EXHIBIT A

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:

SRC Holding Corporation,
f/k/a Miller & Schroeder, Inc.
and its subsidiaries,

Debtors.

Chapter 7 Case

BKY Case Nos. 02-40284 to 02-40286

Jointly Administered

Brian F. Leonard, Trustee,

Plaintiff,

vs.

Roger J. Wikner,

Defendant.

ADV Case No.03-4153

PLAINTIFF'S ANSWERS TO DEFENDANT'S INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS

TO: DEFENDANT, BY AND THROUGH HIS COUNSEL OF RECORD, LARRY RICKE, ESQ., LEONARD, STREET AND DEINARD, 150 SOUTH FIFTH STREET, SUITE 2300, MINNEAPOLIS, MINNESOTA 55402.

PRELIMINARY STATEMENT

Pursuant to Rules 26 and 33 of the Federal Rules of Civil Procedure, Plaintiff hereby submits his Answers to Defendant's First Set of Interrogatories and Requests for Production of Documents. Answers are made without in any way waiving or intending to waive, but on the contrary, intending to preserve and preserving:

1. All questions as to competence, relevance, materiality, privilege and admissibility in evidence for any purpose, of the answer or subject matter thereof, in any subsequent proceeding in, or at the trial of, this or any other action;

2. The right to object to the use of any of said answers, or subject matter thereof, in any subsequent proceeding in, or at the trial of, this or any other action;

3. The right to object on any ground at any time to a demand for further response to these or any other interrogatories or other discovery procedures involving or relating to the subject matter of the interrogatories herein answered; and

4. The right at any time to revise, correct, add to, or clarify any of the answers propounded herein.

5. Subject to these objections and without waiving the same, Plaintiff, for its Answers to Defendant's Interrogatories and Requests for Documents, are as follows:

INTERROGATORIES

INTERROGATORY NO. 1: Identify each person involved in or consulted with in respect to answering each of these First Set of Interrogatories, Defendant's Requests for Production of Documents and Defendant's Requests for Admissions, served on you contemporaneously herewith.

ANSWER: The responses to Defendant's discovery were provided by Plaintiff, together with his counsel.

INTERROGATORY NO. 2: Identify each person having knowledge of the facts relevant to the allegations and/or issues in this Adversary Proceeding and the Transfers alleged in the Complaint; and, provide a general description of the facts and/or subject matter known by such person.

ANSWER: This interrogatory is objected to as being unduly burdensome. Plaintiff would expect that all of Debtors' shareholders, directors, officers, and employees during the time period of 1997-98 may have knowledge of this matter. The parties who executed documentation as part of the subject stock sale would have knowledge, too.

INTERROGATORY NO. 3: Identify all documents referred to or used to (a) prepare the Complaint; (b) answer these Interrogatories; and (c) answer Defendant's Requests for Admissions.

ANSWER: This interrogatory is objected to as being unduly burdensome. Notwithstanding said objection, Plaintiff responds as follows:

(a) Documents received from Leonard, Street & Deinard regarding closing of stock sale to MI Acquisition Corporation; Debtors' check registers; corporate record books, the Debtor's records in Plaintiff's possession or control.

(b) See (a), above.

(c) None.

INTERROGATORY NO. 4: Identify all documents in the Debtor's possession, custody or control relating to the Transfers and the allegations and/or issues raised in the Complaint.

ANSWER: See response to previous interrogatory. An additional document was provided to counsel for Plaintiff in a meeting with Defendant's counsel. Plaintiff may possess other relevant records, but cannot identify the same at this time.

INTERROGATORY NO. 5: Identify and describe the analysis and/or investigation undertaken by you or on your behalf to identify all Transfers which are alleged to be avoidable and recoverable under § § 547, 548, 544, Minn. Stat. Chapter 513, and/or 550 of the Bankruptcy Court.

ANSWER: This interrogatory is objected to as requesting privileged attorney work product and mental impressions. Notwithstanding said objection, the Plaintiff, through his counsel, reviewed records related to the subject transactions.

INTERROGATORY NO. 6: Regarding each matter in the Defendant's Requests for Admissions which is denied by you in your answer, state separately as to each such denial by paragraph number of the answer which contains your denial, the basis upon which the denial is based; and, identify all documents which evidence the facts asserted in your answers to this Interrogatory and all persons having knowledge of such facts.

ANSWER: See response to requests for admission.

INTERROGATORY NO. 7: Identify all Transfers alleged by the Trustee to have been made by the Debtor to the Defendant and which form the basis of any claim for relief in the Complaint, identifying as to each transfer the amount of payment, the check date (if applicable), the date on which each such transfer was received by the Defendant, and identify any documents relating to any such transfer.

ANSWER: There are a number of transfers which are the subject of this action. First, Defendant, together with James Iverson, arranged for Miller & Schroeder, Inc. to forgive substantial personal debt as part of MI Acquisition Corporation's purchase of Defendant's stock. Causing that forgiveness of debt was a transfer. This occurred at the closing of MI Acquisition Corporation's stock purchase effective June 20, 1997. The debts forgiven were identified in the Closing Statement Certificate and Receipt dated July 31, 1997.

Defendant, in furtherance of the stock sale, also caused Miller & Schroeder, Inc. to execute a noncompetition agreement with Defendant. This, too, was a transfer. This is believed to have been signed on or about July 31, 1997.

Lastly, the payments on the noncompetition agreement were transfers. Those dates can be ascertained from the Debtors' banking records. However, it is believed that Defendant admits receiving all of those payments.

INTERROGATORY NO. 8: If you contend that any Transfer made by the Debtor to Defendant was made for or on account of an antecedent debt owed by the Debtor to Defendant before such Transfer was made, state the factual basis for your contention; and, identify all documents which evidence the facts asserted in your answer to this Interrogatory and all persons having knowledge of such facts.

ANSWER: The payments on the noncompetition agreement, as described in the previous response, were payments on an antecedent debt (the noncompetition agreement). Defendant, Mr. Iverson, the Debtors' former management, and counsel for all of the foregoing may have knowledge of these facts.

INTERROGATORY NO. 9: If you contend that any Transfer alleged in the Complaint made by the Debtor to Defendant was not:

(i) in payment of a debt incurred by the Debtor in the ordinary course of business or financial affairs of the Debtor and Defendant;

(ii) a payment in the ordinary course of business or financial affairs of the Debtor and the Defendant; and

(iii) made according to ordinary business terms, state the factual basis for your contention; and, identify all documents which evidence the facts asserted in your answers to this Interrogatory and all persons having knowledge of such facts.

ANSWER: This interrogatory is objected to as being unduly burdensome and as calling for a legal conclusion. Notwithstanding said objections, Plaintiff responds as follows:
Debtors' employment files and Defendant's prior employment agreement. Debtors did not historically pay for non-compete agreements and said agreements had shorter "tails." It appears from a review of Defendant's records that these agreements were originally to be consulting agreements but were later changed to become noncompete agreements. This evidences personal economic interests rather than the legitimate stifling of competition. Correspondence was produced by Defendant which evidences that those agreements were actually in furtherance of the stock sale (i.e., purchase price). More specifically, see Dlugosch letter of February 28, 1997.

INTERROGATORY NO. 10: For each Transfer which you contend was not made in the ordinary course of business between the Debtor and Defendant identify the Transfer and describe with particularity how the Transfer deviated from the ordinary corse of business between the Debtor and the Defendant; and, identify all documents which evidence the facts asserted in your answer to this Interrogatory.

ANSWER: See response to previous interrogatory.

INTERROGATORY NO. 11: Discuss in detail the factual and legal basis for the allegation in the Complaint that the Debtor was insolvent at the time each Transfer was made, and identify all documents which evidence the factual and legal basis asserted in your answer to this Interrogatory.

ANSWER: In lieu of responding to this interrogatory, plaintiff will produce the Debtors' financial records as allowed by Rule 33 of the F.R.Civ.P. made applicable herein by Bankr. Rule 7033.

INTERROGATORY NO. 12: Identify all witnesses which you will or may use at the trial of this Adversary Proceeding, and for each such witness state the subject matter on which the witness is expected to testify; the substance of the facts to which the witness is expected to testify; and, identify all documents upon which you and each witness will rely or otherwise utilize for purposes of trial.

ANSWER: Witnesses are undetermined at this time.

INTERROGATORY NO. 13: Identify each person whom you expect to call as an expert witness at trial, and for each such person state:

a. the subject matter on which said expert is expected to testify;

b. the substance of all facts and opinions to which said expert is expected to testify; and

c. a summary of the grounds for each such opinion.

ANSWER: Plaintiff expects to call Professor Daniel Kleinberger of the William Mitchell College of Law to testify about the stock sale and the issue of fiduciary duties. The basis for his opinion will be the records related to the stock purchase that is the subject of this suit.

INTERROGATORY NO. 14: Discuss in detail the factual and legal basis for the allegations set forth in paragraph 12 of the Complaint and identify all documents which evidence the factual legal and basis for such allegations.

ANSWER: The subject stock purchase agreement, together with the "Released Obligations," which were part of the documents produced by Defendant, are self-explanatory.

INTERROGATORY NO. 15: Identify with particularity the factual and legal basis for the allegation in paragraph 13 of the Complaint that Debtors made certain "Unknown Transfers" and for each "Unknown Transfer" alleged to have been made, identify the amount, the date, the method of transfer, and if such transfer is alleged to have been made by check, identify the check date, number, and bank account on which such check was alleged to have ben drawn and identify all documents which evidence such "Unknown Transfers."

ANSWER: The Trustee has not, yet, identified other transfers and they, therefor, remain "unknown". Discovery is continuing.

INTERROGATORY NO. 16: Discuss in detail the factual and legal basis for the allegation in paragraph 15 of the Complaint that Debtors purchased $75,000 of term life insurance, and identify all documents which evidence the factual and legal basis for such allegation.

ANSWER: This is provided for in the subject stock purchase agreement. Discovery is continuing.

INTERROGATORY NO. 17: Discuss in detail the factual and legal basis for the allegation that at any time after June 20, 1997 Defendant was an insider of the Debtors.

ANSWER: Plaintiff objects to this interrogatory as calling for a legal conclusion. Notwithstanding said objection, Plaintiff has previously shared his belief that if a transaction is "arranged" while a party is an insider, that the "taint" of being an insider remains throughout the transaction's consummation. Discovery is continuing as the "actual" insider status.

INTERROGATORY NO. 18: Discuss in detail the factual and legal basis for the allegation in paragraph 27 of the Complaint that transfers made in the one year prior to the Petition date constituted transfers to Defendant for which Debtors did not receive reasonably equivalent value an identify all document which evidence the factual legal basis asserted in your answer to this interrogatory.

ANSWER: Plaintiff objects to this interrogatory as calling for a legal conclusion. Notwithstanding said objection, the Plaintiff responds as follows:

> Defendant had a noncompete agreement which covered a period of one year and did not require payment to Defendant. In furtherance of the stock sale, Defendant caused the Debtors to agree to pay him an exorbitant sum to "refrain from competition." Plaintiff believes that this agreement was simply a vehicle to grant additional funds to Defendant in consideration for the sale of his stock. The Debtors should not have been parties to the stock transaction.

INTERROGATORY NO. 19: Discuss in detail the factual and legal basis for the allegation in paragraph 29 of the Complaint that at the time of the transfers, the Debtors intended to incur, or believe that they would incur, debts beyond their ability to repay said debts as they matured, and identify all documents which evidence the factual and legal basis asserted in your answer to this interrogatory.

ANSWER: This is based on the Plaintiff's knowledge of the Debtors' financial history including, but not limited to, the defaults on the Heritage bond offerings. Records related to the Debtors' financial condition and the claims made against the Debtors are available for inspection.

INTERROGATORY NO. 20: Discuss in detail the factual and legal basis for the allegation in paragraph 32 of the Complaint that the transfers were made to Defendant with actual intent to hinder, delay or defraud creditors, and identify all documents which evidence the factual and legal basis asserted in your answer to this interrogatory.

ANSWER: The Stock Sale Transaction, itself, leads to that interpretation of the facts.

INTERROGATORY NO. 21: Discuss in detail the factual and legal basis for the allegation in Count IV of the Complaint that Defendant had a duty of loyalty to the Debtors, and identify all documents which evidence the factual and legal basis asserted in your answer to this interrogatory.

ANSWER: Plaintiff objects to this interrogatory as calling for legal conclusions. Notwithstanding said objection, Defendant breached his duty of loyalty by having the corporation, of which he was a shareholder, officer and director, by being paid a portion of his stock price by way of forgiveness of debt owed to Miller & Schroeder, Inc. Plaintiff also believes that the noncompete agreement was a violation of that duty. Relevant documents include the corporate records.

INTERROGATORY NO. 22: Discuss in detail the factual and legal basis for the allegations in Count V of the Complaint that one or more of the transfers alleged constituted a conversion of the Debtor's property, and identify with specificity each said transfer which the Trustee alleges constituted a conversion of the Debtor's property, and identify all documents which evidence the factual and legal basis asserted in your answer to this interrogatory.

ANSWER: See response to previous interrogatory.

INTERROGATORY NO. 23: Discuss in detail the factual and legal basis for the allegation in Count VI of the Complaint that some or all of the transfers "unjustly enriched" the Defendant, and identify with specificity which of the transfers are alleged to have constituted an unjust enrichment of the Defendant, and identify all documents which evidence the factual and legal basis asserted in your answer to this interrogatory.

ANSWER: See response to previous two interrogatories.

(Responses to Document Requests begin on the following page)

DOCUMENT REQUESTS

REQUEST NO. 1: All documents identified in, or which support your answers to, the above Interrogatories.

RESPONSE: All such documents will be produced.

REQUEST NO. 2: All documents on which you relied in (a) preparing any Interrogatories served upon Defendant, (b) answering the above Interrogatories, (c) preparing the Complaint; and (d) answering the Defendant's Requests for Admissions.

RESPONSE: All such documents will be produced.

REQUEST NO. 3: All reports, summaries, or other documents prepared, reviewed, relied upon or which may be reviewed or relied upon, by any expert whom you expect to call to testify in this Adversary Proceeding.

RESPONSE: None at this time.

REQUEST NO. 4: All correspondence and other documents reflecting, referring, or relating to communications between the Debtor and Defendant concerning or referring to debts, funds, or money owed or purportedly owed to Defendant by the Debtor.

RESPONSE: All such documents will be produced.

REQUEST NO. 5: All memoranda, reports, analysis, notes or other documents prepared by the Debtor or its agents reflecting, referring, or relating to debts, funds or moneys owed or purportedly owed by the Debtor to Defendant.

RESPONSE: All such documents will be produced.

REQUEST NO. 6: All correspondence and other documents reflecting, referring, or relating to communications between the Debtor and any other person or entity concerning or referring to any debts, funds or money owed to Defendant by the Debtor.

RESPONSE: All such documents will be produced.

REQUEST NO. 7: All documents reflecting, referring, or relating to whether the Debtor was insolvent at the time of each Transfer alleged in the Complaint.

RESPONSE: All of Debtor's financial records will be made available for inspection.

REQUEST NO. 8: All financial statements of the Debtor prepared during the period from January 1, 1996 until the Petition Date, including, copies of all audited financial statements, all unaudited financial statements of any kind, whether prepared on a quarterly, monthly or other periodic basis, and any and all documents relating to the Debtor's financial condition or relating to the Debtor's solvency, minimum capital requirements, or otherwise relating to the adequacy of Debtor's capitalization whether prepared for internal use or prepared to meet any filing or reporting requirements with the SEC, NASD or any other entity or organization, and specifically including copies of all FOCUS reports.

RESPONSE: To the extent that the same exist and are in the Plaintiff's possession or control as trustee, they will be made available for inspection.

REQUEST NO. 9: All documents reflecting, referring, or relating to the Debtors' financial condition for the period from January 1, 1996 to the Petition Date.

RESPONSE: All of Debtor's financial records will be made available for inspection.

REQUEST NO. 10: All state and federal tax returns of the Debtors for the tax periods from 1996 to the Petition Date.

RESPONSE: To the extent that the trustee possess or controls the same, they will be made available for inspection.

REQUEST NO. 11: All documents or correspondence exchanged by you and any third party relating to the subject matter of this litigation including, without limitation, any analysis of Transfers made during the Preference Period.

RESPONSE: None.

REQUEST NO. 12: All documents which you intend to introduce into evidence or mark as an exhibit at trial in this Adversary Proceeding.

RESPONSE: Not determined at this time but will include documents produced herein or which are produced to Plaintiff in this or the related Iverson matter.

/e/ Brian F. Leonard

Brian F. Leonard, Trustee

As to objections,

LEONARD, O'BRIEN
SPENCER, GALE & SAYRE, LTD.

Dated: October 23, 2003

/e/ Matthew R. Burton

By______________________________
Matthew R. Burton, #210018
Attorneys for Brian F. Leonard, Trustee
100 South Fifth Street
Suite 1200
Minneapolis, Minnesota 55402-1216
(612) 332-1030

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EXHIBIT B

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re: | Chapter 7 Case

SRC Holding Corporation, f/k/a Miller & Schroeder, Inc. and its subsidiaries,

Debtors.

BKY Case Nos. 02-40284 to 02-40286

Jointly Administered

Brian F. Leonard, Trustee,

Plaintiff,

vs.

Roger J. Wikner,

Defendant.

ADV Case No.03-4153

PLAINTIFF'S RESPONSES TO DEFENDANT'S REQUEST FOR ADMISSIONS

TO: DEFENDANT, BY AND THROUGH HIS COUNSEL OF RECORD, ALLEN I. SAEKS, ESQ., LEONARD, STREET AND DEINARD, 150 SOUTH FIFTH STREET, SUITE 2300, MINNEAPOLIS, MINNESOTA 55402.

PRELIMINARY STATEMENT

Pursuant to Rules 26 and 33 of the Federal Rules of Civil Procedure, Plaintiff hereby submits his Responses and Answers and his attorneys submit their objections to Defendant's Requests for Admissions. Answers and Responses are made without in any way waiving or intending to waive, but on the contrary, intending to preserve and preserving:

1. All questions as to competence, relevance, materiality, privilege and admissibility in evidence for any purpose, of the answer or subject matter thereof, in any subsequent proceeding in, or at the trial of, this or any other action;

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2. The right to object to the use of any of said answers, or subject matter thereof, in any subsequent proceeding in, or at the trial of, this or any other action;

3. The right to object on any ground at any time to a demand for further response to these or any other interrogatories or other discovery procedures involving or relating to the subject matter of the interrogatories herein answered; and

4. The right at any time to revise, correct, add to, or clarify any of the answers propounded herein.

5. Subject to these objections and without waiving the same, Plaintiff, for his Answer to Defendant's Request for Admissions are as follows:

RESPONSES TO REQUESTS FOR ADMISSIONS

REQUEST NO. 1: Admit that from and after July 31, 1997, Roger J. Wikner was not an employee, officer, director or shareholder of the Debtors and had no role in the management or operations of the Debtors.

RESPONSE: The Trustee does not have knowledge or information sufficient to admit or deny this request at this time and, therefore, denies the same at this time. The Trustee is the successor in interest to the Debtors' prebankruptcy operations. Discovery is continuing.

REQUEST NO. 2: Admit that from and after July 31, 1997, Roger J. Wikner was not a person in control of the Debtors.

RESPONSE: This request is objected to as calling for a legal conclusion. Further, the Trustee does not know what is meant by the term "person in control" as used by Defendant. Notwithstanding said objections, the Trustee does not have knowledge or information sufficient to admit or deny this request at this time and, therefore, denies the same at this time. The Trustee is the successor in interest to the Debtors' prebankruptcy operations. Discovery is continuing.

AS TO OBJECTIONS:

LEONARD, O'BRIEN
SPENCER, GALE & SAYRE, LTD.

/e/ Matthew R. Burton

Dated: September 24, 2003

By____________________________
Matthew R. Burton, #210018
Attorneys for Plaintiff
100 South Fifth Street
Suite 1200
Minneapolis, Minnesota 55402-1216
(612) 332-1030

/e/ Brian F. Leonard

Dated: September 24, 2003

____
Brian F. Leonard, Trustee

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EXHIBIT C

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:	Chapter 7 Case
SRC Holding Corporation, f/k/a Miller & Schroeder, Inc. and its subsidiaries,	BKY Case Nos. 02-40284 to 02-40286
	Jointly Administered
Debtors.	
Brian F. Leonard, Trustee,	ADV Case No.03-4153
Plaintiff,	
vs.	**PLAINTIFF'S ANSWERS TO DEFENDANT'S REQUESTS FOR PRODUCTION OF DOCUMENTS (SECOND SET)**
Roger J. Wikner,	
Defendant.	

TO: DEFENDANT, BY AND THROUGH HIS COUNSEL OF RECORD, LARRY RICKE, ESQ., LEONARD, STREET AND DEINARD, 150 SOUTH FIFTH STREET, SUITE 2300, MINNEAPOLIS, MINNESOTA 55402.

PRELIMINARY STATEMENT

Pursuant to Rule 34 of the Federal Rules of Civil Procedure, Plaintiff hereby submits his answers and responses to the Request for Production of Documents. All documents produced herewith are made without in any way waiving or intending to waive, but on the contrary, intending to preserve and preserving:

1. All questions as to competence, foundation, relevance, materiality, privilege and admissibility in evidence for any purpose in any subsequent proceeding, or at the trial of this or any other action;

2. The right to object to the use of said documents or subject matter thereof, in any subsequent proceeding or at the trial of this or any other action;

3. The right to object on any ground at any time to demand further answers or responses to these or any other interrogatories or requests for production of documents or other discovery procedures involving or relating to the documents produced herewith; and

4. The right at any time to revise, correct, add to, or supplement the answers and responses made herein.

Subject to the foregoing objections, Plaintiff hereby responds as follows:

DOCUMENT REQUESTS

REQUEST NO. 1: Any and all statements taken or received by you, relating in any way to the matters set forth in the Plaintiff's Complaint, including any written or oral statement, and including any affidavits, whether or not filed with the Court, and any statement taken by or in the presence of a court reporter, or otherwise recorded by tape recorder or other recording device.

RESPONSE: Statement of James Dlugosch has already been disclosed.

LEONARD, O'BRIEN
SPENCER, GALE & SAYRE, LTD.

Dated: February 17, 2004

/e/ Matthew R. Burton
By______________________________
Matthew R. Burton, #210018
Attorneys for Brian F. Leonard, Trustee
100 South Fifth Street
Suite 1200
Minneapolis, Minnesota 55402-1216
(612) 332-1030

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EXHIBIT D

KPMG

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
and Consolidating Schedules

October 31, 1998 and 1997

TABLE OF CONTENTS

KPMG Peat Marwick LLP

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
MI Acquisition Corporation:

We have audited the accompanying consolidated balance sheets of MI Acquisition Corporation and subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended October 31, 1998 and the period from August 1, 1997 (commencement of operations) to October 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of MI Acquisition Corporation and subsidiaries as of October 31, 1998 and 1997, and the results of their operations and their cash flows for the year ended October 31, 1998 and the period from August 1, 1997 to October 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedules I and II are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the results of operations of the individual companies. These schedules are not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG Peat Marwick LLP

December 30, 1998

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

October 31, 1998 and 1997

Assets		1998	1997
Cash and cash equivalents	$	2,016,691	2,531,179
Receivables:			
Customers		1,114,183	3,233,956
Brokers, dealers and clearing organizations		68,617	779,829
Officers' and employees' notes and advances		128,944	159,661
Income tax receivable		–	336,288
Notes receivable		1,906,634	2,971,825
Receivable from prior ownership group		–	1,241,000
Other receivables		2,278,984	1,258,551
Total receivables		5,497,362	9,981,110
Securities inventory		17,712,874	39,293,882
Loan participation notes held for sale		4,948,907	8,917,141
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $4,681,390 in 1998 and $4,168,876 in 1997		1,291,618	833,555
Deferred taxes		548,230	825,220
Goodwill, net of amortization		4,323,473	4,235,576
Other		1,061,855	1,158,801
Total assets	$	37,401,010	67,776,464

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

October 31, 1998 and 1997

Liabilities and Shareholders' Equity	1998	1997
Demand notes payable	$ 10,463,755	42,543,000
Accounts payable:		
Customers	1,134,376	722,939
Brokers, dealers and clearing organizations	883,543	87,659
Operating	2,634,092	2,098,350
Total accounts payable	4,652,011	2,908,948
Accrued liabilities	4,751,366	4,445,160
Income taxes	140,548	–
Term debt	8,006,229	9,719,605
Total liabilities	28,013,909	59,616,713
Commitments and contingencies (note 8)		
Shareholders' equity:		
Common stock, $.01 par value, 90,000,000 shares authorized; 938,950 and 875,850 issued and outstanding in 1998 and 1997, respectively; preferred stock, $.01 par value, 10,000,000 shares authorized; none issued and outstanding in 1998 and 1997	9,390	8,759
Additional paid-in capital	8,537,053	7,906,684
Retained earnings	1,340,658	244,308
Less: Note receivable from shareholder (note 10)	(500,000)	–
Total shareholders' equity	9,387,101	8,159,751
Total liabilities and shareholders' equity	$ 37,401,010	67,776,464

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	For the year ended October 31, 1998	For the period from August 1, 1997 to October 31, 1997
Revenues:		
Securities underwriting and sales	$ 23,821,848	6,186,578
Loan origination fees	7,585,732	1,275,489
Interest income	1,957,519	513,718
Other income	2,050,089	393,517
Total revenues	35,415,188	8,369,302
Expenses:		
Employee compensation:		
Management and underwriting salaries	6,582,929	1,527,193
Sales commissions	5,959,824	1,208,095
Bonuses and incentive compensation	4,003,277	1,340,000
Office, clerical and support salaries	2,307,778	594,250
Benefits and other personnel costs	2,129,441	436,052
Total employee compensation	20,983,249	5,105,590
General and administrative	10,409,470	2,369,013
Interest expense	2,021,719	477,091
Total expenses	33,414,438	7,951,694
Income before income taxes	2,000,750	417,608
Income tax expense	904,400	173,300
Net income	$ 1,096,350	244,308

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Statements of Shareholders' Equity

For year ended October 31, 1998 and for
the period from August 1, 1997 to October 31, 1997

	Shares	Common stock	Additional paid-in capital	Retained earnings	Less: Note receivable (note 10)	Total shareholder's equity
Balances, July 31, 1997	752,500	$ 7,525	6,721,475	–	–	6,729,000
Stock issued	123,350	1,234	1,185,209	–	–	1,186,443
Net income	–	–	–	244,308	–	244,308
Balances, October 31, 1997	875,850	8,759	7,906,684	244,308	–	8,159,751
Stock issued	73,500	735	734,265	–	(500,000)	235,000
Stock redeemed	(10,400)	(104)	(103,896)	–	–	(104,000)
Net income	–	–	–	1,096,350	–	1,096,350
Balances, October 31, 1998	938,950	$ 9,390	8,537,053	1,340,658	(500,000)	9,387,101

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows

	For the year ended October 31, 1998	For the period from August 1, 1997 to October 31, 1997
Operating activities:		
Net income	$ 1,096,350	244,308
Adjustments to reconcile net income to net cash provided (used) for operating activities:		
Depreciation	404,742	25,500
Amortization of goodwill	248,151	53,616
Receivables	4,483,748	(1,073,885)
Securities inventory	21,581,008	(21,017,439)
Loan participation notes held for sale	3,968,234	(659,527)
Deferred taxes	276,990	–
Other assets	96,946	1,636,760
Accounts payable	1,743,063	(2,222,017)
Accrued liabilities	306,206	(411,493)
Income taxes	140,548	–
Securities sold, not yet purchased	–	(11,565)
Net cash provided (used) for operating activities	34,345,986	(23,435,742)
Investing activities:		
Goodwill adjustments (note 1)	477,283	–
Purchase of CHB	(813,331)	–
Payments for office equipment and leasehold improvements, net	(862,805)	(32,809)
Net cash used for investing activities	(1,198,853)	(32,809)
Financing activities:		
(Repayments) Borrowings under demand notes payable, net	(32,079,245)	20,966,842
Net payments of term debt	(1,713,376)	(487,756)
Stock issued in connection with purchase of CHB	235,000	–
Proceeds (payments) for stock issued (redeemed)	(104,000)	1,186,443
Net cash (used) provided by financing activities	(33,661,621)	21,665,529
Net decrease in cash	(514,488)	(1,803,022)
Cash and cash equivalents, beginning of period	2,531,179	4,334,201
Cash and cash equivalents, end of period	2,016,691	2,531,179
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 2,105,641	472,000
Income taxes	702,887	(1,228,329)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

MI Acquisition Corporation (MIAC) and subsidiaries (the Company) provide investment banking and advisory services; securities sales, trading, and underwriting services; and services pertaining to the origination, financing, and sales of loan participation notes. MIAC is the parent company of Miller and Schroeder, Inc. (MSI) which in turn is the parent company of: Miller & Schroeder Financial, Inc. (MSF), Miller & Schroeder Investments Corporation (MSIC), Miller & Schroeder Small Business Capital Corporation (SBCC), Pooled Loan Marketing Corporation (PLMC), Miller & Schroeder Capital Corporation (MSCC), Miller & Schroeder Mortgage Corporation (MSMC), and C.H. Brown (CHB).

MSF is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and underwrites municipal and corporate securities. MSF also markets and trades fixed income and equity securities.

The primary business of MSIC is the origination, financing, and sale of loan participation notes and lease transactions which are collateralized by real estate and/or equipment. These transactions are sold through arrangements made by MSF in the form of nonrecourse loan participation notes. These sales are made to unaffiliated institutional and other investors. MSIC is also the servicing agent for loan participation notes of $639 and $488 million at October 31, 1998 and 1997, respectively.

All material intercompany balances and transactions have been eliminated in consolidation.

In June 1997, MIAC was formed and capitalized with $4,000 representing common stock equity. Operations did not formally commence until July 31, 1997 at which time MIAC acquired all of the issued and outstanding common stock of MSI for $13,930,415. The transaction has been accounted for as a purchase. The cash purchase of outstanding MSI stock was partially financed by $6,500,000 of term debt and the issuance of $6,729,000 of common stock equity. The excess of the purchase price over the fair market value of identified net assets acquired of $4,289,192 was allocated to goodwill. Goodwill is amortized on a straight-line basis over a period of 20 years. During fiscal 1998, the Company made purchase accounting adjustments resulting in a net reduction to goodwill of $477,283.

In February 1998, MIAC acquired all of the issued and outstanding common stock of CHB for $813,331 including the assumption of net liabilities of $542,864. The purchase was partially financed by the issuance of $235,000 of common stock. The excess of the purchase price over the fair market value of identified net assets acquired of $813,331 was allocated to goodwill. Goodwill is amortized on a straight-line basis over a period of 20 years.

The following is a summary of significant accounting policies followed by the Company:

(a) Cash and Cash Equivalents

For financial reporting purposes, the Company considers all investments with original maturities of three months or less to be cash equivalents. Included in cash at October 31, 1998 and 1997 is $1,200,000 and $400,155, respectively, segregated in a special bank account for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission. Amounts required to be segregated, however, at October 31, 1998 and 1997, were $810,712 and none, respectively.

(b) Repurchase and Resale Transactions

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or sales of securities under agreements to repurchase (repurchase agreements) are accounted for as financing transactions and are recorded at the contract amount plus accrued interest at which the securities will be subsequently resold or reacquired.

(Continued)

(c) *Securities Transactions and Loan Participation Notes Held for Sale*

Securities inventories are carried at estimated current market values. The difference between cost and market value is included in revenues from profits on securities trading.

Loan participation notes held for sale are carried at the lower of aggregate cost or market value. These loan participation notes were sold subsequent to October 31, 1998 and 1997 at prices that approximated their carrying values.

Purchases and sales of securities (including sales of loan participations) are recorded on a settlement date basis. The difference between trade date basis and settlement date basis accounting did not have a material effect on the Company's financial position or results of operations.

(d) *Office Equipment and Leasehold Improvements*

Office equipment and leasehold improvements are stated at net book value. Equipment is depreciated on a straight-line or accelerated basis over estimated useful lives of five to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the respective lease term or estimated useful life of the improvements.

(e) *Use of Estimates*

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 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.

(f) *Stock-based Compensation*

The Company accounts for stock option grants using APB Opinion No. 25 (APB No. 25) and, accordingly, does not recognize compensation expense related to option grants. The Company, however, applies the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-based Compensation.*

(2) Securities Inventory and Loan Participation Notes Held for Sale

Securities positions at October 31 are summarized as follows:

	1998	1997
Municipal securities	$ 16,189,420	35,928,422
U.S. Government and Government agency securities	3,021	1,996,487
Other	1,520,433	1,368,973
Total	$ 17,712,874	39,293,882

Loan participation notes held for sale at October 31, 1998 and 1997 totaling $4,948,907 and $8,917,141, respectively, represent the unsold portions of real estate mortgage and equipment loan financings with interest rates ranging from 7.28% to 10.5%.

(Continued)

(3) Notes Receivable

Notes receivable at October 31, 1998 and 1997, consist of $102,233 and $667,155, respectively, of short-term notes and $1,804,401 and $2,304,670 of long-term notes, respectively. The long-term notes are collateralized by real estate, have maturity dates ranging from 2001 through 2005 and have interest rates ranging from 9.414% to 12.43%. The short-term notes relate to temporary advances to issuers.

(4) Funds Held in Escrow

In connection with MSIC's loan servicing activities, funds for real estate taxes, insurance, and certain reserve accounts, including amounts for construction participations, are collected and held in escrow in accordance with loan documents. Funds held in escrow as of October 31, 1998 and 1997 were $20,231,657 and $10,287,231, respectively. These funds are not included in the Company's balance sheets.

(5) Financing Arrangements

(a) Demand Notes Payable

MSF has financing arrangements with several financial institutions and may borrow up to an aggregate of $51 million. MSF's trading securities and certain assets are pledged as collateral under these arrangements. Amounts borrowed under these arrangements fluctuate daily based on the timing of customer and broker-dealer trades and issues underwritten by MSF. The terms and expiration dates of these facilities are periodically renegotiated. At October 31, 1998 and 1997, $5,875,000 and $34,215,000 were outstanding and $45,125,000 and $12,785,000 were available on these facilities, respectively. MSF is expected to maintain agreed-upon compensating balances with the financial institutions. MSF's interest rates on these borrowings fluctuate with the daily federal funds rate. The rates in effect at October 31, 1998 and October 31, 1997, ranged from 6.925% to 7.0% and 6.9875% to 7.38%, respectively.

MSIC has a $5 million credit facility with a financial institution, and may draw up to $10 million on MSF's credit facility. At October 31, 1998 and 1997, MSIC had $4,500,000 and $6,838,000 outstanding on these credit facilities, respectively. MSIC may borrow funds under terms of the demand note to finance loan participation notes up to predefined amounts, with the underlying notes pledged as collateral. Interest accrues at the financial institution's base rate plus 1% (9.0% at October 31, 1998 and 9.5% at October 31, 1997).

SBCC has a $1 million credit facility with a financial institution which is secured by notes receivable, and may draw up to $4 million on MSF's credit facility. At October 31, 1998, there was no outstanding balance on these facilities and at October 31, 1997, $1,490,000 was outstanding. Interest accrues at the financial institution's federal funds rate plus 1.5% (7.0% at October 31, 1998 and 7.38% at October 31, 1997).

MSCC has a note payable to a limited partnership of $88,755 at October 31, 1998 that is payable on demand. Interest accrues on this note at 7.25%.

(Continued)

(b) Term Debt

Term debt outstanding as of October 31 consisted of :

	1998	1997
Pollution Control Financing Certificates collateralized by certain notes receivable guaranteed by the Small Business Administration:		
9%, due in annual installments through October 2001	$ 1,575,000	2,015,000
12.25%, due in March 2005	182,000	182,000
Notes payable, 8.5%, due in monthly installments through February 2000, collateralized by equipment	14,789	24,835
Notes payable, (8.45% to 9.20% & 10.375% at 10/31/98 & 10/31/97, respectively), due in monthly installments through June 2003, collateralized by certain furniture and office equipment	1,105,192	197,774
Notes payable, prime rate plus 1% (9.0% and 9.5% at October 31, 1998 and 1997, respectively), due in monthly installments through October 2001, collateralized by note receivable	599,992	799,996
Note payable to shareholder of the Company, 6.5%, due in annual installments through January 2003	289,256	-
Revolving line of credit, prime rate plus 1% (9.0% and 9.5% at October 31, 1998 and 1997, respectively), due in quarterly installments through September 2002	2,240,000	4,500,000
Notes payable, federal funds rate plus 1.5% (7.0% and 7.38% at October 31, 1998 and 1997, respectively), due September 2002 or on demand, collateralized by marketable securities	2,000,000	2,000,000
	$ 8,006,229	9,719,605

The revolving line of credit is collateralized by all assets of the Company. The Company is required to meet certain operating, capital, coverage, and debt related covenants under these agreements.

(Continued)

Maturities of term debt outstanding at October 31 are as follows:

1999	$ 1,824,272
2000	1,663,075
2001	1,479,573
2002	2,520,904
2003	336,405
Thereafter	182,000
	$ 8,006,229

(6) Income Taxes

The Company files combined state income tax returns, except in certain states where separate returns are filed, and files a consolidated federal income tax return.

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on the estimated future tax effects or differences between the financial statement basis and tax basis of assets and liabilities using the provisions of enacted laws.

The income tax provision reflected in the accompanying consolidated statements of operations consists of:

	1998	1997
Current:		
Federal	$ 897,000	(266,000)
State	32,000	(35,700)
Deferred	(24,600)	475,000
	$ 904,400	173,300

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate sufficient future taxable income. Based upon the levels of historical taxable income, projections of future taxable income, and the ability to carry losses back, management believes it is more likely than not that the Company will realize the benefits of the deferred tax asset as of October 31, 1998 and 1997.

(Continued)

The effective tax rate is calculated using the provision for income taxes. The difference between the U.S. Federal Statutory rate and the effective tax rate is as follows:

Statutory tax rate at October 31, 1998	34.00%
Effect of items on tax rate and provision amounts:	
Tax exempt income	(5.87%)
Non deductible goodwill	4.22%
Other	5.13%
State taxes	7.72%
Effective tax rate at October 31, 1998	45.20%

(7) **Net Capital Requirements**

As a broker-dealer, MSF is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. MSF has elected to use the alternative method, permitted by the Rule, which requires that MSF maintain minimum net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. At October 31, 1998 and 1997, MSF's net capital, as defined, of $6,896,998 and $5,578,565, respectively, was 588% and 168% of aggregate debit balances and was $6,646,998 and $5,328,565, respectively, in excess of the minimum net capital required.

(8) **Commitments and Contingencies**

(a) Underwriting Commitments

In the ordinary course of business, MSF enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at October 31, 1998 and 1997, have subsequently settled and had no material affect on the financial statements.

(Continued)

(b) Operating Leases

The Company has operating lease commitments expiring at various dates for its offices and certain equipment. Rental expense was $1,292,821 and $1,281,281 for fiscal 1998 and 1997, respectively. Future minimum payments under operating leases are as follows:

Fiscal year	
1999	$ 1,407,825
2000	989,537
2001	865,091
2002	849,619
2003	543,445
Thereafter	2,014,957

(c) Employee Benefit Plan

MSF has a 401(k) plan that allows employees to contribute a portion of their compensation. MSF's expense related to this plan was $285,990 and $2,119 for the year ended October 31, 1998 and for the period from August 1, 1997 to October 31, 1997, respectively.

(d) Contingencies

In the normal course of business, the Company, from time to time, becomes involved in claims and litigation that may ultimately result in a liability to the Company. It is the opinion of management that facts known at the present time do not indicate that the ultimate resolution of any such claims or litigation would have a material effect on the Company's operations or its financial position.

(e) Other

As of October 31, 1998 and 1997, MSIC had committed to advance $47,440,244 and $61,274,043, respectively, in construction loans. Concurrent with this commitment, MSIC has entered into commitments to sell these loans in the form of nonrecourse loan participation notes.

(9) Financial Instruments with Off-Balance-Sheet Risk

In the ordinary course of business, the Company's securities activities involve execution, settlement, and financing of various securities transactions as principal and agent. These activities may expose the Company to credit and market risks in the event customers, other brokers and dealers, banks, depositories, or clearing organizations are unable to fulfill contractual obligations. Such risks may be increased by volatile trading markets.

The Company records customer securities transactions on a settlement date basis. The Company is therefore exposed to off-balance-sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill contractual obligations.

The Company also may assume short positions in its inventory. These transactions result in off-balance-sheet market risk as the Company's ultimate obligation to satisfy the short sale may exceed the amount recognized in the balance sheets.

(Continued)

The Company also may lend money subject to reverse repurchase agreements. All positions are collateralized, primarily with U.S. Government or U.S. Government agency securities. The Company's policy is to take physical possession of securities purchased under agreements to resell. Such transactions may expose the Company to risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company does not believe that it has any significant concentrations of credit risk.

(10) Stock Option Plans

The Company maintains two fixed stock compensation plans, the MI Acquisition Corporation Stock Option Plan and the Director Stock Option Plan, which are used to provide stock incentives to key employees and outside directors of the Company. Each Plan authorizes the grant of incentive and/or non-qualified options with an exercise price equal to the fair value of the common stock as of the grant date. Vesting periods for the options range from immediately to five years and expire ten years from the date of grant. At October 31, 1998 and 1997, 158,912 and 300,000 shares of common stock, respectively, were available for grant under the Stock Option Plan and 47,000 and 0 shares were available for grant under the Director Stock Option Plan.

The Company applies APB No. 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation expense has been recognized in the consolidated financial statements for stock option grants. Had compensation expense been determined based on the fair value of the options at grant date consistent with SFAS No. 123, the Company's consolidated net income of $1,096,350 for the year ended October 31, 1998 and $244,308 for the period from August 1, 1997 to October 31, 1997, would have been $985,921 and $228,708, respectively.

The company granted 50,000 options during the year ended October 31, 1997 to a director of the company in connection with the MSI acquisition. These options were exercised effective August 1, 1998 and 50,000 shares were issued at a price of $10 per share. The Company recorded a loan to the director for this subscription. At October 31, 1998 the outstanding balance of this note receivable was $500,000.

The weighted average per-share fair value of options granted during fiscal 1998 and 1997 was $1.87 and $.52, respectively. The fair value of each option granted is estimated on the date of grant using the Minimum Value Method with the following weighted average assumptions used for grants in 1998 and 1997; dividend yields of 0%; expected volatility of 0%; risk-free interest rate of 4.22% in 1998 and 5.46% in 1997; and expected life of 5 years in 1998 and 1 year in 1997. Pro forma amounts may not be indicative of future results.

(Continued)

The following table summarizes the activity related to the Company's stock options for the year ended October 31, 1998 and for the period from August 1, 1997 to October 31, 1997:

	1998		1997	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding at beginning of period	50,000	$ 10.00	–	$ –
Granted	144,088	10.00	50,000	10.00
Exercised	(50,000)	10.00	–	–
Canceled, forfeited or expired	–	–	–	–
Options outstanding at end of period	144,088	10.00	50,000	10.00

The options outstanding at October 31, 1998 and 1997 have a weighted average remaining contractual life of nine and three years, respectively.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Schedule I

Consolidating Balance Sheet

October 31, 1998

Assets	MIAC	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	CHB	Eliminations	Consolidated
Cash and cash equivalents	$ 69	46	1,873,902	124,472	296	26	1,262	14,270	2,348		2,016,691
Receivables:											
Customers	–	–	1,114,183	–	–	–	–	–	–	–	1,114,183
Brokers, dealers and clearing organizations	–	–	68,617	–	–	–	–	–	–	–	68,617
Officers' and employees' notes and advances	–	–	46,444	–	–	–	–	–	82,500	–	128,944
Notes receivable	–	–	102,233	–	1,729,401	–	75,000	–	–	–	1,906,634
Other receivables	–	3,948	2,031,440	118,030	2,242	–	–	20,413	102,911	–	2,278,984
Total receivables	–	3,948	3,362,917	118,030	1,731,643	–	75,000	20,413	185,411	–	5,497,362
Securities inventory	–	–	17,712,874	–	–	–	–	–	–	–	17,712,874
Due from affiliates	431,789	2,786,491	3,576,880	2,487,488	49,837	279,019	–	367,645	–	(9,979,149)	–
Loan participation notes held for sale	–	–	–	4,816,252	–	132,655	–	–	–	–	4,948,907
Office equipment and leasehold improvements	–	1,291,618	–	–	–	–	–	–	–	–	1,291,618
Investment in subsidiaries	9,070,859	9,253,734	–	–	–	–	–	–	–	(18,324,593)	–
Deferred taxes	14,000	494,354	–	25,876	–	–	14,000	–	–	–	548,230
Goodwill	4,323,473	–	–	–	–	–	–	–	–	–	4,323,473
Other	146,032	149,758	518,800	–	75,005	–	168,433	–	3,827	–	1,061,855
Total assets	$ 13,986,222	13,979,949	27,045,373	7,572,118	1,856,781	411,700	258,695	402,328	191,586	(28,303,742)	37,401,010
Liabilities and Shareholders' Equity											
Demand notes payable	–	–	5,875,000	4,500,000	–	–	88,755	–	–	–	10,463,755
Accounts payable:											
Customers	–	–	1,134,376	–	–	–	–	–	–	–	1,134,376
Brokers, dealers and clearing organizations	–	–	883,543	–	–	–	–	–	–	–	883,543
Operating	–	2,918	1,151,698	1,416,586	8,143	33,709	–	–	21,038	–	2,634,092
Due to affiliates	2,571,581	5,988,755	4,274	–	403,592	–	184,661	–	826,286	(9,979,149)	–
Accrued liabilities	22,354	399,814	3,714,513	341,990	36,113	1	–	11,826	224,755	–	4,751,366
Income Taxes	(235,892)	(154,156)	436,503	275,403	(7,685)	30,322	7,425	25,628	(237,000)	–	140,548
Term debt	4,240,000	1,705,184	14,789	–	1,757,000	–	–	–	289,256	–	8,006,229
Total liabilities	6,598,043	7,942,515	13,214,696	6,533,979	2,197,163	64,032	280,841	37,454	1,124,335	(9,979,149)	28,013,909
Shareholders' equity:											
Common stock	9,390	99,063	500,000	10,000	1,000	100	1,000	1,000	10	(612,173)	9,390
Additional paid-in capital	8,537,053	6,000,000	7,950,000	140,600	–	305,900	–	–	22,964	(14,419,464)	8,537,053
Retained earnings	(658,264)	(61,629)	5,380,677	887,539	(341,382)	41,668	(23,146)	363,874	(955,723)	(3,292,956)	1,340,658
Less: Note receivable from shareholder	(500,000)	–	–	–	–	–	–	–	–	–	(500,000)
Total shareholders' equity	7,388,179	6,037,434	13,830,677	1,038,139	(340,382)	347,668	(22,146)	364,874	(932,749)	(18,324,593)	9,387,101
Total liabilities and shareholders' equity	$ 13,986,222	13,979,949	27,045,373	7,572,118	1,856,781	411,700	258,695	402,328	191,586	(28,303,742)	37,401,010

See accompanying independent auditors' report.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Schedule I

Consolidating Balance Sheet

October 31, 1997

Assets	MIAC	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	Eliminations	Consolidated
Cash and cash equivalents	$ 39,077	15,430	2,125,197	16,408	372	324,141	1,208	9,346	–	2,531,179
Receivables:									–	
Customers	–	–	3,233,956	–	–	–	–	–	–	3,233,956
Brokers, dealers and clearing organizations	–	–	779,829	–	–	–	–	–	–	779,829
Officers' and employees' notes and advances	–	–	159,661	–	–	–	–	–	–	159,661
Income tax receivable	70,000	384,577	(6,155)	(117,417)	(742)	(13,922)	14,575	5,372	–	336,288
Notes receivable	–	–	667,155	–	2,229,670	–	75,000	–	–	2,971,825
Receivable from prior ownership group	1,241,000	–	–	–	–	–	–	–	–	1,241,000
Other receivables	140,000	3,948	861,244	198,086	18,703	8,595	–	27,975	–	1,258,551
Total receivables	1,451,000	388,525	5,695,690	80,669	2,247,631	(5,327)	89,575	33,347	–	9,981,110
Securities inventory	–	–	39,293,882	–	–	–	–	–	–	39,293,882
Due from affiliates	–	–	2,423,676	1,870,849	–	–	–	275,296	(4,569,821)	–
Loan participation notes held for sale	–	–	–	7,131,213	–	1,785,928	–	–	–	8,917,141
Office equipment and leasehold improvements	–	–	833,555	–	–	–	–	–	–	833,555
Investment in subsidiaries	9,641,223	9,253,734	–	–	–	–	–	–	(18,894,957)	–
Deferred Taxes	–	210,452	526,878	73,890	–	–	14,000	–	–	825,220
Goodwill	4,235,576	–	–	–	–	–	–	–	–	4,235,576
Other	201,053	188,504	532,155	–	24,183	–	212,906	–	–	1,158,801
Total assets	$ 15,567,929	10,056,645	51,431,033	9,173,029	2,272,186	2,104,742	317,689	317,989	(23,464,778)	67,776,464
Liabilities and Shareholders' Equity										
Demand notes payable to bank	–	–	34,215,000	6,838,000	–	1,490,000	–	–	–	42,543,000
Accounts payable:										
Customers	–	–	722,939	–	–	–	–	–	–	722,939
Brokers, dealers and clearing organizations	–	–	87,659	–	–	–	–	–	–	87,659
Operating	–	188	780,938	1,307,241	8,143	–	–	1,840	–	2,098,350
Due to affiliates	1,125,755	2,434,301	–	–	353,368	283,820	372,577	–	(4,569,821)	–
Accrued liabilities	187,861	569,607	3,333,939	298,695	46,200	9,119	–	(261)	–	4,445,160
Term debt	6,500,000	799,996	222,609	–	2,197,000	–	–	–	–	9,719,605
Total liabilities	7,813,616	3,804,092	39,363,084	8,443,936	2,604,711	1,782,939	372,577	1,579	(4,569,821)	59,616,713
Shareholders' equity:										
Common stock	8,759	99,063	500,000	10,000	1,000	100	1,000	1,000	(612,163)	8,759
Additional paid-in capital	7,906,684	6,000,000	7,950,000	140,600	–	305,900	–	–	(14,396,500)	7,906,684
Retained earnings	(161,130)	153,490	3,617,949	578,493	(333,525)	15,803	(55,888)	315,410	(3,886,294)	244,308
Total shareholders' equity	7,754,313	6,252,553	12,067,949	729,093	(332,525)	321,803	(54,888)	316,410	(18,894,957)	8,159,751
Total liabilities and shareholders' equity	$ 15,567,929	10,056,645	51,431,033	9,173,029	2,272,186	2,104,742	317,689	317,989	(23,464,778)	67,776,464

See accompanying independent auditors' report.

MI ACQUISITION CORPORATION AND SUBSIDIARIES **Schedule II**

Consolidating Statement of Operations

For the year ended October 31, 1998

	MIAC	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	CHB	Eliminations	Consolidated
Revenues:											
Securities underwriting and sales	$ –	–	23,768,142	–	–	–	53,706	–	–	–	23,821,848
Loan origination fees	–	–	7,585,732	7,585,732	–	–	–	–	–	(7,585,732)	7,585,732
Interest income	34,841	–	1,407,172	449,411	195,997	63,763	22,856	–	4,229	(220,750)	1,957,519
Other income	2,732	–	1,079,793	1,128,471	–	35,082	45,935	268,464	308,395	(818,783)	2,050,089
Total revenues	37,573	–	33,840,839	9,163,614	195,997	98,845	122,497	268,464	312,624	(8,625,265)	35,415,188
Expenses:											
Employee compensation:											
Management and underwriting salaries	–	–	6,159,677	–	–	–	–	–	423,252	–	6,582,929
Sales commissions	–	–	5,959,824	–	–	–	–	–	–	–	5,959,824
Bonuses and incentive compensation	–	–	3,872,027	–	–	–	–	–	131,250	–	4,003,277
Office, clerical, and support salaries	–	–	2,281,568	–	–	–	–	–	26,210	–	2,307,778
Benefits and other personnel costs	39,728	–	2,045,153	–	–	–	–	–	44,560	–	2,129,441
Total employee compensation	39,728	–	20,318,249	–	–	–	–	–	625,272	–	20,983,249
Fees to affiliate	–	–	–	7,585,732	–	–	–	–	–	(7,585,732)	–
General and administrative	314,133	227,456	9,568,415	571,176	18,170	13,269	54,000	189,000	272,634	(818,783)	10,409,470
Interest expense	345,846	130,663	1,011,447	491,660	192,484	42,511	13,755	–	14,103	(220,750)	2,021,719
Total expenses	699,707	358,119	30,898,111	8,648,568	210,654	55,780	67,755	189,000	912,009	(8,625,265)	33,414,438
Income (loss) before taxes	(662,134)	(358,119)	2,942,728	515,046	(14,657)	43,065	54,742	79,464	(599,385)	–	2,000,750
Income tax (expense) benefit	165,000	143,000	(1,180,000)	(206,000)	6,800	(17,200)	(22,000)	(31,000)	237,000	–	(904,400)
Net income (loss)	$ (497,134)	(215,119)	1,762,728	309,046	(7,857)	25,865	32,742	48,464	(362,385)	–	1,096,350

See accompanying independent auditors' report.

Schedule II

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidating Statement of Operations

For the period from August 1, 1997 to October 31, 1997

	MIAC	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	Eliminations	Consolidated
Revenues:										
Securities underwriting and sales	$ –	–	6,181,295	–	–	–	5,283	–	–	6,186,578
Loan origination fees	–	–	1,275,489	1,275,489	–	–	–	–	(1,275,489)	1,275,489
Interest income	5,191	–	339,829	97,021	74,859	35,875	14	–	(39,071)	513,718
Other income	–	–	299,927	247,838	–	1,246	–	77,006	(232,500)	393,517
Total revenues	5,191	–	8,096,540	1,620,348	74,859	37,121	5,297	77,006	(1,547,060)	8,369,302
Expenses:										
Employee compensation:										
Management and underwriting salaries	–	–	1,527,193	–	–	–	–	–	–	1,527,193
Sales commissions	–	–	1,208,095	–	–	–	–	–	–	1,208,095
Bonuses and incentive compensation	–	–	1,340,000	–	–	–	–	–	–	1,340,000
Office, clerical, and support salaries	–	–	594,250	–	–	–	–	–	–	594,250
Benefits and other personnel costs	–	–	436,052	–	–	–	–	–	–	436,052
Total employee compensation	–	–	5,105,590	–	–	–	–	–	–	5,105,590
Fees to affiliate	–	–	–	1,275,489	–	–	–	–	(1,275,489)	–
General and administrative	66,949	62,174	2,217,437	162,420	4,533	3,000	13,500	71,500	(232,500)	2,369,013
Interest expense	169,372	23,604	128,836	106,876	63,242	21,863	2,369	–	(39,071)	477,091
Total expenses	236,321	85,778	7,451,863	1,544,785	67,775	24,863	15,869	71,500	(1,547,060)	7,951,694
Income (loss) before taxes	(231,130)	(85,778)	644,677	75,563	7,084	12,258	(10,572)	5,506	–	417,608
Income tax (expense) benefit	70,000	(8,000)	(200,000)	(30,000)	(1,600)	(5,500)	4,300	(2,500)	–	(173,300)
Net income (loss)	$ (161,130)	(93,778)	444,677	45,563	5,484	6,758	(6,272)	3,006	–	244,308

See accompanying independent auditors' report.

EXHIBIT E

KPMG

MILLER & SCHROEDER, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Consolidating Schedules

October 31, 2000 and 1999

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Table of Contents

KPMG

4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Miller & Schroeder, Inc.:

We have audited the accompanying consolidated balance sheets of Miller & Schroeder, Inc. (formerly MI Acquisition Corporation) and subsidiaries as of October 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Miller & Schroeder, Inc. and subsidiaries as of October 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedules I and II are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the results of operations of the individual companies. These schedules are not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

December 8, 2000, except as to note (11), which is as of December 15, 2000

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

October 31, 2000 and 1999

Assets	2000	1999
Cash and cash equivalents	$ 862,016	1,439,205
Receivables:		
Customers	—	1,390,753
Brokers, dealers and clearing organizations	2,306	27,660
Officers' and employees' notes and advances	879,107	130,696
Notes receivable	789,605	1,363,139
Income taxes	697,891	—
Other receivables	1,287,524	1,516,116
Total receivables	3,656,433	4,428,364
Securities inventory	17,793,176	26,382,956
Loan participation notes held for sale	301,651	12,131,039
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $3,398,537 in 2000 and $5,140,291 in 1999	2,670,803	1,512,254
Deferred taxes	500,000	500,000
Goodwill, net of amortization	5,413,113	4,070,289
Other	1,245,788	862,408
Total assets	$ 32,442,980	51,326,515

See accompanying notes to consolidated financial statements.

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

October 31, 2000 and 1999

Liabilities and Shareholders' Equity	2000	1999
Cash overdrafts	$ 31,346	—
Demand notes payable	1,140,945	20,347,870
Accounts payable:		
Customers	20,000	374,262
Clearing firm	6,893,110	161,130
Operating	976,848	1,035,395
Payable to borrowers or participants	4,014,318	6,227,950
Total accounts payable	11,904,276	7,798,737
Accrued liabilities	3,608,240	4,640,583
Income taxes	—	285,578
Securities sold, not yet purchased	5,030	302,992
Term debt	5,166,542	6,916,665
Total liabilities	21,856,379	40,292,425
Commitments and contingencies (note 8)		
Shareholders' equity:		
Common stock, $.01 par value, 90,000,000 shares authorized; 1,082,450 and 938,950 issued and outstanding in 2000 and 1999, respectively; preferred stock, $.01 par value, 10,000,000 shares authorized; none issued and outstanding	10,825	9,390
Additional paid-in capital	10,060,318	8,537,053
Retained earnings	515,458	2,487,647
Total shareholders' equity	10,586,601	11,034,090
Total liabilities and shareholders' equity	$ 32,442,980	51,326,515

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended October 31, 2000 and 1999

	2000	1999
Revenues:		
Securities underwriting and sales	$ 12,025,686	16,617,171
Loan origination fees	14,226,281	13,277,792
Interest income	2,682,147	2,774,697
Other income	3,371,550	3,576,086
Total revenues	32,305,664	36,245,746
Expenses:		
Employee compensation:		
Management and underwriting salaries	8,123,136	6,741,204
Sales commissions	5,307,489	5,733,152
Bonuses and incentive compensation	1,774,065	3,178,843
Office, clerical, and support salaries	2,622,568	2,381,233
Benefits and other personnel costs	2,654,956	2,515,568
Total employee compensation	20,482,214	20,550,000
General and administrative	12,612,124	11,516,983
Interest expense	1,983,515	2,093,274
Total expenses	35,077,853	34,160,257
Income (loss) before income taxes	(2,772,189)	2,085,489
Income tax expense (benefit)	(800,000)	938,500
Net income (loss)	$ (1,972,189)	1,146,989

See accompanying notes to consolidated financial statements.

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended October 31, 2000 and 1999

	Common shares	Common stock	Additional paid-in capital	Retained earnings	Less: Note receivable	Total shareholder's equity
Balances, October 31, 1998	938,950	$ 9,390	8,537,053	1,340,658	(500,000)	9,387,101
Note receivable collected	—	—	—	—	500,000	500,000
Net income	—	—	—	1,146,989	—	1,146,989
Balances, October 31, 1999	938,950	9,390	8,537,053	2,487,647	—	11,034,090
Stock issued	143,500	1,435	1,523,265	—	—	1,524,700
Net loss	—	—	—	(1,972,189)	—	(1,972,189)
Balances, October 31, 2000	1,082,450	$ 10,825	10,060,318	515,458	—	10,586,601

See accompanying notes to consolidated financial statements.

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended October 31, 2000 and 1999

	2000	1999
Operating activities:		
Net income (loss)	$ (1,972,189)	1,146,989
Adjustments to reconcile net income to net cash provided (used) for operating activities:		
Depreciation	777,903	613,872
Amortization or write-off of goodwill	1,139,809	253,184
Receivables	771,931	1,068,998
Securities inventory	8,589,780	(8,670,082)
Loan participation notes held for sale	11,829,388	(7,182,132)
Deferred taxes	—	48,230
Other assets	(383,380)	199,447
Accounts payable	4,105,539	3,146,726
Accrued liabilities	(1,000,997)	(99,282)
Income taxes	(285,578)	145,030
Securities sold, not yet purchased	(297,962)	291,491
Net cash provided (used) for operating activities	23,274,244	(9,037,529)
Investing activities:		
Purchase of AIG/CLA	(1,061,433)	—
Payments for office equipment and leasehold improvements, net	(1,936,452)	(834,508)
Net cash used for investing activities	(2,997,885)	(834,508)
Financing activities:		
Borrowings (repayments) under demand notes payable, net	(19,206,925)	9,884,115
Net payments of term debt	(1,750,123)	(1,089,564)
Proceeds from note receivable to shareholder	—	500,000
Stock issued	103,500	—
Net cash provided (used) by financing activities	(20,853,548)	9,294,551
Net decrease in cash	(577,189)	(577,486)
Cash and cash equivalents, beginning of year	1,439,205	2,016,691
Cash and cash equivalents, end of year	$ 862,016	1,439,205
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 2,341,590	1,975,727
Income taxes	183,470	745,239
Supplemental schedule of noncash investing and financing activities:		
Stock issued in connection with purchase of AIG/CLA	$ 1,421,200	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Miller & Schroeder, Inc. and subsidiaries (formally MI Acquisition Corporation) provide investment banking and advisory services; securities sales, trading, and underwriting services; and services pertaining to the origination, financing, and sales of loan participation notes. Miller and Schroeder, Inc. (MSI) is the parent company of: Miller & Schroeder Financial, Inc. (MSF); Miller & Schroeder Investments Corporation (MSIC); Miller & Schroeder Small Business Capital Corporation (SBCC); Pooled Loan Marketing Corporation (PLMC); Miller & Schroeder Capital Corporation (MSCC); Miller & Schroeder Mortgage Corporation (MSMC); Miller & Schroeder Asset Management, Inc. (MSAM); Church Loan Advisors, Inc. (CLA). MSCC, in turn, is the parent company of American Investors Group, Inc. (AIG).

MSF is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and underwrites municipal and corporate securities. MSF also markets and trades fixed income and equity securities. Effective November 8, 1999, MSF's entire account base was converted to a third party clearing firm on a fully disclosed basis.

The primary business of MSIC is the origination, financing, and sale of loan participation notes and lease transactions which are collateralized by real estate and/or equipment. These transactions are sold through arrangements made by MSF in the form of nonrecourse loan participation notes. These sales are made to unaffiliated institutional and other investors. MSIC is also the servicing agent for loan participation notes of $1.368 billion and $889 million at October 31, 2000 and 1999, respectively.

All material intercompany balances and transactions have been eliminated in consolidation.

In May 2000, MSI acquired all of the issued and outstanding common stock of AIG and CLA for $2,462,800 including the assumption of net liabilities of $616,998. The purchase was partially financed by the issuance of $1,421,200 of common stock. The excess of the purchase price over the fair market value of identified net assets acquired of $2,482,633 was allocated to goodwill. Goodwill is amortized on a straight-line basis over a period of 15 years.

The following is a summary of significant accounting policies followed by MSI:

(a) Cash and Cash Equivalents

For financial reporting purposes, MSI considers all investments with original maturities of three months or less to be cash equivalents.

(b) Repurchase and Resale Transactions

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or sales of securities under agreements to repurchase (repurchase agreements) are accounted for as financing transactions and are recorded at the contract amount plus accrued interest at which the securities will be subsequently resold or reacquired.

(c) Securities Transactions and Loan Participation Notes Held for Sale

Securities inventories are carried at estimated current market values. The difference between cost and market value is included in revenues from profits on securities trading.

Loan participation notes held for sale, if any, are carried at the lower of aggregate cost or market value. Substantially all of these loan participation notes were sold subsequent to October 31, 2000 and 1999 at prices that approximated their carrying values.

Purchases and sales of securities (including sales of loan participations) are recorded on a settlement date basis. The difference between trade date basis and settlement date basis accounting did not have a material effect on MSI's financial position or results of operations.

(d) Office Equipment and Leasehold Improvements

Office equipment and leasehold improvements are stated at net book value. Equipment is depreciated on a straight-line or accelerated basis over estimated useful lives of five to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the respective lease term or estimated useful life of the improvements.

(e) 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.

(f) Stock-based Compensation

MSI accounts for stock option grants using APB Opinion No. 25 (APB No. 25) and, accordingly, does not recognize compensation expense related to option grants. The Company, however, applies the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-based Compensation.*

(2) Securities Inventory and Loan Participation Notes Held for Sale

Securities positions, net of securities sold, not yet purchased, at October 31 are summarized as follows:

	2000	1999
Municipal securities	$ 14,692,049	19,005,501
U.S. Government and Government agency securities	—	255,072
Other	3,096,097	6,819,391
Total	$ 17,788,146	26,079,964

Loan participation notes held for sale at October 31, 2000 and 1999 represent the unsold portions of real estate mortgage and equipment loan financings with interest rates ranging from 6.5% to 11.375% and 7.25% to 10.0%, respectively.

(Continued)

(3) Notes Receivable

Notes receivable at October 31, 2000 and 1999, consist of $85,000 and $25,000, respectively, of short-term notes and $704,605 and $1,338,139 of long-term notes, respectively. The long-term notes are collateralized by real estate, have maturity dates ranging from 2001 through 2005 and have interest rates ranging from 9.41% to 12.43%. The short-term notes relate to temporary advances to issuers.

(4) Funds Held in Escrow

In connection with MSIC's loan servicing activities, funds for real estate taxes, insurance, and certain reserve accounts, including amounts for construction participations, are collected and held in escrow in accordance with loan documents. Funds held in escrow as of October 31, 2000 and 1999 were $9,537,836 and $19,399,129, respectively. These funds are not included in MSI's balance sheets.

(5) Financing Arrangements

(a) Demand Notes Payable

MSF had a financing arrangement with a financial institution that expired on October 31, 2000. At October 31, 1999, MSF had the capacity to borrow up to an aggregate of $51 million. MSF's trading securities and certain assets were pledged as collateral under this arrangement. Amounts borrowed under this arrangement fluctuated daily based on the timing of customer and broker-dealer trades and issues underwritten by MSF. At October 31,1999, $11,050,000 was outstanding and $39,950,000 was available on this facility. MSF was expected to maintain agreed-upon compensating balances with the financial institution. MSF's interest rates on this borrowing fluctuated with the daily federal funds rate. The rates in effect at October 31, 1999, ranged from 6.55% to 6.875%.

MSIC had a $5 million credit facility with a financial institution, and could draw up to $10 million on MSF's credit facility. These arrangements expired on October 31, 2000. Effective December 7, 2000, a new credit facility was entered into for $15 million that expires March 7, 2001. At October 31, 1999 MSIC had $7,825,000 outstanding on these credit facilities. MSIC borrowed funds under terms of the demand note to finance loan participation notes up to predefined amounts, with the underlying notes pledged as collateral. Interest accrued at the financial institution's base rate plus 1% (9.25% at October 31, 1999).

MSIC entered into a $186,000 short-term financing arrangement with a financial institution on October 31, 2000 for operational purposes. The amount outstanding at October 31, 2000 of $186,000 at an interest rate of 9.5% matures on December 31, 2000.

SBCC had a $1 million credit facility with a financial institution which is secured by notes receivable, and could draw up to $4 million on MSF's credit facility. These arrangements expired on October 31, 2000. At October 31, 1999, $1,284,000 was outstanding on these facilities. Interest accrued at the financial institution's federal funds rate plus 1.5% (6.875% at October 31, 1999).

MSCC has a note payable to a limited partnership of $954,945 at October 31, 2000 that is payable on demand. Interest accrues on this note at 7.25%.

(b) Term Debt

Term debt outstanding as of October 31 consisted of :

	2000	1999
Notes payable, (8.45% to 10.05% at October 31, 2000 and 1999, respectively), due in monthly installments through March 2005, collateralized by certain furniture and office equipment.	$ 2,064,904	766,566
Notes payable, prime rate plus 1% (9.25% at October 31,1999) due in monthly installments.	—	399,988
Note payable to shareholder of the Company, 6.5%, interest due in annual installments. Maturity in January 2003.	289,256	289,256
Note payable-AIG former employee stock sale	59,764	—
Note payable-AIG equipment lease	618	—
Pollution Control Financing Certificates collateralized by certain notes receivable guaranteed by the Small Business Administration:		
9%, due in annual installments through October 2001	570,000	1,095,000
12.25%, due in March 2005.	182,000	182,000
Notes payable, 8.5%, due in monthly installments through February 2000, collateralized by equipment.	—	3,855
Revolving line of credit, prime rate plus 1% (9.25% at October 31, 1999).	—	1,680,000
Notes payable, federal funds rate plus 1.5% (8.125% and 6.875% at October 31, 2000 and 1999, respectively), due September 2002 or on demand, collateralized by marketable securities.	2,000,000	2,000,000
Note payable to shareholder of the Company, 7% due December 15, 1999.	—	500,000
	$ 5,166,542	6,916,665

The revolving line of credit is collateralized by all assets of the Company. The Company is required to meet certain operating, capital, coverage, and debt related covenants under these agreements.

Maturities of term debt outstanding at October 31, 2000 are as follows:

2001	$ 741,056
2002	2,029,882
2003	544,738
2004	244,666
2005	1,606,200
Thereafter	—
	$ 5,166,542

(6) Income Taxes

The Company files combined state income tax returns, except in certain states where separate returns are filed, and files a consolidated federal income tax return.

The income tax provision (benefit) reflected in the accompanying consolidated statements of operations consists of:

	2000	1999
Current:		
Federal	$ (589,000)	685,000
State	(211,000)	212,000
Deferred	—	41,500
	$ (800,000)	938,500

The Company had net deferred tax assets of $500,000 at both October 31, 2000 and 1999. The temporary differences that give rise to a significant portion of the deferred tax asset relate primarily to deferred income and compensation related accruals.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate sufficient future taxable income. Based upon the levels of historical taxable income, projections of future taxable income, and the ability to carry losses back, management believes it is more likely than not that the Company will realize the benefits of the deferred tax asset as of October 31, 2000 and 1999.

The effective tax rate is calculated using the provision for income taxes. The difference between the U.S. Federal Statutory rate and the effective tax rate is as follows:

	2000	1999
Statutory tax rate at October 31	(34.00)%	34.00 %
Effect of items on tax rate and provision amounts:		
State taxes (net of federal benefit)	(5.03)	6.71
Tax exempt income	(8.09)	(8.40)
Nondeductible goodwill amortization	13.75	4.13
Meals and entertainment	4.57	3.67
Other	(.06)	1.16
Additional provision for income taxes	—	3.73
Effective tax rate at October 31	(28.86)%	45.00 %

(7) Net Capital Requirements

As a broker-dealer, MSF is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. MSF has elected to use the alternative method, permitted by the Rule, which requires that MSF maintain minimum net capital, as defined, equal to $250,000. At October 31, 2000, MSF's net capital, as defined, of $3,330,522 was $3,080,522 in excess of the minimum net capital required.

MSF is exempt from the provisions of SEC Rule 15c3-3, *Customer Protection: Reserves and Custody of Securities.* Accordingly, the Computation for Determination of Reserve Requirements and Information Relating to the Possession or Control Requirements is not required.

(8) Commitments and Contingencies

(a) Underwriting Commitments

In the ordinary course of business, MSF enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at October 31, 2000 and 1999 have subsequently settled and had no material affect on the financial statements.

(b) *Operating Leases*

The Company has operating lease commitments expiring at various dates for its offices and certain equipment. Rental expense was $1,599,331 and $1,326,800 for fiscal 2000 and 1999, respectively. Future minimum payments under operating leases are as follows:

Fiscal year	
2001	$ 1,553,629
2002	1,518,622
2003	1,175,657
2004	1,038,338
2005	963,872
Thereafter	1,007,370

(c) *Employee Benefit Plan*

The Company has a 401(k) plan that allows employees to contribute a portion of their compensation. The expense related to this plan was $297,838 and $308,050 for the years ended October 31, 2000 and 1999, respectively.

(d) *Contingencies*

In connection with the sale to customers of high-yield bonds, MSF has received a number of claims against it that allege, among other issues, a lack of suitability. The merits of such claims will be determined before arbitration panels of the National Association of Securities Dealers. Also, in the normal course of business, the Company becomes involved in other claims and litigation that may ultimately result in a liability to the Company.

It is the opinion of management that facts known at the present time do not indicate that the ultimate resolution of the arbitration claims or any other such claims or litigation would have a material effect on the Company's operations or its financial position.

(e) *Other*

As of October 31, 2000 and 1999, MSIC had committed to advance $281,791,187 and $144,369,047, respectively, in construction loans. Concurrent with this commitment, MSIC has entered into commitments to sell these loans in the form of nonrecourse loan participation notes.

(9) Financial Instruments with Off-Balance-Sheet Risk

In the ordinary course of business, the Company's securities activities involve execution, settlement, and financing of various securities transactions as principal and agent. These activities may expose the Company to credit and market risks in the event customers, other brokers and dealers, banks, depositories, or clearing organizations are unable to fulfill contractual obligations. Such risks may be increased by volatile trading markets. . The Company clears all transactions for its customers on a fully disclosed basis with a clearing firm that carries all customer accounts and maintains related records. Nonetheless, the Company is liable to the clearing firm for the transactions of its customers. These activities may expose the Company to off-balance-sheet risk in the event a counterparty is unable to fulfill its contractual obligations. The Company maintains all of its trading securities at the clearing firm, and these trading securities collateralize amounts due to the clearing firm.

Customer securities transactions are recorded on a settlement date basis, which is generally three business days after the trade date. The Company is, therefore, exposed to risk of loss on these transactions in the event of the customer's or broker's inability to meet the terms of their contracts, in which case the Company may have to purchase or sell financial instruments at prevailing market prices. The impact of unsettled transactions is not expected to have a material effect upon the Company's financial statements.

The Company also may assume short positions in its inventory. These transactions result in off-balance-sheet market risk as the Company's ultimate obligation to satisfy the short sale may exceed the amount recognized in the balance sheets.

The Company also may lend money subject to reverse repurchase agreements. All positions are collateralized, primarily with U.S. Government or U.S. Government agency securities. The Company's policy is to take physical possession of securities purchased under agreements to resell. Such transactions may expose the Company to risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company does not believe that it has any significant concentrations of credit risk.

(10) Stock Option Plans

The Company maintains two fixed stock compensation plans, the Miller & Schroeder, Inc. Stock Option Plan and the Director Stock Option Plan, which are used to provide stock incentives to key employees and outside directors of the Company. Each Plan authorizes the grant of incentive and/or non-qualified options with an exercise price equal to the fair value of the common stock as of the grant date. Vesting periods for the options range from immediately to five years and expire ten years from the date of grant. At October 31, 2000 and 1999, 131,412 and 136,287 shares of common stock, respectively, were available for grant under the Stock Option Plan and 33,250 and 39,500 shares were available for grant under the Director Stock Option Plan.

The Company applies APB No. 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation expense has been recognized in the consolidated financial statements for stock option grants. Had compensation expense been determined based on the fair value of the options at grant date consistent with SFAS No. 123, the Company's consolidated net loss of $1,972,189 and net income of $1,146,989 for the years ended October 31, 2000 and 1999, would have been $2,024,778 and $1,093,913, respectively.

The weighted average per-share fair value of options granted during fiscal 2000 and 1999 was $3.49 and $3.54, respectively. The fair value of each option granted is estimated on the date of grant using the Minimum Value Method with the following weighted average assumptions used for grants in 2000 and 1999; dividend yields of 0%; expected volatility of 0%; risk-free interest rate of 5.83% in 2000 and 5.97% in 1999; and expected life of 5 years.

The following table summarizes the activity related to the Company's stock options for the years ended October 31, 2000 and 1999:

	2000		1999	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Options outstanding at beginning of year	174,213	$ 10.73	144,088	$ 10.00
Granted	33,250	13.80	34,000	13.72
Exercised	—	—	—	—
Canceled, forfeited or expired	(22,125)	10.67	(3,875)	10.00
Options outstanding at end of year	185,338	$ 11.29	174,213	$ 10.73

The options outstanding at October 31, 2000 and 1999 have a weighted average remaining contractual life of nine years.

(11) Restructuring and Sales of Certain Operations

On December 15, 2000, MSI announced a series of corporate initiatives designed to refocus their strategic direction and resources. One of these initiatives is for MSF to focus on institutional corporate and municipal bond origination and placement. In connection with this initiative, MSI is negotiating with a third party to sell the retail municipal operations of MSF for cash and a share of revenue on accounts. The retail municipal operations of MSF represented approximately 31% of the MSI's revenue for the year ended October 31, 2000.

Schedule 1

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

October 31, 2000

Assets	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	MSAM	AIG	CLA	Eliminations	Consolidated
Cash and cash equivalents	$ 16	—	50,664	130	350,028	1,321	—	6,745	448,714	4,398	—	862,016
Receivables:												
Brokers, dealers and clearing organizations	—	—	—	—	—	—	—	—	2,306	—	—	2,306
Officers' and employees' notes and advances	—	869,176	—	—	—	—	—	9,931	—	—	—	879,107
Income tax receivable	1,322,432	733,268	—	18,276	—	7,575	—	474,798	43,089	—	(1,901,547)	697,891
Notes receivable	—	85,000	—	704,605	—	—	—	—	—	—	—	789,605
Other receivables	—	1,082,936	58,884	1,740	—	—	—	80,452	14,012	49,500	—	1,287,524
Total receivables	1,322,432	2,770,380	58,884	724,621	—	7,575	—	565,181	59,407	49,500	(1,901,547)	3,656,433
Securities inventory	—	17,793,176	—	—	—	—	—	—	—	—	—	17,793,176
Due from affiliates	4,285	1,879,723	9,105,167	97,143	217,147	202,708	781,283	—	—	81,000	(12,368,456)	—
Loan participation notes held for sale	—	—	301,651	—	—	—	—	—	—	—	—	301,651
Office equipment and leasehold improvements	2,646,129	—	—	—	—	—	—	—	24,023	651	—	2,670,803
Investment in subsidiaries	12,244,839	—	—	—	—	597,679	—	—	—	—	(12,842,518)	—
Deferred taxes	70,000	362,000	37,000	—	—	15,000	—	16,000	—	—	—	500,000
Goodwill	5,413,113	—	—	—	—	—	—	—	—	—	—	5,413,113
Other	388,927	458,785	—	22,590	—	56,175	—	3,908	315,403	—	—	1,245,788
Total assets	$ 22,089,741	23,264,064	9,553,366	844,484	567,175	880,458	781,283	591,834	847,547	135,549	(27,112,521)	32,442,980
Liabilities and Shareholders' Equity												
Cash overdraft	—	31,346	—	—	—	—	—	—	—	—	—	31,346
Demand notes payable	—	—	186,000	—	—	954,945	—	—	—	—	—	1,140,945
Accounts payable:												
Customers	—	—	—	—	—	—	—	—	—	20,000	—	20,000
Clearing firm	—	6,893,110	—	—	—	—	—	—	—	—	—	6,893,110
Operating	—	917,408	4,014,318	8,143	701	—	—	1	50,186	409	—	4,991,166
Due to affiliates	10,372,094	—	—	403,593	—	—	—	1,556,831	35,938	—	(12,368,456)	—
Securities sold, not yet purchased	—	5,030	—	—	—	—	—	—	—	—	—	5,030
Accrued liabilities	211,763	2,480,664	2,198,378	38,162	105,337	(1)	182,628	80,866	183,990	28,000	(1,901,547)	3,608,240
Term debt	4,064,904	—	—	752,000	—	—	—	289,256	60,382	—	—	5,166,542
Total liabilities	14,648,761	10,327,558	6,398,696	1,201,898	106,038	954,944	182,628	1,926,954	330,496	48,409	(14,270,003)	21,856,379
Shareholders' equity:												
Common stock	10,825	500,000	10,000	1,000	100	1,000	1,000	10	450,667	—	(963,777)	10,825
Additional paid-in capital	10,060,318	7,950,000	140,600	—	305,900	—	—	22,964	35,590	—	(8,455,054)	10,060,318
Retained earnings	(2,630,163)	4,486,506	3,004,070	(358,414)	155,137	(75,486)	597,655	(1,358,094)	30,794	87,140	(3,423,687)	515,458
Total shareholders' equity	7,440,980	12,936,506	3,154,670	(357,414)	461,137	(74,486)	598,655	(1,335,120)	517,051	87,140	(12,842,518)	10,586,601
Total liabilities and shareholders' equity	$ 22,089,741	23,264,064	9,553,366	844,484	567,175	880,458	781,283	591,834	847,547	135,549	(27,112,521)	32,442,980

See accompanying independent auditors' report.

Schedule II

MILLER & SCHROEDER, INC. AND SUBSIDIARIES

Consolidating Statement of Operations

For the year ended October 31, 2000

	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	MSAM	AIG	CLA	Eliminations	Consolidated
Revenues:												
Securities underwriting and sales	$ —	11,061,800	—	—	—	—	—	—	877,332	86,554	—	12,025,686
Loan origination fees	—	14,226,281	14,226,281	—	—	—	—	—	—	—	(14,226,281)	14,226,281
Interest income	47,171	1,707,660	904,209	118,443	111,484	—	—	2,562	9,098	—	(218,480)	2,682,147
Other income	287,030	557,295	1,776,386	—	3,101	6,180	166,533	386,976	188,049	—	—	3,371,550
Total revenues	334,201	27,553,036	16,906,876	118,443	114,585	6,180	166,533	389,538	1,074,479	86,554	(14,444,761)	32,305,664
Expenses:												
Employee compensation:												
Management and underwriting salaries	—	7,417,341	—	—	—	—		347,824	357,971	—	—	8,123,136
Sales commissions	—	4,849,957	—	—	—	—	—	—	457,532	—	—	5,307,489
Bonuses and incentive compensation	—	1,772,251	—	—	—	—	—	1,814	—	—	—	1,774,065
Office, clerical, and support salaries	—	2,545,160	—	—	—	—	—	77,408	—	—	—	2,622,568
Benefits and other personnel costs	27,488	2,504,294	—	—	—	—	—	66,589	56,585	—	—	2,654,956
Total employee compensation	27,488	19,089,003	—	—	—	—	—	493,635	872,088	—	—	20,482,214
Fees to affiliate	—	—	14,226,281	—	—	—	—	—	—	—	(14,226,281)	—
General and administrative	1,556,388	10,468,614	10,896	4,500	—	74,967	—	183,124	313,269	366	—	12,612,124
Interest expense	572,086	671,025	766,536	119,528	23,852	30,060	—	18,802	106	—	(218,480)	1,983,515
Total expenses	2,155,962	30,228,642	15,003,713	124,028	23,852	105,027	—	695,561	1,185,463	366	(14,444,761)	35,077,853
Income (loss) before taxes	(1,821,761)	(2,675,606)	1,903,163	(5,585)	90,733	(98,847)	166,533	(306,023)	(110,984)	86,188	—	(2,772,189)
Income tax expense (benefit)	(232,000)	(1,135,000)	618,000	—	31,000	(30,000)	56,000	(96,000)	(40,000)	28,000	—	(800,000)
Net income (loss)	$ (1,589,761)	(1,540,606)	1,285,163	(5,585)	59,733	(68,847)	110,533	(210,023)	(70,984)	58,188	—	(1,972,189)

See accompanying independent auditors' report.

EXHIBIT F

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

October 31, 1997

MI ACQUISITION CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

KPMG Peat Marwick LLP

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
MI Acquisition Corporation:

We have audited the accompanying consolidated balance sheet of MI Acquisition Corporation and subsidiaries as of October 31, 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for the period from August 1, 1997 (commencement of operations) to October 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MI Acquisition Corporation and subsidiaries as of October 31, 1997, and the results of their operations and their cash flows for the period from August 1, 1997 to October 31, 1997, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG Peat Marwick LLP

January 15, 1998

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet

October 31, 1997

Assets	
Cash and cash equivalents	$ 2,531,179
Receivables:	
Customers	3,233,956
Brokers, dealers and clearing organizations	779,829
Officers' and employees' notes and advances	159,661
Income tax receivable	336,288
Notes receivable	2,971,825
Receivable from prior ownership group	1,241,000
Other receivables	1,258,551
Total receivables	9,981,110
Securities inventory	39,293,882
Loan participation notes held for sale	8,917,141
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $4,168,876	833,555
Deferred taxes	825,220
Goodwill, net of amortization	4,235,576
Other	1,158,801
Total assets	$ 67,776,464

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet

October 31, 1997

Liabilities and Shareholders' Equity	
Demand notes payable to bank	$ 42,543,000
Accounts payable:	
Customers	722,939
Brokers, dealers and clearing organizations	87,659
Operating	2,098,350
Total accounts payable	2,908,948
Accrued liabilities	4,445,160
Term debt	9,719,605
Total liabilities	59,616,713
Commitments and contingencies (note 8)	
Shareholders' equity:	
Common stock, $.01 par value, 90,000,000 shares authorized; 875,850 issued and outstanding; preferred stock, $.01 par value, 10,000,000 shares authorized; 0 issued and outstanding	8,759
Additional paid-in capital	7,906,684
Retained earnings	244,308
Total shareholders' equity	8,159,751
Total liabilities and shareholders' equity	$ 67,776,464

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Statement of Operations

For the period from August 1, 1997 to October 31, 1997

Revenues:		
Profit on securities trading and underwriting	$	5,892,760
Origination fees		1,275,489
Interest income		513,718
Commission income and other		687,335
Total revenues		8,369,302
Expenses:		
Employee compensation:		
Management and underwriting salaries		1,527,193
Sales commissions		1,208,095
Bonuses and incentive compensation		1,340,000
Office, clerical and support salaries		594,250
Benefits and other personnel costs		436,052
Total employee compensation		5,105,590
General and administrative		2,369,013
Interest		477,091
Total expenses		7,951,694
Income before income taxes		417,608
Income tax expense		173,300
Net income	$	244,308

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Statement of Shareholders' Equity

For the period from August 1, 1997 to October 31, 1997

	Shares	Common stock	Additional paid-in capital	Retained earnings	Total stockholder's equity
Balances, July 31, 1997	752,500	$ 7,525	6,721,475	–	6,729,000
Stock issued	123,350	1,234	1,185,209	–	1,186,443
Net income	–	–	–	244,308	244,308
Balances, October 31, 1997	875,850	$ 8,759	7,906,684	244,308	8,159,751

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the period from August 1, 1997 to October 31, 1997

Operating activities:		
Net income	$	244,308
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation		25,500
Amortization of goodwill		53,616
Receivables		(1,073,885)
Securities inventory		(21,017,439)
Loan participation notes held for sale		(659,527)
Other assets		1,636,760
Accounts payable		(2,222,017)
Accrued liabilities		(411,493)
Securities sold, not yet purchased		(11,565)
Net cash used for operating activities		(23,435,742)
Investing activities:		
Payments for office equipment and leasehold improvements, net		(32,809)
Net cash used for investing activities		(32,809)
Financing activities:		
Borrowings under demand notes payable, net		20,966,842
Net payments of term debt		(487,756)
Proceeds from stock issued		1,186,443
Net cash provided by financing activities		21,665,529
Net decrease in cash		(1,803,022)
Cash and cash equivalents, beginning of period		4,334,201
Cash and cash equivalents, end of period	$	2,531,179
Supplemental disclosures of cash flow information:		
Cash (received) paid during the period for:		
Interest	$	472,000
Income taxes		(1,228,329)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

MI Acquisition Corporation (MIAC) and subsidiaries (the Company) provide investment banking services; securities sales, trading, and underwriting services; and services pertaining to the origination, financing, and sales of loan participation notes. MIAC is the parent company of Miller and Schroeder, Inc. (MSI) which in turn is the parent company of: Miller & Schroeder Financial, Inc. (MSF), Miller & Schroeder Investments Corporation (MSIC), Miller & Schroeder Small Business Capital Corporation (SBCC), Pooled Loan Marketing Corporation (PLMC), Miller & Schroeder Capital Corporation (MSCC) and Miller & Schroeder Mortgage Corporation (MSMC).

MSF is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and underwrites municipal and corporate securities. MSF also markets and trades fixed income and equity securities.

The primary business of MSIC is the origination, financing, and sale of loan participation notes and lease transactions which are collateralized by real estate and/or equipment. These transactions are sold through arrangements made by MSF in the form of nonrecourse loan participation notes. These sales are made to unaffiliated institutional and other investors. MSIC is also the servicing agent for loan participation notes of $488 million at October 31, 1997.

All material intercompany balances and transactions have been eliminated in consolidation.

In June 1997, MIAC was formed and capitalized with $4,000 representing common stock equity. Operations did not formally commence until July 31, 1997 at which time MIAC acquired all of the issued and outstanding common stock of MSI for $13,930,415. The transaction has been accounted for as a purchase. The cash purchase of outstanding MSI stock was partially financed by $6,500,000 of term debt and the issuance of $6,729,000 of common stock equity. The excess of the purchase price over the fair market value of identified net assets acquired of $4,289,192 was allocated to goodwill. Goodwill is amortized on a straight-line basis over a period of 20 years.

The following is a summary of significant accounting policies followed by the Company:

(a) Cash and Cash Equivalents

For financial reporting purposes, the Company considers all investments with original maturities of three months or less to be cash equivalents. Included in cash at October 31, 1997 is $400,155 segregated in a special bank account for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission. At October 31, 1997, MSF was not required to segregate this cash.

(b) Repurchase and Resale Transactions

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or sales of securities under agreements to repurchase (repurchase agreements) are accounted for as financing transactions and are recorded at the contract amount plus accrued interest at which the securities will be subsequently resold or reacquired.

(c) Securities Transactions and Loan Participation Notes Held for Sale

Securities inventories are carried at estimated current market values. The difference between cost and market value is included in revenues from profits on securities trading.

(Continued)

Loan participation notes held for sale are carried at the lower of aggregate cost or market value. These loan participation notes were sold subsequent to October 31, 1997 at prices that approximated their carrying values.

Purchases and sales of securities (including sales of loan participations) are recorded on a settlement date basis. The difference between trade date basis and settlement date basis accounting did not have a material effect on the Company's financial position or results of operations.

(d) Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments approximates their carrying values as of October 31, 1997.

The following methods and assumptions were used to estimate the fair values:

Cash and Cash Equivalents

The carrying amounts for cash and cash equivalents is a reasonable estimate of fair value.

Securities Inventory

Carried at market value which approximates current fair value.

Loan Participation Notes

Due to the relatively short period of time between the origination and sale of these instruments, the carrying value is a reasonable estimate of fair value.

Borrowings

The carrying amount of demand notes payable approximates fair value due to the short maturity of the instruments and the instruments' floating interest rates, which are tied to market conditions. The fair values of long-term borrowings are estimated by discounting future cash flow payment streams using rates that approximate those of comparable borrowings.

(e) Office Equipment and Leasehold Improvements

Office equipment and leasehold improvements are stated at net book value. Equipment is depreciated on a straight-line or accelerated basis over estimated useful lives of five to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the respective lease term or estimated useful life of the improvements.

(f) New Accounting Pronouncements

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" that became effective January 1, 1997. These provisions of SFAS No. 125 had no significant impact on the Company's financial position, results of operations or cash flows.

(Continued)

(g) Use of Estimates

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 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.

(h) Stock-based Compensation

The Company accounts for stock option grants using APB Opinion No. 25 (APB No. 25) and, accordingly, does not recognize compensation expense related to option grants. The Company, however, applies the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-based Compensation.*

(2) Securities Inventory and Loan Participation Notes Held for Sale

Securities positions at October 31, 1997 are summarized as follows:

Municipal securities	$ 35,928,422
U.S. Government and Government agency securities	1,996,487
Other	1,368,973
Total	$ 39,293,882

Loan participation notes held for sale at October 31, 1997 totalling $8,917,141 represent the unsold portions of real estate mortgage and equipment loan financings with interest rates ranging from 8.43% to 10.39%.

(3) Notes Receivable

Notes receivable at October 31, 1997, of $2,971,825 consist of $667,155 of short-term notes and $2,304,670 of long-term notes. The long-term notes are collateralized by real estate, have maturity dates ranging from 2001 through 2005 and have interest rates ranging from 9.41% to 12.43%. The short-term notes relate to temporary advances to issuers.

(4) Funds Held in Escrow

In connection with MSIC's loan servicing activities, funds for real estate taxes, insurance, and certain reserve accounts, including amounts for construction participations, are collected and held in escrow in accordance with loan documents. Funds held in escrow as of October 31, 1997 were $10,287,231. These funds are not included in the Company's balance sheet.

(Continued)

(5) Financing Arrangements

(a) Demand Notes Payable

MSF has financing arrangements with several financial institutions and may borrow up to an aggregate of $47 million. MSF's trading securities and certain assets are pledged as collateral under these arrangements. Amounts borrowed under these arrangements fluctuate daily based on the timing of customer and broker-dealer trades and issues underwritten by MSF. The terms and expiration dates of these facilities are periodically renegotiated. At October 31, 1997, $34,215,000 was outstanding and $12,785,000 was available on these facilities. MSF is expected to maintain agreed-upon compensating balances with the financial institutions. MSF's interest rates on these borrowings fluctuate with the daily federal funds rate. The rates in effect at October 31, 1997, ranged from 6.9875% to 7.38%.

MSIC has a $5 million credit facility with a financial institution, and may draw up to $5 million on MSF's credit facility. At October 31, 1997, MSIC had $6,838,000 outstanding on these credit facilities. MSIC may borrow funds under terms of the demand note to finance loan participation notes up to predefined amounts, with the underlying notes pledged as collateral. Interest accrues at the financial institution's base rate plus 1% (9.5% at October 31, 1997).

SBCC has a $1 million credit facility with a financial institution which is secured by notes receivable, and may draw up to $4 million on MSF's credit facility. At October 31, 1997, $1,490,000 was outstanding on these facilities. Interest accrues at the financial institution's federal funds rate plus 1.5% (7.38% at October 31, 1997).

(Continued)

(b) Term Debt

Term debt outstanding as of October 31, 1997 consisted of :

Pollution Control Financing Certificates collateralized by certain notes receivable guaranteed by the Small Business Administration:	
9%, due in annual installments through October 2001	$ 2,105,000
12.25%, due in March 2005	182,000
Notes payable, 8.5%, due in monthly installments through February 2000 collateralized by equipment	24,835
Notes payable, 10.375%, due in monthly installments through March 1999, collateralized by certain furniture and office equipment	197,774
Notes payable, prime rate plus 1% (9.5% at October 31, 1997), due in monthly installments through October 2001, collateralized by note receivable	799,996
Revolving line of credit, prime rate plus 1% (9.5% at October 31, 1997), due in quarterly installments through December 2002	4,500,000
Term/demand loan, Federal Funds Rate plus 1.5% (7.38% at October 31, 1997), due December 2002 or on demand, collateralized by marketable securities	2,000,000
	$ 9,719,605

The revolving line of credit and term/demand loan are collateralized by all assets of the Company. The Company is required to meet certain operating, capital, coverage, and debt related covenants under these agreements.

Maturities of term debt outstanding at October 31, 1997, are as follows:

1998	$ 1,685,096
1999	1,653,666
2000	1,628,859
2001	1,669,984
2002	2,900,000
Thereafter	182,000
	$ 9,719,605

(Continued)

(6) Income Taxes

The Company files combined state income tax returns, except in certain states where separate returns are filed, and files a consolidated federal income tax return.

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on the estimated future tax effects or differences between the financial statement basis and tax basis of assets and liabilities using the provisions of enacted laws.

The income tax provision reflected in the accompanying consolidated statements of operations consists of:

Current:	
Federal	$ (266,000)
State	(35,700)
Deferred	475,000
	$ 173,300

The deferred tax asset relates principally to items of income recognized for books and deferred for tax. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate sufficient future taxable income. Based upon the levels of historical taxable income, projections of future taxable income, and the ability to carry losses back, management believes it is more likely than not that the Company will realize the benefits of the deferred tax asset as of October 31, 1997.

(7) Net Capital Requirements

As a broker-dealer, MSF is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. MSF has elected to use the alternative method, permitted by the Rule, which requires that MSF maintain minimum net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. At October 31, 1997, MSF's net capital, as defined, of $5,578,565 was 168% of aggregate debit balances and was $5,328,565 in excess of the minimum net capital required.

(8) Commitments and Contingencies

(a) Underwriting Commitments

In the ordinary course of business, MSF enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at October 31, 1997, have subsequently settled and had no material affect on the financial statements.

(Continued)

(b) Operating Leases

MSF has operating lease commitments expiring at various dates through December 2001 for its offices and certain equipment. Future minimum payments under operating leases are as follows:

Fiscal year	
1998	$ 1,299,291
1999	883,059
2000	151,162
2001	18,239
2002	0

(c) Employee Benefit Plan

MSF has a 401(k) plan that allows employees to contribute a portion of their compensation. MSF's expense related to this plan was $2,119 for the period from August 1, 1997 to October 31, 1997.

(d) Contingencies

In the normal course of business, the Company, from time to time, becomes involved in claims and litigation that may ultimately result in a liability to the Company. It is the opinion of management that facts known at the present time do not indicate that the ultimate resolution of any such claims or litigation would have a material effect on the Company's operations or its financial position.

(e) Other

As of October 31, 1997, MSIC had committed to advance $61,274,043 in construction loans. Concurrent with this commitment, MSIC has entered into commitments to sell these loans in the form of nonrecourse loan participation notes.

(9) Financial Instruments with Off-Balance-Sheet Risk

In the ordinary course of business, the Company's securities activities involve execution, settlement, and financing of various securities transactions as principal and agent. These activities may expose the Company to credit and market risks in the event customers, other brokers and dealers, banks, depositories, or clearing organizations are unable to fulfill contractual obligations. Such risks may be increased by volatile trading markets.

The Company records customer securities transactions on a settlement date basis. The Company is therefore exposed to off-balance-sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill contractual obligations.

The Company also may assume short positions in its inventory. These transactions result in off-balance-sheet market risk as the Company's ultimate obligation to satisfy the short sale may exceed the amount recognized in the balance sheet.

(Continued)

The Company also may lend money subject to reverse repurchase agreements. All positions are collateralized, primarily with U.S. Government or U.S. Government agency securities. The Company's policy is to take physical possession of securities purchased under agreements to resell. Such transactions may expose the Company to risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company does not believe that it has any significant concentrations of credit risk.

(10) Employee Stock Option Plan

The Company maintains a fixed stock compensation plan, the MI Acquisition Corporation 1997 Stock Option Plan, which is used to provide stock incentives to key employees of the Company. The Plan authorizes the grant of incentive and non-qualified options. Options generally have a three year vesting period and expire ten years from the date of grant. At October 31, 1997, 300,000 shares of common stock were authorized and available for grant under the Plan. For the period ended October 31, 1997, MIAC granted 50,000 options outside of the Plan to a director.

The Company applies APB No. 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation expense has been recognized in the consolidated financial statements for stock option grants. Had compensation expense been determined based on the fair value of the options at grant date consistent with SFAS No. 123, the Company's consolidated net income of $244,308 for the period from August 1, 1997 to October 31, 1997, would have been $228,708.

The weighted average per-share fair value of options granted during 1997 was $.52. The fair value of each option granted is estimated on the date of grant using the Minimum Value Method with the following weighted average assumptions used for grants in 1997; dividend yields of 0%; expected volatility of 0%; risk-free interest rate of 5.46%; and expected life of 1 year. Pro forma amounts may not be indicative of future results.

(Continued)

The following table summarizes the activity related to the Company's stock options for the period from August 1, 1997 to October 31, 1997:

	Shares	Weighted average exercise price
Options outstanding at beginning of period	0	$ 0
Granted	50,000	10.00
Exercised	0	0
Canceled, forfeited or expired	0	0
Options outstanding at end of period	50,000	10.00
Options exercisable at end of period	50,000	10.00

The options outstanding at October 31, 1997 have a weighted average remaining contractual life of three years and the Company's estimated stock value per share on October 31, 1997, was $10.00.

Schedule I

Consolidating Balance Sheet

October 31, 1997

Assets		MIAC	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	Eliminations	Consolidated
Cash and cash equivalents	$	39,077	15,430	2,125,197	16,408	372	324,141	1,208	9,346	-	2,531,179
Receivables:										-	
Customers		-	-	3,233,956	-	-	-	-	-	-	3,233,956
Brokers, dealers and clearing organizations		-	-	779,829	-	-	-	-	-	-	779,829
Officers' and employees' notes and advances		-	-	159,661	-	-	-	-	-	-	159,661
Income tax receivable		70,000	384,577	(6,155)	(117,417)	(742)	(13,922)	14,575	5,372	-	336,288
Notes receivable		-	-	667,155	-	2,229,670	-	75,000	-	-	2,971,825
Receivable from prior ownership group		1,241,000	-	-	-	-	-	-	-	-	1,241,000
Other receivables		140,000	3,948	861,244	198,086	18,703	8,595	-	27,975	-	1,258,551
Total receivables		1,451,000	388,525	5,695,690	80,669	2,247,631	(5,327)	89,575	33,347	-	9,981,110
Securities inventory		-	-	39,293,882	-	-	-	-	-	-	39,293,882
Due from affiliates		-	-	2,423,676	1,870,849	-	-	-	275,296	(4,569,821)	-
Loan participation notes held for sale		-	-	-	7,131,213	-	1,785,928	-	-	-	8,917,141
Office equipment and leasehold improvements		-	-	833,555	-	-	-	-	-	-	833,555
Investment in subsidiaries		9,641,223	9,253,734	-	-	-	-	-	-	(18,894,957)	-
Deferred Taxes		-	210,452	526,878	73,890	-	-	14,000	-	-	825,220
Goodwill		4,235,576	-	-	-	-	-	-	-	-	4,235,576
Other		201,053	188,504	532,155	-	24,183	-	212,906	-	-	1,158,801
Total assets		15,567,929	10,056,645	51,431,033	9,173,029	2,272,186	2,104,742	317,689	317,989	(23,464,778)	67,776,464
Liabilities and Shareholders' Equity											
Demand notes payable to bank		-	-	34,215,000	6,838,000	-	1,490,000	-	-	-	42,543,000
Accounts payable:											
Customers		-	-	722,939	-	-	-	-	-	-	722,939
Brokers, dealers and clearing organizations		-	-	87,659	-	-	-	-	-	-	87,659
Operating		-	188	780,938	1,307,241	8,143	-	-	1,840	-	2,098,350
Due to affiliates		1,125,755	2,434,301	-	-	353,368	283,820	372,577	-	(4,569,821)	-
Accrued liabilities		187,861	569,607	3,333,939	298,695	46,200	9,119	-	(261)	-	4,445,160
Term debt		6,500,000	799,996	222,609	-	2,197,000	-	-	-	-	9,719,605
Total liabilities		7,813,616	3,804,092	39,363,084	8,443,936	2,604,711	1,782,939	372,577	1,579	(4,569,821)	59,616,713
Shareholders' equity:											
Common stock		8,759	99,063	500,000	10,000	1,000	100	1,000	1,000	(612,163)	8,759
Additional paid-in capital		7,906,684	6,000,000	7,950,000	140,600	-	305,900	-	-	(14,396,500)	7,906,684
Retained earnings		(161,130)	153,490	3,617,949	578,493	(333,525)	15,803	(55,888)	315,410	(3,886,294)	244,308
Total shareholders' equity		7,754,313	6,252,553	12,067,949	729,093	(332,525)	321,803	(54,888)	316,410	(18,894,957)	8,159,751
Total liabilities and shareholders' equity	$	15,567,929	10,056,645	51,431,033	9,173,029	2,272,186	2,104,742	317,689	317,989	(23,464,778)	67,776,464

See accompanying notes to consolidated financial statements.

MI ACQUISITION CORPORATION AND SUBSIDIARIES

Schedule II

Consolidating Statement of Income and Expense

For the period from August 1, 1997 to October 31, 1997

	MIAC	MSI	MSF	MSIC	PLMC	SBCC	MSCC	MSMC	Eliminations	Consolidated
Revenues:										
Profit on securities trading and underwriting	$ -	-	5,887,477	-	-	-	5,283	-	-	5,892,760
Origination fees	-	-	1,275,489	1,275,489	-	-	-	-	(1,275,489)	1,275,489
Interest income	5,191	-	339,829	97,021	74,859	35,875	14	-	(39,071)	513,718
Commission income and other	-	-	593,745	247,838	-	1,246	-	77,006	(232,500)	687,335
Total revenues	5,191	-	8,096,540	1,620,348	74,859	37,121	5,297	77,006	(1,547,060)	8,369,302
Expenses:										
Employee compensation:										
Management and underwriting salaries	-	-	1,527,193	-	-	-	-	-	-	1,527,193
Sales commissions	-	-	1,208,095	-	-	-	-	-	-	1,208,095
Bonuses and incentive compensation	-	-	1,340,000	-	-	-	-	-	-	1,340,000
Office, clerical, and support salaries	-	-	594,250	-	-	-	-	-	-	594,250
Benefits and other personnel costs	–	–	436,052	–	–	–	–	–	–	436,052
Total employee compensation	-	-	5,105,590	-	-	-	-	-	-	5,105,590
Fees to affiliate	-	-	-	1,275,489	-	-	-	-	(1,275,489)	-
General and administrative	66,949	62,174	2,217,437	162,420	4,533	3,000	13.500	71.500	(232,500)	2,369,013
Interest	169,372	23,604	128,836	106,876	63,242	21,863	2.369	-	(39,071)	477,091
Total expenses	236,321	85,778	7,451,863	1,544,785	67,775	24,863	15.869	71.500	(1.547.060)	7,951,694
Income (loss) before taxes	(231,130)	(85,778)	644,677	75,563	7,084	12,258	(10.572)	5.506	-	417,608
Income tax (expense) benefit	70,000	(8,000)	(200,000)	(30,000)	(1,600)	(5,500)	4,300	(2.500)	-	(173.300)
Net income (loss)	$ (161,130)	(93,778)	444,677	45,563	5,484	6,758	(6,272)	3,006	-	244.308

See accompanying notes to consolidated financial statements.

EXHIBIT G

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

\- - - - - - - - - - - - - - - - - -

In re: Chapter 7 Case

SRC Holding Corporation BKY Case Nos. 02-40284 to
f/k/a Miller & Schroeder, Inc. 02-40286
and its subsidiaries,

Debtors. Jointly Administered

\- - - - - - - - - - - - - - - - - -

Brian F. Leonard, Trustee,

Plaintiff, ADV Case No.03-4153

vs.

Roger J. Wikner,

Defendant.

\- - - - - - - - - - - - - - - - - -

DEPOSITION OF

ROGER JAMES WIKNER

Taken December 10th, 2003

Commencing at 9:20 a.m.

REPORTED BY: Kay Lynn Hinsch, RPR
PARADIGM REPORTING & CAPTIONING INC.
1400 RAND TOWER
527 MARQUETTE AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55402
(612) 339-0545

A. I don't know why I'd want to read it today, to be honest.

Q. But this is a true and accurate copy of the Employment Agreement that you signed, Employment Contract I should say?

A. Yeah.

Q. Did you say yeah?

A. I don't know that I can --

MR. RICKE: I'll object to the form of the question. If you know.

THE WITNESS: I don't know that. How would I know that?

BY MR. BURTON:

Q. Well --

A. I mean, this is something you pulled from a file somewhere.

Q. This was in your employment file. It was also in the due diligence files for the transaction with M&I Acquisition. Do you have any reason to believe that this is not the Employment Contract that you signed?

A. No, I don't.

Q. Do you know how long this agreement remained in place?

A. I would have thought until the time we bought them out of the company, we retired their stock, '91, 2, 3, somewhere in there, and they were gone.

Q. Are you referring to USF&G?

A. Uh-huh.

MS. REPORTER: Would that be yes?

THE WITNESS: Yes.

BY MR. BURTON:

Q. Do you recall if this was a standard agreement that the company used?

A. I don't.

Q. I just want to be clear, you don't recall whether it was standard or not?

A. I do not.

MR. RICKE: Object to the question as vague. Are you talking -- when you refer to the "company," are you referring to Miller & Schroeder or are you referring to USF&G?

MR. BURTON: Two things. I'm referring to Miller & Schroeder. I want to be careful. When I refer to Miller & Schroeder, I'm also referring to the financial -- financial and investment, because this is all an agreement with Miller & Schroeder Financial.

MR. RICKE: Is the question if this was a standard form of Miller & Schroeder?

MR. BURTON: And its subsidiary.

MR. RICKE: And its subsidiary. If you know.

THE WITNESS: I don't know that.

BY MR. BURTON:

Q. When you signed this, did you believe that it was an enforceable agreement?

A. I don't know. I'm not a --

MR. RICKE: Object, calls for a legal conclusion. If you know.

BY MR. BURTON:

Q. I'm asking -- yeah --

A. I don't -- I don't know that, no.

Q. I'd like to focus on the beginning of 1997, and the months before the Miller, excuse me, the M&I Acquisition transaction. What percent of Miller & Schroeder did you own on January 1 of '97?

A. Should have been 49.

Q. It's roughly 49; correct?

A. Yeah.

Q. We've already discussed how you acquired those shares. Can you take a look at Exhibit 2?

A. (Witness complies.)

Q. Is that -- this may or may not be a

document that you recall ever seeing. Do you recall ever seeing this document?

A. I don't.

Q. Okay. If you'd look at page 3?

A. (Witness complies.) Okay.

Q. The paragraph at the top that starts with a). It states that there were 3,000,000 shares of common stock of which 990,625 shares are issued, and then it states that you owned 482,812.5 shares?

A. Okay.

Q. Does that seem right to you?

A. I don't know. I mean, I -- that's not a number I ever focused on.

Q. Okay. It states that the other shareholders were Mr. Erickson. Is that Steve Erickson?

A. Yes.

Q. And the other is Mr. Iverson. Does that seem correct to you, that you three were the shareholders?

A. We were.

Q. Were there some limitations placed on Mr. Erickson's rights as a shareholder?

A. I don't believe so.

Q. Can you look at the next document?

A. Three?
Q. Yes. It's a Voting Trust Agreement. And are you familiar with this document?
MR. RICKE: Do you want to take a minute to look at it?
THE WITNESS: I mean, again, whatever.
MR. RICKE: The question -- yeah, the question is --
THE WITNESS: Am I familiar.
MR. RICKE: -- whether you're familiar with it.
A. No.
BY MR. BURTON:
Q. Is that your signature on page 13?
A. Well, let's see, 40, 50. I'm in the next document, sorry about that. Thirteen, yes.
Q. Do you have any recollection about the circumstances relating to this Voting Trust Agreement?
A. No, not really.
Q. Do you have any recollection of ever meeting to discuss the voting of shares belonging to Mr. Erickson?
A. No.
Q. How did the concept of selling your shares

in Miller & Schroeder come about?

A. When?

MR. RICKE: Object to the question as vague. Are you talking about the transaction that ultimately occurred in July of 1997?

MR. BURTON: Yes.

MR. RICKE: So --

BY MR. BURTON:

Q. I want to -- just so we're clear, I want to back up. If you were looking at avenues to sell your shares earlier than that, I want to explore that, but I -- I'm interested in how this whole transaction with M&I Acquisition came to be.

MR. RICKE: Okay. So --

MR. BURTON: But we can go off the record for a second.

(Discussion held off the record.)

MR. BURTON: We can go back on.

BY MR. BURTON:

Q. How did it come about that you came to sell your shares to M&I Acquisition?

A. Well, very simply, they paid for them. I mean, we attended a closing, and they wrote a check, and I sold my shares. It started with Jim Dlugosch, actually, back in January of that year, when he left

Miller & Schroeder, he told me, at that time, that he was going to buy or start a securities firm, and approached me again maybe a month later wanting to know if Miller & Schroeder would be for sale. And I told him at that time, no, and I didn't have any intention of selling. I was happy with what I did and loved the work.

He then approached Iverson out in California, and worked out some kind of transaction with him, whereby he would maybe buy all of Iverson's stock, or some part of his stock. And when Iverson told me that, I said, I'm not interested in being a partner with this guy, I mean, I'm not, so he has to buy us out. And I honestly didn't think he would ever do that. I didn't think he could raise the money from anywhere to be able to do the transaction.

But to keep Iverson happy, and to kind of flush this out and have it go away once and for all and not linger and -- you know, this went on from I suppose April, maybe even earlier, March, April, in there, with employees -- I mean, employees knowing that someone was trying to buy the company, and it was very disruptive. Nonetheless, business was very good, and we were happy. I went to the closing. I did not realize that it was going to take place.

Q. The closing of the sale to the Dlugosch group?

A. Yeah, the Dlugosch group.

Q. So --

A. I never intended to sell. I wasn't looking for anybody to buy the company. I didn't plan to sell. That wasn't what I wanted to do at all. Our business was great. We had a very bright future. What we were doing was very productive and very profitable. You know, I was making a million dollars a year out of this business. It was pretty hard to part with, if you know what I was saying. I had always been in charge. I was in charge. Why would I want my life to change?

Q. Right.

A. I wasn't looking for new partners either. So -- well, I had a lot of respect for Dlugosch, and a lot of things he had done with us in other places. It was just hard to see myself working with him, if you know what I'm saying.

Q. Right. With respect to the negotiations for the stock purchase, how involved were you in those?

A. With who?

employment-related agreements were included in the transaction as a way to get more of the purchase price of the stock to you?

A. To get more to me?

Q. To finance the stock.

A. Well, no, I don't think so. They always had wanted a noncompete.

MR. RICKE: You've answered the question. He asked a yes or no.

THE WITNESS: Okay.

BY MR. BURTON:

Q. What were your intentions after this closed, what were you going to do?

A. I didn't know. Again, I didn't plan on it closing. I left the closing and got in my car and drove home and never went back.

Q. Can you take a look at the next exhibit, which is marked as Exhibit 7?

A. Okay. (Witness complies.)

Q. This is a document which I believe was produced by your attorney from your attorney's files and not related to this transaction.

A. This is also unsigned.

Q. Right. I believe this is a draft. My question to you is, do you recall ever seeing believe that the purchase price was 16.4 million, and that part of it was paid for by these agreements that you each received. Does that jive with your recollection?

MR. RICKE: Object to the question as vague. Which Iverson payments are you referring to? Can you clarify the question?

BY MR. BURTON:

Q. Mr. Iverson also received payments under his employment or noncompete agreements?

MR. RICKE: Well, I'll object as calling for facts not in evidence. But if -- I mean, if you want to put it to him as a hypothetical I --

A. I had no knowledge of what his transaction was.

BY MR. BURTON:

Q. Were these payments to you in paragraph 5 made as part of the purchase price of the stock?

A. I don't believe so.

Q. And why do you not believe so, because it's a noncompete?

A. For that 48 months I -- I didn't compete with them. I didn't talk to anybody else. As soon as it was up, I talked to some people about a job.

Q. Did you go back into the industry once that period of time was up?

A. I did not.

Q. Can you move ahead? I think your agreement's in there twice, but a few pages up there there's a Schedule 3.15 from the closing book?

A. Okay. Yeah, I do see that. It says page 75 at the bottom?

Q. Seventy three.

A. Seventy three. Okay. 3.15. All right.

Q. I'll represent to you that this was a document produced to me by your attorneys. It was part of the closing book from the transaction. It's a schedule referred to in the Stock Purchase Agreement. The first item on here discusses an obligation to Aviation Charter. Do you recall the circumstances of that --

A. No, I don't.

Q. -- item? Item 3 relates to advances to you and Mr. Iverson by the companies in 1997. Do you see that?

A. I do.

Q. Do you dispute in any way that these amounts were due to the company at the time of the closing?

A. I'm not sure how to answer that. I don't any.

Q. Okay. After the stock sale closing, did you have any involvement with Miller & Schroeder, Inc. or M&I Acquisition?

A. No.

Q. I think you stated that after the closing you got in your car and drove away and never came back?

A. That's true.

Q. You never went back at all, huh?

A. (Witness nods head.)

Q. And what have you done for employment since that time?

A. I've not been employed.

Q. Okay. Are you employed by your aviation companies?

A. No, I'm not.

Q. Okay. Are you active in their management?

A. On a limited basis, yeah.

Q. I'll take a stab at this one. I think I know the answer to this one. Can you take a look at -- let me just see --

A. Where are we?

Q. I'm going to tell you in a second. I've just got to find my reference. Exhibit 16.

EXHIBIT H

UNITED STATES BANKRUPTCY COURT

DISTRICT OF MINNESOTA

- -

In re:
SRC Holding Corporation,
f/k/a Miller & Schroeder Financial, Inc.,
and its subsidiaries,

Debtor.

Brian F. Leonard, Trustee,

Plaintiff,

vs. File No.

James E. Iverson,

Defendant.

In re:

SRC Holding Corporation,
Debtor,

Brian F. Leonard, Trustee,
Plaintiff,

vs.

Roger J. Wikner,

Defendant.

- -

DEPOSITION OF

JAMES F. DLUGOSCH

10 February 2004

1:00 p.m.

COPY

KINSELLA, HARTIGAN, KELZER

or your acquisition group?

A. Yes.

Q. Ultimately Mr. Iverson entered into an employment and a noncompete agreement with the company, is that right?

A. Yes.

Q. And Mr. Wikner only a noncompete, is that right?

A. That's correct.

Q. Do you recall why -- do you recall why Mr. Wikner did not remain an employee of the company?

A. It was Mr. Wikner's desire to not be in the brokerage business any longer.

Q. Okay. But for business reasons was it important to your acquisition group that Mr. Wikner not be able to either compete or solicit employees?

A. Yes.

Q. And had Mr. Wikner been subject to, say, a one year noncompete would that have been adequate?

A. No.

Q. Subsequent to the closing of this transaction in, on like July 31, 1997 Mr. Wikner was not an officer, director or shareholder of Miller & Schroeder or any of its subsidiaries, is that correct?

A. That's correct.

Q. How much contact did you have with Roger Wikner after the closing?

A. Virtually none.

Q. Do you recall if you ever spoke to him after that?

A. I don't recall.

Q. Do you know did Mr. Wikner have any relationship with Miller & Schroeder or its subsidiaries other than the noncompete agreement, other than his relationship pursuant to the noncompete?

A. Personal or business?

Q. Business.

A. No, not directly. He was the principal, or his wife was the principal owner of an aviation charter business that we used from time to time.

Q. Mr. Dlugosch, in connection with this stock purchase agreement referring to Exhibit No. 1, the Stock Purchase Agreement, the agreement was executed at a closing on July 31, 1997. Is that right?

A. That's correct.

Q. Do you recall where the closing took place?

A. At the offices of Briggs & Morgan.

Q. Do you know is that --

A. Excuse me. I'm not -- it was either at Briggs & Morgan or at Leonard Street. I'm pretty sure it was at Briggs & Morgan, but I just don't --

Q. Do you recall the face page of the Stock Purchase Agreement indicates a stock purchase agreement among the parties and indicates it's dated June 20, 1997, effective June 1, 1997. Do you recall the significance of the June 20 date or the June 1 date?

A. No, I don't.

Q. Okay. Do you recall under the purchase agreement that there was a mechanism for a post closing purchase price adjustment?

A. Yes.

Q. Were you involved in that process?

A. Yes, I was.

Q. Do you recall as a part of that process did the obligations, the officer obligations, the Wikner obligations, Iverson obligations that were the subject of the hold back at closing, did they come up in connection with that post closing adjustments?

MR. BURTON: Objection, I'm not sure I understand what your question is. The adjustment --

BY MR. RICKE:

Q. Well, if you understand the question.

MR. BURTON: I might be objecting unless I'm not following what you're asking.

BY MR. RICKE:

Q. You testified, Mr. Dlugosch, that you were familiar with, you reviewed the closing statement and you saw the amounts that were deducted from the purchase price.

A. Yes.

Q. Were those amounts -- and you also testified that in connection with Mr. Lawver's questioning that those amounts that were withheld at closing, the adjustments to purchase price, with the exception of those that were wire transferred to various financial institutions could be traced then to the advances to MI Acquisition Corp on the July 31 financial statement, is that correct?

A. That's correct.

Q. So would it be fair to say that those adjustments or the obligations that made up those adjustments were not part of the post closing discussions or the adjustments for post closing pursuant to section 2.3?

A. That's correct.

Q. And would that be because those obligations had been satisfied at closing?

A. That's correct.

Q. And just -- strike that.

In May of 2000 MI Acquisition Corporation merged with Miller & Schroeder, Inc., is that correct?

A. In May of 2000?

Q. I'll represent to you that according to the Secretary of State articles of merger were filed at that time.

A. Okay.

Q. But I'll ask it a different way. At some point subsequent to the closing did MI Acquisition Corporation merge with Miller & Schroeder, Inc?

A. Yes.

Q. But that wasn't on contemporaneous with the acquisition of the stock?

A. No, it was not.

Q. Do you recall what prompted the timing or the delay in the merger of the entities?

A. I don't recall.

Q. Okay. I'm going to show you what I've had marked at Deposition Exhibit No. 8. Do you recognize that?

A. Yes, I do.

Q. And is that the Noncompetition Agreement that Roger Wikner executed in connection with the stock sale?

A. Yes.

Q. Paragraph five on page two provides that as consideration for this Wikner was to receive 48 equal monthly installments in arrears of $14,585 commencing on August 31st, 1997. Had Wikner gone out and joined another broker dealer or started another broker dealer would you have continued to make payments to him under the agreement?

A. No.

MR. RICKE: I don't have any other questions.

EXHIBIT I

In re: SRC Holding Corporation, f/k/a Miller & Schroeder Financial, Inc., and its subsidiaries

DEPOSITION OF BRIAN LEONARD

JANUARY 28, 2004

PAGE 1 TO 58

COPY

CONDENSED TRANSCRIPT AND CONCORDANCE
PREPARED BY:

KINSELLA, HARTIGAN & KELZER
333 Washington Avenue North
204 Union Plaza
Minneapolis, MN 55401
Phone: 612-339-6132
FAX: 612-339-1986

could review that documentation as well?
A. Yes.
MR. LAWVER: And I'd ask counsel if you could just pull that together so you can provide that to me and you and I don't have to speculate. I'll look at that documentation.
THE WITNESS: Sure.
MR. BURTON: I would think it would be largely the proofs of claim that were filed in the case. In the schedules, there are lists of the litigation. Those are all things that are readily available, and they should date the claims originated.
MR. LAWVER: He's indicated there are some financial records and other testimony.
THE WITNESS: You're characterizing the nature of the documents.
BY MR. LAWVER:
Q. If you have documents you're relying upon, I just want them produced to me.
A. I'd be happy to. And just to let you know, Joe, what they are are judgments and records of NASD arbitration proceedings and other litigation against the company.
Q. These are things that occurred after the

petition.
A. No. These are pre-petition. This is pre-petition litigation. This is litigation that was commenced I believe as of '99 or so.
MR. LAWVER: If you'll produce those for me. I don't need any more than that.
MR. BURTON: I think we already have. I've told you everything we had is available and I've made it available to you.
MR. LAWVER: Just putting me into a room filled with documents and saying here it is isn't sufficient. You're supposed to try and compile those documents for me.
MR. BURTON: I think I have.
MR. LAWVER: Let's move on.
THE WITNESS: We'll get you boxes of documents that say, here are the litigation and decisions and categorized by name of plaintiffs.
BY MR. LAWVER:
Q. If those are what you're relying on to say that the debtor is insolvent, that's helpful.
A. Sure.
Q. Would you turn to the complaint again, count 2, you indicate that again, that 27 transfers, and again I'm asking what transfers are you referring

to were made that made the debtors insolvent? What transfers were made to my client that you say made the debtors insolvent?
MR. BURTON: I object. I think the document speaks for itself. Transfers is a defined term in that document.
BY MR. LAWVER:
Q. So let's be specific because you're making an allegation of a fraudulent transfer, and I want to know which transfers there are and I want you to pin it down and give me a dollar amount. If what you are referring to is the transfer on item 14 which you no longer claim is an issue and the items in 13 which are unknown to you, if that's what we're referring to, I'd like to know.
MR. BURTON: I could tell you it's not the tickets any longer. I believe it's the non-compete payments that Mr. Iverson kept receiving within the year of the bankruptcy case as it states in Paragraph 16.
BY MR. LAWVER:
Q. So the transfers you're referring to now are payments made under the non-compete agreement in your complaint? Is that correct, Mr. Leonard?
A. That's one of the transfers, yes, as my

counsel has indicated.
Q. Take a look at count 3. For count 3 are the transfers we're talking about the obligations that were referred to as notes and bonuses to Miller & Schroeder, Inc. And Miller & Schroeder Financial, Inc.? Is that the transfers you're referring to?
A. I'll defer to counsel.
Q. Would you agree with that after talking to your counsel?
MR. BURTON: I believe it's the non-compete payments and the actual release of the obligations in the closing certificate. You're talking about count 3, correct?
MR. LAWVER: Count 3.
MR. BURTON: Yes.
BY MR. LAWVER:
Q. So my question to you, Mr. Leonard, is the transfers that are referred to in count 3 as your counsel has advised you the transfers for the released obligations under the purchase agreement and the non-compete payments?
A. Yes, I believe so.
Q. Now, in Paragraph 31, you say that these payments were made or that the transfers were made with the actual intent to hinder, delay or defraud

creditors. Do you have any evidence, any facts that you're relying upon to prove intent to defraud?

A. On which transfer are you talking about?

Q. This is on count 3, the transfers that you are referring to appear to be the non-compete transfers and the transfers for released obligations. Do you have any evidence of intent to defraud?

A. Well, I think the evidence is the stock purchase agreement and the evolution of the purchase price from 15 million dollars down to 12 million dollars so that those promissory notes would not have to be repaid.

Q. And any person that you would say that you've talked to that would give evidence to that would be Mr. Dlugosch?

A. Mr. Dlugosch, your client, Mr. Wikner and other parties to the transaction, possibly the lawyers.

Q. You've had a chance to talk to the lawyers representing MI Acquisition Corporation, correct?

A. Have we had an opportunity to? Yes. Have we done so is a different question. Is that what you're really asking?

Q. Have you spoken to them with regards to the transfers?

A. I believe so, but not in depth and not recently.

Q. Have they given you any evidence or indication, and I take it this is with MI Acquisition's counsel, that these transfers were not made?

A. That the transfers were not made?

Q. Well, that the transfers were made with the intent to hinder, delay or defraud?

A. No.

Q. Have they given you any indication that the obligations of Mr. Wikner, Mr. Iverson and Mr. Erickson were to be forgiven?

A. The lawyers, no, other than what we've received in discovery.

Q. Would you turn to count 4. Count 4 is headed Breach of Fiduciary Duty, and on item 38, you say that "Defendant had a duty of loyalty to Debtors pursuant to common law." Now I wish you to be specific, who did Mr. Iverson have a duty of loyalty to and at what time?

A. Iverson had a duty of loyalty to the entity in which he held shares, was a control person and if he was on the board of directors or an officer, all of those positions would generate a duty

of loyalty.

Q. Prior to the closing on July 1997, Mr. Iverson was 49 percent shareholder, and he was on the board of directors and an officer. Is that where his fiduciary duties are arising from?

A. I would say certainly those positions would generate that --

Q. And those are fiduciary duties that he would owe to Miller & Schroeder, Inc., correct?

A. Yes. To whatever company he was affiliated with at that time.

Q. And after he sold his shares and after he resigned from the board of directors, would he continue to have any duty?

A. After he sold his shares? Well, it depends on what positions he held and what his relationship with the companies were.

MR. BURTON: I'd object to that because I think it's a question of law.

THE WITNESS: It probably is.

BY MR. LAWVER:

Q. Well, you've made an allegation that he's breached a fiduciary duty. I want to know what acts that you say he did to breach that duty, and I want to know at what point in time.

A. The acts that constitute a breach of his duty of loyalty are embodied in Exhibit 3 which is the stock purchase agreement under which the stock sale was structured in such a way that he was relieved of his obligation to pay the promissory notes to the holder of the note.

Q. Can you point to me where in the purchase agreement it says that he's relieved of these obligations?

A. I think we've argued about that earlier.

Q. We'll let the documents speak for themselves.

A. The documents always speak for themselves. The fact of the matter is that we can't find any evidence nor have you been able to provide us with any evidence despite our requests that demonstrates that your client and Mr. Wikner paid the holders of the promissory notes the amounts due under the promissory notes.

Q. Do you have any evidence that my client directed any individual to cancel these notes?

A. I think we've been over that, but yes, just to repeat my answer which is a question you asked earlier, yes, your client was a primary controller of the transaction as being a seller of

EXHIBIT J

MILLER & SCHROEDER INC
STATEMENT OF FINANCIAL CONDITION
JULY 31, 1997

	MAY 97	JUN 97	JUL 97	
				represents cash due from Wikner for CSV of life insurance policies.
ASSETS				
CASH	(4,247)	(857)	8,008	see Adjustments @ recon attached.
CASH-RESTRICTED ESCROW	0	0	0	
RECEIVABLES				
INTEREST	61,053	61,053	61,053	repaid @ date of merger.
OFFICER/STOCKHOLDERS	1,141,852	1,147,728	0	
INCOME TAXES	209,237	97,030	71,029	To Be reviewed by tax dept.
OTHER	10,963	0	3,948	
INTERCO REC FROM MI ACQUIS	0	0	1,231,922	AMT due from parent for repayment of employee notes above.
NOTES RECEIVABLE	719,366	719,366	719,366	
RENTAL PROPERTY	3,783,615	3,766,912	0	sold @ date of merger
OTHER ASSETS-				
CASH VALUE LIFE, NET	242,734	242,834	176,686	Agreed to recon attached
PREPAID EXPENSES	56,017	55,160	30,307	See Attached Trial balance
DEPOSIT - RENTAL PROPERTY	23,103	16,542	14,244	(P15(w))
DEFERRED FINANCING COSTS	19,252	59,527	0	See recon attached
ESCROW DEPOSITS - UMC	637,707	638,611	0	
INVESTMENT IN SUBS	9,253,734	9,253,734	9,253,734	ELIMinates in consolidatn
TOTAL ASSETS	16,154,386	16,057,640	11,580,297	
LIABILITIES				
NOTE PAYABLE MSIC (NNP)	0	0	0	
OPERATING ACCTS PAYABLE	0	7,897	3,967	
DUE TO RELATED CO	3,528,106	3,399,304	3,541,478	Eliminates in consolidation
DEFERRED INCOME	17,981	12,892	0	
ACCRUED INTEREST	45,274	40,287	15,518	see attached trial balance
ACCRUED INCOME TAXES	0	0	0	
ACCRUED EXPENSES	17,344	26,429	24,590	Property tax reduction @ the "crossings mall" s/h/b rebated tenants no further exposure. Will be paid to tenants after closing Agreed to supporting schedules - P/F/w.
TERM DEBT-USF&G	4,606,892	0	0	
TERM DEBT-MID AMERICA	0	4,600,000	0	
TERM DEBT-MSIC	883,331	866,664	849,997	
TOTAL LIABILITIES	9,098,928	8,953,473	4,435,550	
SHAREHOLDERS EQUITY				
COMMON STOCK	99,063	99,063	99,063	
PREFERRED STOCK	0	0	0	
PAID-IN CAPITAL	6,000,000	6,000,000	6,000,000	
RETAINED EARNINGS-PRIOR	1,003,419	1,003,419	1,003,419	See explanation on attached trial balance
RETAINED EARNINGS-CURRENT	(47,024)	1,685	42,265	
TOTAL SHAREHOLDERS EQUITY	7,055,458	7,104,167	7,144,747	
TOTAL LIABILITIES & EQUITY	16,154,386	16,057,640	11,580,297	

Note
MSI is the parent holding company.
✓ = Agreed to bank rec w/p/e.

KPMG - Miller & Schroeder Due Diligence
July 24, 1997 Discussion Document

Meeting w/ Dlugosch, Morrell, Jansens, Wenger, Ketola, etc.

1. Status of due diligence work

2. Summary of balance sheet accounts at May 31, 1997 (noting significant items &/or items that may be potential purchase price adjustments)

- **Cash** **$3,194,409**
- **Customer Receivables** **$1,860,404**
  - ⇒ $46,000 in debits are unsecured.
  - ⇒ Eight accounts with debits greater than $50,000 totaling about $500,000
- **Receivable from other B/D's** **$729,002**
  - ⇒ Failed trade of approx $500,000 from Fuji Securities (25 days) Used to cover Short – Gone.
- **Officers and Employees Receivables** **$1,990,849**
  - ⇒ Per Section 5.5 of Stock Purchase Agreement, the three sellers will repay personnel notes and advances to the Company at closing.
  - ⇒ Per Section 5.13 of Stock Purchase Agreement, Accrued Executive Officer bonuses must be paid out prior to closing.
  - ⇒ Wickner & Iverson account for $1,788,000 of the above amount.
- **Other receivables** **$2,294,368**
  - ⇒ includes $371,000 in Deal fees receivable of which $186,000 dates to 1/31/97 or prior
  - ⇒ Income tax receivable of $1,182,000 appears to be proper.
  - ⇒ Interest of $350,104
- **Reverse repurchase agreements** **$2,846,000** Gone
- **Inventory** **$24,198,753**
  - ⇒ Default securities:
    - a) Eagle-Picher Industries $5,058
    - b) Firebaugh CA $3,200
    - c) St. Paul HRA Grand Victoria $54,576 (Cost $12,321)
  - ⇒ Underwriting Inventory looks fairly current (4/97 & 5/97)
  - ⇒ CMOs inventory primarily FNMA and FHLMC PACs
  - ⇒ **Aging**

Sold	1,901,091
0-60	17,775,791
61-90	761,980
91-120	533,402
120+	2,641,222
	23,613,486

<u>120+</u>

Carry @ LCM

*Roseville	$1,680,000 @ 100	64%	— Sold out of inventory
*UnderWater World	$120,000 Par, **No Value** Cost 119,955	5%	
FNMA	$50,000 Par @ 85.50 ($42,750)	2%	Gone?
Northwest MN	$100,000 Par @ 65.50 ($68,775) Cost 64,592	3%	Restructured
*South Central	Prices $50 - $93, MV $66,250 = Cost	3%	
*Dakota Wash etc	$13,856,935 Par, MV $238,339 268,491 Cost	9%	
*UnderWater World	$100,000 Par **No Value** Cost = $102,250		
*United Mkt Services	$267,344 Par **No Value** Cost = $53,468		
*Share of Int Pmts on GNMA Pledge Cty of Chaska	$121,332 Par, $82,595 Value Cost	3%	

<u>91 - 120 Days</u>

FNMA Notes	$250,000 Par @ 95.25 ($238,125) Cost 240,313	45%	
*Realco	$245,000 @ 92.50 ($226,625) Cost 230,141	40%	— Since Sold

*** On watchlist for illiquids**

⇒ No warrants in inventory. See Exhibit A to Schedule 3.1 of the Stock Purchase Agreement for listing of warrants

- **Loan Participation Inventory** **$1,890,608**

⇒ Transactions sales or financings under Statement of Financial Accounting Standards No. 125? Impact on origination fee revenue recognition.

⇒ Aging of Delinquent Loans

		Past due amount	Total balance outstanding
210 Days Over @ 5/31	Game World	13,000	(600,000)
60 Days Over @ 5/31	Mole Lake 1 & 2	65,743	(677,540)
30 Days Over @ 5/31	Select Inn	98,393	(7,866,455)

- **Notes Receivables** **$4,406,541**

⇒ Except for E&D Waste and Electrolurgy notes below, appears to be primarily bridge financing. <u>No loss reserves accrued</u>

⇒ In '96 wrote-off $500,000 for Northern Natural Power and new note issued for $579,000 to Northern Alternative Energy (NAE). Secured by Iowa wind farm project with NAE and Micon. Per Stock Purchase Agreement Section 2.2, no reduction in purchase price is to be made for this item.

*⇒ Rideau Lyons $140,000. Per Item 5 of Schedule 3.5, note has been rolled over a number of times. Principal & interest haven't been paid since 3/14/95. Individual in CA, knows Iverson

⇒ Cashman Holdings $400,000 due 8/31/97. Per Stock Purchase Agreement Schedule 3.9 already "rolled" over from note with maturity date of 3/31/97. Past due interest

Not bridge

Individual (CEO?) from EW Blanche

⇒ Heritage Health Care $500,000 due 10/31/97 (appears unsecured per note) Source of pmt

* ⇒ Urban Futures $186,000. Per item 3 in Stock Purchase Agreement Schedule 3.5, this note is to be paid from Urban Futures California underwritings, However, since note was signed in Sept 1996, no such payments received by M&S. Written off in June or July

⇒ E&D Waste $2,245,632 (original for $5 million in 1981) guaranteed by SBA- doesn't appear to be a problem with collectibility.

⇒ Electrolurgy $165,000 (original for $240,000 in 1985) - doesn't appear to be a problem with collectibility.

Rental Property **$3,783,615**

⇒ Sale? At or prior to closing Tax Liab

- **Equipment and Leasehold improvements** **$ 956,416**
  - ⇒ Vehicle and parking leases Get detail list

- **Other Assets** **$2,086,537**
  - ⇒ Club memberships

Interlachen	SE	$2,800
Wayzata	RW	$1,000
LaJolla	JI	$2,500
RSF Farms		$42,500 keep
Boulders		$80,000

⇒ MCDA Bonds $100,000 due 12/1/17. MCDA State Theater/Orpheum

⇒ Globetrotters $101,634.

⇒ Gaming Ventures $146,272.
MSCC is the general partner and receives a 1% management fee and 6.5% commissions. Liquidation is 2002. $164,900 in capital account on K-1 at 12/31/96.

⇒ Net Life Insurance $242,734.
CSV is $759,301 and loans are $517,000. Bottom of page 13 of Stock Purchase Agreement specifies that Wikner may purchase policy at CSV. No mention of loans--does this mean Company borrowed money and that Wikner will buy at $759,000? Company borrowed $

⇒ Funds held in escrow $637,707 (UMC sale)

- **Demand Note Payable** **$21,415,553**
  - ⇒ Demand N/P from Norwest and Harris for $30,000,000 each. $21,000,000 outstanding
  - ⇒ Norwest for $4,400,000. $100,000 outstanding. Wikner and Iverson each personally guaranteed $1,000,000.

- **Repurchase agreements** **$2,871,000**

- **Accounts Payable and Accrued Expense** **$5,615,633**
  - ⇒ No general legal reserve--See Stock Purchase Agreement Schedule 3.7 for possible legal items.
  - ⇒ Identified legal reserves set up for Vista settlement $485,000 and IRRRB $50,000. The Vista legal reserve was $600,000 (which ties to the $600,000

Payment of $300,000

in the settlement agreement) and then reduced by the value of UMS stock that was transferred in the settlement totalling $114,720.

⇒ Loss accrual of $134,231 has been set-up for Tiegen LPN?. Lease title wasn't perfected

⇒ Bonus accrual of $808,621

→ Self insured for S-T disability only

- **Securities Shorts** **$514,672**
- **Term Debt** **$8,447,480**

⇒ USF&G	$ 4,606,893	Paid 6/97
N/P-MSIC	$ 883,331	$16,667 / mth due 10/1/01 Secured by NAE note receivable
MidAmerica	-	
	$5,490,224	

⇒ The MidAmerica financing was obtained on 6/12/97 as follows:

$3,000,000 9.07% due 7/2000

$1,600,000 $600,000 due and payable on or before 9/1/97, remaining due 7/2000

Loan commitment fee $26,000 due 4/7/98

Wikner and Iverson are guarantors, however limit on guarantee of $250,000 each on the $1,600,000 note, interest on both notes and out-of-pocket expenses. Indemnify MidAmerica for loss from hazardous materials ....however, there was an environmental report issued by Nova Environmental Services, Inc.

⇒ $2,420,000 Note payable to First Trust, due 10/15/01, 9%, $ 51,951/mth, secured by E&D Waste N/R which is guaranteed by the SBA. First Trust sold the N/R to PLMC w/o recourse.

⇒ $182,000 Note payable Electrolurgy due 3/1/05, 12.25%, secured by the N/R which has an SBA guarantee.

⇒ Furn & Equip. Note payable $258,171 due 3/31/99, monthly $12,130, secured by furn and equip at Pillsbury and Solana beach

⇒ Wikner Mercedes Note payable $68,311 due 2/16/02, monthly $1,474

⇒ Thomas Mercedes $28,776 due 2/29/00, monthly $981

- **Committments and Contingencies**

⇒ Litigation

⇒ Maitlin Florida lease termination in 1997

⇒ System expenditures No formal commitments made w/ Sungard

- **Regulatory**

⇒ Declining excess net capital balance at broker/dealer ($4.3 million in Feb '97 down to $1.3 million in May '97) Inter Co. Didn't sweep cash from MSIC.

⇒ 1997 NASD Exam

2.8 XS @ 6/30

- **Taxes**

⇒ Approx. $500,000 of tax cushion which is "general" at 10/31/96. This type of general reserve is a good idea given possible exposure relating to : 1099 reporting, sales/use tax non-compliance and state income tax issues (i.e. there may be a few states they are not filing in)

⇒ Some future considerations in this area:

a) FICA withholding - after deal, payroll agent needs to carryover history from prior employer tax I.D.

b) Unemployment tax rate - most states will not carryover current rates. Need to get "new employer" rates

- **Operations**

⇒ Year-to-date consolidated loss of approx. $1.5 million pretax

⇒ $120,000 consulting expense to D. Schroeder. Per review of non-compete, MS may from time-to-time reasonably request his services. However, he's located in Naples, Florida and other activities that he's working on take priority. Non-compete through 9/98 Liability

- **Other**

⇒ Noticed on one of the employment contracts that underwriting warrants may be paid as compensation. Per the stock purchase agreement it states that the company still has not implemented policy so it doesn't appear that warrants were ever paid as compensation.

⇒ Benefit plans - Tax determination letter for 401K plan still pending with the IRS