

**- CONSOLIDATED FINANCIAL STATEMENTS**

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**XPONENTIAL, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(In Thousands, Except Share and Per Share Data)

	As of June 30	
	2008	2007
<i>Assets</i>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 1,070	\$ 1,036
Investments - marketable securities . . . . .	815	5,828
Accounts and short term notes receivable . . . . .	340	348
Pawn service charges receivable . . . . .	482	509
Pawn loans receivable . . . . .	4,386	4,624
Inventories . . . . .	4,245	4,693
Prepaid expenses and other current assets . . . . .	278	208
Total current assets . . . . .	11,616	17,246
Property and equipment, net . . . . .	3,357	3,121
Investment in Integrity Mutual Funds, Inc. . . . .	2,934	5,638
Bond issuance costs, net of amortization of \$586 and \$383 as of June 30, 2008 and 2007, respectively . .	1,307	1,510
Other assets, net of amortization of \$139 and \$141 as of June 30, 2008 and 2007, respectively . . . . .	99	116
Total assets . . . . .	\$ 19,313	\$ 27,631
<i>Liabilities and Stockholders' Equity</i>		
Current liabilities:		
Current maturities of notes payable . . . . .	\$ 175	\$ 988
Accounts payable and accrued expenses . . . . .	341	291
Accrued payroll and payroll taxes . . . . .	275	154
Deferred rent . . . . .	18	-
Deferred revenues . . . . .	297	254
Accrued interest . . . . .	156	160
Redeemable Preferred Stock – Series A . . . . .	500	500
Total current liabilities . . . . .	1,762	2,347
Long term liabilities:		
Bank line of credit . . . . .	2,352	2,577
Deferred rent . . . . .	30	-
8% limited recourse convertible notes, net of discount of \$83 and \$102 as of June 30, 2008 and 2007, respectively . . . . .	19,917	19,898
Other long term notes payable . . . . .	-	206
Total long term liabilities . . . . .	22,299	22,681
Commitments and contingencies – (See Note 14). . . . .		
Redeemable preferred stock – Series A; subject to mandatory redemption; par value \$0.01; 5% cumulative dividend, liquidation preference \$5.00 per share; 1,071,636 shares issued as of June 30, 2008 and 2007; 671,620 and 771,635 shares outstanding as of June 30, 2008 and 2007, respectively . .	2,858	3,358
Total liabilities . . . . .	26,919	28,386
Stockholders' equity (deficit):		
Preferred stock - Series B; convertible, par value \$0.01; 500,050 shares authorized; 5% cumulative dividend, liquidation preference \$5.00 per share; 500,042 shares issued and outstanding at June 30, 2008 and 2007. . . . .	5	5
Common stock \$0.01 par value; 10,000,000 shares authorized; 2,619,559 and 2,589,327 shares issued at June 30, 2008 and 2007, respectively. . . . .	26	26
Treasury stock (25,000 shares, at cost) . . . . .	(40)	(40)
Additional paid-in capital . . . . .	6,253	6,152
Accumulated deficit . . . . .	(13,413)	(9,325)
Accumulated other comprehensive income (loss) . . . . .	(437)	2,427
Total stockholders' equity (deficit) . . . . .	(7,606)	(755)
Total liabilities and stockholders' equity (deficit): . . . . .	\$ 19,313	\$ 27,631

See accompanying notes to consolidated financial statements.

**XPONENTIAL, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(In Thousands)

	<b>For the Year Ended June 30, 2008</b>	<b>For the Year Ended June 30, 2007</b>
Revenues:		
Merchandise sales .....	\$ 15,556	\$ 12,928
Pawn service charges and related fee income .....	5,844	6,219
Other .....	13	31
Total revenues .....	<u>21,413</u>	<u>19,178</u>
Expenses:		
Cost of sales .....	9,918	9,689
Store operating expenses .....	7,276	6,359
Corporate administrative expenses .....	3,235	3,051
Depreciation and amortization .....	533	327
Total expenses .....	<u>20,962</u>	<u>19,426</u>
Operating income (loss) .....	451	(248)
Interest and dividend income .....	503	917
Interest expense .....	(2,465)	(2,420)
Gain (loss) on investments .....	(2,329)	156
Loss on disposition of assets .....	(131)	-
Gain on futures contracts .....	8	6
Loss from TS Liquidating Company, Inc. ....	-	(1,939)
Loss before taxes, impairment and cumulative effect of change in accounting principle .....	<u>(3,963)</u>	<u>( 3,528)</u>
Income tax expense .....	-	2
Loss before impairment and cumulative effect of change in accounting principle .....	(3,963)	(3,530)
Loss due to impairment of investment in TS Liquidating Company, Inc. ....	-	(4,974)
Net loss .....	<u>(3,963)</u>	<u>(8,504)</u>
Series B preferred stock dividend requirement .....	(125)	(125)
Net loss allocable to common stockholders .....	<u>\$ (4,088)</u>	<u>\$ (8,629)</u>

See accompanying notes to consolidated financial statements.

**XPONENTIAL, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Loss**  
**Years Ended June 30, 2008 and June 30, 2007**  
**(In Thousands, Except Share Data)**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balances at July 1, 2006 .....	500,042	\$ 5	2,491,014	\$ 25	\$5,959	\$ (258)	\$ (272)	\$ (40)	\$ 5,419
Amortization of stock options issued .....	—	—	—	—	—	—	—	—	—
Sale of common stock .....	—	—	98,313	1	181	—	—	—	182
Issuance of common stock warrants .....	—	—	—	—	12	—	—	—	12
Preferred stock dividends paid .....	—	—	—	—	—	(125)	—	—	(125)
Cumulative effect of change in accounting principle	—	—	—	—	—	(438)	—	—	(438)
Net loss .....	—	—	—	—	—	(8,504)	—	—	(8,504)
Other comprehensive income (loss) .....	—	—	—	—	—	—	—	—	—
Reclassification of unrealized gains recognized in net loss . . .	—	—	—	—	—	—	(156)	—	(156)
Unrealized gain on investments .....	—	—	—	—	—	—	2,855	—	2,855
Comprehensive loss .....	—	—	—	—	—	—	—	—	(5,805)
Balances at June 30, 2007 .....	<u>500,042</u>	<u>5</u>	<u>2,589,327</u>	<u>26</u>	<u>6,152</u>	<u>(9,325)</u>	<u>2,427</u>	<u>(40)</u>	<u>\$ (755)</u>
Amortization of stock options issued .....	—	—	—	—	—	—	—	—	—
Sale of common stock .....	—	—	30,232	—	57	—	—	—	57
Stock based compensation .....	—	—	—	—	44	—	—	—	44
Preferred stock dividends paid .....	—	—	—	—	—	(125)	—	—	(125)
Net loss .....	—	—	—	—	—	(3,963)	—	—	(3,963)
Other comprehensive loss:									
Reclassification of unrealized gains recognized in net loss . . .	—	—	—	—	—	—	(115)	—	(115)
Unrealized loss on investments .....	—	—	—	—	—	—	(2,749)	—	(2,749)
Comprehensive loss .....	—	—	—	—	—	—	—	—	(6,827)
Balances at June 30, 2008 .....	<u>500,042</u>	<u>5</u>	<u>2,619,559</u>	<u>26</u>	<u>6,253</u>	<u>\$ (13,413)</u>	<u>\$ (437)</u>	<u>\$ (40)</u>	<u>\$ (7,606)</u>

See accompanying notes to consolidated financial statements.

**XPONENTIAL, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(In Thousands)

	<b>For the Year Ended June 30, 2008</b>	<b>For the Year Ended June 30, 2007</b>
Cash flows from operating activities:		
Net loss .....	\$ (3,963)	\$ (8,504)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation .....	514	306
Non-cash compensation expense .....	58	57
Amortization of warrants .....	19	21
Amortization of loan origination fees .....	8	57
Non-cash interest and dividend income .....	31	-
Loss (gain) on investments .....	2,329	(156)
Loss on disposition of assets .....	131	-
Non-cash loss from TS Liquidating Company, Inc. ....	-	6,913
Amortization of debt issuance costs .....	204	204
Changes in operating assets and liabilities:		
Accounts receivable .....	8	251
Pawn service charges receivable .....	27	15
Inventories .....	448	549
Prepaid expenses and other current assets .....	(70)	(37)
Change in total current liabilities .....	227	(71)
Net cash used in operating activities .....	<u>(29)</u>	<u>(395)</u>
Cash flows from investing activities:		
Pawn loans made .....	(16,294)	(14,826)
Pawn loans repaid .....	8,237	6,988
Inventories acquired from loan forfeitures .....	8,297	7,976
Notes receivable .....	-	(950)
Proceeds from sale of investments .....	2,524	3,956
Purchases of investments .....	-	(2,290)
Purchases of property and equipment .....	(883)	(963)
Purchase of other assets .....	6	(15)
Net cash provided by (used in) investing activities .....	<u>1,887</u>	<u>(124)</u>
Cash flows from financing activities:		
Net borrowings (payments) on bank line of credit .....	(225)	697
Payments on notes payable .....	(1,018)	(575)
Proceeds from sale of common stock .....	44	126
Preferred stock - Series A redemption .....	(500)	(500)
Dividends paid .....	(125)	(125)
Net cash used in financing activities .....	<u>(1,824)</u>	<u>(377)</u>
Net increase (decrease) in cash and cash equivalents .....	34	(896)
Cash and cash equivalents at beginning of year .....	1,036	1,932
Cash and cash equivalents at end of year .....	<u>\$ 1,070</u>	<u>\$ 1,036</u>
Supplemental disclosures of cash flow information - cash paid for interest ..	<u>\$ 2,254</u>	<u>\$ 2,000</u>

See accompanying notes to consolidated financial statements.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(1) Organization and Business**

Xponential, Inc. (“Xponential”), formerly PawnMart, Inc., was incorporated in Delaware on January 13, 1994. Effective February 28, 2003, PawnMart, Inc. changed its name to “Xponential, Inc.” Xponential’s wholly-owned subsidiary PawnMart, Inc. is a specialty finance and retail enterprise principally engaged in establishing and operating stores which advance money secured by the pledge of tangible personal property, and buying and selling pre-owned merchandise. As of June 30, 2008, Xponential owned and operated 26 stores located in Georgia and North Carolina.

On July 9, 2001, Xponential filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division (the “Bankruptcy Court”). A Plan of Reorganization (the “Plan”) was confirmed by the Bankruptcy Court and became effective on May 31, 2002.

Xponential successfully emerged from bankruptcy on August 30, 2002 when it consummated a merger with C/M Holdings, Inc. (the “Merger”). Post reorganization, Xponential adopted fresh-start reporting and gave effect to its emergence from bankruptcy and consummation of the Plan on August 30, 2002. There was no reorganization value in excess of amounts allocated to identifiable assets.

On August 29, 2007, the registrant submitted a Certification of Termination of Registration on Form 15 to the Securities and Exchange Commission for the purpose of deregistering its common stock and suspended Section 15(d) reporting obligations under the Securities Exchange Act of 1934, as amended. Upon filing the Form 15, the registrant’s obligations to file certain reports with the SEC, including Forms 10-KSB, 10-QSB, and 8-K, were immediately suspended. The registrant’s securities will cease trading on the OTC Bulletin Board. The Company’s common shares continue to trade on the Pink Sheets, LLC quotation system.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation and Fiscal Years**

The consolidated financial statements include the accounts of Xponential, Inc. and its wholly-owned subsidiaries, Xponential Advisors, Inc. (“Advisors”), PawnMart, Inc. (“PawnMart”) and Xponential Real Estate Holdings, Inc. (“Holdings”), collectively known as the “Company.” All intercompany transactions have been eliminated.

**(b) Cash and Cash Equivalents**

The Company considers any highly-liquid investments with original maturities of three months or less to be cash equivalents.

**(c) Concentration of Credit Risk Arising From Cash Deposit in Excess of Insured Limits.**

The Company maintains cash balances at several financial institutions. The accounts are insured up to limits set by the Federal Deposit Insurance Corporation. From time to time, the Company’s cash balance exceeds such limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risks on cash.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(2) Summary of Significant Accounting Policies (continued)**

**(d) Loans and Revenue Recognition**

Pawn loans (“loans”) are generally made on the pledge of tangible personal property for one month, with an automatic extension period from ten to sixty days in accordance with statutory requirements except for loans on auto titles, which have shorter extension periods. Pawn service charges are accrued on a constant-yield-basis over the life of the loan on all pawn loans the Company deems collectible based on historical loan redemption statistics. If a loan is not repaid, the principal amount advanced on the loan, or the fair value of the collateral, if lower, exclusive of any uncollected pawn service charges, becomes the carrying value of the forfeited collateral (inventories), which is recovered through sale.

Pawn service charges receivable represent an amount equivalent to earned pawn service charges not collected as of June 30, 2008 and 2007, based on the Company’s historical loan redemption.

Merchandise sales consist of direct sales of merchandise to customers. Sales are recognized when title and risk of loss have passed to the customer, which is generally at the point of sale.

Interim payments from customers on layaway sales are credited to deferred revenue and subsequently recorded as income during the period in which final payment is received. Deferred revenues related to layaway sales totaled approximately \$297,000 and \$254,000 as of June 30, 2008 and 2007, respectively.

**(e) Investments**

Investments consist of marketable debt and equity securities available for sale. Available for sale securities are measured at fair value, with net unrealized gains and losses reported in accumulated other comprehensive income (loss) as a component of stockholders’ equity. Realized gains and losses on the sale of securities are based on the specific identification method. The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in the fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the consolidated statement of operations.

**(f) Inventories**

Inventories are recorded at cost and represent merchandise acquired from forfeited loans, merchandise purchased directly from the public and merchandise purchased from vendors. The cost of inventories is determined on the specific identification method. Inventories are stated at the lower of cost or market.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(2) Summary of Significant Accounting Policies (continued)**

**(g) Property and Equipment**

Property and equipment are recorded at cost. Depreciation is determined on the straight-line method based on estimated useful lives of two to thirty one and one-half years for property and equipment. The costs of improvements on leased stores are capitalized as leasehold improvements and are amortized on the straight-line method over the shorter of the lease term or their estimated useful lives. The cost of buildings acquired and constructed is amortized over thirty one and one-half years. The cost of property retired or sold and the related accumulated depreciation is removed from the accounts, and any resulting gain or loss is recorded in the results of operations in the period retired.

The Company determines whether its property and equipment is impaired whenever events or circumstances indicate the carrying amount of its property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated. If the carrying amount exceeds its estimated future net cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset. The Company did not recognize any impairment charges for the periods ended June 30, 2008 and 2007.

**(h) Investments in TS Liquidating Company, Inc. (formerly American IronHorse Motorcycle Company, Inc.) and Integrity Mutual Funds**

The Company's investment in TS Liquidating Company, Inc., formerly known as American IronHorse Motorcycle Company, Inc. ("TS Liquidating") is recorded under the equity method and was valued at \$6,013,000 as of June 30, 2006. The Company also purchased an unsecured promissory note from TS Liquidating in the amount of \$900,000 during the year ended June 30, 2006. TS Liquidating filed for protection under the U.S. bankruptcy code in March 2008 and sold substantially all of its assets in June 2008. In conjunction with the sale, it changed its name to TS Liquidating Company, Inc. TS Liquidating filed a liquidating plan of reorganization under Chapter 11 of the U.S. Bankruptcy code that cancels all equity ownership and distributes any proceeds from the sale of its assets to its creditors. The Company does not anticipate receiving any proceeds from the liquidation of TS Liquidating.

The Company reported its investment in the common stock of Integrity Mutual Funds, Inc. ("Integrity") at market value of \$582,000 and \$1,497,000 as of June 30, 2008 and 2007, respectively. The Company owned 12.13% of the common stock of Integrity as of June 30, 2008 and 2007, respectively, and accounts for this investment as a non-current asset.

In October 2006 PawnMart purchased 3,050,000 Series A Convertible Preferred Shares of Integrity (the "Preferred Shares"), for a total of \$1,525,000, which shares are convertible into 3,050,000 shares of common stock of Integrity. PawnMart has agreed not to convert the Preferred Shares prior to the earlier to occur of September 30, 2008 or a sale of Integrity.

In October 2006, PawnMart purchased a \$950,000 Convertible Promissory Note (the "Promissory Note") from Integrity. The Promissory Note bears interest at a rate of 6.5%, payable semiannually, and matures in October 2016. At any time after October 15, 2009, PawnMart may convert the Promissory Note into common shares, \$0.0001 par value, of Integrity at a price of \$0.50 per share for each \$0.50 of principal of the Promissory Note outstanding, subject to anti-dilutive adjustment. The Promissory Note is automatically convertible into common shares of Integrity on the foregoing basis upon the earlier to occur of a sale of Integrity or maturity of the Promissory Note.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(2) Summary of Significant Accounting Policies (continued)**

**(i) Income Taxes**

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation account is used to reduce the net deferred tax assets to amounts expected to be realized. When net operating loss carryforwards not previously recognized upon the emergence from bankruptcy are used to offset taxable income generated by the successor company, the Company records income tax expense and a corresponding increase to additional paid in capital.

**(j) Advertising Costs**

Advertising costs are expensed the first time advertising takes place. Advertising expense was approximately \$167,000 and \$88,000 for the fiscal years ended June 30, 2008 and 2007, respectively.

**(k) Fair Values of Financial Instruments**

Pawn loans are outstanding for a relatively short period of time, generally 90 days or less, depending on local regulations. The rate of finance and service charge is determined by regulatory guidelines and bears no valuation relationship to interest rate market movements. For these reasons, management believes that the fair value of pawn loans approximates their carrying value. The Company's revolving line of credit with FCC, LLC d/b/a First Capital bears interest at a variable rate that is frequently adjusted on the basis of market rate changes and is equal to rates available for debt with similar characteristics. Accordingly, management believes the carrying value of such debt approximates its fair value. The fair values of the Company's remaining long-term notes payable instruments are approximately \$19,917,000 and bear interest at a fixed rate of 8% per annum. Management believes these debts bear interest rates equal to rates available for debt with similar characteristics and that the carrying value of the debt approximates its fair value. The carrying amount of all other financial instruments including cash, receivables and payables included in the Company's consolidated balance sheet approximate fair value due to the short maturity of these instruments.

**(l) Stock Based Compensation**

Effective January 1, 2003, the Company adopted the fair value method defined in SFAS No. 123, "Accounting for Stock-Based Compensation," in accounting for its stock option plans. SFAS No. 123 indicates that the fair value method is the preferable method of accounting, and the Company has elected to apply it for all options granted after its emergence from bankruptcy on August 31, 2002. On July 1, 2005 the Company adopted SFAS No. 123R, which was substantially similar to SFAS No. 123. (See Note 10).

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(2) Summary of Significant Accounting Policies (continued)**

**(m) Segment Information**

The Company defines each of its stores as operating segments; however, management has determined that all of its stores have similar economic characteristics and also meet the other criteria which permit the stores to be aggregated into one reportable segment. The Company defines its Investment, Management and Advisory Services as its other segment.

**(n) Use of Estimates in the Preparation of Financial Statements**

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

**(o) Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(p) Liquidity**

The financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses since its inception, with an accumulated deficit of approximately \$7.6 million as of June 30, 2008. Management's plans with regard to these matters include seeking additional financing arrangements. Although management continues to pursue this plan, there is no assurance that the Company will be successful in obtaining sufficient revenues from its products, financing or equity investments on terms acceptable to the Company. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**(3) Recent Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable based on its technical merits. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2008. The Company adopted the FASB Interpretation No. 48 for the year ended June 30, 2008. The adoption of FASB Interpretation No. 48 did not have a material impact on the consolidated financial condition or its results of operations.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(4) Property and Equipment**

Property and equipment consists of the following at June 30, 2008 and 2007, respectively (in thousands):

	<u>Years of Useful life</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Automobiles . . . . .	2-3	\$ 116	\$ 153
Furniture and equipment . . . . .	5-7	1,546	1,018
Leasehold improvements . . . . .	3-10	1,236	883
Land and buildings . . . . .	31.5	1,871	1,796
Construction in Progress . . . . .		46	839
		<u>4,815</u>	<u>4,689</u>
Less: accumulated depreciation and amortization . . .		<u>(1,458)</u>	<u>(1,568)</u>
		<u>\$ 3,357</u>	<u>\$ 3,121</u>

Construction in progress consisted of renovations to retail stores and the purchase and installation of computer software at June 30, 2008 and 2007, respectively. Depreciation expense was \$514,000 and \$306,000, respectively, for the years ended June 30, 2008 and 2007.

**(5) Intangible Assets**

Intangible assets are summarized as follows at June 30, 2008 (in thousands):

Asset	<u>Est Useful Life</u>	<u>Initial Valuation</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Bond Issuance Costs . . . . .	10 Years	\$ 1,893	\$ (586)	\$ 1,307
Loan Origination Fees . . . . .	3 – 5 Years	143	(139)	4
		<u>\$ 2,036</u>	<u>\$ (725)</u>	<u>\$ 1,311</u>

Intangible assets are summarized as follows at June 30, 2007 (in thousands):

Asset	<u>Est Useful Life</u>	<u>Initial Valuation</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Bond Issuance Costs . . . . .	10 Years	\$ 1,893	\$ (383)	\$ 1,510
Loan Origination Fees . . . . .	3 – 5 Years	156	(141)	15
		<u>\$ 2,049</u>	<u>\$ (524)</u>	<u>\$ 1,525</u>

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(5) Intangible Assets (continued)**

The loan origination fees are included in other assets. Amortization expense of \$212,000 and \$261,000 is included in interest expense for the years ended June 30, 2008 and 2007, respectively. Estimated amortization expense for the next five years is as follows (in thousands):

For the Year Ending June 30,	<u>Amount</u>
2009	\$ 208
2010	204
2011	204
2012	204
2013	204
Thereafter	<u>287</u>
	<u>\$ 1,311</u>

**(6) Bank Line of Credit**

PawnMart currently has a revolving credit facility (the "Bank Line of Credit") with FCC, LLC, d/b/a First Capital, Kennesaw, Georgia (the "Lender"), in an amount up to \$4,750,000, which bears interest at the prevailing prime rate plus 2.0% (7.00% at June 30, 2008), and matures on June 17, 2010. The Bank Line of Credit is an asset-based loan with advances thereunder based on PawnMart's eligible accounts receivable and inventory and includes a \$250,000 capital expenditure facility of which the Company has borrowed \$50,000 as of June 30, 2008. The Bank Line of Credit is collateralized by substantially all of the unencumbered assets of PawnMart and is guaranteed by the Company. The Company is required to maintain certain financial ratios and comply with certain covenants, including a prohibition against paying cash dividends on its common stock, \$0.01 par value (the "Common Stock"), unless specifically approved by the Lender. At June 30, 2008 and 2007, an additional \$1,892,000 and \$1,366,000, respectively, was available to borrow pursuant to the available borrowing base. The Company was in compliance with the certain financial ratios under the Bank Line of Credit at June 30, 2008. During Fiscal 2008 and 2007, the Company paid fees associated with the Credit Facility totaling \$0.

**(7) Notes Payable**

**Notes payable consist of the following at June 30, 2008 and 2007, respectively (in thousands):**

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Note payable for 190,000 shares of TS Liquidating stock financed by seller, bearing interest at 7.25% (See Note 13) . . . . .	\$ 175	\$ 540
8% limited recourse secured convertible subordinated notes, bearing interest at 8% payable monthly, to mature December 31, 2014, collateralized by the common stock of PawnMart, net of discount of \$83 and \$102 at June 30, 2008 and 2007, respectively . . . . .	19,917	19,898
Note payable secured by real estate from seller . . . . .	-	625
Other unsecured notes payable . . . . .	-	29
	<u>20,092</u>	<u>21,092</u>
Less: current maturities . . . . .	(175)	(988)
Long term notes payable . . . . .	<u>\$ 19,917</u>	<u>\$ 20,104</u>

**XPONENTIAL, INC..**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(7) Notes Payable (continued)**

As of June 30, 2006, the Company had completed the private placement of \$20,000,000 of 8% Limited Recourse Secured Convertible Subordinated Notes (“Convertible Notes”). The Convertible Notes bear interest at a rate of 8% per annum, payable monthly, and mature in December 2014, and are collateralized by the common stock of PawnMart. The Company has guaranteed the payment of interest on the Convertible Notes through December 31, 2008. The original principal amount plus any accrued and unpaid interest on the Convertible Notes are convertible at any time by the holders into shares of the Company’s Common Stock, based on a conversion price of \$10.00 per common share. The Convertible Notes are redeemable, in whole or in part, at the option of the Company at any time on or after the earlier to occur of (1) December 31, 2008 or (2) a sale of PawnMart; provided, however, if the closing price per share of the Common Stock immediately prior to the redemption notice is less than \$15.00 per share, the Company will, in connection with such redemption, also issue to each holder of Convertible Notes a warrant to purchase that number of shares of Common Stock into which the Convertible Notes of such holder are convertible on the redemption date at an exercise price of \$10.00 per share exercisable on or before the fifth anniversary date of the redemption date and otherwise in the form attached to the Convertible Notes. The Convertible Notes are subordinated to the Company’s current and future indebtedness including the Credit Facility. The Company had paid \$1,800,000 in commissions and issued 200,000 Selling Agent’s Warrants. The Selling Agent’s warrants are valued at \$0.62 each for a total of \$124,000. Such amounts are included as a direct increase to stockholders’ equity.

As of June 30, 2008 annual maturities of the outstanding long-term debt for each of the five years after June 30, 2008 are as follows (in thousands):

2009 .....	\$ 175
2010 .....	-
2011 .....	-
2012 .....	-
2013 .....	-
Thereafter .....	19,917
	<u>\$ 20,092</u>

**(8) Income Taxes**

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2008 and 2007 are presented below (in thousands):

	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Deferred tax assets:		
Net operating loss carryforward .....	\$ 5,687	\$ 4,915
Capital loss carryforward .....	3,067	170
Property and equipment .....	89	171
Inventories .....	65	73
Intangible assets .....	36	18
Total gross deferred tax assets .....	<u>8,944</u>	<u>5,347</u>
Less valuation allowance .....	<u>(8,944)</u>	<u>(5,347)</u>
Net deferred tax assets .....	<u>\$ —</u>	<u>\$ —</u>

**XPONENTIAL, INC..**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(8) Income Taxes (continued)**

The provisions for income taxes differ from amounts determined by applying the expected federal statutory tax rate to income primarily from continuing operations before income taxes due to effect of preferred dividends, state and local tax rates for unconsolidated subsidiaries, and changes in tax valuation allowances.

At June 30, 2008 and 2007, the Company has federal and state net operating loss carryforwards of approximately \$14,966,000 and \$10,836,000, respectively, which expire from 2013 to 2027, and a net capital loss carryforward of \$8,071,000, which expires from 2012 to 2013. During Fiscal 2003, the Company recognized income of approximately \$11,800,000 due to discharge of indebtedness in conjunction with the confirmation of the Company's bankruptcy Plan. A formal legal or tax opinion on the effects of the Company's bankruptcy proceedings on the survival of the net operating loss carryforward, its future availability, or any limitation on the utilization of the net operating loss carryforward has not been obtained by management. Deferred tax valuation allowances of \$8,944,000 and \$5,347,000 offset deferred tax assets at June 30, 2008 and 2007, respectively, based on management's determination that it is more likely than not that such amounts may not be subsequently realized.

**(9) Equity**

Under the Plan, the Company has the authority to issue a total of 12,500,000 shares of stock, consisting of 2,500,000 shares of Preferred Stock, par value \$0.01 per share (the "Preferred Stock") issuable in series ("Series"), and 10,000,000 shares of Common Stock. Of the Preferred Stock, 1,250,000 shares are designated and known as Series A Preferred Stock (the "Series A Preferred Stock") and 500,050 shares are designated and known as Series B Preferred Stock (the "Series B Preferred Stock"). The remaining shares of Preferred Stock may be issued from time to time in one or more Series. The Board of Directors is expressly authorized to provide for the issue of all or any of the remaining unissued and undesignated shares of the Preferred Stock in one or more Series, and to fix the number of shares and to determine or alter for each such Series, such powers, designations, preferences, and relative rights and limitations thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such shares and as may be permitted by the General Corporation Law of the State of Delaware.

*Issuance of Preferred Stock.* The Company issued 1,071,636 shares of Series A Preferred Stock and 500,042 shares of Series B Preferred Stock to the stockholders of C/M Holdings, Inc. pursuant to the Merger. As of June 30, 2008, 400,016 shares of Series A Preferred Stock have been redeemed. The preferences, rights and voting powers (and the qualifications, limitations, or restrictions thereof) of the Series A Preferred Stock and the Series B Preferred Stock are as follows:

*Dividends.* Holders of the Series A Preferred Stock and Series B Preferred Stock are each entitled to receive an annual cumulative cash dividend of \$0.25 per share, payable quarterly in arrears. The holders of Common Stock are entitled to receive such dividends, payable in cash or otherwise, as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Company that are legally available therefore, provided that no dividends shall be declared or paid on the Common Stock if accrued dividends on the Series A Preferred Stock or Series B Preferred Stock, as the case may be, have not been paid. The Company currently does not anticipate declaring and paying any cash dividends on the Common Stock.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(9) Equity (continued)**

*Redemption.* The Company is required to redeem, on a pro rata basis, 100,000 shares of Series A Preferred Stock on April 30, 2005, and on each anniversary date thereafter until April 30, 2010, when the Company is required to redeem the balance of the shares of Series A Preferred Stock then outstanding, at the rate of \$5.00 per share plus all accumulated but unpaid dividends thereon. Through June 30, 2008, 400,016 shares were redeemed for \$2,000,080. The Company has the right, but not the obligation, to redeem, on a pro rata basis, the Series B Preferred Stock at any time after April 30, 2009, at the rate of \$5.00 per share plus all accumulated but unpaid dividends thereon.

*Conversion.* The holders of Series A Preferred Stock have no conversion rights. The holders of the Series B Preferred Stock have the right, at any time, and on or before April 30, 2009, to convert each share of Series B Preferred Stock into such number of shares of Common Stock determined by dividing \$5.00 by the Conversion Price then in effect. The initial Conversion Price will be approximately \$1.4535 per share but is subject to anti-dilutive adjustment. The holders of Series B Preferred Stock have the right to convert the Series B Preferred Stock into approximately 45% of the issued and outstanding shares of Common Stock.

*Liquidation Preference.* In the event of the liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the assets of the Company available for distribution shall be distributed in the following order of preference: to the holders of Series A Preferred Stock, in an amount per share equal to \$5.00 per share (as such dollar amount may be adjusted for stock splits, combinations, reclassifications and the like with respect to the Series A Preferred Stock) plus all accumulated but unpaid dividends thereon; then to the holders of Series B Preferred Stock, in an amount per share equal to \$5.00 per share (as such dollar amount may be adjusted for stock splits, combinations, reclassifications and the like with respect to the Series B Preferred Stock) plus all accumulated but unpaid dividends thereon; and then to the holders of the Common Stock.

*Voting.* The holders of Series A Preferred Stock have no voting rights except as required by law. Except for the election of the members of the Board of Directors of the Company, each share of Series B Preferred Stock entitles the holder thereof to 3.44 votes with respect to all matters upon which holders of Common Stock have the right to vote. Such votes are counted together with the votes of the holders of the Common Stock and not separately as a class except as otherwise provided with respect to the election of directors. The holders of Common Stock have one vote in respect of each share of Common Stock held by such stockholder for all matters submitted to a vote of stockholders of the Company. Cumulative voting is not permitted. The Board of Directors consists of seven members. The holders of a plurality of the shares of Series B Preferred Stock, voting as a class, are entitled to elect four members of the Board of Directors and the holders of a plurality of the shares of Common Stock, voting as a class, are entitled to elect three members of the Board of Directors.

*Issuance of Common Stock.* The Company issued 2,079,948 shares of Common Stock to the creditors in the bankruptcy, which, following the Merger, represents approximately 55% of the issued and outstanding shares of Common Stock of the Company, after giving effect to the conversion of all of the Series B Preferred Stock issued to the shareholders of C/M Holdings, Inc. pursuant to the Merger.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(9) Equity (continued)**

During Fiscal 2008, the Company (1) received no net proceeds from the sale of Common Stock upon exercise of stock options granted pursuant to the Company's 2003 Stock Option Plan and (2) received \$48,000 in net proceeds from the sale of 30,232 shares of Common Stock to current and former employees pursuant to the 2005 Stock Purchase Plan. Effective January 1, 2005, the Company suspended issuing restricted stock under the 2003 Stock Incentive Plan due to changes in Section 409A of the Internal Revenue Code.

*Treasury Stock.* The Company purchased no shares of Common Stock during the fiscal years ending June 30, 2008 and 2007.

**(10) Stock Option Plan, Stock Incentive Plan, Stock Purchase Plan and Warrants to Purchase Common Stock**

The Company adopted its 2003 Stock Option Plan ("Stock Option Plan") effective January 1, 2003. Under the Stock Option Plan, stock options have been awarded to directors, officers and employees. These stock options vest either immediately or over a period up to two years from the date of grant and expire ten years thereafter. A total of 675,000 shares of Common Stock were reserved for grant under the Stock Option Plan. The Company recognized \$44,000 and \$35,000 of compensation expense for options granted for the years ended June 30, 2008 and 2007, respectively.

The following table summarizes the stock option activity of the Company from the time it emerged from bankruptcy:

	<u>Options Outstanding</u>		<u>Weighted average remaining contractual life</u>
	<u>Number of Underlying Shares</u>	<u>Exercise Price</u>	
Outstanding at June 30, 2006 .....	220,000	\$ 1.48	6.6 years
Granted.....	40,000	\$ 1.65	7.3 years
Exercised.....	—	—	
Forfeited/Cancelled .....	—	—	
Outstanding at June 30, 2007 .....	<u>260,000</u>	<u>\$ 1.51</u>	6.9 years
Granted.....	40,000	\$ 1.10	9.6 years
Exercised.....	—	—	
Forfeited/Cancelled .....	—	—	
Outstanding at June 30, 2008 .....	<u>300,000</u>	<u>\$ 1.45</u>	7.3 years
Exercisable at June 30, 2008 .....	<u>300,000</u>	<u>\$ 1.45</u>	
Exercisable at June 30, 2007 .....	<u>260,000</u>	<u>\$ 1.51</u>	

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(10) Stock Option Plan, Stock Incentive Plan, Stock Purchase Plan and Warrants to Purchase Common Stock (continued)**

The weighted average fair value of the options granted during 2008 was \$1.09 per common share. The Company used the Black-Sholes option pricing model to determine the fair value of all options granted during 2008 which were immediately exercisable when granted. Implementation of the Black-Sholes option pricing model requires the Company to make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield and expected life of the options. The Company utilized assumptions that it believed to be most appropriate at the time of the valuation. The fair value of the 2008 options was estimated at the date of grant using the following assumptions: risk-free rate of 3.39%, no dividend yield, 159% volatility in the stock price and weighted average expected lives of 120 months for 2008. The weighted average fair value of the options granted during 2007 was \$0.89 per common share. The fair value of the 2007 options was estimated at the date of grant using the minimum value method with the following assumptions: risk free rate of 4.64%, no dividend yield and weighted average expected lives of 60 months.

The Company adopted its 2003 Stock Incentive Plan (the "Incentive Plan") effective January 1, 2003. A total of 325,000 shares were reserved under the Incentive Plan. The Incentive Plan provides an opportunity to employees of the Company to purchase common shares directly from the Company through payroll deductions. As of June 30, 2008 and 2007, 74,856 shares have been issued under the Incentive Plan. Effective January 1, 2005, the Company discontinued issuing restricted stock under the Incentive Plan due to changes in the regulations under section 409A of the Internal Revenue Code.

The Company adopted its 2005 Stock Purchase Plan (the "Stock Purchase Plan") effective May 1, 2005. A total of 250,000 shares of Common Stock are reserved for issuance under the Stock Purchase Plan. The Stock Purchase Plan allows employees and director to purchase Common Stock at discount of 15% to the fair market price. The Company recognized \$9,000 and \$22,000 in compensation expense for Fiscal 2008 and 2007 for Common Stock purchases pursuant to the Stock Purchase Plan.

The 200,000 warrants issued in connection with the Convertible Notes are exercisable to purchase one share of the Company's Common Stock at \$11.00 per share and are valued at \$0.62 each, for a total of \$124,000, which is reflected as a discount on the debt and an increase in the Company's additional paid in capital. The Company used the Black-Sholes option pricing model to determine the fair value of all warrants issued during 2006. Implementation of the Black-Sholes option pricing model requires the Company to make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield and expected life of the options. The Company utilized assumptions that it believed to be most appropriate at the time of the valuation, which include the following assumptions: risk-free rate of 4.40%, no dividend yield, 52.1% volatility in the stock price, and weighted average expected lives of 84 months at the time of issuance.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(11) Investments**

During Fiscal 2008, the Company sold bond investments with a cost basis of \$2,743,000 for \$2,523,000, recognizing a loss on sale of \$220,000. Additionally, management recognized a loss of \$7,000 associated with the write-down of an investment in marketable equity securities for the year ended June 30, 2008.

Management determined that the value of certain bond investments was permanently impaired and recognized an impairment loss of \$2,102,000 for the year ended June 30, 2008 in accordance with FAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

As of June 30, 2008 and 2007, the Company's investments consisted of (in thousands):

<u>As of June 30, 2008</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Realized Gain (Loss)</u>	<u>Market Value</u>
Bonds, maturing in:				
2009 .....	\$ -	\$ -	\$ -	\$ -
2010 .....	-	-	-	-
2011 .....	-	-	-	-
Thereafter .....	<u>3,079</u>	<u>(162)</u>	<u>(2,102)</u>	<u>815</u>
Total	<u>\$ 3,079</u>	<u>\$ (162)</u>	<u>\$ (2,102)</u>	<u>\$ 815</u>

<u>As of June 30, 2007</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Realized Gain (Loss)</u>	<u>Market Value</u>
Bonds, maturing in:				
2008 .....	\$ -	\$ -	\$ -	\$ -
2009 .....	100	(4)	-	96
2010 .....	-	-	-	-
Thereafter .....	<u>5,722</u>	<u>10</u>	<u>-</u>	<u>5,732</u>
Total	<u>\$ 5,822</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 5,828</u>

**(12) Derivative Instruments**

The Company entered into futures contracts in September 2005 to hedge the value of its gold jewelry inventories at a price of \$528.70 per ounce, which allowed the Company to consistently lend on jewelry pawn loans. In June 2006, management determined to close out and eliminate its exposure on the futures contracts while it started liquidating excess gold jewelry inventory. The Company purchased a total of sixty contracts expiring in December 2007 to offset sixty contracts previously sold, which expire in December 2008. In November 2007, the Company closed out its position in the sixty contracts that expired in December 2008. The Company recognized a gain of \$8,000 and \$6,000 for the years ended June 30, 2008 and 2007, respectively. Accordingly, the Company did not apply hedge accounting under SFAS No. 133.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(13) Investments in TS Liquidating and Integrity**

**(a) Investment in TS Liquidating Company, Inc.**

As of July 1, 2006, the Company owned 17.69% of the common stock of TS Liquidating Company, Inc., (“TS Liquidating”) formerly American IronHorse Motorcycle Company, Inc., and accounted for this investment as a non-current asset under the equity method. In July 2006, Robert W. Schleizer and James R. Richards, directors of the Company, were elected to the board of directors of TS Liquidating. Dwayne Moyers, the Company’s former Chief Executive Officer, served on the board of directors of TS Liquidating from 1998 until 2007. As of July 2006, the Company had a total of three representatives on the seven-member board of directors of TS Liquidating. In August 2006, Dwayne A. Moyers was appointed interim Chief Executive Officer of TS Liquidating, and in December 2006, Robert W. Schleizer, the Company’s Chief Financial Officer, was also appointed Chief Financial Officer of TS Liquidating. Based on the Company’s more active role in managing the business operations, the Company changed its accounting for its investment in TS Liquidating to the equity method and recorded the cumulative effect of the change.

The Company’s investment in TS Liquidating was valued at \$6,013,000 as of June 30, 2006. The Company also purchased an unsecured promissory note from TS Liquidating as of June 30, 2006 in the amount of \$900,000. For the year ended June 30, 2007, the Company recorded a charge of \$4,974,000 due to the impairment of value of the investment including the unsecured promissory note, reducing the value to \$0 as of June 30, 2007. For the year ended June 30, 2007, the Company also recognized losses of \$1,939,000 relating to the Company’s proportionate share of TS Liquidating’s operating losses. The Company received \$0 and \$96,000 in interest income from TS Liquidating for the years ended June 30, 2008 and 2007, respectively.

TS Liquidating filed for protection under the U.S. bankruptcy code in March 2008. Substantially all of TS Liquidating’s assets were sold in June 2008. The Company does not anticipate receiving any proceeds from the liquidation of TS Liquidating’s assets.

**(b) Investment in Integrity Mutual Funds, Inc.**

The Company reported its investment in the common stock of Integrity Mutual Funds, Inc. (“Integrity”) at market value of \$582,000 and \$1,497,000 as of June 30, 2008 and 2007, respectively. The Company owned 12.13% of the common stock of Integrity as of June 30, 2008 and 2007, respectively, and accounts for this investment as a non-current asset.

In October 2006, PawnMart purchased 3,050,000 Series A Convertible Preferred Shares of Integrity (the “Preferred Shares”), for a total of \$1,525,000, which shares are convertible into 3,050,000 shares of common stock of Integrity. PawnMart has agreed not to convert the Preferred Shares prior to the earlier to occur of September 30, 2008 or a sale of Integrity.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
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**(13) Investments in TS Liquidating and Integrity (continued)**

**(b) Investment in Integrity Mutual Funds, Inc. (continued)**

In October 2006, PawnMart purchased a \$950,000 Convertible Promissory Note (the "Promissory Note") from Integrity. The Promissory Note bears interest at a rate of 6.5%, payable semiannually, and matures in October 2016. At any time after October 15, 2009, PawnMart may convert the Promissory Note into common shares, \$0.0001 par value, of Integrity at a price of \$0.50 per share for each \$0.50 of principal of the Promissory Note outstanding, subject to anti-dilutive adjustment. The Promissory Note is automatically convertible into common shares of Integrity on the foregoing basis upon the earlier to occur of a sale of Integrity or maturity of the Promissory Note.

In accordance with Financial Accounting Standard 115 ("FAS 115"), the Company reported the investments in the Preferred Shares and the Promissory Note on a fair market value basis. The Company reported the Promissory Note at fair market based on the fair market value of the underlying common stock discounted for marketability plus the present value of the interest to be earned. The Company calculated the present value of the interest utilizing an interest rate of 8% as the Company's cost of funds. The Company utilized the Black-Sholes pricing model to determine the fair market value of the option to convert. The Preferred Shares Implementation of the Black-Sholes model requires the Company to make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield and expected life of the options. The Company utilized assumptions that it believed to be most appropriate at the time of the valuation, which include the following assumptions for the Preferred Shares: risk-free interest rate of 5.00%, 75.0% volatility in the stock price and weighted average expected life of 120 months for the options. The Company reports its investments in Integrity as non-current assets.

During Fiscal 2007, the Company recorded an unrealized gain on the investment of Integrity of \$2,429,000. Subsequently, the Company recorded an unrealized loss of \$2,704,000 to reflect the fair market value of this investment as of June 30, 2008.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
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**(13) Investments in TS Liquidating and Integrity (continued)**

**(b) Investment in Integrity Mutual Funds, Inc. (continued)**

The table below summarizes the investments in Integrity as of June 30, 2008 and 2007 (in thousands):

<u>As of June 30, 2008</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Common Stock	\$ 734	\$ (152)	\$ 582
Preferred Stock	1,525	(140)	1,385
Promissory Note	<u>950</u>	<u>17</u>	<u>967</u>
Total	<u>\$ 3,209</u>	<u>\$ (275)</u>	<u>\$ 2,934</u>

  

<u>As of June 30, 2007</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Common Stock	\$ 734	\$ 763	\$ 1,497
Preferred Stock	1,525	1,159	2,684
Promissory Note	<u>950</u>	<u>507</u>	<u>1,457</u>
Total	<u>\$ 3,209</u>	<u>\$ 2,429</u>	<u>\$ 5,638</u>

Mr. Jeffrey A. Cummer, an officer and director of the Company, has served as a director of Integrity since June 2006. SMH Capital Advisors, Inc., a related party, provides investment advisory services to Integrity and employs Mr. Cummer and Dwayne A. Moyers as officers. SMH was paid investment advisory fees of \$545,741 and \$607,658 from Integrity for the years ended June 30, 2008 and 2007, respectively.

The Company is obligated under various long-term operating lease agreements for store locations and office space. Total rent expense for all operating leases was approximately \$1,551,000 and \$1,446,000 and for the years ended June 30, 2008 and 2007, respectively.

**(14) Commitments and Contingencies**

Future minimum lease payments under non-cancelable operating leases as of June 30, 2008 are (in thousands):

2009 .....	\$ 1,278
2010 .....	914
2011 .....	645
2012 .....	538
2013 .....	<u>400</u>
Total minimum lease payments .....	<u>\$ 3,775</u>

**XPONENTIAL, INC.**  
**Notes to Consolidated the Financial Statements**  
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**(14) Commitments and Contingencies (continued)**

The Company is involved in various claims and lawsuits arising in the ordinary course of business. Management is not aware of any claims or lawsuits and, if there were any, in the opinion of management, the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position or results of operations

**(15) Operating Segment Information**

The Company has two reportable business segments; one in the pawn lending industry and one for its investment, management and advisory services. PawnMart operates 26 pawn shops in Georgia and North Carolina. Advisors directs the investment of the Company's available funds in marketable securities and other investment opportunities. Holdings was formed by the Company in February 2005 to acquire real estate on which the Company's pawnshops are located. Operating information for the years ended June 30, 2008 and 2007 is set forth below (in thousands):

<u>Year Ended June 30, 2008</u>	<u>Pawn Lending</u>	<u>Investment, Management and Advisory Services</u>	<u>Consolidated</u>
<b>Revenues:</b>			
Merchandise sales . . . . .	\$ 15,556	\$ -	\$ 15,556
Pawn service charges and related fee income . . . . .	5,844	-	5,844
Other . . . . .	13	-	13
<b>Total Revenues</b> . . . . .	<u>21,413</u>	<u>-</u>	<u>21,413</u>
<b>Expenses:</b>			
Cost of sales . . . . .	9,918	-	9,918
Store operating expenses . . . . .	7,276	-	7,276
Corporate administrative expenses . . . . .	2,696	539	3,235
Depreciation and amortization . . . . .	473	60	533
<b>Operating income (loss)</b> . . . . .	<u>1,050</u>	<u>(599)</u>	<u>451</u>
Interest and dividend income . . . . .	155	348	503
Interest expense . . . . .	(411)	(2,054)	(2,465)
Loss on investments . . . . .	-	(2,329)	(2,329)
Loss on disposition of assets . . . . .	(131)	-	(131)
Gain on futures contracts . . . . .	8	-	8
<b>Net income (loss) before taxes</b> . . . . .	<u>\$ 671</u>	<u>\$ (4,634)</u>	<u>\$ (3,963)</u>
<b>Total Assets</b> . . . . .	<u>\$ 14,096</u>	<u>\$ 5,217</u>	<u>\$ 19,313</u>

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2008 and 2007**

**(15) Operating Segment Information (continued)**

<u>Year Ended June 30, 2007</u>	<u>Pawn Lending</u>	<u>Investment, Management and Advisory Services</u>	<u>Consolidated</u>
<b>Revenues:</b>			
Merchandise sales .....	\$ 12,928	\$ -	\$ 12,928
Pawn service charges and related fee income .....	6,219	-	6,219
Other .....	30	1	31
<b>Total Revenues</b> .....	<u>19,177</u>	<u>1</u>	<u>19,178</u>
<b>Expenses:</b>			
Cost of sales .....	9,689	-	9,689
Store operating expenses .....	6,359	-	6,359
Corporate administrative expenses .....	2,304	747	3,051
Depreciation and amortization .....	268	59	327
<b>Operating income (loss)</b> .....	<u>557</u>	<u>(805)</u>	<u>(248)</u>
Interest and dividend income .....	98	819	917
Interest expense .....	(278)	(2,142)	(2,420)
Gain on sale of investments .....	-	156	156
Gain on futures contracts .....	6	-	6
Loss from TS Liquidating .....	-	(1,939)	(1,939)
<b>Net income (loss) before taxes and impairment loss</b> .....	<u>\$ 383</u>	<u>\$ (3,911)</u>	<u>\$ (3,528)</u>
<b>Total Assets</b> .....	<u>\$ 16,067</u>	<u>\$ 11,564</u>	<u>\$ 27,631</u>

**16) Related Party Transactions**

On April 3, 2006, the Company loaned \$900,000 to TS Liquidating primarily to enable TS Liquidating to redeem approximately \$799,000 of its 12% subordinated notes due March 31, 2006. The loan matured on March 31, 2007 and bears interest at 12% per annum, is unsecured, and subordinated to the indebtedness of TS Liquidating to its lender. Due to a default under its loan documents, TS Liquidating is not permitted to make monthly payments of interest to the Company. Principal reduction payments of any kind, however, are only permitted out of cash proceeds from a recapitalization of TS Liquidating involving the public or private sale or issuance of stocks, bonds, debentures, notes or other equity or debt securities of TS Liquidating. In consideration for the loan, the Company received an \$18,000 origination fee and a warrant to purchase 90,000 shares of common stock of TS Liquidating at a price not to exceed \$10.00 per share. The Company assigned no value to these warrants as of June 30, 2006. The Company also earned \$0 and \$96,000 in interest income related to the \$900,000 loan to TS Liquidating for the years ended June 30, 2008 and 2007, respectively. The Company has determined that the value of the \$900,000 note is impaired as of June 30, 2007 and, accordingly the Company has written off the full value of the note.

Jeffrey A. Cummer is Chief Executive Officer and Chairman of the Board of the Company and its subsidiaries and also serves as Chairman of the Integrity Mutual Funds, Inc. Robert W. Schleizer, the Company's Chief Financial Officer and a director, was appointed Chief Financial Officer of TS Liquidating in December 2006 and is the sole remaining director of TS Liquidating. He previously served as that company's Chief Financial Officer from January 2004 to March 2005. James R. Richards, a director of the Company, was a director of TS Liquidating from July 2006 until December 2007.

**XPONENTIAL, INC.**  
**Notes to Consolidated Financial Statements**  
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**(16) Related Party Transactions (continued)**

Sanders Morris Harris, Inc. (“SMH”), a related party, employs Jeffrey A. Cummer as an officer of a subsidiary and executes security transactions for the Company. Mr. Cummer is also an officer and director of the Company. Commissions paid to SMH were \$1,500 and \$3,205 for the years ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, the Company owned 1,663,642 shares of Integrity common stock. SMH, a related party, provides investment advisory services to Integrity and was paid \$545,731 and \$607,658 in advisory fees from Integrity for the years ended June 30, 2008 and 2007, respectively. PawnMart, Inc., a wholly owned subsidiary of the Company owns 3,050,000 Series A Convertible Preferred Shares of Integrity (the “Preferred Shares”), for a total of \$1,525,000, which shares are convertible into 3,050,000 shares of common stock of Integrity and also owns a \$950,000 Convertible Promissory Note (the “Promissory Note”) from Integrity, which is convertible into 1,900,000 shares of common stock of Integrity.

Massie Capital, Inc., the selling agent for the Company’s 8% Limited Recourse Secured Convertible Notes, earned commissions totaling \$1,800,000 and was granted a total of 200,000 warrants on the sale of \$20,000,000 of Convertible Notes. William R. Massie, a director of the Company, is a principal of Massie Capital, Inc. and is a former director of TS Liquidating. Massie Capital, Inc. paid to SMH, \$1,156,890 in selling commissions on the sale of \$16,527,000 of Convertible Notes through June 30, 2006 and was granted 128,420 warrants for the purchase of shares of the Company’s Common Stock at a price of \$11.00 per share in connection with the Convertible Note sales.

**(17) Subsequent Events**

The Company has executed renewals, extensions and expansions for operating leases in five existing locations subsequent to the June 30, 2008 in the ordinary course of business. The lease payments related to these renewals, extensions and expansions are not included in the future minimum lease payments under non-cancelable lease payments in Note 14.