

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	
	2007	2006
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 1,036	\$ 1,932
Investments-marketable securities	5,828	8,741
Accounts and short term notes receivable	348	1,499
Pawn service charges receivable	509	524
Pawn loans receivable	4,624	4,763
Inventories	4,693	5,242
Prepaid expenses and other current assets	208	171
Total current assets	17,246	22,872
Property and equipment	3,121	2,464
Investment in American IronHorse Motorcycle Company, Inc.	-	6,451
Investment in Integrity Mutual Funds, Inc.	5,638	586
Bond issuance costs, net of amortization of \$382 and \$179 as of June 30, 2007 and 2006, respectively	1,510	1,713
Other assets, net of amortization of \$219 and \$83 as of June 30, 2007 and 2006, respectively	116	157
Total assets	\$ 27,631	\$ 34,243
<i>Liabilities and Stockholders' Equity</i>		
Current liabilities:		
Bank line of credit	\$ 2,577	\$ 1,880
Current maturities of notes payable	988	577
Accounts payable and accrued expenses	291	495
Accrued payroll and payroll taxes	154	150
Deferred revenues	254	152
Accrued interest	160	132
Redeemable Preferred Stock – Series A	500	500
Total current liabilities	4,924	3,886
Long term notes payable:		
8% limited recourse convertible notes, net of discount of \$102 and \$111 as of June 30, 2007 and 2006, respectively	19,898	19,889
Other long term notes payable	206	1,191
Total long term notes payable	20,104	21,080
Commitments and contingencies		
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, 2007 and 2006; 771,635 and 871,630 shares outstanding as of June 30, 2007 and 2006, respectively	3,358	3,858
Total liabilities	28,386	28,824
Stockholders' equity:		
Preferred stock - Series B; convertible, 500,050 shares authorized; 5% cumulative dividend, liquidation preference \$5.00 per share; 500,042 shares issued and outstanding at June 30, 2007 and 2006	5	5
Common stock \$0.01 par value; 10,000,000 shares authorized; 2,589,327 and 2,491,014 shares issued at June 30, 2007 and 2006, respectively	26	25
Treasury stock	(40)	(40)
Additional paid-in capital	6,152	5,959
Retained earnings (deficit)	(9,325)	(258)
Accumulated other comprehensive income (loss)	2,427	(272)
Total stockholders' equity (deficit)	(755)	5,419
Total liabilities and stockholders' equity (deficit)	\$ 27,631	\$ 34,243

See accompanying notes to consolidated financial statements.

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

	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006
Revenues:		
Merchandise sales	\$ 12,928	\$ 15,201
Pawn service charges and related fee income	6,219	6,225
Management advisory and related fee income	-	18
Other	31	29
Total revenues	19,178	21,473
Expenses:		
Cost of sales	9,689	10,979
Store operating expenses	6,359	6,280
Corporate administrative expenses	3,051	2,887
Depreciation and amortization	327	385
Total expenses	19,426	20,531
Operating income (loss)	(248)	942
Interest and dividend income	917	759
Interest expense	(2,420)	(1,915)
Gain on sale of investments	156	706
Gain (loss) on futures contracts	6	(1,368)
Loss from American IronHorse Motorcycle Company, Inc.	(1,939)	-
Loss before taxes, impairment and cumulative effect of change in accounting principle	(3,528)	(876)
Income tax expense	2	13
Loss before impairment and cumulative effect of change in accounting principle	(3,530)	(889)
Loss due to impairment of investment in American IronHorse Motorcycle Company, Inc.	(4,536)	-
Cumulative effect of change in accounting principle	(438)	-
Net loss	(8,504)	(889)
Series B preferred stock dividend requirement	(125)	(125)
Net loss allocable to common stockholders	\$ (8,629)	\$ (1,014)

See accompanying notes to consolidated financial statements.

XPONENTIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Loss
Years Ended June 30, 2007 and June 30, 2006
(In Thousands, Except Share Data)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balances at July 1, 2005	500,042	\$ 5	2,380,804	\$ 24	\$ 5,631	\$ 756	\$ 198	\$ (40)	\$ 6,574
Amortization of stock options issued	—	—	—	—	—	—	—	—	—
Sale of common stock	—	—	110,210	1	259	—	—	—	260
Issuance of common stock warrants	—	—	—	—	69	—	—	—	69
Preferred stock dividends paid	—	—	—	—	—	(125)	—	—	(125)
Net loss	—	—	—	—	—	(889)	—	—	(889)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—
Reclassification of unrealized gains recognized in net loss	—	—	—	—	—	—	(199)	—	(199)
Unrealized loss on investments	—	—	—	—	—	—	(271)	—	(271)
Comprehensive loss	—	—	—	—	—	—	—	—	(1,359)
Balances at June 30, 2006	<u>500,042</u>	<u>5</u>	<u>2,491,014</u>	<u>25</u>	<u>5,959</u>	<u>(258)</u>	<u>(272)</u>	<u>(40)</u>	<u>\$ 5,419</u>
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>

See accompanying notes to consolidated financial statements.

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

	<u>For the Year Ended June 30, 2007</u>	<u>For the Year Ended June 30, 2006</u>
Cash flows from operating activities:		
Net loss	\$ (8,504)	\$ (889)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	327	385
Non-cash compensation expense	57	74
Non-cash interest expense	57	61
Gain on sale of investments	(156)	(706)
Cumulative effect of change in accounting principle	438	-
Non-cash loss from American Ironhorse Company	6,475	-
Amortization of debt issuance costs	204	157
Changes in operating assets and liabilities:		
Accounts receivable	251	(1,163)
Pawn service charges receivable	15	17
Inventories	549	(913)
Prepaid expenses and other current assets	(37)	119
Accounts payable and accrued liabilities	(71)	112
Net cash used in operating activities	<u>(395)</u>	<u>(2,746)</u>
Cash flows from investing activities:		
Pawn loans made	(14,826)	(16,947)
Pawn loans repaid	6,988	7,063
Inventories acquired from loan forfeitures	7,976	10,040
Notes receivable	(950)	-
Proceeds from sale of investments	3,956	5,908
Purchases of investments	(2,290)	(10,967)
Purchases of property and equipment	(963)	(1,361)
Purchase of other assets	(15)	(35)
Net cash used in investing activities	<u>(124)</u>	<u>(6,299)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(14,983)	(16,891)
Borrowings on notes payable	15,105	17,746
Convertible note offering proceeds	-	11,174
Convertible note offering costs	-	(1,020)
Proceeds from sale of common stock	126	186
Preferred stock - Series A redemption	(500)	(500)
Dividends paid	(125)	(125)
Net cash provided (used in) by financing activities	<u>(377)</u>	<u>10,570</u>
Net increase (decrease) in cash and cash equivalents	(896)	1,525
Cash and cash equivalents at beginning of year	1,932	407
Cash and cash equivalents at end of year	<u>\$ 1,036</u>	<u>\$ 1,932</u>
Supplemental disclosures of cash flow information - cash paid for interest	<u>\$ 2,000</u>	<u>\$ 1,630</u>

See Note 5 for non cash financing activity.

See accompanying notes to consolidated financial statements.

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(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, 2007, 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 know 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) 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

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(2) Summary of Significant Accounting Policies (continued)

(c) Loans and Revenue Recognition (continued)

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, net of an allowance for pawn service charges deemed uncollectible, based on the Company's historical loan redemption rate.

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 \$254,000 and \$152,000 as of June 30, 2007 and 2006, respectively.

(d) 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 as a component of stockholders' equity.

(e) 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.

(f) 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.

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(2) Summary of Significant Accounting Policies (continued)

(g) Investments in American IronHorse and Integrity

The Company has invested \$6,451,000 in common stock of American IronHorse Motorcycle Company, Inc. (“American IronHorse”) and purchased a \$900,000 unsecured promissory note from American IronHorse as of June 30, 2007. The Company recorded a charge of \$4,475,000 due to the impairment of value of these investments as of June 30, 2007, reducing the value of these investments to \$0 as of June 30, 2007.

The Company reported its investment in the common stock of Integrity Mutual Funds, Inc. (“Integrity”) at market value of \$1,497,000 and \$586,000 as of June 30, 2007 and 2006, respectively. The Company owned 12.13% and 10.7% of the common stock of Integrity as of June 30, 2007 and 2006, 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.

(h) 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.

(i) Advertising Costs

Advertising costs are expensed the first time advertising takes place. Advertising expense was approximately \$88,000 and \$66,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(2) Summary of Significant Accounting Policies (continued)

(j) 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 \$20,104,000 and bear interest at fixed rates ranging from 5% to 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.

(k) 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 9).

(l) Net Income (Loss) Per Common Share

Basic net income (loss) per common share is based upon the weighted average number of common shares outstanding at each period presented. Diluted income for common shares is based upon the weighted average number of common shares outstanding during the period, plus, if dilutive, the assumed exercise of stock options and the conversion of convertible securities during the beginning of the year, or for the period outstanding during the year.

(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.

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(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, 2007. The Company will adopt the FASB Interpretation No. 48 for the year ended June 30, 2008. The Company does not believe the adoption of FASB Interpretation No. 48 will have a material impact on the consolidated financial condition or its results of operations.

(4) Property and Equipment

Property and equipment consists of the following at June 30, 2007 and 2006, respectively (in thousands):

	<u>Years of Useful life</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Automobiles	3	\$ 153	\$ 224
Furniture and equipment	5-7	1,857	1,002
Leasehold improvements	3-10	883	775
Land and buildings	31.5	<u>1,796</u>	<u>1,796</u>
		4,689	3,797
Less: accumulated depreciation and amortization		<u>(1,568)</u>	<u>(1,333)</u>
		<u>\$ 3,121</u>	<u>\$ 2,464</u>

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(5) Notes Payable

Notes payable consist of the following at June 30, 2007 and 2006, respectively (in thousands):

	June 30, 2007	June 30, 2006
Revolving line of credit with a bank, bearing interest at prime plus two percent (10.25% at June 30, 2007 and 2006) payable monthly, to mature June 17, 2010, collateralized by substantially all of the assets of PawnMart and guaranteed by the Company	\$ 2,577	\$ 1,880
Note payable for 100,000 shares of American IronHorse stock financed by seller, bearing interest at 5%, collateralized by the stock	-	147
Note payable for 190,000 shares of American IronHorse stock financed by seller, bearing interest at 7.25%	540	850
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 \$102 and \$111 at June 30, 2007 and 2006, respectively	19,898	19,889
Note payable secured by real estate from seller	625	625
Other unsecured notes payable	29	146
	23,669	23,537
Less: current maturities	(3,565)	(2,457)
Long term notes payable	\$ 20,104	\$ 21,080

PawnMart currently has a revolving credit facility 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% (10.25% at June 30, 2007), and matures on June 17, 2010 (the "Credit Facility"). The Credit Facility 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 that the Company has borrowed \$77,000 of as of June 30, 2007. The Credit Facility 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, 2007, \$2,577,000 was outstanding under the Credit Facility and an additional \$1,366,000 was available to borrow pursuant to the available borrowing base. The Company was not in compliance with the certain financial ratios under the Credit Facility at June 30, 2007, but received a waiver for the non-compliance from the lender. During Fiscal 2007 the Company paid fees associated with the Credit Facility totaling \$0.

The Company also compromised certain priority tax claims in the amount of \$621,000 in its reorganization plan, agreeing to pay the claims over a six year period from the date of assessment in quarterly installments of approximately \$35,000 including interest at the rate of 7% per annum. The current portions due as of June 30, 2007 and 2006 were \$29,000 and \$120,000, respectively. The long term portions due as of June 30, 2007 and 2006 were \$0 and \$26,000, respectively.

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 of, plus any accrued and unpaid interest on, the

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(5) Notes Payable (continued)

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. As of June 30, 2006 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, 2007 annual maturities of the outstanding long-term debt and the bank line of credit for each of the five years after June 30, 2007 are as follows (in thousands):

2008	\$ 988
2009	206
2010	2,577
2011	-
2012	-
Thereafter	<u>20,000</u>
	<u>\$ 23,771</u>

(6) 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, 2007 and 2006 are presented below (in thousands):

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,915	\$ 4,345
Capital loss carryforward	170	225
Property and equipment	171	116
Inventories	73	69
Intangible assets	18	24
Total gross deferred tax assets	<u>5,347</u>	<u>4,779</u>
Less valuation allowance	<u>(5,347)</u>	<u>(4,779)</u>
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

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, 2007 the Company has federal and state net operating loss carryforwards of approximately \$13,360,000 and \$9,314,000, respectively, which expire from 2013 to 2018 and net capital loss carryforwards of \$499,000 which expire in 2012. 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 carryforwards, their future

XPONENTIAL, INC.
Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(6) Income Taxes (continued)

availability, or any limitation on the utilization of these net operating loss carryforwards has not been obtained by management. Deferred tax valuation allowances of \$5,347,000 and \$4,779,000 offset deferred tax assets at June 30, 2007 and 2006, respectively, based on management's determination that it is more likely than not that such amounts may not be subsequently realized.

(7) 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, 2006, 200,006 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.

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, 2007, 300,001 shares were redeemed for \$1,500,005. 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

XPONENTIAL, INC.
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(7) Equity (continued)

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.

During Fiscal 2007 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 \$182,000 in net proceeds from the sale of 98,313 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 Fiscal 2007.

(8) 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 \$35,000 and \$57,000 of compensation expense for options granted for the years ended June 30, 2007 and 2006, respectively.

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

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

	<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, 2005	220,000	\$ 1.13	6.8 years
Granted	40,000	2.90	8.3 years
Exercised	(40,000)	1.00	
Forfeited/Cancelled	—	—	
Outstanding at June 30, 2006	<u>220,000</u>	<u>\$ 1.48</u>	7.6 years
Granted	40,000	\$ 1.65	9.3 years
Exercised	—	—	
Forfeited/Cancelled	—	—	
Outstanding at June 30, 2007	<u>260,000</u>	<u>\$ 1.51</u>	7.9 years
Exercisable at June 30, 2007	<u>260,000</u>	<u>\$ 1.51</u>	
Exercisable at June 30, 2006	<u>220,000</u>	<u>\$ 1.48</u>	

The weighted average fair value of the options granted during 2007 was \$0.89 per common share. The Company used the Black-Sholes option pricing model to determine the fair value of all options granted during 2007 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 2007 options was estimated at the date of grant using the following assumptions: risk-free rate of 4.64%, no dividend yield, 57.0% volatility in the stock price and weighted average expected lives of 60 months for 2007. The weighted average fair value of the options granted during 2006 was \$1.42 per common share. The fair value of the 2006 options was estimated at the date of grant using the minimum value method with the following assumptions: risk free rate of 5.10%, no dividend yield and weighted average expected lives of 60 months. The minimum value method assumes 52.1% volatility in the stock price.

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, 2007 and 2006, 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 \$22,000 and \$17,500 in compensation expense for Fiscal 2007 and 2006 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

XPONENTIAL, INC.
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(8) Stock Option Plan, Stock Incentive Plan, Stock Purchase Plan and Warrants to Purchase Common Stock (continued)

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, 85.0% and 52.1% volatility in the stock price, and weighted average expected lives of 84 months at the time of issuance.

(9) Investments

Investments consist of marketable equity and debt securities and have been categorized as available-for-sale. Unrealized gains and losses for available-for-sale securities are included as accumulated other comprehensive income, a component of shareholders' equity until realized. 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.

As of June 30, 2007 and 2006, the Company's investments consisted of (in thousands):

<u>As of June 30, 2007</u>	<u>Cost</u>	<u>Unrealized 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>5,732</u>
Total	<u>\$ 5,822</u>	<u>\$ 6</u>	<u>\$ 5,828</u>
<u>As of June 30, 2006</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Bonds, maturing in:			
2008	\$ 115	\$ 14	\$ 129
2009	352	15	367
2010	-	-	-
Thereafter	<u>8,479</u>	<u>(234)</u>	<u>8,245</u>
Total	<u>\$ 8,946</u>	<u>\$ (205)</u>	<u>\$ 8,741</u>

(10) 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 \$6,000 and a loss of \$1,368,000 for the years ended June 30, 2007 and 2006, respectively. Accordingly, the Company did not apply hedge accounting under SFAS No. 133.

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(11) Investments in American IronHorse and Integrity

(a) Investment in American IronHorse Motorcycle Company, Inc.

The Company owns 17.69% of the common stock of American IronHorse and accounts for this investment as a non-current asset under the equity method. The Company accounted for this investment as a non-current asset under the cost method through June 30, 2006. In July 2006 Robert W. Schleizer and James R. Richards, directors of the Company, were elected to the board of directors of American IronHorse. With Dwayne Moyers, the Company's Chief Executive Officer, already serving on the board of directors of American IronHorse since 1998, the Company now had a total of three representatives on the seven-member board of directors of American IronHorse. In August 2006 Dwayne A. Moyers was appointed interim Chief Executive Officer of American IronHorse and in December 2006 Robert W. Schleizer, the Company's Chief Financial Officer, was also appointed Chief Financial Officer of American IronHorse. Based on the Company's more active role in managing the business operations of American IronHorse and the significant influence it began to assert over American IronHorse's business operations, the Company changed its accounting for its investment in American IronHorse to the equity method. The Company recognized an adjustment of \$438,000 due to the cumulative effect of this change in accounting principle from the cost method to the equity method for this investment to record its proportionate share of cumulative losses.

Following is a table presenting the cumulative effect of the change from the cost method to the equity method of accounting for the Company's investment in American IronHorse:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Investment in American IronHorse as of fiscal years ended June 30, 2004, 2005 and 2006 cost basis	\$ 6,451	\$ 4,836	\$ 3,018
Add: % share of net income (loss) from American IronHorse for fiscal years ended June 30, 2004, 2005, and 2006	(639)	219	(19)
Add: cumulative net income (loss) prior fiscal years	<u>201</u>	<u>(19)</u>	<u>-</u>
Cumulative adjustment due to change to equity method	<u>(438)</u>	<u>201</u>	<u>(19)</u>
Investment at end of each fiscal year under equity method	<u>\$ 6,013</u>	<u>\$ 5,036</u>	<u>\$ 2,999</u>

For the year ended June 30, 2007 the Company recognized a loss of \$1,939,000 from American IronHorse. American IronHorse defaulted on the payment of \$1,535,000 of subordinated notes payable on December 31, 2006. American IronHorse also defaulted on its senior loan facility in January 2007, was unable to redeem the \$900,000 unsecured promissory note from the Company that matured in March 2007 and discontinued paying interest to the Company in April 2007. During the course of the Company's strategic review of its investment in the common stock of American IronHorse and the unsecured promissory note due from American Ironhorse, the investments in common stock and the unsecured promissory note of American IronHorse was written off to a value of \$0 as of June 30, 2007 due the uncertainty of recovering the investments resulting the Company recording a charge of \$4,536,000 due to the impairment of value.

The Company received fees from American IronHorse of \$0 and \$18,000, for the years ended June 30, 2007 and 2006, respectively for management advisory services and for financing provided by the Company and received \$96,000 and \$27,000 in interest income from American IronHorse for the years ended June 30, 2007 and 2006, respectively.

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Notes to Consolidated Financial Statements
June 30, 2007 and 2006

(11) Investments in American IronHorse and Integrity (continued)

(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 \$1,497,000 and \$586,000 as of June 30, 2007 and 2006, respectively. The Company owned 12.13% and 10.7% of the common stock of Integrity as of June 30, 2007 and 2006, 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.

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 of 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 4.91%, 60.8% volatility in the stock price and weighted average expected life of 15 months for the options. The Company reports its investments in Integrity as non-current assets.

The table below summarizes the investments in Integrity as of June 30, 2007 and 2006:

<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>
<u>As of June 30, 2006</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Common Stock	\$ 645	\$ (59)	\$ 586
Total	<u>\$ 645</u>	<u>\$ (59)</u>	<u>\$ 586</u>

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Notes to Consolidated Financial Statements
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(11) Investments in American IronHorse and Integrity (continued)

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

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 \$607,658 and \$237,237 in advisory fees from Integrity for the years ended June 30, 2007 and 2006, respectively.

(12) Commitments and Contingencies

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 \$1,446,000 and \$1,468,000 and for the years ended June 30, 2007 and 2006, respectively.

Future minimum lease payments under non-cancelable operating leases as of June 30, 2007 are (in thousands):

2008	\$ 1,322
2009	952
2010	642
2011	308
2012	<u>156</u>
Total minimum lease payments	<u>\$ 3,380</u>

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.

(13) 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, 2007 and 2006 is set forth below (in thousands):

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(13) 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>
Revenues:			
Merchandise sales	\$ 12,928	\$ -	\$ 12,928
Pawn service charges and related fee income	6,219	-	6,219
Other	30	1	31
Total Revenues	<u>19,177</u>	<u>1</u>	<u>19,178</u>
Expenses:			
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
Operating income (loss)	<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 American IronHorse	-	(1,939)	(1,939)
Net income (loss) before taxes and impairment loss	<u>\$ 383</u>	<u>\$ (3,911)</u>	<u>\$ (3,528)</u>
Total Assets	<u>\$ 16,067</u>	<u>\$ 11,564</u>	<u>\$ 27,631</u>

<u>Year Ended June 30, 2006</u>	<u>Pawn Lending</u>	<u>Investment, Management and Advisory Services</u>	<u>Consolidated</u>
Revenues:			
Merchandise sales	\$ 15,201	\$ -	\$ 15,201
Pawn service charges and related fee income	6,225	-	6,225
Management advisory and related fee income	29	18	47
Total Revenues	<u>21,455</u>	<u>18</u>	<u>21,473</u>
Expenses:			
Cost of sales	10,979	-	10,979
Store operating expenses	6,280	-	6,280
Corporate administrative expenses	2,007	880	2,887
Depreciation and amortization	359	26	385
Operating income (loss)	<u>1,830</u>	<u>(888)</u>	<u>942</u>
Interest and dividend income	12	747	759
Interest expense	(220)	(1,695)	(1,915)
Gain on sale of investments	-	706	706
Loss on futures contracts	(1,368)	-	(1,368)
Net income (loss) before taxes	<u>\$ 254</u>	<u>\$ (1,130)</u>	<u>\$ (876)</u>
Total Assets	<u>\$ 12,673</u>	<u>\$ 21,570</u>	<u>\$ 34,243</u>

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(14) Related Party Transactions

On April 3, 2006 the Company loaned \$900,000 to American IronHorse primarily to enable American IronHorse 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 American IronHorse to its lender. Due to a default under its loan documents, American IronHorse 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 American IronHorse involving the public or private sale or issuance of stocks, bonds, debentures, notes or other equity or debt securities of American IronHorse. 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 American IronHorse 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 \$96,000 and \$27,000 in interest income related to the \$900,000 loan to American IronHorse for the years ended June 30, 2007 and 2006, 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. Dwayne Moyers is a director of the Company and Chairman of the Board of American IronHorse.. Robert W. Schleizer, the Company's Chief Financial Officer and a director, is a was appointed Chief Financial Officer of American IronHorse in December 2006 and is director of American IronHorse. He previously served as that company's Chief Financial Officer from January 2004 to March 2005. James R. Richards, a director of the Company, is a director of American IronHorse.

Sanders Morris Harris, Inc. ("SMH"), a related party, employs Jeffrey A. Cummer and Dwayne A. Moyers as officers of a subsidiary and executes security transactions for the Company. Messrs. Moyers and Cummer are also officers and directors of the Company. Commissions paid to SMH were \$3,205 and \$10,185 for the years ended June 30, 2007 and 2006, respectively.

As of June 30, 2007, the Company owned 1,663,642 shares of Integrity common stock. SMH, a related party, provides investment advisory services to Integrity and was paid \$607,658 and \$237,237 in advisory fees from Integrity for the years ended June 30, 2007 and 2006, respectively.

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 director of American IronHorse. 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.

(15) Subsequent Events

On October 1, 2007 Select Partners, Ltd., a limited partnership of which Mr. Jeffrey Cummer is President, director and principal shareholder acquired 5,392 shares of the Company's Series B preferred shares in a private transaction at a price of \$3.00 per share.

On October 1, 2007 Select Partners, Ltd., a limited partnership of which Mr. Jeffrey Cummer is President, director and principal shareholder acquired 50,000 shares common stock at a price of \$.63 per share.