

# **Freedom Financial Group, Inc.**

Accountants' Review Report and Consolidated Financial Statements

September 30, 2004 and 2003 and December 31, 2003

**Freedom Financial Group, Inc.**  
**September 30, 2004 and 2003 and December 31, 2003**

**Contents**

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

**Consolidated Financial Statements**

Consolidated Balance Sheets .....2  
Consolidated Statements of Operations .....3  
Consolidated Statements of Stockholders' Equity .....4  
Consolidated Statements of Cash Flows .....6  
Notes to Consolidated Financial Statements .....7



Hammons Tower  
901 E. St. Louis Street, Suite 1000  
P.O. Box 1190  
Springfield, MO 65801-1190  
417 865-8701 Fax 417 865-0682

1034 W. Main Street  
P.O. Box 1277  
Branson, MO 65615-1277  
417 334-5165 Fax 417 334-4823

bkd.com

## Accountants' Review Report

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

We have reviewed the accompanying consolidated balance sheet of Freedom Financial Group, Inc. as of September 30, 2004, and the related statements of operations, stockholders' equity and cash flows for the three-month and nine-month periods ended September 30, 2004 and 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, except for the matter described in the following paragraph, 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 disclosed in *Note 8*, the Company had a claim pending against other parties as of December 31, 2003, which was resolved during the quarter ended September 30, 2004. Management had assigned a carrying value of zero to any assets receivable under this claim in the December 31, 2003, consolidated balance sheet. We were unable to examine sufficient evidence to satisfy ourselves as to the carrying value of this asset.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not present herein); and in our report dated January 22, 2004, we expressed a qualified opinion on those consolidated financial statements because of the effects of the matter described in the preceding paragraph. In our opinion, except for the effects of the matter described in the preceding paragraph, the information set forth in the accompanying consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

BKD, LLP

November 3, 2004

**Freedom Financial Group, Inc.**  
**Consolidated Balance Sheets**  
**September 30, 2004 and December 31, 2003**

**Assets**

	<b>September 30, 2004</b>	<b>December 31, 2003</b>
Cash and cash equivalents	\$ 9,219,166	\$ 4,280,766
Finance receivables, net	3,359,925	2,015,439
Notes receivable, net	183,020	215,265
Land, building and equipment, net	275,143	271,562
Other assets	<u>88,981</u>	<u>38,973</u>
Total assets	<u>\$ 13,126,235</u>	<u>\$ 6,822,005</u>

**Liabilities and Stockholders' Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 161,327	\$ 204,413
Accrued reorganization expenses	<u>—</u>	<u>15,000</u>
Total liabilities	<u>161,327</u>	<u>219,413</u>

**Stockholders' Equity**

Mandatorily redeemable convertible preferred stock, \$0.0001 par value; 9,000,000 shares authorized; 8,994,357 and 8,997,368 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	6,810,241	6,810,241
Common stock, \$0.0001 par value; 19,000,000 shares authorized; 9,965,759 and 9,967,485 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	997	997
Retained earnings (deficit)	5,524,445	(759,082)
Accumulated other comprehensive income	<u>629,225</u>	<u>550,436</u>
Total stockholders' equity	<u>12,964,908</u>	<u>6,602,592</u>
Total liabilities and stockholders' equity	<u>\$ 13,126,235</u>	<u>\$ 6,822,005</u>

**Freedom Financial Group, Inc.**  
**Consolidated Statements of Operations**  
**Three Months and Nine Months Ended September 30, 2004 and 2003**

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Revenues</b>				
Interest income	\$ 307,115	\$ 145,021	\$ 739,630	\$ 395,401
Recovery of charged-off finance receivables	32,383	51,860	129,811	231,821
Other income	<u>25,806</u>	<u>80,745</u>	<u>71,313</u>	<u>167,324</u>
Total revenues	365,304	277,626	940,754	794,546
<b>Provision for Credit Losses</b>	<u>74,032</u>	<u>38,892</u>	<u>162,573</u>	<u>111,080</u>
<b>Net Revenues After Provision for Credit Losses</b>	291,272	238,734	778,181	683,466
<b>Operating Expenses</b>	<u>502,707</u>	<u>464,178</u>	<u>1,450,628</u>	<u>1,633,099</u>
<b>Operating Loss Before Other Income and Income Taxes</b>	(211,435)	(225,444)	(672,447)	(949,633)
<b>Other Income</b>				
Claims settlement proceeds, net (Note 8)	<u>6,955,973</u>	<u>462,500</u>	<u>6,955,973</u>	<u>462,500</u>
<b>Income (Loss) Before Income Taxes</b>	6,744,538	237,056	6,283,526	(487,133)
<b>Provision for Income Taxes</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net Income (Loss)</b>	\$ <u>6,744,538</u>	\$ <u>237,056</u>	\$ <u>6,283,526</u>	\$ <u>(487,133)</u>
<b>Basic Income (Loss) Per Share</b>	\$ <u>0.68</u>	\$ <u>0.02</u>	\$ <u>0.63</u>	\$ <u>(0.05)</u>
<b>Diluted Income (Loss) Loss Per Share</b>	\$ <u>0.36</u>	\$ <u>0.01</u>	\$ <u>0.33</u>	\$ <u>(0.05)</u>

**Freedom Financial Group, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Three Months and Nine Months Ended September 30, 2004**

	<b>Mandatorily Redeemable Convertible Preferred Stock</b>	<b>Common Stock</b>		<b>Retained Earnings (Deficit)</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>				
<b>Balance, December 31, 2003</b>	\$ 6,810,241	9,967,485	\$ 997	\$ (759,082)	\$ 550,436	\$ 6,602,592
Cancellation of stock issued in error	—	(1,726)	—	—	—	—
Comprehensive income						
Net loss	—	—	—	(461,011)	—	(461,011)
Foreign currency translation adjustment	—	—	—	—	(107,613)	(107,613)
Total comprehensive loss						<u>(568,624)</u>
<b>Balance, June 30, 2004</b>	6,810,241	9,965,759	997	(1,220,093)	442,823	6,033,968
Comprehensive income						
Net income				6,744,538		6,744,538
Foreign currency translation adjustment	—	—	—	—	186,402	186,402
Total comprehensive income						<u>6,930,940</u>
<b>Balance, September 30, 2004</b>	<u>\$ 6,810,241</u>	<u>9,965,759</u>	<u>\$ 997</u>	<u>\$ 5,524,445</u>	<u>\$ 629,225</u>	<u>\$ 12,964,908</u>

**Freedom Financial Group, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Three Months 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>	\$ 6,810,427	9,967,953	\$ 997	\$ —	\$ —	\$ 6,811,424
Repurchase of common stock issued in error	—	(468)	—	—	—	—
Cancellation of preferred stock	(186)	—	—	—	—	(186)
Comprehensive income						
Net loss	—	—	—	(724,189)	—	(724,189)
Foreign currency translation adjustment	—	—	—	—	406,813	406,813
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	—	—	—	—	12,868	12,868
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 Months and Nine Months Ended September 30, 2004 and 2003**

	Three Months Ended September 30 2004	Three Months Ended September 30 2003	Nine Months Ended September 30 2004	Nine Months Ended September 30 2003
<b>Operating Activities</b>				
Net income (loss)	\$ 6,744,538	\$ 237,056	\$ 6,283,526	\$ (487,133)
Adjustments to reconcile net income (loss) to net cash used in operating activities				
Depreciation	14,763	12,032	42,710	31,483
Provision for credit losses	74,032	38,892	162,573	111,080
Deferred discount income	(122,398)	(49,560)	(300,352)	(106,175)
Recovery of charged-off finance receivables	29,575	—	108,812	—
Gain on sale of assets	—	(54,386)	—	(57,839)
Claims settlement income	(6,955,973)	(462,500)	(6,955,973)	(462,500)
Changes in				
Other assets	31	36,371	(26,135)	(8,756)
Accounts payable and accrued expenses	(73,469)	(27,695)	(43,911)	25,273
Accrued reorganization expenses	(25,000)	(59,288)	(15,000)	(615,078)
Net cash used in operating activities	<u>(313,901)</u>	<u>(329,078)</u>	<u>(743,750)</u>	<u>(1,569,645)</u>
<b>Investing Activities</b>				
Purchase of finance receivables	(1,597,990)	(684,332)	(3,478,349)	(1,692,895)
Principal collected on finance receivables	908,949	631,066	2,350,550	1,821,954
Payments of dealer reserves	(4,535)	(4,272)	(12,589)	(8,673)
Payments of dealer holdbacks	(49,385)	(23,549)	(114,585)	(26,589)
Principal collected on notes receivable	17,606	485,648	32,247	504,180
Principal collected on contracts held for sale	—	—	—	213,027
Proceeds from sale of real estate	—	156,171	—	233,882
Investment in real estate	—	—	—	(6,820)
Purchase of land building and equipment	(28,756)	(135,820)	(41,016)	(143,882)
Net cash provided by (used in) investing activities	<u>(754,111)</u>	<u>424,912</u>	<u>(1,263,742)</u>	<u>894,184</u>
<b>Financing Activities</b>				
Collection of cash settlements receivable	—	—	—	2,273,296
Settlement proceeds from previously pending claims	6,955,973	462,500	6,955,973	462,500
Cancellation of preferred stock	—	—	—	(187)
Other	(25,000)	—	(25,000)	—
Net cash provided by financing activities	<u>6,930,973</u>	<u>462,500</u>	<u>6,930,973</u>	<u>2,735,609</u>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>				
	<u>52,842</u>	<u>2,872</u>	<u>14,919</u>	<u>186,580</u>
<b>Net Increase in Cash and Cash Equivalents</b>	5,915,803	561,206	4,938,400	2,246,728
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>3,303,363</u>	<u>4,257,820</u>	<u>4,280,766</u>	<u>2,572,298</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 9,219,166</u>	<u>\$ 4,819,026</u>	<u>\$ 9,219,166</u>	<u>\$ 4,819,026</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 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 27% and 47% of consolidated total assets as of September 30, 2004 and December 31, 2003, respectively.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 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 certificates of deposit. The Company's cash and cash equivalents not covered by federal deposit insurance totaled approximately \$8,872,000 and \$3,961,600 as of September 30, 2004 and December 31, 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 owned 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 Company sold the majority of this portfolio in June 2004 realizing net proceeds of approximately \$20,000. The Company continues to pursue collection of the remainder of this portfolio and recognizes all amounts recovered as income when received. Collections of \$31,498 and \$33,463 were made on these receivables during the three months ended September 30, 2004 and 2003, respectively.

***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**  
**September 30, 2004 and 2003 and December 31, 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 each period. Diluted earnings per share are computed using the weighted average common shares and all potentially dilutive common shares outstanding during the period.

***Reclassifications***

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on net earnings.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 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**  
**September 30, 2004 and 2003 and December 31, 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 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 Company received assets, net of related contingent legal fees, totaling \$10,798,481 from the settlement of various bankruptcy claims, including its claims against Wolf Haldenstein Adler Freeman & Herz LLP and FFTC/BancInsure (see *Note 8, Assets Receivable Under Pending Claims*). The Company has no other bankruptcy-related claims outstanding at September 30, 2004.

**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, 2004 and 2003 and December 31, 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
<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	46,912	—	—	46,912
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	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>
<b>Stockholders' Equity</b>				
Mandatorily redeemable convertible preferred stock	—	—	6,810,427 (e)	6,810,427
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>88,236,662</u>	<u>6,811,424</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, 2004 and 2003 and December 31, 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 September 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, 2004 and 2003 and December 31, 2003**

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

Finance receivables consist of the following at September 30, 2004 and December 31, 2003:

	<u>September 30</u>	<u>December 31</u>
Automobiles	\$ 1,723,388	\$ 411,066
Bulk food	870,621	850,007
Equipment leases	963,399	784,632
Home appliances	237,666	196,368
Other	<u>370,036</u>	<u>164,150</u>
Total finance receivables	<u>4,165,110</u>	<u>2,406,223</u>
Less		
Unearned discount	475,444	194,086
Allowance for credit losses	<u>329,741</u>	<u>196,698</u>
	<u>805,185</u>	<u>390,784</u>
Net finance receivables	<u>\$ 3,359,925</u>	<u>\$ 2,015,439</u>

Approximately 64% of the September 30, 2004, finance receivables and 91% of the December 31, 2003, finance receivables are Canadian in origin.

Activity in the allowance for credit losses related to finance receivables for the three months and nine months ended September 30, 2004 and 2003, respectively, was as follows:

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Balance, beginning of period	\$ 282,232	\$ 143,303	\$ 196,698	\$ 145,448
Purchase discount allocation	—	24,813	—	80,515
Provision charged to expense	74,032	18,892	162,573	16,080
Losses charged off	(65,244)	(36,666)	(142,696)	(109,348)
Recoveries of previously charged off amounts	30,603	—	110,557	—
Effect of foreign currency translation	<u>8,118</u>	<u>(2,077)</u>	<u>2,609</u>	<u>15,570</u>
Balance, end of period	<u>\$ 329,741</u>	<u>\$ 148,265</u>	<u>\$ 329,741</u>	<u>\$ 148,265</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

**Note 6: Notes Receivable**

Notes receivable are comprised of the following at September 30, 2004 and December 31, 2003:

	<b>September 30</b>	<b>December 31</b>
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 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	66,945	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	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>95,116</u>	<u>103,656</u>
	278,020	310,265
Less allowance for credit losses	<u>95,000</u>	<u>95,000</u>
Net notes receivable	<u>\$ 183,020</u>	<u>\$ 215,265</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

**Note 7: Land, Building and Equipment**

Major classifications of land, building and equipment are as follows at September 30, 2004 and December 31, 2003:

	<u>September 30</u>	<u>December 31</u>
Land	\$ 39,506	\$ 38,671
Building	167,461	144,946
Computer and office equipment	139,656	125,902
Software	43,610	35,311
Furniture and fixtures	31,631	28,511
Other	<u>4,500</u>	<u>4,500</u>
	426,364	377,841
Less accumulated depreciation	<u>151,221</u>	<u>106,279</u>
Net land, building and equipment	<u>\$ 275,143</u>	<u>\$ 271,562</u>

**Note 8: 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 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 Claims Settlement Proceeds in the 2003 Consolidated Statements of Operations.

On June 9, 2004, the Company and BancInsure entered into a Settlement Agreement under which BancInsure agreed to pay FFG \$7,050,000 in settlement of all of FFG's claims against FFTC and BancInsure. In accordance with the terms of the Settlement Agreement, on August 13, 2004, the Company received \$6,955,973, net of contingent legal fees, which is recorded as Claims Settlement Proceeds in the 2004 Consolidated Statements of Operations.

The Company has no other bankruptcy-related claims outstanding at September 30, 2004.

**Note 9: Income Taxes**

The provision for income taxes for the three months and nine months ended September 30, 2004 and 2003, respectively, includes these components:

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

	Three Months		Nine Months	
	2004	2003	2004	2003
Taxes currently payable	\$ —	\$ —	\$ —	\$ —
Deferred income taxes	(2,303,188)	—	(2,136,844)	—
Charges in the deferred tax valuation allowance	<u>2,303,188</u>	<u>—</u>	<u>2,136,844</u>	<u>—</u>
Income tax expense	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the three months and nine months ended September 30, 2004 and 2003, respectively, is shown below:

	Three Months		Nine Months	
	2004	2003	2004	2003
Computed at the statutory rate (34%)	\$ 2,293,143	\$ 80,599	\$ 2,136,399	\$ (165,625)
Increase (decrease) resulting from				
State income taxes	—	9,513	—	(18,973)
Changes in the deferred tax asset valuation allowance	(2,303,188)	(90,080)	(2,136,844)	185,111
Income from foreign subsidiary	(7,161)	—	(23,021)	—
Nondeductible expenses	24,460	—	31,072	—
Graduated tax rates and other	<u>(7,254)</u>	<u>(32)</u>	<u>(7,606)</u>	<u>(513)</u>
Actual tax expense	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets as of September 30, 2004 and December 31, 2003, are as follows:

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

	<b>September 30</b>	<b>December 31</b>
Deferred tax assets		
Accrued compensated absences	\$ 13,064	\$ 12,150
Accrued compensation	—	3,879
Provision for credit losses	105,211	48,436
Net operating loss carryforwards	5,166,297	7,337,850
Net deferred tax asset before valuation allowance	5,284,572	7,402,315
Valuation allowance		
Beginning of period	7,587,760	7,219,335
Increase (decrease) during the period	(2,303,188)	182,980
Ending balance	5,284,572	7,402,315
Net deferred tax asset	\$ 0	\$ 0

As of its most recent income tax returns dated December 31, 2003, the Company had approximately \$19,000,000 of net operating loss carryforwards available to offset future income taxes. The carryforwards expire in 2021 through 2023.

**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 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 September 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. No such redemption payments have been made. On October 20, 2004, 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 the September 30, 2004, or earlier scheduled preferred stock redemption payments. In accordance with the redemption provisions of

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

the preferred stock, these redemption payments shall be carried over to and are payable on the next scheduled redemption payment date, December 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.

**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 \$12,386 and \$20,127 for the three months ended September 30, 2004 and 2003, respectively, and \$30,962 and \$55,211 for the nine months ended September 30, 2004, respectively. Future minimum payments under noncancelable operating leases as of September 30, 2004, are:

2004	\$	10,830
2005		43,320
2006		25,337
2007		<u>3,065</u>
	\$	<u><u>82,552</u></u>

**Note 12: Earnings Per Share**

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is 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 the period are based on the weighted average number of common shares outstanding.

Basic and diluted earnings per share for the three months ended September 30, 2004, were computed as follows:

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

	<u>Income</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>
Net income	\$ 6,744,538	9,965,759	
Basic earnings per share			\$ <u>0.68</u>
Effect of presumed conversion of convertible preferred stock	<u>—</u>	<u>8,994,357</u>	
Diluted earnings per share	\$ <u>6,744,538</u>	<u>18,960,116</u>	\$ <u>0.36</u>

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>

Basic and diluted earnings per share for the nine months ended September 30, 2004 were computed as follows:

	<u>Income</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>
Net income	\$ 6,283,526	9,966,332	
Basic earnings per share			\$ <u>0.63</u>
Effect of presumed conversion of convertible preferred stock	<u>—</u>	<u>8,994,357</u>	
Diluted earnings per share	\$ <u>6,283,526</u>	<u>18,960,689</u>	\$ <u>0.33</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

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

	Loss	Weighted Average Shares	Per Share Amount
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 and nine months ended September 30, 2004 and 2003, respectively, are as follows:

	Three Months		Nine Months	
	2004	2003	2004	2003
Salaries and benefits	\$ 272,730	\$ 236,540	\$ 811,380	\$ 736,548
Professional fees	40,248	51,437	155,194	171,966
Pending claims related legal fees	—	32,468	57,328	177,115
Stockholder relations	1,143	1,014	29,249	10,362
Insurance	20,900	16,724	63,587	51,418
Occupancy costs	15,781	21,306	43,937	57,706
Depreciation	14,763	12,032	42,710	31,480
License and taxes	7,643	(2,668)	26,213	18,951
Servicing and collecting	10,256	30,807	27,769	147,888
Bankruptcy and statutory trust administration	83,585	40,716	104,963	160,549
Supplies and postage	8,164	6,222	23,983	18,105
Communications	8,159	9,397	22,278	21,765
Travel	12,988	3,438	24,690	15,740
Other expenses	6,347	4,745	17,347	13,506
	<u>\$ 502,707</u>	<u>\$ 464,178</u>	<u>\$ 1,450,628</u>	<u>\$ 1,633,099</u>

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 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, 2004 and December 31, 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, 2004</b>		
Financial assets		
Cash and cash equivalents	\$ 9,219,166	\$ 9,219,166
Finance receivables, net	3,359,925	3,359,925
Notes receivables, net	183,020	183,020
Interest receivable	36,908	36,908
Financial liabilities		
Trade accounts payable	4,383	4,383
<b>December 31, 2003</b>		
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

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

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.

***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.

**Freedom Financial Group, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2004 and 2003 and December 31, 2003**

***Assets Receivable Under Pending Claim***

Due to uncertainty at the time regarding the outcome of the Company's pending claim against BancInsure discussed in *Note 8, Assets Receivable Under Pending Claims*, a zero value for this claim was reflected in the December 31, 2003, consolidated balance sheet.

**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.