your Response to the preceding Request for Admission is anything other than an unequivocal admission, produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to your Response or the basis for your Response to the preceding Request for Admission.

RESPONSE:

INTERROGATORY NO. 4: Identify all of your past or present ownership interests in any business or entity stating with particularity the acquisition date of each such interest, the acquisition cost of each interest, the number of shares acquired in each instance, units or amount of interest acquired in each instance, and the person or entity from which each such interest was acquired (this Interrogatory includes, without limitation, shares of stock in Crop USA, shares of stock in any other entity, partnership interests, options to purchase, LLC units, sole proprietorship businesses and all other ownership interests).

ANSWER:

REQUEST FOR PRODUCTION NO. 30: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, stock certificates, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to the information requested or provided by you in the preceding Interrogatory, including, without limitation, all stock certificates, subscription agreements, purchase agreements, sale agreements, appraisals, options, contracts providing options to purchase.

RESPONSE:

REQUEST FOR PRODUCTION NO. 31: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to meetings, resolutions or any other decisions (including minutes thereof) of advisory boards of AIA Insurance, AIA Services or Crop USA.

RESPONSE:

REQUEST FOR PRODUCTION NO. 32: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to meetings, resolutions or any other decisions (including minutes thereof) of the board of directors of AIA Insurance, AIA Services, or Crop USA.

RESPONSE:

REQUEST FOR PRODUCTION NO. 33: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that have not been produced by AIA Services or AIA Insurance that evidence, refer, or relate in any way to meetings, resolutions or any other decisions (including minutes thereof) of the board or directors of AIA Insurance, AIA Services, or Crop USA.

RESPONSE:

REQUEST FOR PRODUCTION NO. 34: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that have not been produced by AIA Services or AIA Insurance that evidence, refer, or relate in any way to attorneys, auditors or accountants who were involved in any way (or rendered any opinions, agreements or correspondence from or to any such attorneys, auditors or accountants) to AIA Insurance's purchase of the Preferred C Shares of AIA Services from Crop USA in 2004 or the exchange of the same Preferred C Shares of AIA Services to common shares of Crop USA before the 2004 transaction.

RESPONSE:

REQUEST FOR PRODUCTION NO. 35: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that that have not been produced by AIA Insurance or AIA Services that evidence, refer, or relate in any way to appraisals or valuations performed or provided for AIA Services, AIA Insurance or Crop USA, including, without limitation, appraisals or valuations of any entire company, block or blocks of business, book or books of business, common shares, preferred shares, or any other asset.

RESPONSE:

REQUEST FOR PRODUCTION NO. 36: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that have not been produced by AIA Services or AIA Insurance that evidence, refer, or relate in any way to all management or administrative agreements or other business agreements or arrangements between AIA Insurance and/or AIA Services and Crop USA or any other entity in which you hold or have held an ownership interest.

RESPONSE:

REQUEST FOR PRODUCTION NO. 37: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that have not been produced by AIA Services or AIA Insurance that evidence, refer, or relate in any way to allocations of expenses, labor, funds, costs, services, or rent between AIA Services or AIA Insurance and any other person or entity in which you hold or have held an ownership interest (including, without limitation, Crop USA, Pacific Empire Holdings Corporation, Pacific Empire Radio Corporation, and Pacific Empire Communications Corporation).

RESPONSE:

REQUEST FOR PRODUCTION NO. 38: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to agreements, contracts, leases, rental agreements, or other arrangements between you or any entity in which you hold or have held an ownership interest and AIA Services, AIA Insurance, Crop USA or any other entity in which you hold or have held an ownership interest.

RESPONSE:

REQUEST FOR PRODUCTION NO. 39: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to the fairness of all transactions involving Crop USA or AIA Services or AIA Insurance and you, R. John Taylor, Pacific Empire Holdings Corporation, Pacific Empire Radio Corporation, Empire Communications Corporation or any other entity in which you or R. John Taylor hold or have held an ownership interest, including, without limitation, all documents evidencing, indicating and/or supporting your contention that such transactions were not in bad faith, did not involve self-dealing, were arms-length transactions, and/or were conducted in accordance with appropriate corporate governance practices involving interested directors, shareholders and/or officers.

RESPONSE:

REQUEST FOR PRODUCTION NO. 40: Produce all documents (*See* above definition for "documents" e.g., notes, emails, electronic files, canceled checks, statements, agreements, correspondence, letters, expert witness reports, etc.) that evidence, refer, or relate in any way to any communications, notes of communications, correspondence, or agreements between you and Marcus McNabb.

RESPONSE:

REQUEST FOR ADMISSION NO. 2: Admit that AIA Services or AIA Insurance has guaranteed a loan for an entity in which you hold or have held an ownership interest (from August 1, 1995, through the present).

RESPONSE:

INTERROGATORY NO. 5: If your Response to the preceding Request for Admission is an admission, provide the name and address of each lender, the amount of each loan, the date of each loan, and the present balance of each loan.

ANSWER: