

# **Freedom Financial Group, Inc.**

Accountants' Review Report and Consolidated Financial Statements

September 30, 2003

**Freedom Financial Group, Inc.**  
**September 30, 2003**

**Contents**

**Independent Accountants' Review Report ..... 1**

**Consolidated Financial Statements**

Balance Sheets..... 2  
Statements of Operations..... 3  
Statements of Stockholders' Equity ..... 4  
Statements of Cash Flows ..... 5  
Notes to Consolidated Financial Statements ..... 6



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## Independent Accountants' Review Report

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

We have reviewed the accompanying consolidated balance sheets of Freedom Financial Group, Inc. as of September 30 and June 30, 2003, and the related statements of operations, stockholders' equity and cash flows for the three and nine months ended September 30, 2003, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Freedom Financial Group, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As explained in *Note 8*, the Company has assigned a value of zero to certain assets receivable under a pending claim.

*BKD, LLP*

Solutions  
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Success

Springfield, Missouri  
October 17, 2003

**Freedom Financial Group, Inc.**  
**Consolidated Balance Sheets**  
**September 30, 2003 and June 30, 2003**

**Assets**

	<u>September 30</u>	<u>June 30</u>
Cash and cash equivalents	\$ 4,819,026	\$ 4,257,820
Finance receivables, net	1,707,308	1,589,635
Notes receivable, net	225,517	731,165
Real estate held for sale	—	101,785
Premises and equipment, net	199,910	74,319
Other assets	<u>51,407</u>	<u>87,880</u>
Total assets	<u>\$ 7,003,168</u>	<u>\$ 6,842,604</u>

## Liabilities and Stockholders' Equity

	<u>September 30</u>	<u>June 30</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 219,382	\$ 249,454
Accrued reorganization expenses	<u>40,000</u>	<u>99,288</u>
Total liabilities	<u>259,382</u>	<u>348,742</u>
<b>Stockholders' Equity</b>		
Mandatorily redeemable convertible preferred stock, \$0.0001 par value; 9,000,000 shares authorized, 8,997,368 shares issued and outstanding at September 30, 2003 and June 30, 2003	6,810,241	6,810,241
Common stock, \$0.0001 par value; 19,000,000 shares authorized; 9,967,485 shares issued and outstanding at September 30, 2003 and June 30, 2003	997	997
Retained earnings (deficit)	(487,133)	(724,189)
Accumulated other comprehensive income	<u>419,681</u>	<u>406,813</u>
Total stockholders' equity	<u>6,743,786</u>	<u>6,493,862</u>
Total liabilities and stockholders' equity	<u>\$ 7,003,168</u>	<u>\$ 6,842,604</u>

**Freedom Financial Group, Inc.**  
**Consolidated Statements of Operations**  
**Three and Nine Months Ended September 30, 2003**

	<u>Three Months</u>	<u>Nine Months</u>
<b>Revenues</b>		
Interest income	\$ 145,021	\$ 395,401
Recovery of charged-off finance receivables	51,860	231,821
Other income	<u>543,245</u>	<u>629,824</u>
Total revenues	740,126	1,257,046
<b>Provision for Credit Losses</b>	<u>38,892</u>	<u>111,080</u>
<b>Net Revenues After Provision for Credit Losses</b>	701,234	1,145,966
<b>Operating Expenses</b>	<u>464,178</u>	<u>1,633,099</u>
<b>Income (Loss) Before Income Tax</b>	237,056	(487,133)
<b>Provision for Income Taxes</b>	<u>—</u>	<u>—</u>
<b>Net Income (Loss)</b>	<u>\$ 237,056</u>	<u>\$ (487,133)</u>
<b>Basic Income (Loss) Per Share</b>	<u>\$ 0.02</u>	<u>\$ (0.05)</u>
<b>Diluted Income (Loss) Per Share</b>	<u>\$ 0.01</u>	<u>\$ (0.05)</u>

**Freedom Financial Group, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Three and Nine Months Ended September 30, 2003**

	Mandatorily Redeemable Convertible Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance, January 1, 2003</b>	\$ —	9,967,953	\$ 997	\$ —	\$ —	\$ <u>997</u>
Repurchase of common stock issued in error	—	(468)	—	—	—	—
Cumulative effect of change in accounting principle	6,810,241	—	—	—	—	6,810,241
Comprehensive income						
Net loss	—	—	—	(724,189)	—	(724,189)
Foreign currency translation adjustment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>406,813</u>	<u>406,813</u>
Total comprehensive loss						<u>(317,376)</u>
<b>Balance, June 30, 2003</b>	6,810,241	9,967,485	997	(724,189)	406,813	6,493,862
Comprehensive income						
Net income	—	—	—	237,056	—	237,056
Foreign currency translation adjustment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,868</u>	<u>12,868</u>
Total comprehensive income						<u>249,924</u>
<b>Balance, September 30, 2003</b>	<u>\$ 6,810,241</u>	<u>9,967,485</u>	<u>\$ 997</u>	<u>\$ (487,133)</u>	<u>\$ 419,681</u>	<u>\$ 6,743,786</u>

**Freedom Financial Group, Inc.**  
**Consolidated Statements of Cash Flows**  
**Three and Nine Months Ended September 30, 2003**

	<b>Three Months</b>	<b>Nine Months</b>
<b>Operating Activities</b>		
Net income (loss)	\$ 237,056	\$ (487,133)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation	12,032	31,483
Provision for credit losses	38,892	111,080
Deferred discount income	(49,560)	(106,175)
Gain on sale of assets	(54,386)	(57,839)
Claims settlement income	(462,500)	(462,500)
Changes in		
Other assets	36,371	(8,756)
Accounts payable and accrued expenses	(27,695)	25,273
Accrued reorganization expenses	(59,288)	(615,078)
Net cash used in operating activities	(329,078)	(1,569,645)
<b>Investing Activities</b>		
Purchase of finance receivables	(684,332)	(1,692,895)
Principal collected on finance receivables	631,066	1,821,954
Payments of dealer reserves	(4,272)	(8,673)
Payments of dealer holdbacks	(23,549)	(26,589)
Principal collected on notes receivable	485,648	504,180
Principal collected on contracts held for sale	—	213,027
Purchase of premises and equipment	(135,820)	(143,882)
Investment in real estate held for sale	—	(6,820)
Proceeds from sale of real estate held for sale	156,171	233,882
Net cash provided by investing activities	424,912	894,184
<b>Financing Activities</b>		
Collection of cash settlements receivable	—	2,273,296
Settlement proceeds from previously pending claims	462,500	462,500
Redemption of preferred stock	—	(187)
Net cash provided by financing activities	462,500	2,735,609
<b>Effect of Exchange Rate Changes on Cash</b>	2,872	186,580
<b>Net Increase in Cash and Cash Equivalents</b>	561,206	2,246,728
<b>Cash and Cash Equivalents, Beginning of Period</b>	4,257,820	2,572,298
<b>Cash and Cash Equivalents, End of Period</b>	\$ 4,819,026	\$ 4,819,026

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 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 “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 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. These finance receivables will be originated by other entities and secured by automobiles or consumer goods. FFG intends to hold these receivables for a period of time sufficient to establish their payment history and then intends to 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 44% of consolidated total assets as of September 30, 2003 and June 30, 2003.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 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 community 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 \$4,574,600 and \$4,013,600 as of September 30 and June 30, 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.

***Allowance for Credit Losses***

FFG maintains, through a charge to earnings, an allowance for credit losses equal to 20% of the outstanding principal balance of all finance receivables less than 91 days contractually past due plus 100% of the outstanding principal balance of all finance receivables more than 90 and less than 121 days contractually past due. Finance receivables greater than 120 days contractually past due are considered losses and charged against the allowance for credit losses.

TCG maintains, through a charge to earnings, an allowance for credit losses equal to 7.5% of the outstanding principal balance of finance receivables. Loan losses are charged against the allowance for credit losses when management believes the collectibility of a loan is unlikely.

Subsequent recoveries of finance receivables previously charged against the allowance for credit losses are credited to income when received.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

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 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.

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.

***Real Estate Held for Sale***

Real estate held for sale is carried at the lower of cost or estimated fair value.

***Premises 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 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 each period. Diluted earnings per share is computed using the weighted average common shares and all potentially dilutive common shares outstanding during the period.

***Reclassifications***

Certain prior periods amounts have been reclassified to conform to the September 30, 2003, consolidated financial statements presentation. These reclassifications had no effect on net income (loss).

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 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 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**  
**September 30, 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 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 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 three months ended March 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 \$3,380,018 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**  
**September 30, 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 January 1, 2003	Fresh Start Adjustments		Reorganized Company January 1, 2003
		Debit	Credit	
<b>Assets</b>				
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	<u>46,912</u>	<u>—</u>	<u>—</u>	<u>46,912</u>
Total assets	<u>\$ 4,218,944</u>	<u>\$ 3,386,287</u>	<u>\$ 0</u>	<u>\$ 7,605,231</u>
<b>Liabilities and Stockholders' Equity</b>				
<b>Liabilities</b>				
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	<u>14,262,308</u>	<u>14,262,308 (d)</u>	<u>—</u>	<u>—</u>
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	<u>—</u>	<u>—</u>	<u>6,810,427 (e)</u>	<u>6,810,427</u>
<b>Stockholders' Equity</b>				
Common stock	5,000,000	5,000,000 (f)	997 (g)	997
Retained deficit	<u>(81,425,238)</u>	<u>—</u>	<u>81,425,238 (f)</u>	<u>—</u>
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**  
**September 30, 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 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 6, 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. The Company believes at this time that the counterclaim is without merit.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

**Note 5: Finance Receivables and Allowance for Credit Losses**

Finance receivables consist of the following at September 30 and June 30, 2003:

	<u>September 30</u>	<u>June 30</u>
Bulk food	\$ 796,317	\$ 835,378
Equipment leases	681,971	559,194
Home appliances	209,476	230,901
Automobiles	150,145	105,635
Other	<u>138,965</u>	<u>130,591</u>
Total finance receivables	1,976,874	1,861,699
Less		
Unearned discount	121,301	128,761
Allowance for credit losses	<u>148,265</u>	<u>143,303</u>
Net finance receivables	<u>\$ 1,707,308</u>	<u>\$ 1,589,635</u>

As of September 30, 2003, all of FFG's finance receivables are greater than 120 days contractually past due. In accordance with the Company's policy these finance receivables have been charged against the allowance for credit losses; thus, all of the above finance receivables are Canadian in origin.

Activity in the allowance for credit losses related to finance receivables for the periods were as follows:

Balance, January 1, 2003	\$ 145,448
Purchase discount allocation	55,702
Provision charged to expense	(2,812)
Losses charged off	(72,682)
Effect of foreign currency translation	<u>17,647</u>
Balance, June 30, 2003	143,303
Purchase discount allocation	24,813
Provision charged to expense	18,892
Losses charged off	(36,666)
Effect of foreign currency translation	<u>(2,077)</u>
Balance, September 30, 2003	<u>\$ 148,265</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

**Note 6: Notes Receivable**

Notes receivable are comprised of the following as of September 30 and June 30, 2003:

	<u>September 30</u>	<u>June 30</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	\$ 45,000
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 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	96,350	104,729
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	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	<u>103,856</u>	<u>112,125</u>
	320,517	806,165
Less allowance for credit losses	<u>95,000</u>	<u>75,000</u>
Net notes receivable	<u>\$ 225,517</u>	<u>\$ 731,165</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

**Note 7: Premises and Equipment**

Major classifications of premises and equipment at September 30 and June 30, 2003, are as follows:

	<b>September 30</b>	<b>June 30</b>
Land	\$ 37,037	\$ —
Building	84,551	—
Computer and office equipment	99,222	92,927
Furniture and fixtures	27,676	27,597
Software	35,106	25,122
Other	12,775	12,740
	296,367	158,386
Less accumulated depreciation	96,457	84,067
Net premises and equipment	\$ 199,910	\$ 74,319

**Note 8: Assets Receivable Under Pending Claims**

The Debtor had two claims pending against other parties that had not been resolved as of June 30, 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 June 30, 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 periods ended September 30, 2003.

The Debtor’s only pending claim as of September 30, 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 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.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

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 sheets as of September 30 and June 30, 2003.

On January 13, 2003, Freedom Financial Group Delaware, Inc. ("FFG Delaware") was incorporated in the state of Missouri as a wholly owned subsidiary of Freedom Financial Group, Inc. FFG Delaware was formed for the sole purpose of acquiring from the debtor's estate those claims described above. These claims were assigned to FFG Delaware on January 31.

**Note 9: Income Taxes**

The provision for income taxes for the three and nine months ended September 30, 2003, includes these components:

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

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<b>Three Months</b>	<b>Nine Months</b>
Computed at the statutory rate (34%)	\$ 80,599	\$ (165,625)
Increase (decrease) resulting from		
State income taxes	9,513	(18,973)
Changes in the deferred tax asset valuation allowance	(90,080)	185,111
Graduated tax rates and other	<u>(32)</u>	<u>(513)</u>
Actual tax expense	<u>\$ 0</u>	<u>\$ 0</u>

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

	<b>September 30</b>	<b>June 30</b>
Deferred tax assets		
Accrued compensated absences	\$ 11,401	\$ 12,161
Accrued compensation	7,679	15,279
Provision for credit losses	36,100	30,188
Net operating loss carryforwards	7,211,346	7,298,978
Net deferred tax asset before valuation allowance	7,266,526	7,356,606
Valuation allowance		
Beginning of period	(7,356,606)	(7,081,415)
(Increase) decrease during the period	90,080	(275,191)
Ending balance	(7,266,526)	(7,356,606)
Net deferred tax asset	\$ <u>0</u>	\$ <u>0</u>

As of September 30, 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 8, Assets Receivable Under Pending Claims*). Amounts realized under this claim, if any, could have a material impact on the net operating loss carryforwards.

**Note 10: Mandatorily Redeemable Convertible Preferred Stock**

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, at any time after January 1, 2004, 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 October 15, 2003, at its regularly scheduled meeting, the Company's Board of Directors determined that the Company did not have sufficient funds to make all or any part of either the June 30, 2003 or September 30, 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, December 31, 2003.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

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.

**Note 11: 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 \$20,127 and \$55,211 for the three months and nine months ended September 30, 2003, respectively. Future minimum payments under noncancelable operating leases as of September 30, 2003, are:

2003	\$	17,347
2004		31,396
2005		6,896
2006		6,896
2007		<u>4,023</u>
		<u>\$ 66,558</u>

**Note 12: Earnings 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 nine months ended September 30, 2003, basic and diluted loss per share amounts for that period are based on the weighted average number of common shares outstanding.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

Basic and diluted earnings per share for the three months ended September 30, 2003, were computed as follows:

	<u>Income</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>
Net income	\$ 237,056	9,967,485	
Basic earnings per share			\$ <u>0.02</u>
Effect of presumed conversion of convertible preferred stock	<u>—</u>	<u>8,997,368</u>	
Diluted earnings per share	\$ <u>237,056</u>	<u>18,964,853</u>	\$ <u>0.01</u>

Loss per share for the nine months ended September 30, 2003, was computed as follows:

	<u>Loss</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>
Net loss	\$ (487,133)	9,967,687	
Basic and diluted loss per share			\$ <u>(0.05)</u>

**Note 13: Operating Expenses**

The components of operating expenses for the three months and nine months ended September 30, 2003, are as follows:

	<u>Three Months</u>	<u>Nine Months</u>
Salaries and benefits	\$ 236,540	\$ 736,548
Professional fees	51,437	171,966
Pending claims - related legal fees	32,468	177,115
Servicing and collecting	30,807	147,888
Reorganization costs	30,148	114,467
Occupancy costs	21,306	57,706
Insurance	16,724	51,418
Depreciation	12,032	31,480
Statutory trust administration	10,568	46,082
Communications	9,397	21,765
Supplies and postage	6,222	18,105
Travel	3,438	15,740
Stockholder relations	1,014	10,362
Licenses and taxes	(2,668)	18,951
Other	<u>4,745</u>	<u>13,506</u>
	<u>\$ 464,178</u>	<u>\$ 1,633,099</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

**Note 14: Disclosures About Fair Value of Financial Instruments**

The following table presents estimated fair values of the Company's financial instruments as of September 30 and June 30, 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.

	<b>Carrying Amount</b>	<b>Approximate Fair Value</b>
<b>September 30, 2003</b>		
Financial assets		
Cash and cash equivalents	\$ 4,819,026	\$ 4,819,026
Finance receivables, net	1,707,308	1,707,308
Notes receivables, net	225,517	225,517
Interest receivable	17,263	17,263
Financial liabilities		
Trade accounts payable	32,006	32,006
 <b>June 30, 2003</b>		
Financial assets		
Cash and cash equivalents	4,257,820	4,257,820
Finance receivables, net	1,589,635	1,589,635
Notes receivables, net	731,165	731,165
Interest receivable	34,202	34,202
Financial liabilities		
Trade accounts payable	84,540	84,540

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

**Cash and Cash Equivalents**

The carrying amount approximates fair value.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

***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.

***Interest Receivable***

The carrying amount approximates fair value.

***Trade Accounts Payable***

The carrying amount approximates fair value.

**Note 15: 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.

***Assets Receivable Under Pending Claim***

Due to uncertainty regarding the outcome of the Company's pending claim, 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.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2003**

***Net Operating Loss Carryforwards***

The net operating loss carryforwards disclosed in *Note 9, Income Taxes* do not include any provision for income taxes on assets receivable under the Company's pending claim (see *Note 8, 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 16: 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.

**Note 17: Change in Accounting Principle**

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement establishes standards for how issuers classify and measure certain financial instruments with characteristics of both liabilities and equity. The classification and measurement of the Company's mandatorily redeemable convertible preferred stock is subject to the provisions of this Statement. The Company adopted this Statement during the quarter ended June 30, 2003, and, as a result, reclassified the mandatorily redeemable preferred stock to stockholders' equity at that time.