

**XTEND, INC.**

**FINANCIAL STATEMENTS**

September 30, 2008 and 2007

XTEND, INC.  
Grand Rapids, Michigan

FINANCIAL STATEMENTS  
September 30, 2008 and 2007

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Crowe Horwath LLP  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders  
Xtend, Inc.  
Grand Rapids, Michigan

We have audited the accompanying balance sheets of Xtend, Inc. as of September 30, 2008 and 2007, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Xtend, Inc. as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Grand Rapids, Michigan  
November 20, 2008

XTEND, INC.  
BALANCE SHEETS  
September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash	\$ 297,180	\$ 283,174
Accounts receivable	75,017	38,456
Accounts receivable - related party (Note 5)	-	3,193
Prepaid expenses	8,045	4,279
Refundable income tax	-	5,512
Deferred income taxes	<u>4,000</u>	<u>870</u>
Total current assets	384,242	335,484
Equipment	11,758	6,532
Furniture and fixtures	28,914	28,914
Leasehold improvements	<u>37,916</u>	<u>37,916</u>
	78,588	73,362
Less accumulated depreciation	<u>(27,485)</u>	<u>(16,629)</u>
	<u>51,103</u>	<u>56,733</u>
	<u>\$ 435,345</u>	<u>\$ 392,217</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 5,802	\$ 35
Accounts payable - related party (Note 5)	<u>62,494</u>	<u>-</u>
Total current liabilities	68,296	35
Deferred income taxes	1,800	2,700
Stockholders' equity		
Common stock - no par value, 60,000 shares authorized; shares issued and outstanding: 8,800 at September 30, 2008 and 2007	306,042	301,456
Retained earnings	<u>59,207</u>	<u>88,026</u>
	<u>365,249</u>	<u>389,482</u>
	<u>\$ 435,345</u>	<u>\$ 392,217</u>

See accompanying notes to financial statements.

XTEND, INC.  
STATEMENTS OF OPERATIONS  
Years ended September 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>Revenues</b>	\$ 600,581	\$ 426,354
Operating expenses	<u>635,955</u>	<u>450,195</u>
<b>Loss before other income and income taxes</b>	(35,374)	(23,841)
Other income		
Interest income	<u>2,525</u>	<u>2,386</u>
<b>Loss before benefit for income taxes</b>	(32,849)	(21,455)
Income tax benefit	<u>(4,030)</u>	<u>(2,595)</u>
<b>Net loss</b>	<u>\$ (28,819)</u>	<u>\$ (18,860)</u>

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See accompanying notes to financial statements.

XTEND, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY  
 Years ended September 30, 2008 and 2007

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	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, September 30, 2006</b>	\$ 273,000	\$ 106,886	\$ 379,886
Sale of 600 shares of common stock	37,500	-	37,500
Redemption of 200 shares of common stock	(9,044)	-	(9,044)
Net loss	<u>-</u>	<u>(18,860)</u>	<u>(18,860)</u>
<b>Balance, September 30, 2007</b>	301,456	88,026	389,482
Sale of 200 shares of common stock	13,500	-	13,500
Redemption of 200 shares of common stock	(8,914)	-	(8,914)
Net loss	<u>-</u>	<u>(28,819)</u>	<u>(28,819)</u>
<b>Balance, September 30, 2008</b>	<u>\$ 306,042</u>	<u>\$ 59,207</u>	<u>\$ 365,249</u>

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See accompanying notes to financial statements.

XTEND, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (28,819)	\$ (18,860)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	10,856	10,092
Deferred income taxes	(4,030)	(2,570)
Change in assets and liabilities		
Accounts receivable	(36,561)	(8,691)
Accounts receivable - related party	3,193	(3,193)
Prepaid expenses	(3,766)	(1,432)
Accounts payable	5,767	(16,044)
Accounts payable - related party	62,494	-
Federal income taxes	<u>5,512</u>	<u>(14)</u>
Net cash from operating activities	14,646	(40,712)
 <b>Cash flows from investing activities</b>		
Purchases of property and equipment	<u>(5,226)</u>	<u>(2,833)</u>
Net cash from investing activities	(5,226)	(2,833)
 <b>Cash flows from financing activities</b>		
Proceeds from issuance of stock	13,500	37,500
Payments on redemption of stock	<u>(8,914)</u>	<u>(9,044)</u>
Net cash from financing activities	<u>4,586</u>	<u>28,456</u>
 Net change in cash	14,006	(15,089)
 Cash at beginning of year	<u>283,174</u>	<u>298,263</u>
 <b>Cash at end of year</b>	<u>\$ 297,180</u>	<u>\$ 283,174</u>

See accompanying notes to financial statements.

XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2008 and 2007

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**NOTE 1 - NATURE OF BUSINESS**

Nature of Business: Xtend, Inc. ("the Company") was formed in 2002 and was organized for the purpose of providing and/or coordinating resources and opportunities for the credit union industry. The Company provides managerial, operational and technical planning and consulting, outsourcing of technical and human resources, and coordination of marketing efforts for financial services located primarily in Michigan. Revenue is recognized based on billings to customers as services are performed. The Company is organized as a credit union service organization (CUSO).

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Cash: The Company has cash deposits in checking and savings accounts with a local credit union. The first \$100,000 of these cash deposits with the credit union are insured by an agency of the United States government.

Accounts Receivable: The Company sells to customers using credit terms customary in its industry. Interest is not normally charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. These financial statements contain no allowance for doubtful accounts since management expects that receivables are fully collectible.

Property and Equipment: Property and equipment are stated at cost. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are depreciated over the estimated useful life or lease term, whichever is less. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Advertising: The Company expenses advertising costs as incurred. Advertising costs for the years ended September 30, 2008 and 2007 were \$2,885 and \$1,841.

Income Taxes: The Company is a taxable cooperative for federal income tax purposes. The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates.

Patronage Dividends: Patronage dividends reflect discretionary distributions to shareholders, as approved by the Board of Directors. These distributions are limited to a portion of the net earnings of the Company from business done with its shareholders, and are allocated to individual shareholders based upon the volume of business done with the Company.

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XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income or Stockholders' equity.

**NOTE 3 - CAPITAL STOCK**

The Company has issued common stock with all shares having voting rights and containing transfer restrictions.

The Company is obligated to purchase shares of withdrawing stockholders within 60 days of the stockholders' written request. The purchase price of the stock is the book value of the stock as of the end of the prior fiscal year. The Company does not have any purchase obligations as of September 30, 2008.

**NOTE 4 - INCOME TAXES**

The benefit for income taxes consists of the following:

	<u>2008</u>	<u>2007</u>
Current income tax benefit	\$ (8,060)	\$ (5,165)
Deferred income tax expense	<u>4,030</u>	<u>2,570</u>
	<u>\$ (4,030)</u>	<u>\$ (2,595)</u>

XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 - INCOME TAXES** (Continued)

Deferred tax assets and liabilities are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets	\$ 4,800	\$ 1,500
Deferred tax liabilities	<u>(2,600)</u>	<u>(3,330)</u>
	<u>\$ 2,200</u>	<u>\$ (1,830)</u>

The provision for federal income tax differs from expense computed at statutory rates due to the effect of various nondeductible expenses.

Deferred tax liabilities result from temporary differences between financial statements and tax returns for the recognition of prepaid expenses and accumulated depreciation.

At September 30, 2008, the Company had available approximately \$23,700 of net operating loss carryforward to offset future taxable income. The loss carryforward will expire in 2027.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The Company provides services to all of its shareholders. Revenues from transactions with shareholders constituted 48% and 42% of total revenues during fiscal 2008 and 2007, respectively. At September 30, 2008 and 2007, 35% and 28%, respectively, of the Company's accounts receivable were from its shareholders. All cash accounts of the Company at September 30, 2008 and 2007 were held at a shareholder credit union.

XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)**

Operational support services are provided to the Company by a shareholder on a year-to-year basis. Services provided by the shareholder include the use of office space, computer equipment, employees, and various human resources. The Company incurred \$384,000 and \$293,100 of operational support fees for the years ended September 30, 2008 and 2007, respectively. The Company also had accounts payable due to this shareholder of \$62,494 at September 30, 2008, and accounts receivable due from this shareholder of \$3,193 at September 30, 2007.

Included in the operational support fees above are rental expenses for office space used by the Company which is leased by the shareholder. While the operating agreement is signed on a year-to-year basis, it is management's intention to use this office space for the length of the shareholder's operating lease agreement, through May 31, 2017. For the year ended September 30, 2008, total rental expense incurred was \$21,000.

Total future rental payments on the related party lease over minimum intended lease terms are as follows, by fiscal year:

2009	\$ 21,000
2010	21,000
2011	21,000
2012	21,000
2013	21,000
Thereafter	<u>77,000</u>
	<u>\$ 182,000</u>