

Freedom Financial Group, Inc.

Accountants' Report and Consolidated Financial Statements

December 31, 2003 and January 1, 2003

Freedom Financial Group, Inc.
December 31, 2003 and January 1, 2003

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Independent Accountants' Report

Board of Directors, Audit Committee and Stockholders
Freedom Financial Group, Inc.
Springfield, Missouri

We have audited the accompanying consolidated balance sheets of Freedom Financial Group, Inc. as of December 31, 2003 and January 1, 2003, and the related statements of operations, stockholders' equity and cash flows for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As explained more fully in *Note 10*, the Company had one claim pending against other parties as of December 31, 2003, and two claims pending against other parties as of January 1, 2003. Management has assigned a carrying value of zero to any assets receivable under these pending claims in the consolidated balance sheets. We were unable to examine sufficient evidence to satisfy ourselves as to the carrying value of these assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding assets receivable under pending claims, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Freedom Financial Group, Inc. as of December 31, 2003 and January 1, 2003, and the results of its operations and its cash flows for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 12*, the Company changed the method of accounting for its mandatorily redeemable convertible preferred stock during 2003.

BKD, LLP

Springfield, Missouri
January 22, 2004

**Solutions
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Success**

Freedom Financial Group, Inc.
Consolidated Balance Sheets
December 31, 2003 and January 1, 2003

Assets

	<u>December 31</u>	<u>January 1</u>
Cash and cash equivalents	\$ 4,280,766	\$ 2,572,298
Cash settlements receivable	—	2,273,295
Finance receivables, net	2,015,439	1,432,282
Notes receivable, net	215,265	100,000
Settlement assets receivable, net	—	1,106,723
Land, building and equipment, net	271,562	73,721
Other assets	<u>38,973</u>	<u>46,912</u>
Total assets	<u>\$ 6,822,005</u>	<u>\$ 7,605,231</u>

Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Stockholders' Equity

	<u>December 31</u>	<u>January 1</u>
Liabilities		
Accounts payable and accrued expenses	\$ 204,413	\$ 138,728
Accrued reorganization expenses	<u>15,000</u>	<u>655,079</u>
Total liabilities	<u>219,413</u>	<u>793,807</u>
Mandatorily Redeemable Convertible Preferred Stock		
\$0.0001 par value; 9,000,000 shares authorized, 8,997,869 shares issued and outstanding	<u>—</u>	<u>6,810,427</u>
Stockholders' Equity		
Mandatorily redeemable convertible preferred stock, \$0.0001 par value; 9,000,000 shares authorized, 8,997,368 shares issued and outstanding	6,810,241	—
Common stock, \$0.0001 par value; 19,000,000 shares authorized; 9,967,485 and 9,967,953 shares issued and outstanding at December 31, 2003 and January 1, 2003, respectively	997	997
Retained earnings (deficit)	(759,082)	—
Accumulated other comprehensive income	<u>550,436</u>	<u>—</u>
Total stockholders' equity	<u>6,602,592</u>	<u>997</u>
Total liabilities and stockholders' equity	<u>\$ 6,822,005</u>	<u>\$ 7,605,231</u>

Freedom Financial Group, Inc.
Consolidated Statement of Operations
Year Ended December 31, 2003

Revenues	
Interest income	\$ 573,514
Recovery of charged-off finance receivables	222,003
Other income	<u>662,167</u>
Total revenues	1,457,684
Provision for Credit Losses	<u>215,728</u>
Net Revenues After Provision for Credit Losses	1,241,956
Operating Expenses	<u>2,001,038</u>
Loss Before Income Taxes	(759,082)
Provision for Income Taxes	<u>—</u>
Net Loss	<u>(759,082)</u>
Other Comprehensive Income	
Foreign currency translation adjustment	<u>550,436</u>
Comprehensive Loss	<u>\$ (208,646)</u>
Basic Loss Per Share	<u>\$ (0.08)</u>
Diluted Loss Per Share	<u>\$ (0.08)</u>

Freedom Financial Group, Inc.
Consolidated Statement of Stockholders' Equity
Year Ended December 31, 2003

	Mandatorily Redeemable Convertible Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2003	\$ —	9,967,953	\$ 997	\$ —	\$ —	\$ 997
Net loss	—	—	—	(759,082)	—	(759,082)
Effect of change in accounting method	6,810,427	—	—	—	—	6,810,427
Repurchase of stock issued in error	(186)	(468)	—	—	—	(186)
Foreign currency translation adjustment	—	—	—	—	550,436	550,436
Balance, December 31, 2003	<u>\$ 6,810,241</u>	<u>9,967,485</u>	<u>\$ 997</u>	<u>\$ (759,082)</u>	<u>\$ 550,436</u>	<u>\$ 6,602,592</u>

Freedom Financial Group, Inc.
Consolidated Statement of Cash Flows
Year Ended December 31, 2003

Operating Activities

Net loss	\$ (759,082)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation	45,256
Provision for credit losses	215,728
Deferred discount income	(170,784)
Recovery of charged-off finance receivables	44,237
Gain on sale of property and equipment and other assets	(56,455)
Claims settlement income	(462,500)
Changes in	
Other assets	4,984
Accounts payable and accrued expenses	(2,553)
Accrued reorganization expenses	(640,078)
Net cash used in operating activities	<u>(1,781,247)</u>

Investing Activities

Purchase of finance receivables	(2,573,050)
Principal collected on finance receivables	2,417,902
Payments of dealer reserves	(12,687)
Payments of dealer holdbacks	(45,709)
Principal collected on notes receivable	514,429
Principal collected on contracts held for sale	213,027
Purchase of premises and equipment	(223,951)
Investment in real estate held for sale	(6,820)
Proceeds from sale of real estate held for sale	233,882
Net cash provided by investing activities	<u>517,023</u>

Financing Activities

Collection of cash settlements receivable	2,273,296
Settlement proceeds from previously pending claims	462,500
Redemption of preferred stock	(187)
Net cash provided by financing activities	<u>2,735,609</u>

Effect of Exchange Rate Changes on Cash and Cash Equivalents

237,083

Net Increase in Cash and Cash Equivalents

1,708,468

Cash and Cash Equivalents, January 1, 2003

2,572,298

Cash and Cash Equivalents, December 31, 2003

\$ 4,280,766

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Freedom Financial Group, Inc. (FFG), successor by merger to Stevens Financial Group, Inc. (SFG) and SFG's wholly owned subsidiaries, SFC Funding Corporation (SFC) and SFC Automobile Receivables Trust 2000A (SFC Trust) and FFG's wholly owned Canadian subsidiary, TCG – The Credit Group (TCG), formerly Sinclair Credit Group, Co., all of which collectively comprise a single reporting segment, the "Company." All significant intercompany transactions have been eliminated in consolidation.

On March 19, 2001, Stevens Financial Group, Inc. filed a petition in the United States Bankruptcy Court for the District of Arizona (the "Bankruptcy Court") for relief under Chapter 11 of Title 11 of the United States Code (the "Code"). SFG's Amended Plan of Reorganization dated October 30, 2001 (the "Plan" or "Plan of Reorganization"), was confirmed by order of the Bankruptcy Court on March 14, 2002. See *Note 2, Reorganization Under Chapter 11*.

In accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7), the Company adopted fresh start reporting as of January 1, 2003, the effective date of the Plan of Reorganization. See *Note 3, Fresh Start Reporting*.

Nature of Operations

SFG was a consumer finance company. SFG and its subsidiaries purchased consumer finance receivables, typically at a discount and secured by automobiles or consumer goods, from a network of dealers in approximately 16 states. SFG ceased purchasing finance receivables concurrent with SFG's bankruptcy filing on March 19, 2001. From March 19, 2001, through December 31, 2002 (the "Reorganization Period"), SFG focused its efforts on servicing its existing portfolio of finance receivables and preparing to commence operating activities after its emergence from bankruptcy.

FFG is a consumer finance company. Since its emergence from Chapter 11 on January 1, 2003, FFG has been positioning itself to re-enter the business of purchasing and servicing consumer finance receivables. FFG re-entered the business in October 2003. Since that time, FFG has been buying automobile-secured finance receivables originated by others and has, on a limited basis, been originating automobile-secured loans through a point of sale program with a network of car dealers in southwest Missouri. FFG intends to hold these receivables for a period of time sufficient to establish their payment history and, if circumstances warrant, package and sell groups of these receivables without recourse to third parties and without retaining the servicing rights thereon.

TCG is a Winnipeg, Manitoba, based consumer finance company. TCG purchases consumer finance receivables, typically at a discount, from a network of dealers in five Canadian provinces. TCG continued operating and purchasing finance receivables throughout the Reorganization Period. TCG accounts for approximately 47% and 33% of consolidated total assets as of December 31, 2003 and January 1, 2003, respectively.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

The makers of the finance receivables purchased by the Company typically have limited or no access to traditional sources of consumer credit due to past negative credit history, limited or unstable employment history, the inability to make sufficient down payments or other negative factors typically evaluated in the credit granting process. As a result, finance receivables acquired by the Company are generally considered to have a higher risk of default and loss than those typically held in the portfolios of commercial banks, credit unions and similar institutions.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and the determination of assets receivable under pending claims.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of an overnight repurchase agreement. The Company's cash and cash equivalents not covered by federal deposit insurance totaled approximately \$3,961,600 and \$2,217,000 as of December 31 and January 1, 2003, respectively.

Finance Receivables

Finance receivables are reported at their outstanding principal balances adjusted for unamortized purchase discounts and an allowance for credit losses. Discounts on purchased finance receivables are recognized as income over the respective contractual terms using methods that approximate the interest method.

The Company accrues interest on all loans until they become more than 90 days contractually past due, at which time all accrued interest is reversed.

FFG owns a portfolio of delinquent finance receivables which the Company purchased prior to March 19, 2001, and all of which were charged off prior to January 1, 2003. The outstanding principal balance of this portfolio totals approximately \$23,000,000 at December 31, 2003. The Company continues to pursue collection of these receivables and recognizes all amounts recovered as income when received. Collections of \$226,000 were made on these receivables during 2003.

Allowance for Credit Losses

The Company maintains an allowance for credit losses at an amount it believes is adequate to absorb reasonably estimable probable losses in its portfolio of finance receivables. The Company's management evaluates the allowance for credit losses on a regular basis. This evaluation considers the Company's historical experience, the nature and volume of the portfolio, adverse situations that

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

may affect the ability to collect payments when due, the estimated value of underlying collateral, if any, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance is increased through provisions for credit losses charged against earnings.

Finance receivables are charged to the allowance for credit losses when they become more than 120 days contractually past due. With the exception of recoveries of FFG receivables charged off prior to January 1, 2003, subsequent recoveries of finance receivables previously charged against the allowance for credit losses are credited back to the allowance for credit losses when received.

Because the Company's portfolio of finance receivables is primarily comprised of homogenous accounts with relatively small balances, management does not separately identify finance receivables for impairment. Management evaluates the portfolio in its entirety for impairment.

Land, Building and Equipment

On January 1, 2003, all of the Company's depreciable assets were restated to their respective estimated fair values. Premises and equipment acquired after January 1, 2003, are recorded at historical cost. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 2 to 8 years for computers, office equipment and software, 3 to 8 years for furniture and fixtures and 25 years for the Canadian office building.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Earnings Per Share

Earnings per share have been computed based upon the weighted average common shares outstanding during the year. Diluted earnings per share is computed using the weighted average common shares and all potentially dilutive common shares outstanding during the year.

Reclassifications

Certain reclassifications have been made to the January 1, 2003, balance sheet to conform to the December 31, 2003, financial statement presentation. These reclassifications had no effect on net earnings.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

Note 2: Reorganization Under Chapter 11

The Company's predecessor (the "Debtor") commenced operations as a consumer finance company in August 1993 as First Financial Credit Corp., a Missouri corporation, headquartered in Springfield, Missouri. During 1995 Damian and Susan Sinclair became the sole owners of First Financial Credit Corp. and changed its name to Sinclair Financial Group, Inc. In October 1999 Clarence Stevens became the sole owner of the company and shortly thereafter changed the name to Stevens Financial Group, Inc.

The Debtor's primary source of capital was the issuance of debt obligations known as fixed rate investment certificates (the "FRI Certificates") to individual investors. The FRI Certificates bore interest at rates ranging from 7.5% to 13.95%.

The Debtor invested the capital acquired through the issuance of the FRI Certificates in subprime consumer finance receivables, primarily collateralized by automobiles, vacuums or other consumer goods and typically acquired at a discount from various third-party dealers.

On March 19, 2001, the management of Stevens Financial Group, Inc., after determining that SFG could no longer satisfy its obligations (primarily the repayment of FRI Certificates) as they became due, filed a petition (the "Filing") in the United States Bankruptcy Court for the District of Arizona for relief under Chapter 11 of Title 11 of the United States Code. At the time of the Filing, SFG controlled three wholly owned subsidiaries: SFC Funding Corporation (SFC), SFC Automobile Receivables Trust 2000A (SFC Trust) and Sinclair Credit Group Co. (SCG). The operations of SFG, SFC and SFC Trust were indefinitely suspended concurrent with the Filing. The operations of SCG were not significantly affected.

On May 15, 2001, Mr. Vern Schweigert (the "Trustee") was appointed Trustee of the estate created by the Filing. Shortly after his appointment, Mr. Schweigert removed the Company's then-existing management and employed Mr. Jerry Fenstermaker to act as the Company's President and Chief Executive Officer during the Reorganization Period.

The Trustee filed a Plan of Reorganization with the Bankruptcy Court on August 31, 2001, that was subsequently amended on October 30, 2001.

The Plan provided for the formation of a Delaware corporation, Freedom Financial Group, Inc., the subsequent merger of the Debtor into FFG and the assumption of the assets and liabilities of SFC and SFC Trust by FFG.

The Plan also provided for the continuation of the Debtor's U.S. consumer loan business and the formation of a joint venture, to be called Venture Funding Resources, Inc., between FFG and Innovative Financial Resources, Inc. (a Springfield, Missouri-based consumer finance company) for the purpose of carrying out this business. See *Note 4, Termination of Joint Venture and Loan Servicing Agreements*. The Plan envisioned FFG's initial contribution to the joint venture would be funded in part by approximately \$6.0 million of the approximately \$8.0 million the Debtor anticipated receiving in the settlement of claims it asserted against certain of the parties (Potential Defendants) to the bankruptcy. The Potential Defendants included former owners and officers of the Debtor, companies related to the Debtor through common ownership, companies owned by a former officer of the Debtor and other companies and professional firms with which the Debtor conducted business.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

The Plan allowed for the Debtor's creditors to choose one of two options: 1) exchange their debt for shares of preferred and common stock in the reorganized company (Participating Creditors) or 2) settle their debt for approximately \$0.04588 per dollar (Non-Participants). The Plan further stipulated that all prior ownership interests in the Debtor would be cancelled. The Company's creditors voted overwhelmingly to approve the Plan and on March 14, 2002, the Trustee's Amended Plan of Reorganization dated October 30, 2001, was confirmed by order of the Bankruptcy Court.

Approximately 35 of the Debtor's creditors elected to be Non-Participants. The Company made payments totaling \$35,646 to these Non-Participants during April 2003, in full settlement of their claims against the Debtor.

In anticipation of settling a significant portion of the Debtor's claims against the Potential Defendants, the Trustee, with the concurrence of the Company's management, petitioned the Bankruptcy Court for and was granted the Debtor's release from Chapter 11 effective January 1, 2003. Under the terms of certain agreements (the "Settlement Agreements") with certain of the Potential Defendants, assets totaling \$3,380,018 were transferred to the Company during the year ended December 31, 2003. The Settlement Agreements called for the transfer of these assets to the Company and the concurrent release of the Debtor's claims against those Potential Defendants.

Shortly prior to January 1, 2003, the Debtor was merged into FFG and on January 1, 2003, FFG issued 8,997,869 shares of preferred stock to the Freedom Financial Group I Statutory Trust for the benefit of the Debtor's participating creditors, 8,997,953 shares of common stock to the Debtor's participating creditors and 970,000 shares of common stock to FFG's new management group. A portion of the shares held by management must be returned to the Company without any payment for the returned shares in the event of a manager's voluntary termination of employment prior to September 15, 2005. Concurrent with the issuance of stock FFG assumed the remaining assets and liabilities of SFC and SFC Trust. No dividends can be paid on shares of common stock until such time as all mandatorily redeemable convertible preferred stock is fully paid or converted to common stock. The full amount of repayment is approximately \$54,000,000. Holders of both common and preferred stock are allowed one vote for each share owned.

The assets received under the Settlement Agreements of \$3,842,578 are substantially less than the \$8.0 million anticipated at the time the Plan of Reorganization was prepared. This shortfall has limited the Company's ability to resume its U.S. consumer loan business at the levels forecasted in the Plan.

Note 3: Fresh Start Reporting

As of January 1, 2003, the Company adopted fresh start reporting in accordance with SOP 90-7. Fresh start reporting assumes that a new reporting entity has been created and requires assets and liabilities be reported at their fair values as of the effective date.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

The reorganization value, as that term is defined in SOP 90-7, of \$7,605,231 was based on many factors, assumptions, significant estimates and valuation methods, including estimating the present value of future cash flows discounted at appropriate risk-adjusted market rates, professional appraisals of real property, analysis performed by an independent Certified Valuation Analyst and other valuation techniques the Company believes are appropriate.

The following table presents the adjustments made to adopt fresh start reporting.

	Predecessor Company	Fresh Start Adjustments		Reorganized Company
	January 1, 2003	Debit	Credit	January 1, 2003
Assets				
Cash and cash equivalents	\$ 2,572,298	\$ —	\$ —	\$ 2,572,298
Cash settlements receivable	—	2,273,295 (a)	—	2,273,295
Finance receivables, net	1,432,282	—	—	1,432,282
Notes receivable	100,000	—	—	100,000
Settlement assets receivable, net	—	1,106,723 (a)	—	1,106,723
Furniture, fixtures and equipment	67,452	6,269 (b)	—	73,721
Assets receivable under pending claims	—	—	—	—
Reorganization value in excess of amounts allocable to identifiable assets	—	—	—	—
Other assets	46,912	—	—	46,912
Total assets	<u>\$ 4,218,944</u>	<u>\$ 3,386,287</u>	<u>\$ —</u>	<u>\$ 7,605,231</u>
Liabilities and Stockholders' Equity				
Liabilities				
Accounts payable and accrued expenses	\$ 622,082	\$ 519,000 (d)	\$ 35,646 (c)	\$ 138,728
Accrued reorganization expenses	655,079	—	—	655,079
Time certificates payable	65,104,713	65,104,713 (d)	—	—
Accrued interest payable on time certificates	14,262,308	14,262,308 (d)	—	—
Total liabilities	<u>80,644,182</u>	<u>79,886,021</u>	<u>35,646</u>	<u>793,807</u>
Mandatorily redeemable convertible preferred stock	—	—	6,810,427 (e)	6,810,427
Stockholders' Equity				
Common stock	5,000,000	5,000,000 (f)	997 (g)	997
Retained deficit	(81,425,238)	—	81,425,238 (f)	—
Total stockholders' equity	<u>(76,425,238)</u>	<u>5,000,000</u>	<u>81,426,235</u>	<u>997</u>
Total liabilities and stockholders' equity	<u>\$ 4,218,944</u>	<u>\$ 84,886,021</u>	<u>\$ 88,272,308</u>	<u>\$ 7,605,231</u>

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

- (a) To reflect settlement agreements reached in Chapter 11.
- (b) To adjust carrying amount to fair value.
- (c) To reflect liability to Non-Participant creditors.
- (d) To reflect cancellation of liabilities satisfied with issuance of preferred and common stock.
- (e) To record issuance of preferred stock at fair value.
- (f) To eliminate stockholder's equity of predecessor company.
- (g) To record issuance of common stock at par value.

Note 4: Termination of Joint Venture and Loan Servicing Agreements

On April 28, 2003, after consultation with legal counsel, the Company's management determined that the joint venture with Innovative Financial Resources, Inc. (IFR) contemplated by the Plan of Reorganization had failed to become effective. Shortly thereafter the Company provided legal notice to IFR of the joint venture's termination. The termination was confirmed by order of the Bankruptcy Court on June 2, 2003.

Concurrent with the termination of the joint venture, the Company terminated certain loan servicing agreements with Eagle Financial Solutions, Inc. (EFS), under which EFS performed account collection activities for loans owned by the Company. EFS is related to IFR through common ownership.

EFS owes the Company \$95,000 under the terms of two promissory note agreements, both of which are in default for failure to pay at maturity. The Company has taken steps to foreclose on the notes and liquidate the underlying collateral to satisfy the obligations. The proceeds the Company might realize in such a collateral liquidation may not be enough to fully satisfy the underlying obligations. Therefore, the Company has provided an allowance for credit losses of \$95,000 through a charge to earnings. See *Note 7, Notes Receivable*.

The Company has assumed the activities previously proposed to be carried out by the joint venture and the account collection activities performed by EFS under the loan servicing agreements.

A counterclaim has been filed by EFS against the Company and is pending resolution in the Bankruptcy Court. The Company believes at this time that the counterclaim is without merit.

Note 5: Cash Settlements Receivable

Cash settlements receivable, recorded at fair value at January 1, 2003, represented cash settlement payments to be made by certain of the Potential Defendants to the Company under the terms of the Settlement Agreements. The Company received cash settlement payments totaling \$2,273,295 during the first quarter of 2003.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

Note 6: Finance Receivables and Allowance for Credit Losses

Finance receivables consist of the following at December 31 and January 1, 2003:

	<u>December 31</u>	<u>January 1</u>
Bulk food	\$ 850,007	\$ 758,873
Equipment leases	784,632	403,739
Automobiles	411,066	231,293
Home appliances	196,368	125,307
Other	<u>164,150</u>	<u>179,280</u>
Total finance receivables	<u>2,406,223</u>	<u>1,698,492</u>
Less		
Unearned discount	194,086	120,762
Allowance for credit losses	<u>196,698</u>	<u>145,448</u>
	<u>390,784</u>	<u>266,210</u>
Net finance receivables	<u>\$ 2,015,439</u>	<u>\$ 1,432,282</u>

As of January 1, 2003, all of FFG's finance receivables were greater than 120 days contractually past due. In accordance with the Company's policy these finance receivables were charged against the allowance for credit losses; thus, all of the above finance receivables as of January 1, 2003, are Canadian in origin. Approximately 91% of the above finance receivables as of December 31, 2003, are Canadian in origin.

Activity in the allowance for credit losses related to finance receivables for the year ended December 31, 2003, was as follows:

Balance, January 1, 2003	\$ 145,448
Purchase discount allocation	86,669
Provision charged to expense	120,728
Losses charged off	(181,675)
Effect of foreign currency translation	<u>25,528</u>
Balance, December 31, 2003	<u>\$ 196,698</u>

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

Note 7: Notes Receivable

Notes receivable are comprised of the following:

	<u>December 31</u>	<u>January 1</u>
Note receivable from Eagle Financial Solutions, Inc., in default for failure to pay at maturity, bearing interest at 9.0%, secured by certain consumer installment loans (see <i>Note 4, Termination of Joint Venture and Loan Servicing Agreements</i>)	\$ 45,000	\$ 50,000
Note receivable from Eagle Financial Solutions, Inc., in default for failure to pay at maturity, bearing interest at 9.0%, secured by substantially all assets of Eagle Financial Solutions, Inc. (see <i>Note 4, Termination of Joint Venture and Loan Servicing Agreements</i>)	50,000	50,000
Note receivable, bearing interest at 9.5%, payable in equal monthly installments, including interest, of \$3,600 commencing January 19, 2003, and maturing March 19, 2006, secured by a deed of trust on commercial real estate in Tucson, Arizona	90,650	—
Unsecured noninterest-bearing note receivable, payable in equal annual installments of \$7,000 commencing October 31, 2003, and maturing October 31, 2007, personally guaranteed by the principals of First Financial Consultants, Inc.	20,959	—
Noninterest-bearing note receivable, payable in equal annual installments of \$20,000 commencing November 1, 2003, and maturing November 1, 2012, secured by a deed of trust on residential real estate in Greene County, Missouri	<u>103,656</u>	<u>—</u>
	310,265	100,000
Less allowance for credit losses	<u>95,000</u>	<u>—</u>
Net notes receivable	<u>\$ 215,265</u>	<u>\$ 100,000</u>

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
December 31, 2003 and January 1, 2003

Note 8: Settlement Assets Receivable

Under the terms of the Settlement Agreements certain of the Potential Defendants agreed to transfer the following assets to the Company, all which the Company recorded at estimated fair value on the January 1, 2003, consolidated balance sheet:

Unsecured noninterest-bearing note receivable, payable in equal annual installments of \$7,000 commencing October 31, 2003, and maturing October 31, 2007, personally guaranteed by the principals of First Financial Consultants, Inc.	\$ 25,311
Noninterest-bearing note receivable, payable in equal annual installments of \$20,000 commencing November 1, 2003, and maturing November 1, 2012, secured by a deed of trust on residential real estate in Greene County, Missouri	112,125
Note receivable, bearing interest at 7.0% per annum, payable at maturity on August 31, 2003, secured by a deed of trust on residential real estate in Dallas County, Missouri	469,000
Note receivable, bearing interest at 9.5%, payable in equal monthly installments, including interest, of \$3,600 commencing January 19, 2003, and maturing March 19, 2006, secured by a deed of trust on commercial real estate in Tucson, Arizona	118,260
Finance receivables secured by mobile homes and second deeds of trust on residential real estate in Missouri with a total outstanding principal balance of \$832,379, net of allowance for credit losses of \$619,352	213,027
Finance receivables secured by automobiles with a total outstanding principal balance of \$1,147,598, net of allowance for credit losses of \$1,147,598	—
Finance receivables secured by consumer goods with a total outstanding principal balance of \$216,684, net of allowance for credit losses of \$216,684	—
Approximately 66 acres of undeveloped real estate in Fair Grove, Missouri	99,000
Commercial real estate in Tucson, Arizona	<u>70,000</u>
Total	<u>\$ 1,106,723</u>

As of March 1, 2003, the Company had secured legal title to all of these assets. Therefore, there are no settlement assets receivable at December 31, 2003.

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Note 9: Land, Building and Equipment

Major classifications of land, building and equipment are as follows:

	<u>December 31</u>	<u>January 1</u>
Land	\$ 38,671	\$ —
Building	144,946	—
Computer and office equipment	125,902	68,322
Software	35,311	24,475
Furniture and fixtures	28,511	24,910
Other	<u>4,500</u>	<u>11,588</u>
	377,841	129,295
Less accumulated depreciation	<u>106,279</u>	<u>55,574</u>
Net land, building and equipment	<u>\$ 271,562</u>	<u>\$ 73,721</u>

Note 10: Assets Receivable Under Pending Claims

The Debtor had two claims pending against other parties that had not been resolved as of January 1, 2003. After consultation with legal counsel, management determined that significant uncertainty existed with respect to the future timing and amount of proceeds, if any, the Company would receive from those pending claims. Management assigned a carrying value of zero to those claims in the consolidated balance sheet as of January 1, 2003.

On September 8, 2003, the Company settled its claim against Wolf Haldenstein Adler Freeman & Herz LLP (Wolf), a New York-based law firm. In accordance with the terms of the agreement, the Company received \$462,500 which is recorded as other income in the Consolidated Statement of Operations for the year ended December 31, 2003.

The Debtor's only pending claim as of December 31, 2003, is against First Financial Trust Company (FFTC), the guarantor of substantially all of the FRI Certificates issued by the Debtor. Under the terms of the guarantees issued by FFTC, FFTC was obligated to pay to holders of the FRI Certificates the outstanding principal balance of the FRI Certificates in the event the Debtor failed to do so. At the time of the Debtors' bankruptcy filing, FFTC had outstanding guarantees totaling approximately \$68,000,000. Although FFTC has acknowledged its liability to honor the guarantees, FFTC has claimed to not have the capacity to honor the guarantees. Under terms of the settlement agreements between FFTC and the Company, FFTC assigned to the Company FFTC's claim against its insurance carrier, BancInsure, under the terms of a directors' and officers' liability insurance policy.

On February 27, 2003, the Bankruptcy Court entered a \$15,000,000 judgment in favor of the Company against the directors and officers of First Financial Trust Company resulting from the negligence and breach of fiduciary duty by FFTC's directors and officers. The Company is now pursuing this judgment and the assigned claim from FFTC against BancInsure.

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Because significant uncertainty remains with respect to the future timing and amount of proceeds, if any, the Company might realize from its claim against BancInsure, management has assigned a carrying value of zero to this claim in the consolidated balance sheet as of December 31, 2003.

Note 11: Income Taxes

The provision for income taxes for the year ended December 31, 2003, includes these components:

Taxes currently payable	\$	—
Deferred income taxes		<u>—</u>
Income tax expense	\$	<u><u>0</u></u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the year ended December 31, 2003, is shown below:

Computed at the statutory rate (34%)	\$	(258,088)
Increase (decrease) resulting from		
State income taxes		(17,407)
Changes in the deferred tax asset valuation allowance		182,980
Loss from foreign subsidiary		72,857
Nondeductible expenses		41,755
Graduated tax rates and other		<u>(22,097)</u>
Actual tax expense	\$	<u><u>0</u></u>

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets as of December 31 and January 1, 2003, were:

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	December 31	January 1
Deferred tax assets		
Accrued compensated absences	\$ 12,150	\$ 10,787
Accrued compensation	3,879	3,879
Provision for credit losses	48,436	—
Net operating loss carryforwards	7,337,850	7,204,669
Net deferred tax asset before valuation allowance	7,402,315	7,219,335
Valuation allowance		
Beginning of period	7,219,335	7,219,335
Increase during the period	182,980	—
Ending balance	7,402,315	7,219,335
Net deferred tax asset	\$ 0	\$ 0

As of December 31, 2003, the Company had approximately \$19,000,000 of net operating loss carryforwards available to offset future federal income taxes. The carryforwards expire in 2021 through 2023. These carryforwards do not include any provision for the Company's pending claim against BancInsure (see *Note 10, Assets Receivable Under Pending Claims*). Amounts realized under this claim, if any, could have a material impact on the net operating loss carryforwards.

Note 12: Mandatorily Redeemable Convertible Preferred Stock and Change in Accounting Principle

On January 1, 2003, pursuant to the Plan of Reorganization, the Company issued 8,997,869 shares of mandatorily redeemable convertible preferred stock. The stock is held by the Freedom Financial Group I Statutory Trust, a Delaware Trust, for the benefit of the Debtor's participating creditors. The Trust Supervision Committee, as elected by the Company's Board of Directors, is comprised of three Directors of the Company, Jerry Fenstermaker, Gary Lipscomb and Vern Schweigert. The Trust shall be dissolved upon the earlier of 1) the redemption of all outstanding preferred stock or 2) the affirmative vote to do so of at least two-thirds of the common stock of Freedom Financial Group, Inc.

The preferred stock is subject at all times to mandatory redemption by the Company. The Company shall, as Company funds allow, as determined by the Board of Directors, redeem approximately 320,000 shares each and every calendar quarter commencing June 30, 2003, until all such shares have been redeemed, at the redemption price of \$5.9852 per share. In the event sufficient funds are not available to make a scheduled redemption payment, the amount of such redemption payment not made shall be carried over to and is payable on the next scheduled redemption payment date. On January 21, 2004, at its regularly scheduled meeting, the Company's

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Board of Directors determined that the Company did not have sufficient funds to make all or any part of either the June 30, September 30 or December 31, 2003, preferred stock redemption payments. In accordance with the redemption provisions of the preferred stock, these redemption payments shall be carried over to and are payable on the next scheduled redemption payment date, March 31, 2004.

In the event of any liquidation or dissolution of the Company, each holder of preferred stock shall be entitled to receive on a pro rata basis, prior and in preference to any distribution of any assets of the Company to the holders of common stock, an amount, as such funds are available, up to but not to exceed the redemption price per share.

Each share of preferred stock is convertible, at the holder's option, into one share of common stock of Freedom Financial Group, Inc. at the conversion price of \$0.01 per share. Furthermore, each share of preferred stock shall be automatically converted into one share of common stock at the conversion price of \$0.01 per share upon the occurrence of any of the following: 1) an affirmative vote to do so by 70% or more of the then outstanding shares of preferred stock, 2) a public offering and sale of the Company's common stock under the Securities Act of 1933 of at least \$54,000,000, 3) the consolidation or merger of the Company into or with any other entity resulting in the exchange of shares representing 50% or more of the outstanding shares of voting capital stock of the Company or 4) the sale or transfer by the Company of substantially all of its assets.

As of January 1, 2003, the Company excluded its mandatorily redeemable preferred stock from stockholders' equity, in accordance with accounting principles generally accepted in the United States of America. During 2003, the Company changed its method of accounting for this stock to include it in stockholders' equity. The Company believes the new method better reflects the nature of the stock. The effect of this change increased stockholders' equity by \$6,810,427.

Note 13: Lease Commitments

The Company is obligated under certain noncancelable operating leases for premises and equipment with terms ranging up to four years. Rental expense for these leases was \$74,819 for the year ended December 31, 2003. Future minimum payments under noncancelable operating leases as of December 31, 2003, are:

2004	\$	26,800
2005		7,200
2006		7,200
2007		<u>3,000</u>
		<u>\$ 44,200</u>

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Note 14: Loss Per Share

Basic earnings per share are computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed similar to basic earnings per share except the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Since the effect of converting the shares of mandatorily redeemable preferred stock would be antidilutive for the year ended December 31, 2003, basic and diluted loss per share amounts for the year are based on the weighted average number of common shares outstanding.

Loss per share for the year ended December 31, 2003, was computed as follows:

	Loss	Weighted Average Shares	Per Share Amount
Net loss	\$ (759,082)	9,967,636	
Basic and diluted loss per share			\$ <u>(0.08)</u>

Note 15: Operating Expenses

The components of operating expenses for the year ended December 31, 2003, are as follows:

Salaries and benefits	\$ 962,040
Professional fees	193,634
Pending claims - related legal fees	191,065
Servicing and collecting	142,570
Reorganization costs	121,746
Occupancy costs	79,673
Insurance	67,569
Statutory trust administration	46,082
Depreciation	45,256
Licenses and taxes	44,142
Communications	29,906
Supplies and postage	24,786
Travel	23,265
Stockholder relations	11,522
Other	<u>17,782</u>
	<u>\$ 2,001,038</u>

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Note 16: Disclosures About Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments as of December 31 and January 1, 2003. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	Carrying Amount	Approximate Fair Value
December 31, 2003		
Financial assets		
Cash and cash equivalents	\$ 4,280,766	\$ 4,280,766
Finance receivables, net	2,015,439	2,015,439
Notes receivables, net	215,265	215,265
Interest receivable	26,444	26,444
Financial liabilities		
Trade accounts payable	33,187	33,187
 January 1, 2003		
Financial assets		
Cash and cash equivalents	\$ 2,572,298	\$ 2,572,298
Cash settlements receivable	2,273,295	2,273,295
Finance receivables, net	1,432,282	1,432,282
Notes receivables, net	100,000	100,000
Settlement assets receivable, net	1,106,723	1,106,723
Interest receivable	13,285	13,285
Financial liabilities		
Trade accounts payable	—	—

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

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Cash and Cash Equivalents and Cash Settlements Receivable

The carrying amount approximates fair value.

Finance Receivables

The fair value of finance receivables is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for the purposes of the calculations.

Notes Receivable

The fair value of notes receivable is estimated by discounting the future cash flows using discount rates reflecting the makers' capacity to make the scheduled payments, the value of the underlying collateral and the scheduled maturity date.

Settlements Assets Receivable

Fair value is estimated for these assets based on appraisals, considering the amount of the instruments, interest rate, expected probability of payment and other factors.

Interest Receivable

The carrying amount approximates fair value.

Trade Accounts Payable

The carrying amount approximates fair value.

Note 17: Significant Estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Significant estimates made by management affecting the consolidated financial statements include:

Allowance for Credit Losses

As described in *Note 1, Nature of Operations and Summary of Significant Accounting Policies*, the Company provides an allowance for credit losses on its finance receivables. Because of limited collection efforts during the Reorganization Period, incomplete records on some accounts and the inherently high credit risk associated with many of the Company's finance receivables, actual credit losses may differ materially from the Company's estimates in the near term.

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Assets Receivable Under Pending Claim

Due to uncertainty regarding the outcome of the Company's pending claim discussed in *Note 10, Assets Receivable Under Pending Claims*, a zero value for this claim has been reflected in this financial statement. The amount actually collected related to this claim, if any, could vary materially in the near term.

Net Operating Loss Carryforwards

The net operating loss carryforwards disclosed in *Note 11, Income Taxes* do not include any provision for income taxes on assets receivable under the Company's pending claim (see *Note 10, Assets Receivable Under Pending Claims*). Any amounts ultimately realized under this claim could result in a material change to the estimated net operating loss carryforwards available.

Note 18: Concentration of Credit Risk

The Company has consumer finance receivables secured by automobiles or consumer goods originally acquired from a network of dealers in approximately sixteen states and five Canadian provinces. The makers of the finance receivables purchased by the Company typically have limited or no access to traditional sources of consumer credit due to past negative credit history, limited or unstable employment history, the inability to make sufficient down payments or other negative factors typically evaluated in the credit granting process. As a result, finance receivables acquired by the Company are generally considered to have a higher risk of default and loss than those typically held in the portfolios of commercial banks, credit unions and similar institutions.