Report on Examination

of

Tennessee Farmers Mutual Insurance Company
Tennessee Farmers Life Insurance Company
Tennessee Farmers Life Reassurance Company
Tennessee Farmers Assurance Company

147 Bear Creek Pike
Columbia, TN 38401

as of

December 31, 2003

Department of Commerce and Insurance

State of Tennessee

Nashville

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Department of Commerce & Insurance
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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

October 29, 2004

Commissioner Paula A. Flowers
Tennessee Department of Commerce & Insurance
Davy Crockett Tower, Fifth Floor
500 James Robertson Parkway
Nashville, Tennessee 37243-0565

Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and Regulations, and Resolutions adopted by the National Association of Insurance Commissioners (NAIC), a target financial examination was made of the condition and affairs of the following Companies:

Tennessee Farmers Mutual Insurance Company,
Tennessee Farmers Life Insurance Company,
Tennessee Farmers Life Reassurance Company
Tennessee Farmers Assurance Company

147 Bear Creek Pike
Columbia, TN 38401

(hereinafter referred to as TFMIC, TFLIC, TFLRC and TFAC respectively, or collectively referred to as the Insurance Companies) as of December 31, 2003, and a report thereon is hereby respectfully submitted.

Introduction

The previous examinations of the Companies were concluded on July 25, 2002 and conducted simultaneously by representatives of the Department of Commerce & Insurance, State of Tennessee. The examinations were full scope financial examinations and market conduct reviews covering the period January 1, 1996 through December 31, 2000. Separate examination reports were issued for each examined Company.

This examination was arranged by the Department of Commerce & Insurance, State of Tennessee under rules promulgated by the NAIC. It was commenced March 23, 2004 and conducted by duly authorized representatives of the Department of Commerce & Insurance, State of Tennessee. This is a limited scope examination which includes a concurrent review of the operations of the above listed Companies, as all are affiliated in the Tennessee Farmers Insurance Companies Group located in Columbia, TN.

Scope of Examination

This examination covers the period from January 1, 1996 through December 31, 2003, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The purpose of this examination is to determine the Companies' compliance with Title 56, Chapter 11 Tenn. Code Ann., Insurance Holding Company Systems and Tenn. Code Ann. § 56-3-103, pecuniary interest of officers and directors prohibited. Transactions occurring within the insurance holding company system were reviewed to determine proper reporting to the Department of Commerce & Insurance and compliance with Tennessee Statutes. Corporate records and minutes to meetings of the Companies' Boards of Directors and Investment Committees were reviewed to assist with making such determinations.

Procedures for this examination also included a review of the Companies' investments in common stock, preferred stock, and mortgage loans as well as inquiries to verify the extent of personal investments by the Companies' officers, directors and employees in the same to determine the existence of any pecuniary interest. Comparisons were made between transactions involving pecuniary interest investments and non-pecuniary interest investments to determine similar or dissimilar treatment by the Company and its officers and directors.

Accounting practices and procedures were applied in accordance with the rules and regulations established by the NAIC and as prescribed or permitted by Tenn. Code Ann., Title

56 and related laws, rules and regulations. Financial Condition Examination Procedures for limited scope examinations were adhered to as promulgated by the NAIC.

An examination was also made into the following matters:

Company History
Holding Company System
Management and Control
Investment Policies
Conflict of Interest Policy
Pecuniary Interest of Officers & Directors

Such tests and reviews were conducted as were deemed necessary or appropriate for the purposes of this examination. Substantive examination procedures and analytical review procedures were applied to investments specifically selected for testing to determine compliance with NAIC Accounting Practices and Procedures and Tennessee statutes. This report is written by exception, except for certain items of regulatory significance, and those matters examined and found to be substantially in compliance with statutes will not be commented on further. Events subsequent to the December 31, 2003 examination date are included where relevant and appropriate.

Because this examination is a limited scope examination, it is not intended to communicate all matters of importance for an understanding of the Companies' financial conditions. The Companies collectively reported in their December 31, 2003 annual statements filed with the Department, total capital and surplus of approximately $1.54B. This examination did not include verification and valuation of assets, determination of liabilities, reserves or the resulting unassigned (surplus) funds of the Company in accordance with the rules and regulations established by the NAIC or as prescribed by Tenn. Code Ann. Article 56 and Related Laws, Rules and Regulations.

Company History

The Tennessee Farm Bureau Federation (the "Federation") was formed as a not for profit corporation in Columbia, TN on February 15, 1923. Its purpose of improving the economic and social well-being of farm and rural people in Tennessee is accomplished through representing its members in the Legislature, meeting the health care needs for rural people, providing farm records programs for farmers, and many other activities and service-to-member programs. This includes providing a variety of insurance services and products.

Any County Farm Bureau organized in Tennessee with general aims, purposes and objectives in conformity with those of the Federation, and which pledges compliance with the Federation's Charter and Bylaws, shall be eligible for membership. Each County Farm Bureau holding a membership in the Federation shall determine the appropriate classification of each individual membership applicant and shall report such classification to the Federation. A county Farm Bureau is located in all 95 counties in Tennessee and all organizational efforts are driven by the desires at the county level. The Tennessee Farm Bureau is federated with all the other state Farm Bureaus in the American Farm Bureau.

Tennessee Livestock Producers (TLP) is the marketing affiliate of the Federation and is its oldest service company. TLP was formed by the Federation in 1932 as a marketing cooperative with the purpose of establishing competitive bids for all livestock throughout the state. TLP is wholly owned by the Federation.

On May 6, 1947, the Federation formed Tennessee Rural Health Improvement Association (TRHIA). With over 532,000 members, TRHIA is a fraternal organization comprised of local chapters which promote the health of rural people in Tennessee by providing health coverage, Medicare supplements, dental coverage, children's coverage, short-term and long-term coverage. These coverages are administered by BlueCross BlueShield of Tennessee with the exception of long-term care which is administered by GE Financial Assurance Company. Although over 134,000 members of the Federation have health care protection through TRHIA, it is an "exempt entity" per Tenn. Code Ann. § 56-2-121 (a) and deemed not to be insurance and not subject to the provisions of Tenn. Code Ann., Title 56.

On March 20, 1969, Farmers' Service, Inc. ("Service") was formed by the Federation to provide a computerized record keeping system to farmers that would supply them with financial management information as well as tax planning strategies and tax preparation. Service offers tax and business services such as financial record keeping systems to production agriculture and other businesses.

The Federation also formed a group of affiliated Tennessee insurance companies that work together to provide high quality insurance services and assistance to members of the Federation. Insurance products are offered through independent agents located in offices in every county in Tennessee. The companies are collectively referred to as the Tennessee Farmers Insurance Companies. Together they are among the largest writers of personal lines homeowner/property insurance, private passenger automobile insurance and individual life insurance in Tennessee. Their history and organization is as follows:

On November 5, 1948, Tennessee Farmers Insurance Company was incorporated by the Federation as a stock Tennessee corporation in Columbia, TN. On December 22, 1952, Tennessee Farmers Insurance was reorganized with the incorporation of Tennessee Farmers Mutual Insurance Company ("TFMIC"). The effect of this reorganization was to convert the operations and business of Tennessee Farmers Insurance Company from a stock proprietorship to a mutual plan, with TFMIC being the successor corporation. On December 30, 1952, TFMIC was issued an initial Certificate of Authority by the State of Tennessee and commenced the transaction of insurance business as a state mutual insurance company. During 1952 and 1953, TFMIC received subscriptions for advanced surplus and issued certificates in the aggregate amounts of $348,400 and $172,350 respectively. The Federation advanced $80,550, and $440,200 was advanced by 910 members of the Farm Bureau Federation.

On April 6, 1973, the Federation and TFMIC formed Tennessee Farmers Life Insurance Company ("TFLIC") by subscribing to purchase 150,000 and 950,000 shares respectively of the authorized common capital stock of TFLIC. A Certificate of Authority to transact the business of life, disability and credit insurance was issued by the Department of Commerce & Insurance to TFLIC effective April 30, 1973. Stock of TFLIC was offered to companies and individuals through an intrastate offering in 1973 and was purchased by numerous individuals and entities, including TFMIC, the Federation and TRHIA. TFLIC presently has over 4,239 unaffiliated shareholders which comprise approximately 45% of its ownership.

Effective October 5, 1980, TFLIC formed and incorporated a wholly owned subsidiary, Tennessee Farmers Capital Corporation ("TFCC"). TFCC was formed as a for profit corporation for the main purpose of leasing automobiles, furniture and computer equipment to all Tennessee Farmers affiliated companies.

On October 31, 1980, TFLIC acquired 1,000 shares in the Tennessee Farmers Insurance Agency, Inc. ("TFIA"), Columbia, Tennessee, a wholly owned subsidiary of TFLIC. TFIA was sold to TFMIC, their upstream affiliate, on October 11, 1991.

On January 16, 1987, TFLIC formed Tennessee Farmers Life Reassurance Company ("TFLRC") by purchasing 6,000 shares of TFLRC's common stock. On the same date, Tennessee Farmers Investment Company, an affiliate of TFLIC which has subsequently been dissolved, purchased 4,000 shares of TFLRC's preferred stock. TFLIC, by quota share reinsurance, ceded all of its traditional life insurance products in force at April 1, 1987 with TFLRC.

On April 3, 1991, Tennessee Farmers Assurance Company ("TFAC") was formed with the issuance of 24,400,000 shares of its common stock to TFHC, Inc., a downstream holding company which had simultaneously been formed by TFMIC, TFLIC, and the Federation for the purpose of supplying capital through stock ownership for TFAC. There are no operations in TFHC other than the ownership of TFAC. TFAC's business is primarily limited to the assumption of approximately 50% of premiums and losses of its affiliate, TFMIC. When it was formed TFAC shares were offered to all policyholders of Mutual in an intrastate offering approved by the Department. TFAC presently has over 3,250 unaffiliated shareholders which comprise approximately 9% of its ownership.

In 1987, TFMIC formed an investment subsidiary, TFIC, Inc., to facilitate the purchase of tax exempt municipal bonds. By permission of the Department, TFMIC provided the funds necessary to capitalize and purchase the portfolio of bonds. Effective September 1, 1993, TFCC also formed an investment subsidiary, TF Investment Corporation, to facilitate the purchase of tax exempt municipal bonds. By permission of the Department, TFLIC provided the funds necessary to capitalize and purchase the portfolio of bonds. TFCC was dissolved effective June 28, 2002 with the filing of articles of dissolution with the Secretary of State. All of TFCC's assets and liabilities, including TF Investment Corp., were transferred to TFLIC, its sole shareholder, in accordance with the terms of the plan of dissolution.

As of December 31, 2003, TFMIC owned 100% of the issued and outstanding common stock of TFIC and TFHC, an insurance holding company which owned 90.9% of the outstanding common stock of TFAC. TFAC owned 100% of the outstanding common stock of TN Farmers Insurance Agency. TFMIC also owned 46.8% of the issued and outstanding common stock of TFLIC, which owned 100% of the issued and outstanding common stock of TF Investment Corporation and TFLRC. In addition, the Federation owns 5.1% and 7.1% of the outstanding common stock of TFHC and TFLIC respectively. TN Rural Health Improvement Association ("TRHIA") owns .9% of TFLIC and non affiliated shareholders account for 45.2% and 9.1% of the common stock ownership of TFLIC and TFAC respectively. (An organizational chart of ownership and control is included as an addendum at the end of this report.)

Holding Company System

The Insurance Companies are members of an insurance holding company system under the provisions set forth in Tenn. Code Ann., Title 56, Chapter 11. This is annually disclosed by the Companies in the "General Interrogatories" of their annual statements filed

with the Department. The Companies also included a holding company organizational chart in the annual statements for each year covered by the period of this examination. A consolidated organizational chart is attached to this report as Addendum 1.

On February 12, 1987, the Tennessee Farmers Insurance Companies were granted an exemption from the filing requirements of Tenn. Code Ann. Title 56, Chapter 11 by the Department in accordance with Tenn. Code Ann. § 56-11-205(j). However, this exemption does not extend to any transaction which requires prior approval under that Chapter.

The following is a summary of contracts and agreements with members in the Company's holding company systems that were in place during the period of examination.

Management Services Agreement

All of the Companies' employees are those of TFMIC, which, in turn, supplies management and administrative services under a Management Service Agreement to TFIA and TFLIC. The agreements provide for, but are not limited to, the following services: employee, legal, claims, managerial and accounting. In addition, the service agreements provide for supplies, equipment and facilities necessary to carry on and conduct the every day operations of the Companies. The management contracts are renewed on a calendar year basis, and payment for services rendered is to be made quarterly not later than the 15th day of the month following each calendar quarter in which the expenses were incurred. Reimbursement of expenses is based upon generally accepted accounting principles. The original agreements were entered into on September 30, 1980 and provide that they are renewable on a calendar year basis with the same terms and conditions. The following is a schedule of amounts payable under the management agreements for 2003:

Allocated from TFMIC to:	Amount
TFIA	$33,872
TFLIC	5,166,858
Total	$ 5,200,730

The agreements were entered into prior to the passage of Tenn. Code Ann. § 56-11-206(a)(2)(D) and therefore do not require prior Departmental approval.

TFAC receives management services from TFMIC and makes reimbursement for them through a reinsurance agreement discussed in the following section. TFLRC shares TFLIC's management services and expenses through their reinsurance agreement also discussed

below. The Companies lease building space from the Federation under a month-to-month operating lease.

Reinsurance Agreements

Effective April 1, 1987, TFLIC and TFLRC entered into a quota share reinsurance agreement whereby all ordinary life policies issued by TFLIC and in force on the effective date of the policy were ceded to TFLRC. The agreement is presently in a run-off status. In accordance with Tenn. Code Ann. § 56-11-206(a)(2)(C), the Company requested approval of this agreement by letter dated February 27, 1987. The Department's approval was granted March 11, 1987.

Effective August 1, 1991, TFMIC entered into a Participation Reinsurance Agreement with TFAC to cede a portion of all classes of business written to TFAC. Under the agreement, TFMIC cedes approximately 50% of all direct business, and TFAC assumes 50% of TFMIC's losses and loss adjustment expenses, underwriting expenses and policyholders' dividends related to this business. The Company requested approval of this agreement by letter dated July 3, 1991 and the Department's approval was granted August 13, 1991.

Effective January 1, 1999, TFMIC entered into a Participation Reinsurance Agreement with TFAC to assume a portion of all classes of substandard auto business written by TFAC. Under the agreement, TFAC cedes approximately 50% of all direct business, and TFMIC assumes 50% of TFAC's losses and loss adjustment expenses, underwriting expenses and policyholders' dividends related to this business. The total amounts ceded and assumed involved less than 5% of each entity's surplus therefore the transaction did not require prior notification to the Department per Tenn. Code Ann. § 56-11-206(a)(2)(C).

Consolidated Tax Allocation Agreement

An agreement between TFMIC, TFAC, TFHC, Inc. and TFIC, Inc. which was adopted December 31, 2000 provides for an allocation of each member's tax liability during consolidated return years by the method prescribed in IRS Regulation 1.1552-1(a)(2). The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax so computed for all members. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exist on the Companies' books.

An agreement between TFLIC, TFCC and TF Investment Corporation which was adopted December 31, 2000 provides for an allocation of each member's tax liability during

consolidated return years by the method prescribed in IRS Regulation 1.1552-1(a)(2). The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax so computed for all members. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exist on the Companies' books.

It is the opinion of the examiners that Tenn. Code Ann. § 56-11-206(a)(2)(D) requires advance notification to the Department for agreements of this type. We could find no evidence that the Company provided such to the Department.

Lease Agreement

The Companies have lease agreements with TFLIC whereby all affiliates are provided use of TFLIC's equipment under an operating lease. The agreements run on a calendar year basis with automatic one year extensions upon their expiration. Lease payments are due monthly. The following is a schedule of lease payments made during 2003:

Paid to TFLIC from:	Amount
Federation	$ 166,764
Farmers Service	40,797
TN Livestock Producers	2,993
TFMIC	5,597,500
TRHIA	107,658
Total	$ 5,915,712

It does not appear that the Department was provided the required prior notice for these agreements as required by Tenn. Code Ann. § 56-11-206(a)(2)(D).

Investments

Documentation provided to the examiners indicates that TFLIC, TFIC, Inc. and Tennessee Rural Health Improvement Association, an affiliate of the Federation, acquired on various dates during the period of examination a cumulative investment in Donlar Corporation in excess of $20M. According to documentation provided by Donlar, this was equal to 22.478% of Donlar's company ownership and 14.4% of its issued common stock at April 15, 2001. Tenn. Code Ann. § 56-11-206 (a)(5) requires the Companies to notify the Commissioner within 30 days of any investment of the domestic insurer in any one corporation if the total investment in

such corporation by the holding company system exceeds 10% of the voting securities. The Company did not provide the required notification in accordance with statutes. Donlar filed bankruptcy in May 2004 and the Companies subsequently allowed the sale of all assets securing the Donlar investments.

The Company's purchases of common stock of American Agricultural Insurance Company which were acquired on various dates caused their cumulative investment to exceed 10% of its voting securities. In accordance with statutes, the Company provided the required notification by letter to the Department on August 9, 2004.

Dividends

TFLRC is the only Company covered by this examination that paid cash dividends to shareholders during the examination period. All dividends were of an ordinary nature and did not require prior Departmental approval per Tenn. Code Ann. § 56-11-206 (b). Dividends paid are presented as follows:

Year Dividend Paid	Amount Paid
2003	$ 497,250
2002	570,375
2001	593,125
2000	654,875
1999	638,300
1998	576,875
1997	637,000
1996	671,775
Total	$ 4,839,575

Management and Control

Management of the Insurance Companies is vested in a Board of Directors elected annually, and the Board for each examined Company is identical. Historically, the members serving on the Board of the Federation have all served concurrent terms on the Boards of the Insurance Companies.

Board of Directors of the Federation

The Federation is a non profit organization whose directors are elected annually by a House of Delegates from its ninety-five county Farm Bureau members. The Board shall consist of the President, Vice-President, Chairman of Tennessee Farm Bureau Women and eight

additional members; three to be elected from the State at Large, and one to be elected from each of the five designated Farm Bureau Districts. Members must be voting farmer members of the Federation in good standing who are actively engaged in farming as their primary occupation and who shall be serving as County Farm Bureau President or County Farm Bureau Board Member. The following eleven persons had been duly elected by the House of Delegates of the Federation to serve as Directors of the Federation, and were also serving as Board Members of the Insurance Companies at December 31, 2003:

Board Member	Business Affiliation
Flavius Barker	President & Chairman of the Board Sequatchie County
Lacy Upchurch	Vice President Farmer, Cumberland County
Jeff Aiken	Farmer, Washington County
Mike Brundige	Farmer, Weakley County
Linda Davis	Farmer-Homemaker, Gibson County
Joan Fussell	Farmer-Homemaker, Houston County
Charles Hancock	Farmer, Stewart County
Dan Hancock	Farmer, DeKalb County
David Mitchell	Farmer, Grainger County
Danny Rochelle	Farmer, Hickman County
Bobby G. Willis	Farmer, Coffee County

Board of Directors of the Insurance Companies

In accordance with the bylaws, the Boards of the Insurance Companies shall consist of not less than five or more than twenty-five members. The composition of the Boards is identical for all examined Companies. In addition to the above listed Directors of the Federation which were also serving on the Insurance Companies Boards, the following persons had been duly elected and were serving as members of the Insurance Companies' Boards at December 31, 2003:

Board Member	Business Affiliation
Marty Davis	Farmer, Bedford County
Robert Earhart	Farmer, Sullivan County
John Mark Hayes	Farmer, Clay County
Allen Peddy	Farmer, Chester County
Jack Sanders	Farmer, Bradley County

The Board of Directors is charged with managing the business and affairs of the Companies. Each director must be a member in good standing of the Federation, which in turn requires membership in a county Farm Bureau. TFMIC's Bylaws further require two directors to be residents of each of the geographical divisions into which the State of Tennessee has been divided for membership purposes by the Federation, and the remaining directors to be selected or elected from the state at large.

Officers

The Bylaws of the Insurance Companies provide that the Board of Directors shall elect annually a president, a first vice president, a chief executive officer, a secretary, a treasurer, and such additional officers as the chief executive officer may propose and the Board of Directors approve. The following officers were duly elected and were serving in the positions indicated for the Insurance Companies at December 31, 2003:

Flavius Barker	President & Chairman of the Board, Tennessee Farmers Insurance Companies & Tennessee Farm Bureau Federation
Lacy Upchurch	First Vice President, Tennessee Farmers Insurance Companies & Tennessee Farm Bureau Federation
Matthew M. Scoggins	Chief Executive Officer
Wayne Harris, CPA	Chief Financial Officer, Tennessee Farm Bureau Companies
Ed Lancaster	General Counsel, Tennessee Farmers Insurance Companies & Tennessee Farm Bureau Federation Secretary, Tennessee Farmers Insurance Companies
John Law	Chief Operating Officer, P&C Operations
Dennis Stephen	Chief Operating Officer, Life Operations
Neal Townsend	Chief Marketing Officer
Wayne Merrill, CPA	Vice President, Accounting
Vickie Knight	Vice President, Property Underwriting
Sam McDaniel	Vice President, Automobile Underwriting
Steve Burt	Vice President, Information Systems
Wayne Erwin	Vice President, Claims

The President functions as the Chairman of the Board of Directors and presides over all meetings of the members/stockholders and the Board of Directors. The President also serves as a conduit to the executive personnel concerning policy established by the Board of Directors. Subject to the control of the Board of Directors, the Chief Executive Officer shall have general management and control of the affairs and business of the Company, and shall perform all other duties and exercise all other powers commonly incident to his office, or which are required by law.

Investment Committee

The Companies' bylaws state that from time to time, a majority of the entire Board of Directors may by resolution appoint an executive committee or any other committee or committees for any purpose or purposes to the extent permitted by law. During the period under review, the Board of Directors authorized an investment committee of which the following officers of the Companies were serving at December 31, 2003:

Voting Members	
Flavius Barker	President
Matthew Scoggins	Chief Executive Officer
Hulet Chaney	CEO Emeritus
Wayne Harris, CPA	Chief Financial Officer
Dennis Stephen	Chief Operating Officer
Non Voting Members	
Randy Maxwell	Investment Portfolio Manager
David Williamson	Investment Portfolio Manager
Ed Lancaster	Secretary

Investment Policies Guide

The "Tennessee Farmers Insurance Companies Investment Policies Guide" specifies that the Investment Committee will formulate policies for investment purchases and disposal. The investment Portfolio Manager, with approval from the Investment Committee, is authorized to acquire and dispose of investments authorized by statute that fall within investment policies. Otherwise, the Portfolio Manager will seek guidance from the Investment Committee. The CFO shall schedule at least a monthly meeting of the Committee. More frequent meetings may be deemed necessary from time to time by other members of the Committee. The Portfolio

Manager will furnish to each Committee member a monthly report detailing classes, maturities, yields, and amounts of each investment. Summary reports of investment activity will be made to the Board of Directors quarterly.

The Investment Committee will determine the particular types of investments or categories and the diversification within the categories. The Committee and the CFO will allocate large investments in single entities between affiliates based on levels of investment funds available for use and surplus. Investments shall be only in areas not excluded by statute which include (A) bonds, notes, bills, (B) Common Stock, (C) real estate mortgage loans, (D) Tennessee financial institutions, and (E) preferred stock. The Committee may consider professional advice as to purchasing or disposing of its stocks, bonds, mortgages, etc. Individual companies within the holding company system shall not issue, buy or sell securities among themselves or other affiliates except by specific authorization and approval of the Committee.

The investment policies for the period of examination were reviewed to determine compliance with the limitations established by Tenn. Code Ann., Title 56. The Companies' investment practices, as performed by the investment committees and officers, appear to follow the guidelines as established by the investment policy except as specifically noted in the "Comments & Recommendations" section of this report.

Conflict of Interest Policy

All employees are subject to Tennessee Farmers Insurance Companies Code of Conduct which contains a discussion of conflicts of interest. The Companies' officers, directors and "responsible employees" complete the Insurance Companies' "Policy Statement on Possible Conflicts of Interest" on an annual basis. The questionnaire form is used for all entities within the holding company system. Persons required to complete the questionnaire signed only one form regardless of the number of positions they hold with different companies throughout the TN Farmers Insurance Companies holding company system. The questionnaire states, in part, the following:

> ...that it is the policy of the Company that no officers, directors, or employees should use their positions or the knowledge gained therein in such a manner that a conflict between the company's interest and their personal interests arises. Without full and complete disclosure thereof, no directors, officers, or responsible employees of the Company (directly or indirectly) shall have any positions with or substantial interest in any other business enterprise, or any connection with any property which would conflict with the proper performance of

> their Company duties or responsibilities, or which might tend to affect their independent judgment with respect to transactions between the Company and such business enterprise or any connection with any property. As a specific matter, although not to be considered as inclusive or exclusive of activities that could be carried on outside of the employment relationship, the ownership or purchase of securities traded on a registered exchange or in an "over-the-counter market" in relatively nominal amounts is not to be considered as having substantial interest. If at any time officers, directors, or employees find that they are in doubt as to the proper application of the company's policy on conflicts of interest with respect to any particular situation, or they find that they have a financial interest or outside relationship which might involve a conflict of interest, they should immediately make all the facts known to their superiors and be guided by the instructions they receive. In such event, they should refrain from exercising responsibility in any company matter which might reasonably be thought to be affected by their adverse interests. Both the fact and the appearance of the conflicting interests are to be avoided. To the extent that applicable statutes exist, strict compliance with the provisions of such statute is expected.

Within the scope of our examinations is a review of the Companies' conflict of interest policy and disclosures of conflicts of interest by its officers & employees. Intercompany transactions with other members within the Company's holding company system were also reviewed for purposes of detecting the existence of conflicts of interests. As a result of this review, the examiners noted that many company officials disclosed personal investments in the following that, in their opinion, created a conflict of interest:

1) Donlar Corporation
2) First Farmers & Merchants Bank
3) Protherics / Therapeutic Antibodies
4) Passport Health Communications

Upon further review, the examiners noted that responses to the Companies' questionnaire were inconsistent among respondents. For instance, an investment considered a conflict of interest by one officer was not considered a conflict by another officer, when both had similar investments in the entity in question. Also, positive responses were submitted by officers only in some of the years covered by this examination, when both the personal and corporate investments in the entities in question remained constant throughout the period of examination. Accordingly, the examiners asked that the respondents clarify their responses and provide information about the extent of their personal investments in these entities. The results of the inquiries and descriptions of the conflicts are discussed in the following section and in the "Comments and Recommendations" section.

Conflicts of Interest

Donlar Corporation

Of the Directors and Officers responding to the Department's inquiries, one Director and five Officers personally acquired approximately 19,500 shares of Donlar Corporation common stock during the period of examination. This includes all voting members and one non-voting member of the Companies' Investment Committee. Individuals made these purchases pursuant to a private placement offer by Donlar at the price offered at the time.

On April 14, 1997, the Insurance Companies made an initial equity investment in Donlar in the amount of $5,032,500 which was allocated among TFLIC, TFAC, and TFIC, Inc. at the discretion of the CFO. Donlar was in the process of building a plant in Peru, IL and the Companies decided to loan Donlar monies to complete the building. On December 5, 1997, the Companies loaned Donlar $5M for a note collateralized with a first lien on the land and building. On July 1, 1998, the Companies agreed to increase the loan to Donlar by approximately $1.4M in exchange for collateral of all the assets of Donlar except patents, trademarks and copyrights. All equity was converted to a loan at which time the Companies became a secured lender versus equity and loan combination. On December 31, 1999 the Companies again agreed to increase the loan to Donlar by $5.0M and Donlar added the patents, trademarks and copyrights to the collateral securing the loans. By March 31, 2002, Donlar had completed a merger acquisition of Biomune Corporation and had accounts payable (primarily taxes and other unpaid expenses) they could not pay. The Companies increased the loan by $1.83M to cover these payables in order to clarify their position. Funds invested/loaned by the Companies to Donlar (which were all allocated among the Companies at the discretion of the CFO and Investment Committee) had grown to over $18.2M. This is exclusive of past due interest and penalties which were often capitalized in the outstanding loan balance because of their past due and non-performing status kept during this period. The Companies' Officers and one Director also maintained their personal investments in Donlar during this period.

Beyond the original purchase of Donlar equity in early 1997 and the real estate mortgage the same year, Donlar still needed additional funds in excess of that which management of the Companies was willing to loan against Donlar assets. It was decided to loan money to Dr. Gale Martin who was also personally invested in Donlar so that he would have additional liquidity to provide funds to Donlar. Therefore, the Companies made a $5M mortgage loan directly to Dr. Martin in October 1999 and he, in turn, increased his investment in Donlar in the same amount.

First Farmers and Merchants Bank

Of the Directors and Officers responding to the Department's inquiries, six Directors and ten Officers personally owned approximately $2.1M investment in the common stock of the bank as of the date of this exam report (based on the current market value). This includes all voting members and one non-voting member of the Companies' Investment Committee.

The Companies collectively own approximately $2.4M in the common stock of the bank which was acquired on various dates both prior to and during the period of this examination. The Companies also have an agreement with First Farmers whereby the bank provides services including custody of assets, money market sweep accounts, wire transfers of funds, trade settlements and various monthly, quarterly and annual schedules and reports. Amounts paid to First Farmers for these services amounted to $407,544 in 2003 and the agreement was in effect during the entire period of this examination. There is also a loan servicing contract between the bank and the Companies which provides for the collection and servicing of the Companies mortgage loans. The agreement was executed on April 28, 1978 and remained in effect during the period of this examination. Charges under the contract are equal to 3/8% of the declining principal balance of the Companies' loans.

Protherics / Therapeutic Antibodies

Of the Directors and Officers responding to the Department's inquiries, no Directors and seven Officers personally owned up to over 19,000 shares of the common stock of Protherics during the period of this examination. This includes four of the five voting members and one non-voting member of the Companies' Investment Committee. The individuals who purchased shares did so as accredited investors pursuant to private placement offerings. On December 1, 1999, the Companies made a $1M private placement investment in the common stock of Protherics and they continue to hold this investment as of the date of this exam report.

Passport Health Communications

Of the Directors and Officers responding to the Department's inquiries, no Directors and four Officers personally owned up to 23,786 shares of the common stock of the company during the period of examination. This includes three of the five voting members and one non-voting member of the Companies' Investment Committee. The individuals who purchased shares did so as accredited investors pursuant to private placement offerings.

The Companies made a $500,000 private placement investment on September 30 1999 in the preferred stock of Passport. They made a $550,000 private placement investment on

November 1, 1999 in the common stock of Passport. These investments were held during the period of examination and continue to be held as of the date of this exam report.

Comments & Recommendations

Holding Company System

The entire Board of the Federation comprises the majority of the membership of the Insurance Companies Board (eleven of the sixteen members which is equivalent to 69%). The Insurance Companies and the Federation also have a common president, first vice president, treasurer and general counsel. All members of the Insurance Companies' board are required to be members in good standing of the Federation, and also members of a county Farm Bureau. The failure by a director to maintain a membership in the Tennessee Farm Bureau Federation shall be treated as a resignation by such director which vacancy shall be filled as provided in the Bylaws. Therefore, the Board of the Federation has additional control over the composition of the Insurance Companies Board by having the ability to suspend or terminate the membership of any member of the Federation by a three fourths vote of directors.

Although not by direct ownership, it is the opinion of the examiners that control of the Insurance Companies as defined by Tenn. Code Ann. § 56-11-201 is ultimately held by the Federation through board representation and the ability to remove directorship eligibility. It is therefore recommended that these relationships should be disclosed and annually filed with the Department in a holding company registration statement as required by Tenn. Code Ann. § 56-11-205.

As noted earlier in this report, the Department granted the Companies an exemption from the filing requirements of the TN Holding Company Statutes but the exemption does not extend to any transaction which requires prior approval under that Chapter. It is the opinion of the examiners that TCA 56-11-206(a)(2)(C-D) requires the Companies to provide the Department with advance notice of certain transactions that were entered into during the period of this examination. The Company did not provide the required prior notice for the following two agreements and transactions discussed in the section of this report titled "Holding Company System:"

1) Consolidated Tax Allocation Agreements for both the life consolidations and property consolidations
2) Lease Agreement between TFLIC and TFMIC

It is recommended that the Companies file the above transactions with the Department and annually report them in a holding company registration statement as required by Tenn. Code Ann. § 56-11-205.

Investment Subsidiaries

Tennessee Farmers Insurance Companies filed a request with the Department on September 10, 1998 for their wholly owned investment subsidiaries, TF Investment Corporation and TFIC, to be allowed as admitted assets at an amount greater than the limitations of Tenn. Code Ann. § 56-3-303 and Tenn. Code Ann. § 56-3-402. On September 28, 1998 the Department approved the request under the provision that the activity of TF Investment Corporation and TFIC be limited to the acquisition and holding of publicly traded, tax exempt bonds rated AA or above. On May 31, 2002, the Department approved a request from the Companies to increase their investment levels in TF Investment Corporation and TFIC, however this approval was contingent upon them being valued as insurers in accordance with Tenn. Code Ann., Title 56. On December 3, 2002 the Companies requested a permitted practice from the Department which would allow them to deviate from NAIC Accounting Practices and Procedures and report the investment income generated from these subsidiaries as income of the parent rather than as unrealized gains or losses for the year. The Department gave approval on December 20, 2002.

As a part of this request and approval process, representatives of the Companies misrepresented to the Department that "these subsidiaries have no other operations other than to purchase tax exempt bonds for the parent company." On the date these statements were made, TFIC did in fact own some stocks and a mortgage loan from Donlar Corporation in excess of $3M. This particular investment ownership in Donlar had been the case for several years prior to the request to deviate from requirements promulgated by the NAIC. Additionally, TFIC continued to own these investments, which do not conform to the above written description, during the remaining years of this examination period. Of particular concern is the fact that this nonconforming investment is in a Company in which the management held a direct personal financial interest as noted earlier in this report. This fact was not recorded nor reported on the conflict of interest forms utilized by Tennessee Farmers Insurance Companies to evaluate employees' potential conflicts of interest. It is therefore recommended that if the Department continues to allow these exceptions to Tennessee Statutes and NAIC Accounting Procedures, then TFIC and TF Investment Corporation should submit their financial statements to the Department in accordance with NAIC Annual Statement Instructions so that the

Department can effectively determine the Companies' compliance, or lack thereof, with the conditions that serve as the basis for allowing the exceptions.

Investment Policies and Guidelines

Management of the Companies maintains that the promulgated investment policy was only an aid or guideline for day to day operation of the investment department headed by the CFO. In conjunction with this assertion, management contends there was never any board directed investment policy and that the Investment Committee never adopted any written policy for its own operation. This appears to contradict information provided to the Tennessee Department of Commerce & Insurance during the conduct of the last full examination of the Companies. On inquiry, management stated to examiners there was an investment policy for the Company (not just an aid for employees in the investment department for day to day decisions). In fact, management provided the same policy to those state examiners which they now say only directs the operations of the employees in the investment department, not the investment committee or the company as a whole. This contradiction in statements calls into question the accuracy of these representations during the current field work and or previous examination conducted by the Tennessee Department of Commerce and Insurance.

The Insurance Companies collectively had over $2.8 billion in invested assets at December 31, 2003. It is unusual for them to operate with only an investment guide for a few employees and not a Board approved investment policy for the Companies individually and as a whole. It is recommended that the Board of Directors of the respective companies adopt a corporate investment policy for the Investment Committee to adhere to with Board of Director level supervision and periodic review and approval.

Pecuniary Interest of Officers and Directors

Tennessee Farmers Insurance Companies had a conflict of interest policy in place during the period of this examination but there were no conflict of interest reporting requirements prior to 1997 and in 1999. The Companies were reporting in alternating years during this short period.

Members of the staff of Tennessee Farmers Insurance Companies have had conflicting understandings of the reporting requirements related to the conflict of interest policy. According to Company officials, the CEO has direct responsibility for the distribution, collection and review of the Statements. According to a former CEO and the Company's general counsel, the reporting forms were kept by the CEO's secretary. When asked who had the responsibility to take actions on any conflicts that were disclosed on the forms, the former CEO stated he "had

never really thought about it." They "have them on file for the state to look at" and "have never been questioned on anything before that [he] knew of."

This breakdown in the application of the Companies' conflict of interest policy directly caused it to be ineffective during the examination period. Conflicts of interest were repeatedly disclosed to management by numerous officers and employees throughout the period covered by this examination. However, the reported conflicts were never followed up on by management even when Investment Committee members reported conflicts with personal holdings that were seemingly material to their personal net worth. At the very least a decision should be made by management to either (i) make the determination on a company level that investments disclosed as conflicts do not actually create conflicts, or (ii) require officers, directors and employees to refrain from participating in decisions about the Companies' transaction of business with the conflicted entities, or (iii) divest themselves of ownership in entities that create the conflict. The examiners recommend that the Company revise its conflict of interest policy and procedures, define various action levels, establish an acceptable reporting and review process and take appropriate action when necessary with supporting documentation of management and Board approval.

It is the opinion of the examiners that the personal investments of the Companies' Officers, Directors and key employees in Donlar, Passport, Protherics/Therapeutic Antibodies and First Farmers and Merchants Bank as previously discussed and presented as follows are violations of the pecuniary interest prohibitions defined in Tenn. Code Ann. § 56-3-103.

	First Farmers & Merchants	Donlar	Therapeutic Antibodies	Passport
Investment Committee Voting Members				
Flavius Barker, President & Chairman of the Board of Directors	Y	Y*		
Matthew M. Scoggins, CEO	Y	Y*	Y	
Dennis Stephen, COO Life Operations	Y	Y*	Y	Y
Wayne Harris, CFO	Y	Y*	Y	Y
Hulet Chaney, CEO Emeritus	Y	Y*	Y	Y
Directors				
Lacy Upchurch, Director	Y			
Mike Brundige, Director	Y			
Charles Hancock, Director	Y			
Danny Rochelle, Director	Y			
Jack Sanders, Director	Y			

	First Farmers & Merchants	Donlar	Therapeutic Antibodies	Passport
Officers				
Ed Lancaster, General Counsel & Secretary	Y			
John Law, COO P&C Operations	Y			
Neal Townsend, CMO	Y	Y*		
Wayne Merrill, VP Accounting	Y		Y	
Sam McDaniel, VP Underwriting	Y	Y*		
Steve Burt, VP Information Sys.	Y*		Y	
Randy Maxwell, Investment Portfolio Mgr.	Y	Y*	Y*	Y

Y - currently holds a personal investment
Y* - previously held a personal investment but does not currently hold any shares

It is therefore recommended that the Companies and their Officers & Directors submit a proposed plan for Departmental approval which would remedy these violations of statute. Management should also incorporate the pecuniary interest language of Tenn. Code Ann. § 56-3-103 into the Companies' annual conflict of interest disclosure policy to help prevent any further misconceptions about the statute's applicability.

As noted earlier in this report, examination procedures included an inquiry by the examination staff relative to specific personal investments of the Companies' Officers, Directors and key employees. This was done in the form of a questionnaire which was completed and returned to the Department by each respondent. The cooperation of the Directors, Officers and employees that responded to this inquiry is hereby acknowledged. Although Director Allen Peddy and Wayne Merrill, VP Accounting were initially non-responsive to the Department's inquiries, they submitted completed questionnaires subsequent to the end of the examination but prior to the issuance of this report..

Conclusions on Pecuniary Interest Dealings

This section contains summaries about the decisions for the investment of Company assets in entities with which persons holding positions of senior management at the Insurance Companies held a pecuniary interest.

Donlar Equity

The initial Donlar equity purchase of over $5M is noted in the minutes of the Investment Committee as being discussed rather than approved. Per discussions with the Company's Secretary, the term "discussion" in the Investment Committee minutes denotes the "unanimous

consensual approval" by the Committee. No other recordation exists regarding the approval of the purchase. There is also very little evaluation on how much ownership (shares) the $5M+ investment should have purchased. The Companies' CFO stated this investment was found to be a good investment fit, however no member of the Investment Committee could detail the specific data analysis used to determine if the Companies received the proper equity positions for their cash outlay. As noted in our discussions with the Investment Committee members, no written analysis from the investment staff was found in the files related to the valuation of Donlar equity securities.

Donlar Mortgage Loans

As stated earlier in this report, the Companies made loans to Donlar on December 5, 1997 for $5M; on July 1, 1998 for approximately $1.4M; on December 31, 1999 for $5.0M; and on March 31, 2002 for $1M. Prior to making the first loan, a bank lending officer told the Company's Investment Committee that Donlar would not qualify at the bank for this loan due to cash flow concerns. The bank's president told the Companies' Investment Committee if the Companies wanted to go forward, then personal guarantees of Donlar's owners would be in order. The loans were approved by the Investment Committee without personal guarantees and without any cash flow analysis. When TFAC converted its equity holdings in Donlar into a mortgage loan, the approval for the conversion was not recorded in the minutes of the Investment Committee. Furthermore, the promulgated investment guidelines for TFAC did not provide for the company to hold any mortgage loans and there is no evidence of the Committee's decision to deviate from such guidelines.

As of December 31, 2000, TFLIC's portion of the Donlar mortgage loans had a balance of $8,769,868 and related outstanding accrued interest income of $216,243. Donlar made the first quarter 2000 principal and interest payment in cash in accordance with the terms of the agreement; however, Donlar was unable to make the second, third and fourth quarter 2000 payments. To enable Donlar to make such payments to TFLIC, TFIC acquired shares of Donlar common stock, the cash from which Donlar used to make the appropriate quarterly payments. Absent the cash from TFIC, Donlar would not have been able to make the second, third and fourth quarter 2000 principal and interest payments to TFLIC in accordance with the terms of the original mortgage agreement without jeopardizing Donlar operations.

In support of the Companies' decision, their CFO stated management "chose to accept that stock as payment of interest and principal at that time just to keep the notes active. We knew they were having a hard time with the money. We were still believing that the company

was moving in the right direction so we were trying to do what we could do to keep from scrapping all their cash and pulling them into worse problems." The CFO also stated the Companies "chose, I think, either two or three times there, maybe may have been one or two more times ...to allow them to have their cash to work on building sales." The Companies felt they were getting value at that time by taking the stock because they weren't giving anything up. They knew the cash flow problems were there but felt like it was still a good investment.

TFIC did not have the ability to hold these types of investments per the "Investment Policies Guide," but the Companies' CFO stated that the policy would not apply because the action was specifically approved by the Investment Committee. However, the examiners, after reviewing the minutes to the Investment Committee meetings, could find no evidence that this was noted as having been discussed. The CFO stated he remembered talking about it and the action was the consensus of the Investment Committee, but was not sure if it ever got written up in the minutes.

As stated earlier in this report, the Companies requested approval for a departure from the NAIC accounting policies relative to TFIC's reporting of investment income, and represented to the Department that TFIC was formed to hold and be one hundred percent invested in government securities. When management was asked by the examiners if it was a concern that TFIC was now investing outside these original representations, the CFO stated there was not any concern because "it was a small amount and they were going to have the Schedule D's available ... to support anything we did."

Mortgage Loan Analysis

Procedures for this examination included a review of the Companies' mortgage loan portfolio. It was noted that the Company had made a mortgage loan during the period of this examination to Welcome Hospitality which was similar to the Donlar mortgage loan. Both mortgage loans, Donlar & Welcome Hospitality, are multi-million dollar loans and both were reported to the Department as purchased from a bank. The Donlar loan was a facilitation of the original equity investment and the Welcome Hospitality loan was as facilitation of a foreclosed (owned real estate) property to owners other than the Companies or their affiliates. Both borrowers returned to the Companies to request additional funding via mortgage loans at the multi-million dollar level, and both mortgage loans were non-performing (late payments/ charge offs) during their life with the Companies. A comparison of the two loans was made to try to determine if the Welcome Hospitality was treated the same as the Donlar mortgage loan, in which the voting members of the investment committee held a pecuniary interest.

The potential borrower related to Welcome Hospitality was at all times directed to the First Farmers and Merchants Bank for loan approval. The Companies' CFO noted to the examiners that this was done as the Companies did not have staff to properly evaluate and make this loan. The CFO noted that the Companies were only willing to participate if First Farmers and Merchants Bank would make the loan. As a part of the loan approval process, First Farmers and Merchants Bank obtained a loan application, financial statements, credit reports, tax returns, and appraisals. This information was then the subject of a written credit analysis and credit scoring by First Farmers and Merchants Bank.

This process was not followed with the Donlar mortgage loan. The request for funding for the Donlar loan was directly handled by the investment staff of the Companies who did, however, request input from First Farmers and Merchants Bank in the deliberative process. No loan application, credit reports, or written appraisals are in the Companies' loan files related to the initial Donlar loan request. The Companies' CFO stated that Donlar needed the funds immediately and Tennessee Farmers "...didn't go through the in-depth process we normally go through..." and "we didn't do any formal analysis to my knowledge." This lack of documentation of loan analysis by the Companies is compounded by the fact that First Farmers and Merchants Bank would not consider making the loan due to projected cash flow problems. In fact, First Farmers and Merchants Bank officials noted to the Companies that should the Companies decide against the bank's recommendation and make the mortgage loan, continuing loan guaranties should be obtained from the major owners of Donlar. Company officials noted to the examiners that the investment committee felt comfortable with the collateral value for the proposed mortgage loan. However, the examiners failed to see any documentation which would provide any comfort level in the Investment Committee minutes. Even with this increased focus on collateral value, Tennessee Farmers Insurance Companies did not obtain any written appraisal of the collateral value for the proposed mortgage loan to Donlar. Instead, they decided to send investment staff and a bank representative to observe the property and inspect the schedule of costs related to building the site. No independent verification of this schedule of costs was seen by the examiners in the Donlar loan file.

The same dichotomy is noted by the examiners in the way additional funding was provided to Donlar as opposed to Welcome Hospitality. When Welcome Hospitality needed additional funding, they were directed back to First Farmers and Merchants Bank National Bank. The bank then approved the loan and the Companies subsequently purchased the loan. When Donlar requested additional funding of mortgage loans, the Companies directed First Farmers and Merchants Bank to increase the loan amount. No documentation was seen by the

examiners of evidence that First Farmers and Merchants Bank was asked to put the Donlar request for additional mortgage loan funding through their approval process.

Dr. Gale Martin Loan

The Dr. Martin loan is another multi-million dollar mortgage loan directly related to cash flow problems at Donlar. The same cash flow problems noted by First Farmers and Merchants Bank in the loan work-up on the original Donlar mortgage loan existed with this loan. When Donlar needed additional funds beyond what the Companies' management was willing to loan, it was decided to loan money to Dr. Gale Martin so he would have the liquidity to provide funds to Donlar, and the Companies made a mortgage loan directly to Dr. Martin. This loan violated the Investment Policies Guide in two ways: First, the policy states there will be no mortgage loans directly to individuals; secondly, there is no appraisal in file dated prior to the extension of the loan. The Companies sent their president to North Carolina to evaluate the property for value. However, there is no documentation in the loan file of the results of his evaluation. Additionally, when interviewed, the president was unable to provide substantive detail concerning his evaluation. Thus, the investment committee could not have known the actual (true) loan to value, which cannot exceed 80% per investment guidelines and 75% per Tenn. Code Ann. § 56-3-303.. There is no evidence in the Companies' records of the Investment Committee's decision to deviate from its guidelines.

There was virtually no financial information in file to support Dr. Martins' ability to service loan payments other than a worksheet illustrating his financial condition. There was no auditors report attached nor were there any footnote disclosures. Company officials pointed out that the section of the worksheet indicated Dr. Martin had high net worth, but on analysis, the majority of assets comprising Dr. Martin's net worth were highly illiquid. Another useful tool that is commonly used in establishing abilities for debt service for loans of this size to individuals is the individual's federal income tax return. This clearly presents an independent representation of their income and cash flow needed to service the debt. No evidence was in the files to demonstrate that the Companies' management ever requested Dr. Martin's federal income tax returns.

Without even an income statement or federal income tax return, the Investment Committee was in no position to properly evaluate Dr. Martin's ability to service the debt beyond sale of his assets. Additionally, the Companies' management noted there was no time to refer the loan to First Farmers and Merchants Bank as Dr. Martin / Donlar needed the funds immediately to stop BASF collection actions. Management also offers this explanation as why

no formal appraisal was prepared, even though the loan was premised entirely on the value of the collateral. Furthermore, no written credit analysis was prepared by the Companies for submission to the Investment Committee for consideration in deliberations on the lending decision. On inquiry, the Companies' management again stated based on the loan to value of the collateral, even without a formal written appraisal, they felt comfortable with the loan without any credit analysis. It appears from the statements from the Companies' management that a funding crisis for Donlar was handled as an emergency because normal lending procedures were suspended.

Sale of Donlar

Donlar filed bankruptcy in 2003, and in May 2004, the Companies, via the U.S. Bankruptcy Court, allowed the sale of assets securing the Donlar investments. The sale was to a newly formed company, Nanochem Solutions, whose sole assets are the former Donlar assets. The sale of the Donlar assets to Nanochem Solutions is guaranteed by its parent corporation, Flexible Solutions, Inc. for $6.15M comprised of $3M in cash and a note to Tennessee Farmers for $3.15M. Tennessee Farmers has only limited information on both Nanochem and Flexible Solutions and the Companies management's explanation on its decision not to obtain information to evaluate the new debtor's financial capacity related to the new note is they still have all the collateral they had when it was a Donlar investment. From cursory analysis, it was determined SEC documents indicate that Flexible Solutions, a Canadian company, had filed for bankruptcy within the last five years. Flexible Solutions as both the parent of Nanochem and the guarantor of the $3.15 million dollar note serves as the financial strength of the transaction. Nanochem has no other assets. Once again, there has been no financial analysis of the new note holder and management is focused solely on collateral value.

Passport and Protherics/Therapeutic Antibodies

Passport investment began as an acquisition of a convertible debenture in February 1999. Preferred shares were acquired in September and the debenture was converted to common stock in November 1999. Protherics was acquired in December 1999. These securities were unlisted at date of purchase and the Company was unable to provide any documentation of any analysis to determine appropriate investment levels and pricing targets for these investments.

First Farmers and Merchants Bank National Bank

At the beginning of 2003, the Companies owned no more than 5,636 shares of bank stock. From March 2003 through year end 2003, they purchased an additional 17, 721 shares. An additional 6,190 shares were purchased in the first four months of 2004 prior to the start of this examination. As of the date of this exam report, the Companies own approximately 29,547 shares of bank stock with a current market value of approximately $2.4M. (This is exclusive of the holdings of TRHIA and the Federation which information was not reviewed by the examiners).

During the period of these accelerating purchases, the Companies' Investment Committee decided to significantly increase the price they were willing to pay per share. During this same period the bank was experiencing some negative trends in their operations which included lower total deposits and a decrease in their commercial loan portfolio. They were also under an OCC agreement which had hindered their commercial lending, and the bank competition had increased in Middle Tennessee. Considering these facts, the examiners attempted to ascertain what analysis was performed by the Company to explain the sudden increase in purchase volume at increasing prices during times of negative trends.

This stock is not an equity listed with a national exchange and its trading value is reported by the holding company. Therefore additional analysis is required to determine appropriate investment levels and pricing targets for the stock. Not one member of the investment committee or its staff was able to detail the specific data analysis used to evaluate the purchase of unlisted securities from the holding company. Specific inquiry was made to each voting committee member regarding how the financial performance of the bank compared to other peer financial institutions in Tennessee. Committee members were unaware of the bank's standing in the peer group. Specific inquiry was made regarding the bank's earning multiples related to stock price and the market value as a multiple of the book value. It appeared these investment evaluations were not used in their decision to buy more stock at increasing prices. It is the examiners conclusion that no underlying analysis to value these investments was performed by the Company prior to these investment decisions.

An explanation by the CFO for the decision not to use data analysis from the bank's audited annual financial statements was that the information is "... old material when we get it." One member of the Investment Committee admitted he had not even read a copy of the OCC agreement with the bank which is available to the general public via the OCC internet site. He stated his close work with the bank staff provided the knowledge he needed to be cognizant of for investment decisions. Other members of the investment committee cited their confidence in

the management of the bank which they claimed was based on working with the bank management on a continuing basis, and the fact that one of the Companies board and investment committee members is on the bank's board as well and he would have information based on his working with the bank that would help support the price the Companies pay for the stock. Committee Members repeatedly stated the bank investment had done well for them in the past and it was a growing bank. The CFO noted he was not in the banking business but they know the bank, what they do, how they work and the people. The stock was purchased because there is such a nexus in the operations of bank and the operations of the insurance company.

Examination procedures included a review of the full banking relationship. Copies of all contracts, arrangements and agreements between any Companies the bank were requested. Also requested was information related to any competitive bids or evaluations of the costs for the banking services. To this inquiry the Companies provided two contracts: one was provided for loan servicing and another related to handling the investments account. The fees for the investments account ranged into several hundred thousand dollars per year. The Companies did not report ever having obtained any competitive bid for banking services, in spite of the CFO noting there had been an increase of banking competition in the area. Nor was there any indication that the Companies had ever attempted to evaluate the value of the services being provided in comparison to the cost of those services.

Summary

The Companies have experienced significant losses with the following investments in which its Officers and Directors have a pecuniary interest: The Companies collectively realized a net loss with the Donlar investments upon their sale that is in excess of $15M. Dr. Martin has not made any principal repayment on his note nor have any interest payments been made. The Companies have recognized losses in excess of $6M on this investment when it became a non-admitted asset. The Companies have recognized losses with their investments in Protherics/Therapeutic Antibodies and Passport equal to 74 % and 12 % respectively of the original investments' value. The Companies' investments in First Farmers and Merchants Bank have appreciated approximately 14% in value since acquisition; however this is based on self-reported market values. Each of these are investments in entities with which previously listed Officers and Directors of the Companies have material personal investments.

Company management frequently told the examiners they do not have the resources to properly evaluate private placement investments of these types. This was supported by the fact

that the examiners discovered little credit analyses were performed prior to approving loan decisions. Entities being invested in were not thoroughly financially evaluated prior to making investment decisions. Numerous services are being purchased from the bank without documented objective analysis of the value of the services with cost comparisons to other potential providers. Furthermore, the actions of and decisions by the Investment Committee related to these investments were not properly documented in the corporate records.

It is recommended that the Companies exercise greater care when investing in these types of investments by performing more thorough analyses prior to making investment and purchasing decisions. It is also recommended that either the Companies or its Officers and Directors refrain from making investments that create a pecuniary interest so that all conflicts of interest, both in fact and in appearance, will be eliminated, and the Companies and its Officers and Directors will be compliant with Tennessee Statutes.

Conclusion

The customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the review of operations of Tennessee Farmers Life Insurance Company, Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Assurance Company and Tennessee Farmers Life Reassurance Company.

Respectfully submitted,

Mark Jacquish, CPA, CFE (Certified Financial Examiner)
Insurance Examiner-in-Charge
Tennessee Department of Commerce & Insurance

J. David Bennett, CPA, CFE (Certified Fraud Examiner)
Director of Fraud and Investigations
Tennessee Department of Commerce & Insurance

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached examination report of Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company and Tennessee Farmers Assurance Company dated October 29, 2004 and made as of December 31, 2003 on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Mark Jaquish
Insurance Examiner
State of Tennessee

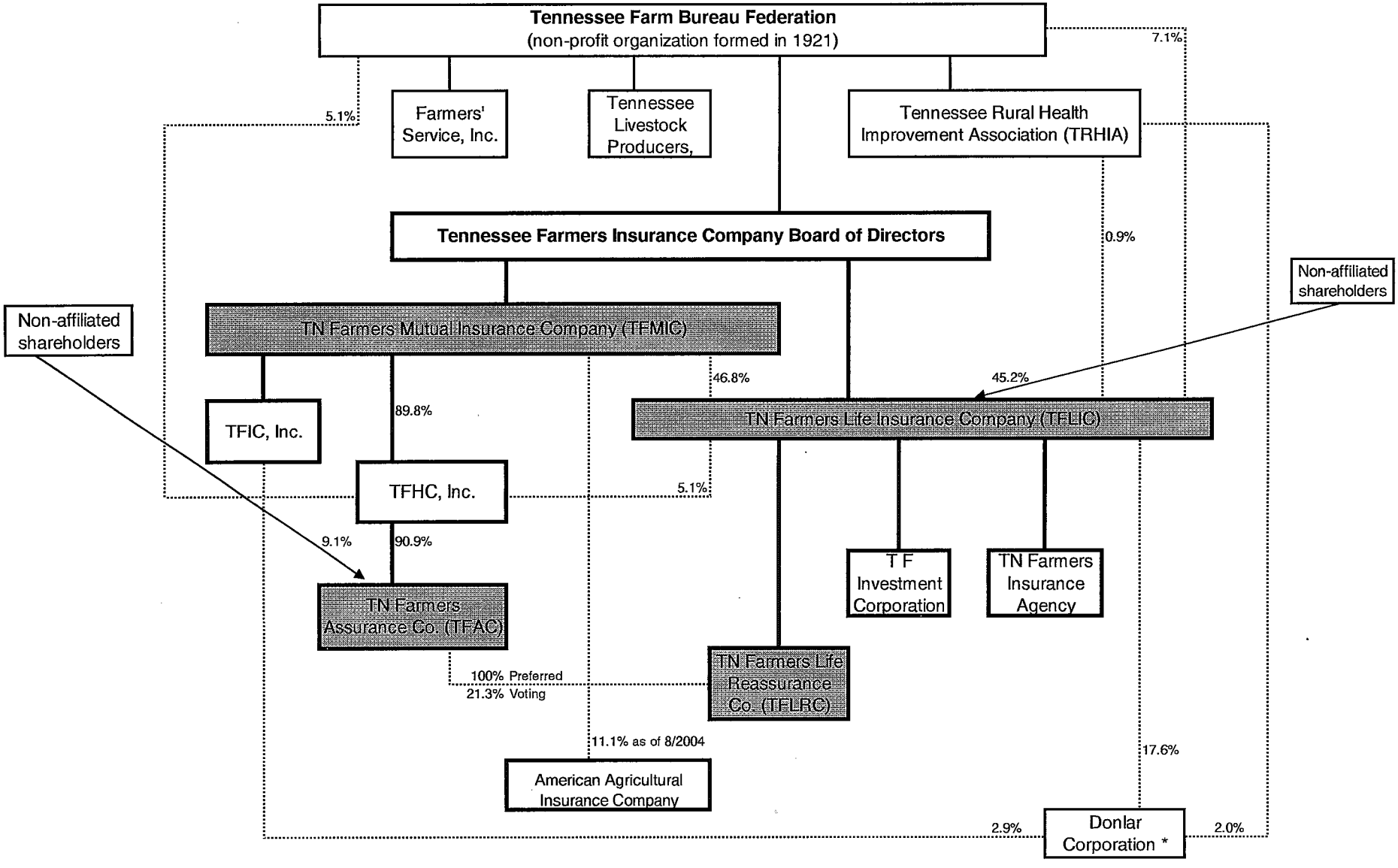
County Davidson
State Tennessee

Subscribed and sworn to before me
this 22nd day of
December, 2004.

Carlene J Bennett
(Notary)

Addendum 1

Tennessee Farmers Insurance Companies Organization Chart as of 12/31/03



* ownership information as of 4/15/01

Tennessee Farmers Insurance Companies

P.O. Box 998 • Columbia, Tennessee 38402-0998 • Phone 931-388-7872

January 19, 2005

EXHIBIT
B

Ms. Kathy Fussell
Insurance Analysis Director
Department of Commerce and Insurance
Fifth Floor, Davy Crockett Tower
500 James Robertson Parkway
Nashville, TN 37243

RE: Target Financial Examination of Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance Company and Tennessee Farmers Assurance Company ("Companies")

Dear Ms. Fussell:

On behalf of the Companies referenced above, there follows our response to the Examination Report transmitted to us under cover of your letter dated December 23, 2004.

Before addressing specific items in the Report, we would like to offer a few general observations. We appreciate the efforts of the Department representatives in undertaking and completing the Examination Report, and we understand the policy considerations that led to the examination. We believe, however, that the Examination Report as presented to the Commissioner is significantly flawed because it creates the impression that officers and directors of the Companies may have acted in their own self-interest to the detriment of the Companies. We have been assured in conversations with Department representatives that the Department's position is that no officer or director acted in such a manner, but the Examination Report at least infers otherwise.

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The impression created by the Report results from both affirmative statements in the Report, as well as because of what is excluded from the Report. The items that are incorrect include specific statements relative to the Companies' investment in Donlar Corporation that have the effect of giving a false impression of how that investment was handled. On page 9 of the Examination Report, the assertion is made that the Companies' cumulative investment in Donlar Corporation was "equal to 22.478% of Donlar's company ownership and 14.4% of its issued common stock at April 15, 2001." This conclusion is contradicted by the Examination Report itself. On page 16 of the Examination Report, it was noted that the Companies' initial investment was slightly over $5 million, and that all equity investments were converted to a loan on July 1, 1998.

It should be noted that the erroneous assertion regarding level of company ownership in Donlar was also in a preliminary draft of the Examination Report. Our attempts to challenge this assertion were rejected on the basis that information provided by Donlar, which we have never seen, was more credible than information provided by us. Given the operational history of Donlar and our own experiences with the company, it is troubling to us that Donlar management was viewed as a more credible source of information than the Companies. In any event, we now have information that conclusively establishes that the Companies did not own more than 10% of Donlar. Attached to this letter is a certified copy of a statement submitted by Donlar representatives, under oath, in its bankruptcy proceeding, which lists shareholders owning or controlling 5% or more of the corporation's stock. None of the Companies is listed as an owner of 5% or more.

Another statement that is misleading as to the Companies' handling of the Donlar investment appears on the top of page 10, where it is stated that the Companies "allowed" the sale of assets securing their investments in Donlar. These assets in fact were sold by the Bankruptcy Court, and the Companies received $6 million as a result (one-half in cash and one-half in the form of a note). The failure to note the Companies' recovery on the collateral exaggerates the negative consequences of this loan.

The false impression created by the Examination Report is further enhanced by what is excluded. We are aware that the Examination Report was triggered by a complaint from a disgruntled investor in Donlar Corporation, who apparently alleged that officers and directors made decisions regarding the Companies' investments in Donlar based on their own personal ownership of stock in Donlar and contrary to the Companies' interests. Unquestionably, with the benefit of hindsight, Donlar was not a good investment. However, it is equally clear that the Companies' investment in Donlar was managed in a way to protect the position of the Companies, at the expense of individual shareholders, including officers and directors who were shareholders. The examination was triggered by an allegation subsequently determined to be unfounded, and failure to acknowledge this creates an impression of impropriety that is not justified.

In sum, we believe that the Examination Report presents a distorted and misleading view of the circumstances regarding the investments discussed.

The Examination Report also criticizes the decision-making processes of the Companies. It is easy, with the benefit of hindsight, to conclude that some decisions could have been handled in a better manner. But the Examination Report would present a more fair and accurate picture if

the activities and decisions criticized were placed in the context of the Companies' management history and financial strength. The Companies enjoy an extraordinary and enviable degree of financial security, with combined assets of over $2.8 billion and combined surplus of $1.4 billion. The investments discussed in the Report in the aggregate are less than one percent of the total assets of the Companies and the portfolio overall enjoyed a 5.73% return despite heavy emphasis on lower yielding tax-exempt bonds. Moreover, the Companies have been long recognized by their peers in the industry and by regulators for excellence in management, having one of the lowest cost structures of any insurance organization in the country.

There follows our responses to specific points in the Examination Report.

Failure to File Tax Allocation and Lease Agreements (Pages 8 and 9)

Tennessee Code Annotated, Section 56-11-206(a)(2)(D), requires prior notice to the Commissioner of "management agreements, service contracts and all cost-sharing arrangements other than cost allocation arrangements based on generally accepted accounting principles." We believe that the tax allocation agreement clearly falls within the exception of "cost allocation arrangements based on generally accepted accounting principles." Furthermore, paragraph (D) does not include leases, and even if leases were covered, the lease in question, in our view of the Companies, is a cost allocation arrangement based on generally accepted accounting principles.

In order to resolve this issue, however, we are filing the agreements in question under Section 56-11-206(a)(2), and the Companies will file similar agreements in the future.

Level of Investment in Donlar Corporation (Page 9)

The Examination Report concludes that the level of investment in Donlar Corporation required prior notification to the Commissioner under Section 56-11-206(a)(5). As noted above,

this conclusion is contradicted by the Examination Report itself, as well as filings under oath by Donlar in its bankruptcy proceeding.

Conclusion that the Tennessee Farm Bureau Federation Controls the Companies (Pages 18-19, Chart on Addendum 1)

We believe this conclusion is based on factual misunderstanding and is contrary to the basis tenets of corporate law. The Report's conclusion is based on the finding that insurance company directors must be members in good standing of the Federation; this assertion appears on pages 12 and 18. This is simply incorrect. The Federation has no individual members, but is comprised of 95 corporate members, i.e., the county Farm Bureau organizations, which are organized as Tennessee non-profit corporations. While it is true that a director has to be a member of a county Farm Bureau organization, the Federation does not have the ability to require a local Farm Bureau organization to admit or expel a member. This decision is made exclusively by the local county Farm Bureau board of directors.

In addition, the Report's conclusion ignores how the insurance company's boards of directors are elected. In the case of the mutual company, the policyholders elect a board; in the case of the stock companies, the shareholders elect the board of directors. The fact that there is a custom of electing Federation directors to the boards of directors of the insurance companies establishes no obligation to do so. Voluntary observance of a custom does not establish control by the Federation. In fact, this custom has existed since well before enactment of the Insurance Holding Company System Act of 1986, and none of the Department's prior examinations even suggested that the Tennessee Farm Bureau Federation might be in control of the Companies.

Investments by Investment Subsidiaries in Donlar Corporation (Pages 19-20)

The Examination Report notes that representations had been made that the investment subsidiaries, TFIC and TF Investment Corporation, would have no operations other than the purchase and holding of tax exempt bonds. For a period, TFIC had a very small portion of its assets invested in Donlar. The amount invested in Donlar, in relation to the overall assets of TFIC, was so small that the Donlar investment was inadvertently overlooked. The Companies regret this mistake. It should be noted that the investment by TFIC in Donlar did not undermine the rationale for the manner in which Tennessee Farmers Mutual Insurance Company was permitted to account for its investment in TFIC, nor did the investment by TFIC in Donlar result in the admission of an asset that otherwise would have been not admitted.

The Companies will address this point by transferring the investment from Donlar to another company. Furthermore, the Companies commit that they will strictly observe the representations that the activities of TFIC and TF Investment Corporation be limited to the investment in tax-exempt bonds. The Companies also will provide to the Department documentation as requested to confirm the observance of this limitation.

The Companies' Investment Policy (Pages 20 and 22 - 27)

The Examination Report states that there have been inconsistent statements by company representatives as to the scope and application of the existing investment policy, and the Examination Report criticizes lack of documentation regarding decisions under the investment policy. In response, we reconfirm that it has always been the intent that the investment policy currently in place was established for the purpose of guiding the day-to-day activities of the

individuals managing the Companies' investment portfolio. It was not the intent for this document to establish the guidelines for all investments approved by the investment committee.

We acknowledge that there is a lack of clarity as to the purpose of the existing investment policy, and perhaps even an inconsistent understanding internally as to the purpose of the policy. In response to this point, the Companies intend to adopt a formal investment policy governing investments of the Companies in general and separate guidelines applicable to the day-to-day investment activities of the individuals managing the investment portfolio. One of the items to be included in the overall investment policy will be a prohibition against officers and directors investing in a private placement investment in which one or more of the Companies invest or considers investing.

Conflict of Interest Policy (Pages 14 and 15)

The Companies acknowledge that the existing conflicts of interest policy, and understanding of and compliance with the policy, needs to be improved. The Companies intend to revise their conflicts of interest policy to require officers and directors to submit at least annually statements regarding financial interest in any organization that is a private placement or is otherwise closely-held in which the Companies also have a financial interest or with which the Companies have a business arrangement. Those conflicts shall be reviewed by the Chief Executive Officer and Secretary, and if either individual determines that a disclosed potential conflict requires recusal of an individual from making any decision on the matter in question, then such individual will be precluded from the decision-making process. If both the Chief Executive Officer and Secretary disclose a potential conflict, then the question of possible recusal from decision making will be considered by a committee of the board appointed by the

President, the members of which committee shall have been determined by the President and Secretary not to have the same potential conflict. The conflicts policy, like the investment policy described above, will preclude officers and directors from investing in private placement investments in which the Companies invest or consider investing.

Alleged Violation of Section 56-3-103 (Pages 20 - 29)

The Examination Report concludes that the Companies and their officers and directors have violated Section 56-3-103 by (1) personally investing in other companies in which the insurance companies also made investments, and (2) personally investing in the holding company for First Farmers and Merchants Bank, which is a provider of banking services to the Companies. We do not believe that the activity described falls within the prohibitions in Section 56-3-103. The specific prohibitions in 56-3-103 are as follows:

1. Directors and officers are precluded from accepting or being the beneficiary of any "fee, brokerage, commission, gift or other consideration" as a result of any "loan, deposit, purchase, sale, payment or exchange made by or in behalf of" the insurance company;

2. Officer and directors can not be a "borrower, principal, co-principal, agent or beneficiary" in connection with any "purchase, sale, or loan" to the insurance company.

The statute also contains certain exceptions to the above prohibitions, none of which are applicable here.

Assuming that an officer or director has not received a discount, rebate or other special consideration in connection with his or her purchase of stock, the statute can not be fairly read to

prohibit an officer or director from owning stock in the same company in which the insurance company holds stock. By simply owning stock in a company in which the insurance company also owns stock, an officer or director has not received any "fee, brokerage, commission, gift or other consideration," nor is the officer or director a "borrower, principal, co-principal, agent or beneficiary." Again, the mere holding of stock in common with the insurance company is not precluded unless the officer or director received a discount, a rebate or other special consideration as a result of the insurance company having made its investment in the stock. There is no finding in the Examination Report that any of the officers and directors of the Companies engaged in such conduct.

Similarly, the statute simply does not preclude an officer or director from owning stock in another company that provides services to his or her insurance company. We are aware of the informal Attorney General's opinion dated November 22, 1993, regarding the interpretation of Section 56-3-103. It is our understanding that this opinion was issued to support the Department's interpretation that individuals who were providing accounting services and legal services to Franklin American Life Insurance Company could not serve on the Board of Directors. The opinion concludes that the Department may appropriately interpret the statute to prohibit such activity.

Even under this informal opinion, an officer or director is not precluded from holding stock in an organization that provides services to the insurance company. The situation addressed in the Attorney General's opinion is when the actual vendor of the services is an officer or director. The ownership by stock in the holding company for First Farmers and Merchants Bank during which time the bank provided services to the Companies does not result

in the officers and directors in question having a pecuniary interest in the arrangement between the bank and the Companies. There is no suggestion that the officers and directors who own stock in the holding company for First Farmers and Merchants Bank acquired their stock at anything less than fair market value or that they received any special treatment because the bank provides services to the Companies. Moreover, the Examination Report makes no finding that the ownership interest of the officers and directors in the bank was in any way enhanced by the fact that the insurance companies were customers of the bank.

Based on our understanding and interpretation of Section 56-3-103, we submit that there have been no violations of this statute. We understand, however, the policy concerns of the Department and the difficulty the Department has faced in trying to establish standards based on Section 56-3-103. We are willing to take reasonable and appropriate steps to address these concerns, and we have had discussions with the Chief Counsel for the Insurance Division, Mr. John Morris, in this regard. We hope that these discussions are productive.

We appreciate the opportunity to present our response to the Examination Report. We will be happy to meet with Department representatives as appropriate to answer any question or to explore a resolution of any differences that may remain.

Very truly yours,

Edward K. Lancaster
General Counsel

cc: Mr. Larry Knight
Mr. John Morris, Esq.
Mr. Matthew M. Scoggins, Jr.

Comments to exam report jan 19 fussell letter

This is to certify that the within and attached document is a true and correct copy of the original thereof as the same appears on file in the office of the Clerk of the United States Bankruptcy Court for the Northern District of Illinois.
KENNETH S. GARDNER
CLERK OF COURT
By Sandra Bartlett
Deputy Clerk
Dated JAN 04 2005

Form 7
(12/03)

United States Bankruptcy Court
Northern District of Illinois

In re Donlar Corporation
Debtor(s)

Case No.
Chapter 11

STATEMENT OF FINANCIAL AFFAIRS

This statement is to be completed by every debtor. Spouses filing a joint petition may file a single statement on which the information for both spouses is combined. If the case is filed under chapter 12 or chapter 13, a married debtor must furnish information for both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed. An individual debtor engaged in business as a sole proprietor, partner, family farmer, or self-employed professional, should provide the information requested on this statement concerning all such activities as well as the individual's personal affairs.

Questions 1 - 18 are to be completed by all debtors. Debtors that are or have been in business, as defined below, also must complete Questions 19 - 25. **If the answer to an applicable question is "None," mark the box labeled "None."** If additional space is needed for the answer to any question, use and attach a separate sheet properly identified with the case name, case number (if known), and the number of the question.

DEFINITIONS

"In business." A debtor is "in business" for the purpose of this form if the debtor is a corporation or partnership. An individual debtor is "in business" for the purpose of this form if the debtor is or has been, within the six years immediately preceding the filing of this bankruptcy case, any of the following: an officer, director, managing executive, or owner of 5 percent or more of the voting or equity securities of a corporation; a partner, other than a limited partner, of a partnership; a sole proprietor or self-employed.

"Insider." The term "insider" includes but is not limited to: relatives of the debtor; general partners of the debtor and their relatives; corporations of which the debtor is an officer, director, or person in control; officers, directors, and any owner of 5 percent or more of the voting or equity securities of a corporate debtor and their relatives; affiliates of the debtor and insiders of such affiliates; any managing agent of the debtor. 11 U.S.C. § 101.

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1. Income from employment or operation of business

None ☐ State the gross amount of income the debtor has received from employment, trade, or profession, or from operation of the debtor's business from the beginning of this calendar year to the date this case was commenced. State also the gross amounts received during the **two years** immediately preceding this calendar year. (A debtor that maintains, or has maintained, financial records on the basis of a fiscal rather than a calendar year may report fiscal year income. Identify the beginning and ending dates of the debtor's fiscal year.) If a joint petition is filed, state income for each spouse separately. (Married debtors filing under chapter 12 or chapter 13 must state income of both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

AMOUNT	SOURCE (if more than one)
$2,352,834.00	**Sales 2001**
$3,584,573.00	**Sales 2002**
$4,067,618.00	**Sales 2003**

2. Income other than from employment or operation of business

None ■ State the amount of income received by the debtor other than from employment, trade, profession, or operation of the debtor's business during the **two years** immediately preceding the commencement of this case. Give particulars. If a joint petition is filed, state income for each spouse separately. (Married debtors filing under chapter 12 or chapter 13 must state income for each spouse whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

AMOUNT	SOURCE

FILED
UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
MAR 1 4 2004
KENNETH S. GARDNER, CLERK
PS REP. - MJ

FILED
JAN 2 0 2005
Commerce & Insurance
Affairs / Statistical

3. Payments to creditors

None ☐ a. List all payments on loans, installment purchases of goods or services, and other debts, aggregating more than $600 to any creditor, made within **90 days** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include payments by either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF CREDITOR	DATES OF PAYMENTS	AMOUNT PAID	AMOUNT STILL OWING
SEE ATTACHMENT		**$710,460.41**	**$0.00**

None ☐ b. List all payments made within **one year** immediately preceding the commencement of this case to or for the benefit of creditors who are or were insiders. (Married debtors filing under chapter 12 or chapter 13 must include payments by either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF CREDITOR AND RELATIONSHIP TO DEBTOR	DATE OF PAYMENT	AMOUNT PAID	AMOUNT STILL OWING
SEE ATTACHMENT		**$0.00**	**$0.00**

4. Suits and administrative proceedings, executions, garnishments and attachments

None ☐ a. List all suits and administrative proceedings to which the debtor is or was a party within **one year** immediately preceding the filing of this bankruptcy case. (Married debtors filing under chapter 12 or chapter 13 must include information concerning either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

CAPTION OF SUIT AND CASE NUMBER	NATURE OF PROCEEDING	COURT OR AGENCY AND LOCATION	STATUS OR DISPOSITION
Tennessee Farmers Life Insurance Companyv. Donlar Corporation, et al., Case No. 04-CH-79	**Complaint for Foreclosure**	**State of Illinois, Circuit Court of the Thirteenth Judicial Circuit, LaSalle County**	**Pending**
Robert P. Pietrangelo v. Donlar Corporation, Case #03 CH 18852	**Claims of severance, contract extension, related to RPP's resignation from Donlar**	**Circuit Court of Cook County, IL County Dept., Chancery Division**	**pending**

None ■ b. Describe all property that has been attached, garnished or seized under any legal or equitable process within **one year** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include information concerning property of either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF PERSON FOR WHOSE BENEFIT PROPERTY WAS SEIZED	DATE OF SEIZURE	DESCRIPTION AND VALUE OF PROPERTY

5. Repossessions, foreclosures and returns

None ■ List all property that has been repossessed by a creditor, sold at a foreclosure sale, transferred through a deed in lieu of foreclosure or returned to the seller, within **one year** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include information concerning property of either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF CREDITOR OR SELLER	DATE OF REPOSSESSION, FORECLOSURE SALE, TRANSFER OR RETURN	DESCRIPTION AND VALUE OF PROPERTY

Software Copyright (c) 1996-2003 Best Case Solutions, Inc. • Evanston, IL • (800) 492-8037

Payments made 90 days prior.

90 Days

NAME	ADDRESS	CITY	ST	ZIP	Total	Date	Amount	Owing
ADP INVESTOR COMMUNICATION SER	P.O. BOX 23487	NEWARK	NJ	17189	2,000.00	12/11/03	2,000.00	
ADT SECURITY SYSTEMS	P.O. BOX 371967	PITTSBURGH	PA	15250	816.57	12/3/03	816.57	616.57
AGILENT TECHNOLOGIES	2850 CENTERVILLE ROAD	SHERWOOD PARK	DE	19808	1,360.68	1/13/04	1,360.68	1,360.68
AI CREDIT	P.O. BOX 73095	CHICAGO	IL	60673-7095	19,375.46	12/3/03	9,041.45	
						2/9/04	5,038.54	
						2/17/04	5,295.47	
AMERICAN STOCK TRANSFER CO	59 MAIDEN LANE	NEW YORK	NY	10038	750.00	12/11/03	750.00	8,642.06
ANDERSON, DONALD	831 BERNAL CT	SPRING VALLEY	IL	61362	1,931.54	1/8/04	706.03	1,209.64
						1/23/04	1,225.51	
AT&T WIRELESS	P.O. BOX 8220	AURORA	IL	60572-8220	630.61	1/12/04	437.69	188.34
						2/16/04	192.92	
BCMS	BOX 212	OTTAWA	IL	61350	1,050.00	1/12/04	1,050.00	
BLUECROSS/BLUESHIELD	P.O. BOX 1186	CHICAGO	IL	60690-1186	40,243.69	12/3/03	13,646.17	11,906.74
						1/12/04	13,517.76	
						2/9/04	12,579.76	
BOC GASES	P.O. BOX 371914	PITTSBURGH	PA	15251	4,008.28	12/3/03	362.45	8,105.58
						1/12/04	212.92	
						1/21/04	154.62	
						12/3/03	1,401.17	
						1/12/04	645.04	
						1/13/04	1,232.08	
CINCHEM PRO	P.O. BOX 640664	CINCINNATI	OH	45264-0664	19,056.75	12/3/03	5,900.00	-
						12/5/03	5,900.00	
						12/8/03	7,256.75	
CINTAS CORPORATION #398	P.O. BOX 9	NORMAL	IL	61761	758.22	12/11/03	108.11	655.11
						1/13/04	445.61	
						1/21/04	214.50	
CITICORP LEASING INC.	P.O. BOX 7247-7878	PHILADELPHIA	PA	19170-7878	910.00	1/3/04	910.00	1,048.50
CITY OF PERU	P.O. BOX 299	PERU	IL	61354	7,275.01	1/5/04	4,255.90	8,533.60
						2/12/04	3,019.11	
COLORADO DEPT OF REVENUE	STATE OF COLORADO	DENVER	CO	80261-0008	1,031.00	1/16/04	1,031.00	537.57
COMPLETE INDUSTRIAL ENTERPRISE	P.O. BOX 529	PERU	IL	61354-0529	1,522.57	1/13/04	1,436.57	944.27
						1/21/04	84.00	
CORROSION/NACE 2004 EXPO	P.O. BOX 3857	FREDRICKS	MD	21705	1,240.00	1/21/04	1,240.00	-
CRANE, HEYMAN, SIMON, WELCH & CLAR	135 S. LASALLE, STE 3705	CHICAGO	IL	60603-4297	30,839.00	2/26/04	30,839.00	
DFDS	P.O. BOX 8500-S-6330	PHILADELPHIA	PA	19178	6,408.00	12/11/03	1,178.00	4,954.00
						1/13/04	4,050.00	
						1/21/04	1,178.00	
DOUBLE D EXPRESS	P.O. BOX 606	PERU	IL	61354	1,571.10	12/3/03	523.70	
						1/13/04	1,047.40	
DSM FINE CHEMICALS INC.	4124 PAYSPHERE CIRCLE	CHICAGO	IL	60674	44,550.00	1/21/04	44,550.00	58,524.20
DUANE MORRIS LLP	ONE LIBERTY PLACE	PHILADELPHIA	PA	19103-7396	20,000.00	12/1/03	10,000.00	364,899.22
						1/13/04	10,000.00	
FAN, GRACE	2720 COTTON CREEK CT	NAPERVILLE	IL	60564	644.76	1/21/04	234.56	
						2/18/04	410.20	
FAN, JOSEPH	2720 COTTON CREEK CT	NAPERVILLE	IL	60564	1,565.87	1/8/04	1,309.67	
						2/18/04	246.20	
FASTENAL COMPANY	PO BOX 978	WINONA	MN	55987-0978	633.74	12/11/03	553.14	48.43
						2/16/04	80.60	
FERGUSON ENTERPRISES #740	4556 COLLECTIONS CENTER DRIVE	CHICAGO	IL	60693	753.58	1/13/04	426.58	83.08
						2/16/04	327.50	
FIRST AMERICAN BANK	1650 LOUIS AVE	ELK GROVE VILLAGE	IL	60007-2350	1,400.00	1/16/04	1,400.00	

—Attachment to Statement of Affairs #3a —

GRANT THORNTON LLP	33552 TREASURY CENTER	CHICAGO	IL	60694	3,500.00	12/11/03	3,500.00	84,594.00
GREIF BROS.	P.O. BOX 75409	CHICAGO	IL	60675-5409	3,312.50	12/11/03	3,312.50	
HOYER-GOEJELL INC.	P.O. BOX 4346 Dept 267	HOUSTON	TX	77210	43,215.00	12/3/03	15,475.00	68,025.00
						1/12/04	5,625.00	
						1/13/04	13,465.00	
						1/21/04	4,650.00	
HRH OF ILLINOIS	2200 52ND AVE, PO BOX 970	MOLINE	IL	61266-0970	15,172.25	1/21/04	15,172.25	
HYDRITE	BOX # 889227	MILWAUKEE	WI	53288-9227	3,895.00	1/13/04	3,895.00	
ILLINOIS DEPT OF REVENUE	P.O. BOX 88294	CHICAGO	IL	60680-1294	5,345.93	12/31/04	2,594.53	5,484.72
						1/16/04	2,751.40	
ILLINOIS INSTITUTE OF TECHNOLOGY	6502 S. ARCHER RD.	BEDFORD PARK	IL	60501	9,000.00	1/12/04	9,000.00	18,000.00
ILLINOIS POWER	P.O. BOX 2522	DECATUR	IL	62525-2522	15,438.34	1/12/04	7,924.52	12,913.52
						2/12/04	7,513.82	
INTERNAL REVENUE SERVICE	941 P/R TAXES				98,004.17	12/2/03	10,071.91	-
						12/12/03	2,326.48	
						12/19/03	9,941.06	
						12/31/03	1,957.50	
						1/9/04	11,628.67	
						1/21/04	318.30	
						1/21/04	15,107.07	
						2/12/04	10,428.99	
						2/26/04	36,226.19	
JEVIC	P.O. BOX 23194	NEWARK	NJ	7189	896.25	1/13/04	896.25	1,365.20
K. A STEEL CHEMICALS INC.	15185 MAIN STREET	LEMONT	IL	60439	7,966.60	12/11/03	2,653.18	1,779.40
						1/13/04	5,313.62	
KERBS, ROBERT	6186 S. JERICHO CT	AURORA	CO	80016-1272	8,261.80	1/12/04	4,006.85	5,884.74
						2/18/04	4,255.15	
KOSKAN, LARRY	8617 GOLFVIEW	ORLAND PARK	IL	60462	5,703.84	12/11/03	1,357.85	1,296.52
						1/8/04	4,345.99	
LANIER WORLDWIDE	7109 S. HIGHLAND DR, STE 204	SALT LAKE CIT	UT	84121-7300	1,000.00	12/31/03	1,000.00	3,000.00
LANTECH COMPUTERS	5154 W. 127TH ST.	ALSIP	IL	60658	2,075.25	12/11/03	2,075.25	
LESMAN INSTRUMENTS	DEPT.77-52209	CHICAGO	IL	60678-4456	1,236.99	12/3/03	1,236.99	
MET LIFE	P.O. BOX 404466	KANSAS CITY	MISSOURI	64180-4466	7,815.50	12/3/03	2,307.96	2,503.77
						1/12/04	2,503.77	
						2/9/04	2,503.77	
MIDAMERICA/NATIONWIDE	P.O. BOX 610	BETTENDORF	IOWA	52722	16,932.50	12/11/03	2,000.55	
						1/5/04	3,739.29	
						1/21/04	2,705.57	
						2/9/04	2,282.27	
						2/12/04	3,332.11	
						2/26/04	2,672.71	
MIKEN CARTAGE	9800 W. 47TH ST	MCCOOK	IL	60525	1,428.00	12/3/03	1,428.00	
NELSON FIRE PROTECTION	11028 RALEIGH CT	ROCKFORD	IL	61115	1,100.00	1/13/04	1,100.00	
NERAC	ONE TECHNOLOGY DRIVE	TOLLAND	CT	06084-3900	1,250.00	1/13/04	1,250.00	
NETSOURCE COMMUNICATIONS	1665 QUINCY AVE, STE 147	NAPERVILLE	IL	60540	833.25	1/13/04	833.25	
OLSON & HIERL LTD.	20 NORTH WACKER DRIVE, 36TH FLR	CHICAGO	IL	60606	3,000.00	1/13/04	3,000.00	
PERKIN ELMER	P.O. BOX 101668	ATLANTA	GA	30392-1668	648.00	1/13/04	216.00	
						1/21/04	216.00	
						2/16/04	216.00	
POGGENSEE, TOM	9101 WALNUT LANE	TINLEY PARK	IL	60477	3,734.04	12/11/03	277.27	
						1/8/04	231.46	
						2/10/04	3,000.00	
						2/18/04	135.29	
QCI	433 HACKENSACK AVENUE	HACKENSACK	NJ	7601	6,060.00	12/31/03	1,050.00	5,010.00
						1/27/04	5,010.00	
QUALITY CARRIERS INC.	135 S. LASALLE	CHICAGO	IL	60674-4910	1,196.00	1/21/04	1,196.00	1,196.00
RENTAL SERVICE CORPORATION	2901 N PEORIA ST	PERU	IL	61354	655.00	12/8/03	655.00	
SBC	BILL PAYMENT CENTER	CHICAGO	IL	60663-0001	3,764.85	12/3/04	178.06	553.10
						1/12/04	178.06	
						2/12/04	177.97	

						12/11/03	121 41	
						1/5/04	122.76	
						2/12/04	120.65	
						2/16/04	123.13	
						12/9/03	453.73	
						1/5/04	408.27	
						2/12/04	422 79	
						2/16/04	407 69	
						1/5/04	350.03	
						1/12/04	350.03	
						2/12/04	350.03	
SEELER INDUSTRIES	4150 PAYSPHERE CIRCLE	CHICAGO	IL	60674	5,132 12	12/11/03	2,531.66	2,208.64
						1/13/04	2,600.46	
SHANE'S OFFICE SUPPLY	2717 CURTISS ST.	DOWNERS GROVE	IL	60515	1,046.85	12/3/03	446.37	278.94
						1/21/04	238.55	
						2/16/04	361.73	
SIMONS	P.O. BOX 633196	CINCINNATI	OH	45263-3196	897 30	1/13/04	897.30	
SPRINT	P.O. BOX 650270	DALLAS	TX	75265-0270	893 74	1/12/04	595 16	258.79
						2/16/04	298 58	
STATE OF MICHIGAN	PO BOX 30017	LANSING	MI	48909	800.00	12/31/03	800.00	
T.O.H. INTERNATIONAL	1510 MIDWAY CT , SUITE E201	ELK GROVE VILLAGE	IL	60007	744.69	2/16/04	744.69	604.58
TOTAL ENVIRONMENTAL SERV TECH	P.O. BOX 483	PERU	IL	61354	822.00	12/11/04	411.00	1,253.75
						1/13/04	411.00	
TRANSTAR INTERNATIONAL	P.O. BOX 661004	CHICAGO	IL	60666	1,904.00	12/3/03	476.00	
						1/13/04	1,428.00	
UNITED PARCEL SERVICE	LOCKBOX 577	CAROL STREAM	IL	60132-0577	995.25	12/11/03	156.03	804 15
						1/12/04	211.61	
						2/16/04	627.61	
YIXING BIOLOGY ENGINEERING CO	XINJIAN TOWN	YIXING	JIANGSU	CHINA	52,920.00	12/1/03	17,640.00	
						12/2/03	17,640.00	
						12/15/03	17,640.00	
Total					550,221.72		550,221.72	710,460.41

Payments to Insiders
During one year prior to the filing

Name	Date	Amount: Payroll-Related	Amount: Expense Report	Total
Larry P. Koskan	2/28/03	8,817.26		
	3/15/03	8,817.26		
	3/31/03	8,817.26		
	4/15/03	8,817.26		
	4/30/03	8,817.26		
	5/15/03	8,817.26		
	5/31/03	8,817.26		
	6/15/03	8,817.26		
	6/25/03		1,600.45	
	6/30/03	8,817.26		
	7/15/03	8,817.26		
	7/31/03	8,817.26		
	8/15/03	7,817.26		
	8/31/03	8,317.26		
	9/15/03	8,317.26		
	9/30/03	8,817.26		
	10/3/03		797.06	
	10/15/03	8,817.26		
	10/21/03		9,581.57	
	10/31/03	8,817.26		
	11/15/03	8,817.26		
	11/19/03		671.71	
	11/30/03	8,817.26		
	12/11/03		1,357.85	
	12/15/03	8,817.26		
	12/31/03	8,817.26		
	1/8/04		4,345.99	
	1/15/04	8,817.26		
	1/31/04	8,817.26		
	2/15/04	8,817.26		
	2/26/04	8,817.26		
Subtotal		$218,431.50	$18,354.63	$236,786.13
Robert P Pietrangelo	2/28/03	14,318.63		
	3/15/03	14,318.63		
	3/26/03	-	3,533.14	
	3/31/03	14,318.63		

ATTACHMENT TO STATEMENT OF AFFAIRS #3b (Insiders)

	4/15/03	14,318.63		
	4/16/03		2,047.21	
	4/30/03	7,929.75		
	5/15/03	7,929.75		
	5/31/03	7,929.75		
	6/11/03		1,547.91	
	6/15/03	7,929.75		
	6/30/03	7,929.75		
	7/10/03		858.65	
	7/15/03	7,929.75		
	7/31/03	7,929.75		
	8/15/03	7,929.75		
	8/31/03	7,929.75		
	9/15/03	7,929.75		
	9/30/03	7,929.75		
	10/3/03		1,014.30	
	10/15/03	7,929.75		
	10/21/03		2,191.66	
	10/31/03	7,929.75		
Subtotal		$160,361.27	$11,192.87	$171,554.14
Joel Lurquin	2/28/03	3,925.00		
	3/15/03	3,925.00		
	3/31/03	3,925.00		
	4/9/03		165.73	
	4/15/03	3,925.00		
	4/30/03	3,925.00		
	5/14/03		53.00	
	5/15/03	3,925.00		
	5/31/03	3,925.00		
	6/11/03		16.00	
	6/15/03	3,925.00		
	6/25/03		37.00	
	6/30/03	3,925.00		
	7/10/03		71.36	
	7/15/03	3,925.00		
	7/16/03		53.00	
	7/31/03	981.25		
	8/8/03	3,623.08		
	9/4/03	3,623.08		
	9/18/03	3,623.08		
	10/2/03	3,623.08		

	10/15/03	3,623.08		
Subtotal		$ 58,346.65	$ 396.09	$ 58,742.74
Thomas Poggensee	7/31/03	2,725.00		
	8/15/03	3,633.33		
	8/31/03	3,633.33		
			136.80	
	9/15/03	3,633.33		
	9/30/03	3,633.33		
			149.76	
	10/15/03	3,633.33		
	10/21/03		109.08	
	10/31/03	3,633.33		
	11/15/03	4,466.66		
	11/30/03	4,466.67		
	12/11/03		277.27	
	12/15/03	4,466.67		
	12/31/03	4,466.67		
	1/8/04		231.48	
	1/15/04	4,466.67		
	1/31/04	4,466.67		
	2/10/04		3,090.00	
	2/15/04	4,466.67		
	2/18/04		135.29	
	2/26/04	4,466.67		
Subtotal		$ 60,258.33	$ 4,129.68	$ 64,388.01
Christine Fenlon	2/28/03	2,916.66		
	3/15/03	2,916.66		
	3/31/03	2,916.66		
	4/15/03	2,153.85		
	5/7/03		166.70	
	6/11/03		512.22	
	8/27/03		273.34	
	1/21/04		70.04	
Subtotal		$ 10,903.83	$ 1,022.30	$ 11,926.13
Dean Kleckner	7/16/03		169.71	
	10/21/03		147.05	
	1/13/04		411.45	
Subtotal		$ -	$ 728.21	$ 728.21

William Broderick	11/13/03		511.02	
Grand Total		$508,301.58	$36,334.80	$544,125.36

6. Assignments and receiverships

None ■ a. Describe any assignment of property for the benefit of creditors made within **120 days** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include any assignment by either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF ASSIGNEE	DATE OF ASSIGNMENT	TERMS OF ASSIGNMENT OR SETTLEMENT

None ■ b. List all property which has been in the hands of a custodian, receiver, or court-appointed official within **one year** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include information concerning property of either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF CUSTODIAN	NAME AND LOCATION OF COURT CASE TITLE & NUMBER	DATE OF ORDER	DESCRIPTION AND VALUE OF PROPERTY

7. Gifts

None ■ List all gifts or charitable contributions made within **one year** immediately preceding the commencement of this case except ordinary and usual gifts to family members aggregating less than $200 in value per individual family member and charitable contributions aggregating less than $100 per recipient. (Married debtors filing under chapter 12 or chapter 13 must include gifts or contributions by either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF PERSON OR ORGANIZATION	RELATIONSHIP TO DEBTOR, IF ANY	DATE OF GIFT	DESCRIPTION AND VALUE OF GIFT

8. Losses

None ■ List all losses from fire, theft, other casualty or gambling within **one year** immediately preceding the commencement of this case or **since the commencement of this case.** (Married debtors filing under chapter 12 or chapter 13 must include losses by either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

DESCRIPTION AND VALUE OF PROPERTY	DESCRIPTION OF CIRCUMSTANCES AND, IF LOSS WAS COVERED IN WHOLE OR IN PART BY INSURANCE, GIVE PARTICULARS	DATE OF LOSS

9. Payments related to debt counseling or bankruptcy

None ☐ List all payments made or property transferred by or on behalf of the debtor to any persons, including attorneys, for consultation concerning debt consolidation, relief under the bankruptcy law or preparation of the petition in bankruptcy within **one year** immediately preceding the commencement of this case.

NAME AND ADDRESS OF PAYEE	DATE OF PAYMENT, NAME OF PAYOR IF OTHER THAN DEBTOR	AMOUNT OF MONEY OR DESCRIPTION AND VALUE OF PROPERTY
Crane, Heyman, Simon, Welch & Clar 135 S. LaSalle Street Suite 3705 Chicago, IL 60603	**February 26, 2004**	**$30,839.00**

10. Other transfers

None ■ List all other property, other than property transferred in the ordinary course of the business or financial affairs of the debtor, transferred either absolutely or as security within **one year** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include transfers by either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF TRANSFEREE, RELATIONSHIP TO DEBTOR	DATE	DESCRIBE PROPERTY TRANSFERRED AND VALUE RECEIVED

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11. Closed financial accounts

None ☐ List all financial accounts and instruments held in the name of the debtor or for the benefit of the debtor which were closed, sold, or otherwise transferred within **one year** immediately preceding the commencement of this case. Include checking, savings, or other financial accounts, certificates of deposit, or other instruments; shares and share accounts held in banks, credit unions, pension funds, cooperatives, associations, brokerage houses and other financial institutions. (Married debtors filing under chapter 12 or chapter 13 must include information concerning accounts or instruments held by or for either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF INSTITUTION	TYPE OF ACCOUNT, LAST FOUR DIGITS OF ACCOUNT NUMBER, AND AMOUNT OF FINAL BALANCE	AMOUNT AND DATE OF SALE OR CLOSING
LaSalle Bank N.A. 135 S. LaSalle St. Chicago, IL 60603	**Biomune Systems - Checking a/c #5800021015**	**closed 9/22/03 - $00.0**
LaSalle Bank N.A. 135 S. LaSalle St. Chicago, IL 60603	**Donlar Corp., Money Market a/c # last fourt digits 1291**	**$0.00 Closed 9/22/03**
LaSalle Bank N.A. 135 S. laSalle St. Chicago, IL 60603	**Donlar Corp., Checking a/c a/c 1015**	**$0.00 suspended - 2/27/03**
LaSalle Bank N.A. 135 S. LaSalle St. Chicago, IL 60603	**Checking a/c 2009**	**$0.00 Closed 3/19/03**

12. Safe deposit boxes

None ■ List each safe deposit or other box or depository in which the debtor has or had securities, cash, or other valuables within **one year** immediately preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include boxes or depositories of either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF BANK OR OTHER DEPOSITORY	NAMES AND ADDRESSES OF THOSE WITH ACCESS TO BOX OR DEPOSITORY	DESCRIPTION OF CONTENTS	DATE OF TRANSFER OR SURRENDER, IF ANY

13. Setoffs

None ■ List all setoffs made by any creditor, including a bank, against a debt or deposit of the debtor within **90 days** preceding the commencement of this case. (Married debtors filing under chapter 12 or chapter 13 must include information concerning either or both spouses whether or not a joint petition is filed, unless the spouses are separated and a joint petition is not filed.)

NAME AND ADDRESS OF CREDITOR	DATE OF SETOFF	AMOUNT OF SETOFF

14. Property held for another person

None ■ List all property owned by another person that the debtor holds or controls.

NAME AND ADDRESS OF OWNER	DESCRIPTION AND VALUE OF PROPERTY	LOCATION OF PROPERTY

15. Prior address of debtor

None ■ If the debtor has moved within the **two years** immediately preceding the commencement of this case, list all premises which the debtor occupied during that period and vacated prior to the commencement of this case. If a joint petition is filed, report also any separate address of either spouse.

ADDRESS	NAME USED	DATES OF OCCUPANCY

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16. Spouses and Former Spouses

None ■ If the debtor resides or resided in a community property state, commonwealth, or territory (including Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Puerto Rico, Texas, Washington, or Wisconsin) within the **six-year period** immediately preceding the commencement of the case, identify the name of the debtor's spouse and of any former spouse who resides or resided with the debtor in the community property state.

NAME

17. Environmental Information.

For the purpose of this question, the following definitions apply:

"Environmental Law" means any federal, state, or local statute or regulation regulating pollution, contamination, releases of hazardous or toxic substances, wastes or material into the air, land, soil, surface water, groundwater, or other medium, including, but not limited to, statutes or regulations regulating the cleanup of these substances, wastes, or material.

"Site" means any location, facility, or property as defined under any Environmental Law, whether or not presently or formerly owned or operated by the debtor, including, but not limited to, disposal sites.

"Hazardous Material" means anything defined as a hazardous waste, hazardous substance, toxic substance, hazardous material, pollutant, or contaminant or similar term under an Environmental Law

None ■ a. List the name and address of every site for which the debtor has received notice in writing by a governmental unit that it may be liable or potentially liable under or in violation of an Environmental Law. Indicate the governmental unit, the date of the notice, and, if known, the Environmental Law:

SITE NAME AND ADDRESS	NAME AND ADDRESS OF GOVERNMENTAL UNIT	DATE OF NOTICE	ENVIRONMENTAL LAW

None ■ b. List the name and address of every site for which the debtor provided notice to a governmental unit of a release of Hazardous Material. Indicate the governmental unit to which the notice was sent and the date of the notice.

SITE NAME AND ADDRESS	NAME AND ADDRESS OF GOVERNMENTAL UNIT	DATE OF NOTICE	ENVIRONMENTAL LAW

None ■ c. List all judicial or administrative proceedings, including settlements or orders, under any Environmental Law with respect to which the debtor is or was a party. Indicate the name and address of the governmental unit that is or was a party to the proceeding, and the docket number.

NAME AND ADDRESS OF GOVERNMENTAL UNIT	DOCKET NUMBER	STATUS OR DISPOSITION

18 . Nature, location and name of business

None ☐ a. If the debtor is an individual, list the names, addresses, taxpayer identification numbers, nature of the businesses, and beginning and ending dates of all businesses in which the debtor was an officer, director, partner, or managing executive of a corporation, partnership, sole proprietorship, or was a self-employed professional within the **six years** immediately preceding the commencement of this case, or in which the debtor owned 5 percent or more of the voting or equity securities within the **six years** immediately preceding the commencement of this case.

If the debtor is a partnership, list the names, addresses, taxpayer identification numbers, nature of the businesses, and beginning and ending dates of all businesses in which the debtor was a partner or owned 5 percent or more of the voting or equity securities, within the **six years** immediately preceding the commencement of this case.

If the debtor is a corporation, list the names, addresses, taxpayer identification numbers, nature of the businesses, and beginning and ending dates of all businesses in which the debtor was a partner or owned 5 percent or more of the voting or equity securities within the **six years** immediately preceding the commencement of this case.

NAME	TAXPAYER I.D. NO. (EIN)	ADDRESS	NATURE OF BUSINESS	BEGINNING AND ENDING DATES
Biomune Systems, Inc.	**87 0380088**	**a/k Donlar Biosyntrex Corp. 6502 S. Archer Rd. Summit Argo, IL 60501**		**November 2000 through March 2003**

None ■ b. Identify any business listed in response to subdivision a., above, that is "single asset real estate" as defined in 11 U.S.C. § 101.

NAME ADDRESS

The following questions are to be completed by every debtor that is a corporation or partnership and by any individual debtor who is or has been, within the **six years** immediately preceding the commencement of this case, any of the following: an officer, director, managing executive, or owner of more than 5 percent of the voting or equity securities of a corporation; a partner, other than a limited partner, of a partnership; a sole proprietor or otherwise self-employed.

*(An individual or joint debtor should complete this portion of the statement **only** if the debtor is or has been in business, as defined above, within the six years immediately preceding the commencement of this case. A debtor who has not been in business within those six years should go directly to the signature page.)*

19. Books, records and financial statements

None ■ a. List all bookkeepers and accountants who within the **two years** immediately preceding the filing of this bankruptcy case kept or supervised the keeping of books of account and records of the debtor.

NAME AND ADDRESS DATES SERVICES RENDERED

None ☐ b. List all firms or individuals who within the **two years** immediately preceding the filing of this bankruptcy case have audited the books of account and records, or prepared a financial statement of the debtor.

NAME	ADDRESS	DATES SERVICES RENDERED
Grant Thornton LLP	**175 W. Jackson Blvd, 20th Fl. Chicago, IL 60604**	**January 2002 - December 2003**

None ■ c. List all firms or individuals who at the time of the commencement of this case were in possession of the books of account and records of the debtor. If any of the books of account and records are not available, explain.

NAME ADDRESS

None ■ d. List all financial institutions, creditors and other parties, including mercantile and trade agencies, to whom a financial statement was issued within the **two years** immediately preceding the commencement of this case by the debtor.

NAME AND ADDRESS DATE ISSUED

20. Inventories

None ☐ a. List the dates of the last two inventories taken of your property, the name of the person who supervised the taking of each inventory, and the dollar amount and basis of each inventory.

DATE OF INVENTORY	INVENTORY SUPERVISOR	DOLLAR AMOUNT OF INVENTORY (Specify cost, market or other basis)
January 5, 2004	**Tom Poggensee**	**$479,488 - cost**
October 1, 2003	**Tom Poggensee**	**$560,856 - cost**

None ☐ b. List the name and address of the person having possession of the records of each of the two inventories reported in a., above.

DATE OF INVENTORY	NAME AND ADDRESSES OF CUSTODIAN OF INVENTORY RECORDS
January 5, 2004	**Donlar Corporation 6502 S. Archer Rd. Bedford Park, IL 60501**
October 1, 2003	**Donlar Corporation 6502 S. Archer Rd. Bedford Park, IL 60501**

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21 . Current Partners, Officers, Directors and Shareholders

None ■ a. If the debtor is a partnership, list the nature and percentage of partnership interest of each member of the partnership.

NAME AND ADDRESS	NATURE OF INTEREST	PERCENTAGE OF INTEREST

None ☐ b. If the debtor is a corporation, list all officers and directors of the corporation, and each stockholder who directly or indirectly owns, controls, or holds 5 percent or more of the voting or equity securities of the corporation.

NAME AND ADDRESS	TITLE	NATURE AND PERCENTAGE OF STOCK OWNERSHIP
SEE ATTACHMENT		

22 . Former partners, officers, directors and shareholders

None ■ a. If the debtor is a partnership, list each member who withdrew from the partnership within **one year** immediately preceding the commencement of this case.

NAME	ADDRESS	DATE OF WITHDRAWAL

None ☐ b. If the debtor is a corporation, list all officers, or directors whose relationship with the corporation terminated within **one year** immediately preceding the commencement of this case.

NAME AND ADDRESS	TITLE	DATE OF TERMINATION
Robert W. Cooper 230 W. Monroe St. Chicago, IL 60606	**Director**	**3/1/03**
Robert G. Martin 2170 Midland Rd. Southern Pines, NC 28387	Director	**2/2/04**
Robert Pietrangelo 10959 Royal Porthcawl Dr. Naperville, IL 60564	**VP, Chief Operating Officer**	**10/31/03**
Joel Lurquin 4817 W. 99th St. Oak Lawn, IL 60453	**Controller**	**7/18/03**

23 . Withdrawals from a partnership or distributions by a corporation

None ■ If the debtor is a partnership or corporation, list all withdrawals or distributions credited or given to an insider, including compensation in any form, bonuses, loans, stock redemptions, options exercised and any other perquisite during **one year** immediately preceding the commencement of this case.

NAME & ADDRESS OF RECIPIENT, RELATIONSHIP TO DEBTOR	DATE AND PURPOSE OF WITHDRAWAL	AMOUNT OF MONEY OR DESCRIPTION AND VALUE OF PROPERTY

24. Tax Consolidation Group.

None ■ If the debtor is a corporation, list the name and federal taxpayer identification number of the parent corporation of any consolidated group for tax purposes of which the debtor has been a member at any time within the **six-year period** immediately preceding the commencement of the case.

NAME OF PARENT CORPORATION	TAXPAYER IDENTIFICATION NUMBER

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Directors	Address
Larry Koskan	6502 S. Archer Road, Bedford Park, IL 60501
Edward McCormick	6502 S. Archer Road, Bedford Park, IL 60501
Dean Kleckner	6502 S. Archer Road, Bedford Park, IL 60501
William Broderick	6502 S. Archer Road, Bedford Park, IL 60501

Officers	Title	Address
Larry Koskan	President and CEO	6502 S. Archer Road, Bedford Park, IL 60501
Thomas Poggense	Vice President, Finance	6502 S. Archer Road, Bedford Park, IL 60501

5% Shareholders	Address	%
Dr. Robert Martin	2170 Midland Rd, Southern Pines, NC 28387	22
Willis Stein & Partners and Star Polymers	One North Wacker Drive, Chicago, IL 60606	17
Larry Koskan	6502 S. Archer Rd, Bedford Park, IL 60501	11

25. Pension Funds.

None ■ If the debtor is not an individual, list the name and federal taxpayer identification number of any pension fund to which the debtor, as an employer, has been responsible for contributing at any time within the **six-year period** immediately preceding the commencement of the case.

NAME OF PENSION FUND	TAXPAYER IDENTIFICATION NUMBER

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Form 7
(12/03)

DECLARATION UNDER PENALTY OF PERJURY ON BEHALF OF CORPORATION OR PARTNERSHIP

I declare under penalty of perjury that I have read the answers contained in the foregoing statement of financial affairs and any attachments thereto and that they are true and correct to the best of my knowledge, information and belief.

Date 3/19/04 Signature Larry Koskan
Larry Koskan
CEO

[An individual signing on behalf of a partnership or corporation must indicate position or relationship to debtor.]

Penalty for making a false statement: Fine of up to $500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 and 3571

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