



OFFERING CIRCULAR

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| OFFERING | 1 |
| FAIR FINANCIAL SERVICES | 4 |
| COMPETITION | 8 |
| RISK FACTORS | 8 |
| USE OF PROCEEDS | 14 |
| PLAN OF DISTRIBUTION | 15 |
| PAYMENT OF INTEREST | 15 |
| PAYMENT AT MATURITY | 15 |
| PAYMENT PRIOR TO MATURITY | 16 |
| REDEMPTION | 17 |
| ASSETS | 18 |
| CAPITALIZATION | 18 |
| MANAGEMENT | 19 |
| REMUNERATION AND PRINCIPAL SECURITIES HOLDERS | 21 |
| LITIGATION | 22 |
| LEGAL OPINIONS | 22 |
| EXPERTS | 23 |
| SOURCES OF FUNDS | 23 |

OFFERING CIRCULAR
FAIR FINANCIAL SERVICES
815 East Market Street
Akron, Ohio 44305

State of Incorporation – Ohio
Date of Incorporation – 01/31/40

Offering:

An Aggregate of \$250,000,000

Series V-6 Variable Rate 6-Month Subordinated Investment Certificates
Series V-12 Variable Rate 12-Month Subordinated Investment Certificates
Series V-18 Variable Rate 18-Month Subordinated Investment Certificates
Series V-24 Variable Rate 24-Month Subordinated Investment Certificates

THIS OFFERING IS MADE ONLY BY OFFERING CIRCULAR TO BONA FIDE RESIDENTS OF OHIO WHO AGREE TO PURCHASE THE SECURITIES OFFERED HEREBY NOT WITH A VIEW TO RESALE OR OTHER TRANSFER TO NON-RESIDENTS OF OHIO.

THESE CERTIFICATES ARE SUBORDINATED IN RIGHT OF PAYMENT TO ALL PRESENT AND FUTURE SENIOR INDEBTEDNESS. SUCH SENIOR INDEBTEDNESS, IF ANY, AS OF SEPTEMBER 30, 2009 IS SHOWN IN THE EXHIBIT CAPTIONED "SENIOR DEBT" ON PAGE 18 OF THIS CIRCULAR.

THE OHIO DIVISION OF SECURITIES BY ACCEPTING THIS REGISTRATION DOES NEITHER APPROVE NOR DISAPPROVE THESE OR ANY OTHER SECURITIES FOR INVESTMENT NOR DOES IT PASS UPON THE ACCURACY OF THE INFORMATION PRESENTED IN THIS OFFERING CIRCULAR. THIS OFFERING HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) BECAUSE IT IS DEEMED THAT THIS ISSUE IS EXEMPT PURSUANT TO EXEMPTION FROM REGISTRATION WITH THE SEC, UNDER SECTION 3(a)(11) OF THE SECURITIES ACT OF 1933.

SEE "RISK FACTORS" ON PAGE 8 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE CERTIFICATES OFFERED HEREBY.

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| | PRICE TO PUBLIC | UNDER- WRITING DISCOUNTS OR COMMISSIONS | PROCEEDS TO COMPANY |
|-----------------|--------------------|--|---------------------------|
| | (3) | (1) | (2) |
| Per Certificate | \$0.01 | None | 100% |

- (1) Certificates will be sold directly by officers of the Company without services of an underwriter at no commission.
- (2) Less expenses incurred in connection with the offering not to exceed 3% of total Certificates actually sold.
- (3) Certificates will be sold for a minimum initial investment of \$1,000. The Company has established a maximum investment that it will accept as set forth on page 15.

The date of this Offering Circular is 10/6/09
THIS OFFERING IS BEING CONDUCTED BY THE ISSUER

OFFERING CIRCULAR

**FAIR FINANCE COMPANY dba FAIR FINANCIAL SERVICES
AN OHIO CORPORATION**

\$250,000,000

AGGREGATE AMOUNT

SERIES V-6 VARIABLE RATE SIX-MONTH SUBORDINATED INVESTMENT CERTIFICATE DUE SIX MONTHS FROM THE DATE OF PURCHASE. AVAILABLE IN MULTIPLES OF \$0.01 WITH A MINIMUM OF \$1,000 REQUIRED. THE APPLICABLE INTEREST RATE SHALL BE ESTABLISHED ON THE DATE OF SALE, AND SHALL BE BASED UPON THE ADVERTISED RATE AS DETERMINED BY AND UPON APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS.

SERIES V-12 VARIABLE RATE TWELVE-MONTH SUBORDINATED INVESTMENT CERTIFICATE DUE TWELVE MONTHS FROM THE DATE OF PURCHASE. AVAILABLE IN MULTIPLES OF \$0.01 WITH A MINIMUM OF \$1,000 REQUIRED. THE APPLICABLE INTEREST RATE SHALL BE ESTABLISHED ON THE DATE OF SALE, AND SHALL BE BASED UPON THE ADVERTISED RATE AS DETERMINED BY AND UPON APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS.

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SERIES V-18 VARIABLE RATE EIGHTEEN-MONTH SUBORDINATED INVESTMENT CERTIFICATE DUE EIGHTEEN MONTHS FROM THE DATE OF PURCHASE. AVAILABLE IN MULTIPLES OF \$0.01 WITH A MINIMUM OF \$1,000 REQUIRED. THE APPLICABLE INTEREST RATE SHALL BE ESTABLISHED ON THE DATE OF SALE, AND SHALL BE BASED UPON THE ADVERTISED RATE AS DETERMINED BY AND UPON APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS.

SERIES V-24 VARIABLE RATE TWENTY-FOUR MONTH SUBORDINATED INVESTMENT CERTIFICATE DUE TWENTY-FOUR MONTHS FROM THE DATE OF PURCHASE. AVAILABLE IN MULTIPLES OF \$0.01 WITH A MINIMUM OF \$1,000 REQUIRED. THE APPLICABLE INTEREST RATE SHALL BE ESTABLISHED ON THE DATE OF SALE, AND SHALL BE BASED UPON THE ADVERTISED RATE AS DETERMINED BY AND UPON APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS. ▼

THE COMPANY RESERVES THE RIGHT TO REFUSE ANY SUBSCRIPTION THAT WOULD RESULT IN ANY INDIVIDUAL (AS DEFINED BY THIS OFFERING) HOLDING IN EXCESS OF \$200,000 OF ANY SERIES OF THE COMPANY'S VARIABLE RATE CERTIFICATES. MANAGEMENT MUST SPECIFICALLY APPROVE ANY INVESTMENT BY AN INDIVIDUAL THAT EXCEEDS A TOTAL OF \$200,000.

▼ REDEMPTION SHALL BE MADE AT MATURITY EXCEPT IN THE EVENT OF DEATH OF THE OWNER. FAIR RESERVES THE RIGHT TO PERMIT REDEMPTION PRIOR TO MATURITY FOR OTHER REASONS; HOWEVER, SUCH REDEMPTIONS MAY BE SUBJECT TO AN ADJUSTMENT TO THE INTEREST EARNED TO THE DATE OF THE REDEMPTION.

IN THE EVENT OF THE DEATH OF THE REGISTERED OWNER OR ANY JOINT OWNER, AT THE WRITTEN REQUEST OF THE DECEASED'S FIDUCIARY OR OF THE PARTY ENTITLED TO RECEIVE THE PROCEEDS OF THIS CERTIFICATE, WHICH REQUEST IS MADE NOT LATER THAN 120 DAYS AFTER THE DATE OF DEATH OF THE REGISTERED OWNER OF THIS CERTIFICATE OR ANY JOINT OWNER, FAIR SHALL PAY THE PRINCIPAL AMOUNT OF THE CERTIFICATE TOGETHER WITH INTEREST TO DATE OF PAYMENT.

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FAIR SHALL HAVE THE RIGHT TO LIMIT THE AMOUNT OF AGGREGATE PAYMENTS TO INVESTORS ON ITS INVESTMENT CERTIFICATES IN ANY ONE CALENDAR MONTH TO AN AMOUNT NOT EXCEEDING 10% OF ITS NET CASH COLLECTIONS OF THE PREVIOUS CALENDAR MONTH, AND ALL SUBJECT, MOREOVER, TO THE PRIOR PAYMENT OF SENIOR INDEBTEDNESS. IN THE EVENT THAT ANY SUCH LIMITATIONS ARE APPLIED OR INVOKED BY FAIR, FULL PAYMENT OF ANY MATURED CERTIFICATE, NOT MADE BY VIRTUE OF SUCH LIMITATIONS, SHALL BE MADE NOT LATER THAN 60 DAYS FROM THE DATE OF MATURITY OF THE CERTIFICATE IN THE ORDER THAT WRITTEN REQUEST FOR PAYMENT SHALL HAVE BEEN RECEIVED BY FAIR.

The date of this Offering Circular is [REDACTED]

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements within the meaning of the Securities and Exchange Act of 1934. These statements are based upon Management's belief and assumptions and on information currently available to Management. Forward-looking statements include the information concerning possible or assumed future results of operation of Fair. Forward-looking statements include statements in which the words such as "expect", "anticipate", "intend", "plan", "believe", "estimate", "consider", or similar expressions are used. Forward-looking statements are not guarantees of future performance. They involve risk, uncertainties and assumptions. Fair's future results may differ materially from those expressed in the forward-looking statements. Readers are cautioned not to put undo reliance on any forward-looking statement.

The forward-looking statements contained in this Offering Circular specifically relate to the intention of Fair Finance Company to expand its current portfolio and the pending plans of Fair Finance Company to establish a new division, known as Fair Communications.

FAIR FINANCIAL SERVICES

Fair Financial Services, a registered trade name of Fair Finance Company ("Fair"), is headquartered in Akron, Ohio, and has nine branch offices located in Akron, Canton, Cuyahoga Falls, Medina, Wooster, Wadsworth, Ashland and Millersburg Ohio. It was founded in 1934 by Arthur Ray Fair. Originally, Fair specialized in providing dealers and merchants with sales financing services thus, enabling them to provide a time payment plan for their customers. Later, Fair also engaged in making personal and second mortgage loans to customers who would arrange for their loans directly in one of Fair's branch offices. By 1980, increased competition from many sources, together with restrictive government regulations and a changing economy, caused management to cease the personal and second mortgage loan activity and to concentrate on increasing the sales finance activity of the Company.

Today, Fair continues to engage in providing consumer financing services through purchasing and servicing of customer contracts from a variety of businesses wishing to provide financing for their customers. Through the purchase of modest balance, short-term contracts, with an average balance of \$1,740 averaging approximately 18 months to maturity, Fair's portfolio consists of approximately 17,948 accounts. The vast majority of Fair's portfolio has been sold to its wholly owned subsidiary, Fair Facility One, LLC in conjunction with a loan agreement with Fortress Credit Corp., as more fully set forth below. Fair's portfolio has reduced significantly over the past 21 months. A portion of this reduction is related to a bulk sale of 3,092 accounts to CLST Asset III, LLC. The reduction in the number of accounts held by Fair is the result of Management's desire to slow the purchase of additional accounts, during the latest economic downturn and to conserve available cash for redemptions and payment of interest on Fair's investment certificates. Fair intends to resume the purchase of accounts, on an accelerated basis as quickly as economic conditions permit.

Fair focuses its purchases on moderate amount, short term obligations in order to minimize the effect of defaults.

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on its portfolio. Over the years, Fair has developed its own criteria to evaluate the creditworthiness of potential customers in order to determine eligibility for the purchase of their contract. Prior to purchasing a contract, Fair's employees review the customer credit application, do employment verifications and obtain personal credit bureau reports of the customer. This information is utilized to determine the probability of the individual customer repaying the installment obligation in full. In some instances, if the individuals credit worthiness is not deemed to be sufficient, Fair will agree to provide collection services to its dealer for that customer and reconsider the purchase of the contract at a future date, based upon the customer's actual payment history with Fair. The criteria established by Fair to evaluate the credit worthiness of an individual customer is also based upon the nature of the purchase made by the customer. Fair's management has, through experience, established specific guidelines with regard to the various industries that it services and utilizes these guidelines in making its purchasing decisions.

In order to expedite the processing of contracts, Fair has developed proprietary software that can be accessed by its dealers, in order for the dealer to have a preliminary indication as to the credit worthiness of the specific customer. This prescreening procedure eliminates individuals who would not meet minimum standards for Fair to consider and reduces the number of contracts that must be manually reviewed. Thereafter, Fair's employees commence the review process based upon its predetermined standards. The entities providing the goods or services being financed sign a Dealer Agreement with Fair. These Agreements vary in terms regarding the dealer's obligations when a customer contract becomes delinquent. Many Agreements provide that any funds advanced to a dealer on a contract must be refunded by the dealer in the event that the customer fails to make the first payment or, in some cases, the first three payments on the contract.

The Dealer Agreement varies among industries and may specify loss reserve percentages to be held from each contract purchased. In the event that the Dealer Agreement provides for a loss reserve, the Dealer agrees to repay Fair for any defaulted contract from the loss reserve proceeds and Fair will return the contract to that dealer. As of September 30, 2009, Fair holds a dealer loss reserve of \$1,094,000. In situations where the contract does not provide for a dealer loss reserve, Fair maintains internal loss reserves for all other contracts. Through its years of experience, Fair has identified the expected percentage

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of defaults it will experience with respect to the 18 different industries that it services. Based upon these figures, Fair maintains its internal loss reserve for defaulted contracts in each of the industries. The Officers of the Company review the financial figures on a monthly basis and determine the adequacy of the loss reserves each month.

Fair also offers servicing for accounts the dealer does not wish to sell. The servicing plan provides Fair with additional revenue by retaining a percentage of collected amounts as a fee. In addition, when Fair purchases contracts from a dealer, Fair may elect to maintain a security interest in contracts being serviced as additional collateral for the repayment of delinquent contracts that have been purchased from a dealer. The servicing plan provides additional revenue to Fair without the need to expend additional capital. Management plans continued expansion in this highly specialized niche of the consumer credit market and to remain a leader in providing short-term consumer financing of goods and services.

In addition to providing consumer financing services, Fair also provides funding to its parent Company, Fair Holdings, Inc., an Ohio Corporation, under the terms of a certain Promissory Note as amended dated January 8, 2002 (the "Line of Credit"). The Line of Credit allows Fair Holdings, Inc. to obtain periodic loans from Fair, not to exceed a total outstanding principal amount at any time of more than \$130,000,000. The majority of these funds were loaned to affiliates of Fair Holdings, Inc. As of September 30, 2009, the net principal balance including unpaid interest of the loans made by Fair to Fair Holdings, Inc. was approximately \$160,533,200. Loans made by Fair to Fair Holdings, Inc. under the Line of Credit accrue interest at a rate equal to the rate paid by Fair on the V-24 Certificates, plus one percent (1%). The Line of Credit expires on January 8, 2012 at which time the entire balance of principal and interest is then required to be paid by Fair Holdings, Inc. to Fair. Over the past year, Fair Holdings, Inc. has reduced the outstanding balance on the line of credit. This reduction in the line of credit was accomplished by Fair Holdings, Inc. assigning receivables held by it to Fair. As part of the assignment, Fair received an assignment of the security agreements that collateralized these loans. The collateral backing these loans are the operating assets of the debtor. Some of the loans are guaranteed by the shareholders

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of the debtor. The interest rate on the loans assigned to Fair by Fair Holdings, Inc. vary with each loan (see the notes accompanying the financial statements attached).

The loans made by Fair Holdings, Inc. have been used to finance commercial loans for equipment, working capital lines of credit, real estate and other small equipment capital leases. These loans are directed at markets not serviced by Fair and create additional opportunities for growth. Fair Holdings, Inc. also makes loans to its own parent Company, DC Investments, LLC, an Indiana limited liability company, and to other entities owned by DC Investments, LLC. Similarly, DC Investments, LLC has used the proceeds of the loans made to it by Fair Holdings, Inc. to make loans to unrelated and related businesses and entities of DC Investments, LLC. A portion of the loans made to DC Investments, LLC (up to a maximum of \$38,000,000) are made to Mr. Timothy Durham and Mr. James Cochran, who are officers and directors of Fair under lines of credit agreements through January 1, 2010 respectively. The proceeds of these loans are utilized to provide funds to certain related businesses that do not have sufficient collateral to maintain a loan in its own name or assumed personally to bolster the collateral which has resulted in higher personal loan balances. The loans were made to the aforementioned members to provide greater security to Fair than if they were made to the individual entities. These loans are secured through publicly and privately traded securities, equipment, real estate and other personally held assets.

Fair Finance is currently planning, within the next 60 days, to establish a new division. It will be known as Fair Communications; will be a call center, representing third-party companies. Initially, Fair intends to utilize excess space and equipment already utilized by Fair in its business for collecting accounts. Fair has already secured contracts with two companies who will utilize the call center. In the event Fair is able to secure a large vender, it will take steps to expand into a space suitable to meet its contractual obligations. One contract will commence in December, 2009 and the other contract is scheduled to begin in April, 2010.

In 2002, Fair Finance Company was purchased from the Fair family by Fair Holdings, Inc., an Ohio corporation. In conjunction with this transaction, Fair Holdings, Inc. executed a promissory note in favor of Mr. Donald R. Fair and established a line of credit with Textron Financial Corp ("Textron"). This line of credit was refinanced in January 2004, at which time the maturity date was extended until January 2006. After January 2006, the line of credit was extended by a series of agreements until July, 2007, when Fair sold a portion of its finance receivables to Summit Consumer Receivables Fund, LLC ("Summit"). Fair utilized a portion of the proceeds from the sale of the finance receivables to satisfy the Textron obligation and the remainder to satisfy the outstanding balance owed to Mr. Fair. Under the terms of the agreement with Summit, Fair

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will continue to earn income from the sold finance receivables through a servicing agreement with Summit.

In February, 2008, Fair entered into a new loan agreement with Fortress Credit Corp. The loan agreement enabled Fair to obtain a maximum of \$50,000,000 in funds to be utilized to purchase additional finance receivables. The loan was secured by existing finance receivables. This loan agreement was amended on June 17, 2009 and reduced the total maximum amount to \$35,000,000. This reduction, which was requested by Fortress Credit Corp. benefited Fair in that, under the credit arrangement it was required to pay a fee for the unused portion of the loan. The reduction in the maximum amount of the loan reduced the unused funds fee owed by Fair to Fortress Credit Corp. Fair has determined that this loan facility will reduce the Company's reliance on its investment certificates and provide the Company with a more predictable cash flow. In order to accomplish this loan facility, Fair was required to establish a wholly owned Ohio Limited Liability Company. This LLC is known as Fair Facility I, LLC. Under the terms of the loan facility, Fair will sell the finance receivables to Fair Facility I, LLC. Fair Facility I, LLC will utilize the funds it receives from the credit facility to pay Fair for the finance receivables. The credit facility will be paid through the collection of the finance receivables. Fair will also receive a stream of income as the servicer of the finance receivables that it sells to Fair Facility I, LLC. Fair remains responsible as Guarantor of the loan between Fair Facility One, LLC and Fortress Credit Corp. for any funds remaining due to Fortress Credit Corp. after all finance receivables have been paid or written off.

The location of Fair's offices are listed below:

| | |
|----------------------------------|--------------------------|
| 815 East Market Street | Akron, Ohio |
| 1500 Canton Road, Suite #208 | Akron, Ohio |
| 4675 Dressler Road, NW | Canton, Ohio |
| 1753 State Road | Cuyahoga Falls, Ohio |
| 849 N. Court Street | Medina, Ohio |
| 136 South Market Street | Wooster, Ohio |
| 191 Great Oaks Trail | Wadsworth, Ohio |
| 25 Amberwood Parkway | Ashland, Ohio |
| <u>1639 S. Washington Street</u> | <u>Millersburg, Ohio</u> |

RELATED PARTY TRANSACTIONS

At the beginning of 2009, management of Fair Finance Company was concerned about the affect that the country's economic downturn may have upon Fair's ability to obtain sufficient capital to pay interest to its investors and to repay investment certificates as they become due. As a result of this concern, on February 13, 2009, Fair Finance Company entered into an agreement to sell \$3,594,354 worth of finance receivables to CLST Asset III, LLC, a Delaware Limited Liability Company. The finance receivables included in this sale did not qualify for purchase by Fortress Credit Corp. under the existing loan agreement. Therefore, it was necessary to find another purchaser to liquidate these assets.

Both Timothy S. Durham and James F. Cochran are affiliated with CLST Asset III, LLC, through its parent company CLST Holdings, Inc., of which both are shareholders. Mr. Durham is a member of the control group of CLST Holdings, Inc.

The terms of the Purchase Agreement provided that CLST Asset III, LLC was to pay for the finance receivables with a portion to be paid in cash, a portion to be seller financed through an installment promissory note and a portion to be satisfied with the issuance of 2,496,077 shares of common stock of CLST Holdings, Inc. at a deemed sale price of \$0.36 per share. Because this purchase agreement could not be deemed an arms length transaction, due to the conflict of interest existent involving Mr. Durham and Mr. Cochran, an independent valuation was made of the value of the finance receivable portfolio and the fair market value of the CLST Holdings, Inc. securities. Both valuations were conducted by an unrelated professional evaluator without input from either party.

During the pendency of this agreement, CLST Holdings, Inc. realized that the transaction as originally contemplated would result in a seriously adverse take consequence to CLST Holdings. The tax consequence resulted from the fact that Mr. Cochran would be deemed a beneficial owner of one-half of the shares of CLST Holdings, Inc. that would be issued to Fair Finance Company. In order to avoid this unwanted result, the agreement was restructured so that prior to the sale of the finance receivables, Mr. Durham and Mr. Cochran purchased a portion of the finance receivables from Fair Finance, in exchange for

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a Promissory Note. The finance receivables sold to Mr. Durham and Mr. Cochran were valued at the appraised amount for the underlying transaction. Upon the closing of the transaction, the cash payment and notes were distributed proportionate to the value of the receivables, but the shares of stock were distributed differently with Mr. Cochran receiving less shares. all cash received by Mr. Cochran and Mr. Durham was paid to Fair Finance, to reduce the outstanding balance of their notes. The balance on the notes are being paid through the portion of the promissory note issued by CLST Asset III, LLC to Mr. Cochran and Mr. Durham, for their portion of the finance receivables purchased. This transaction, in its entirety, was approved by the disinterested director of Fair Finance Company.

Since 2002, Fair, has, advanced to FHI, Inc., its parent corporation, funds which were subsequently lent to various entities, some of whom were related entities to FHI, Inc.'s parent DC Investments, LLC. At present, the total outstanding amount of these related party transactions total \$160,533,200 of principal and accumulated interest, through September 30, 2009. Prior to 2006, all of these transactions were approved by a Board of Directors who would be considered to be personally interested in the transactions. Commencing in 2006, all related party loans were ratified by the Company's disinterested Directors. Most of those related party loans remain current. However, \$59,500 of related party loans have been written off. During the Company's current year, it has received approximately \$6,765,000 in paid interest from the related party loans. The balance of the interest due was accrued on the Company's books.

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COMPETITION

The consumer finance business is highly competitive. Fair experiences noticeable competition in all communities in which it operates. Such competition comes from other licensed consumer finance companies, sales finance companies owned by manufacturers, banks, savings and loan companies, credit unions and retail merchants.

RISK FACTORS

1. *Fair's ability to repay the Certificates offered through this Circular is based upon its ability to collect account balances due to it from its portfolio .* Fair recognizes the risk of possible non-payment on certain account balances due to it. Non-payment by customers of Fair could result from temporary loss of employment, illness, excessive family debt or adverse economic conditions. Fair maintains a reserve for losses by direct charges to operations at 1.5% of the

outstanding retail receivable balances. An investor should also consider the financial status of Fair Holdings, Inc. and its affiliates as it relates to the ability of Fair Holdings, Inc. to repay the loans made by Fair under its Line of Credit.

A tabulation of past due accounts as of September 30, 2009 with no collection of principal, interest, or charges classified as to the period (one month) during which the last collection was made is as follows:

| Retail Installment Notes | Gross Unpaid Balance |
|-----------------------------|-------------------------|
| 60 - 89 days | \$ <u>9,589</u> |
| 90 - 179 days | - <u>3,196</u> |
| 180 - 269 days | - <u>834</u> |
| 270 or more days | <u>277</u> |
| Total | \$ <u>13,897</u> |

| | |
|--|-----------------------|
| Estimated Gross Charge Offs (Retail Notes) | \$ <u>4,898</u> |
| Add: Additional Defunct Receivables (YTD <u>9/30/09</u>) | \$ <u>354,474</u> |
| Total Estimated Gross Charge Offs | \$ <u>359,372</u> |
| Total Estimated Charge Offs Net Of Unearned Finance Charge | \$ <u>305,466</u> |
| Reserve for Losses <u>9/30/09</u> | \$ <u>10,991,831*</u> |

* Includes \$1,094,298 in reserves provided by dealers

The above tabulation differs significantly from previously disclosed tabulations, based upon December 31, 2007 statements. The significant decrease in gross unpaid balance is largely due to the reduced portfolio currently owned by Fair and its subsidiary. The increase in charge offs is due chiefly to the fact that the portfolio retained by Fair, after selling the better performing portion of its portfolio results in higher charge offs. Additionally, the increase in reserve for losses is occasioned by the \$2,000,000 addition to the loss reserve instituted by the Company on December 31, 2008.

2. **The ownership of the Company changed in January, 2002.** The investor should be aware that all of the common shares of Fair were purchased in January 2002 by Fair Holdings, Inc., an Ohio Corporation which was formed for the purpose of purchasing all of the common shares of Fair. Since the stock purchase occurred, Fair Holdings, Inc. commenced to make loans to finance artwork, real estate and equipment under capital leases. The loans made by Fair Holdings, Inc. are directed at markets not serviced by Fair and create additional opportunities for growth. Fair Holdings, Inc. also makes loans to its own parent Company D.C. Investments. Fair Holdings obtains its funds through a line of credit established with Fair. Since the acquisition

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of its stock, Fair has continued to follow its traditional business plan and or business procedures, however, there can be no guarantee that prior business procedures will continue to be followed by new management. Management believes any risk of continuity associated with the change of ownership has been lessened through the retention of existing personnel in current positions or in advisory positions.

3. ***There are no financial or managerial covenants made in conjunction with this investment.*** The investor is not receiving any financial or managerial covenants in conjunction with this investment. Fair's sole obligation to the investor, is to repay the amounts borrowed through the subordinated Investment Certificates, along with appropriate interest.

4. ***Recent payments made to retire debt has created a significant reduction in finance receivables.***
In 2008, Fair sold a significant number of its finance receivable, and used the proceeds to retire a line of credit and a promissory note that was utilized by Fair Holdings, Inc. to purchase the shares of Fair in 2002. When making an investment decision, the investor must consider the effect that this transaction has had on Fair's balance sheet and its ability to repay funds invested through this offering.

5. ***The investor's right to receive repayment of the certificate is subordinated to senior indebtedness.*** The investor should be aware that its right to receive repayment for the Certificate is subordinated to certain senior indebtedness which has been or will be incurred by Fair. The Subordinated Investment Certificates described by this Circular are subordinated to any senior indebtedness or any other security interest issued by any bank, trust company, insurance company, institution or lending agency of Fair's or Fair's parent Company, Fair Holdings, Inc. The Subordinated Investment Certificates described by this Circular will maintain an equal seniority with all other Subordinated Investment Certificates offered by Fair which may vary in maturity dates from the Certificate purchased by the investor. In the event of a dissolution of Fair or Fair Holdings, Inc., obligations to senior debt or security holders mentioned above, if any, would be paid prior to the payment of Subordinated Certificate debt. After the payment of all senior and subordinated debt, remaining funds would be paid to the Common Shareholders.

6. ***Fair's ability to repay the Investment Certificates may be adversely affected by the future***

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enactment of state or federal regulation. Changes in legislative regulations may adversely affect Fair's ability to repay the Investment Certificates in accordance with their terms. The finance charges and rates of interest charged by Fair and certain operating procedures followed by Fair are subject to legislative regulation. Fair currently purchases customer accounts throughout the U.S. Each state legislature regulates various practices which may be followed by Fair and the maximum amount of finance charges or the rate of interest which Fair may charge on the purchased consumer contracts. In the event state legislators or the Federal government impose additional restrictions upon Fair or reduce the rate of interest or finance charges which Fair may charge to its customers, Fair's ability to continue to repay the subordinated debt may be adversely affected.

7. **The Investment Certificates are not insured by any governmental or private agency.** The Investment Certificates offered through this Circular are not insured against loss or default by any governmental or private agency. The investor must consider Fair's ability to repay the Investment Certificates from the information contained in this Circular, when making an investment decision.

8. **The investor must be prepared to hold the Investment Certificate for its stated term.** There is no market for the sale of these Investment Certificates prior to maturity. Except in instances where the holder of the security dies, prior to maturity, there are no provisions that would enable the investor to obtain any funds in exchange for the Investment Certificates.

9. **Prospective investors should be aware that it may not be advisable to concentrate excessive portions of their net worth in a single investment vehicle.** The investor may wish to consider diversification strategies for investment purposes or, may wish to consult with an investment professional to assist the investor in determining the suitability of this investment for his portfolio and the amount of this investment which is suitable for the investor, based upon investor's net worth and the relative risks involved in this investment.

10. **Fair reserves the right to redeem the certificates prior to the redemption date.** While an investor must wait until the maturity of the Investment Certificate to receive funds from Fair, Fair has the right to redeem (call) the Certificates prior to the redemption date. The Subordinated Investment Certificates contain a provision which permits Fair to redeem (call) the

Investment Certificates at any time at the Company's discretion. The sole requirement to redeem the Certificates is that Fair provide the investor with thirty (30) days advance notice, (see Redemption, page 17).

11. *Fair is not limited in the amount of senior indebtedness that it may incur.* The investor should review the amount of senior indebtedness set forth in Fair's financial statements when evaluating Fair's ability to repay the Investment Certificates in accordance with their terms.

12. *Investors are not able to review actual purchase contracts and are solely dependent upon management's review and selection of such contracts based on the general criteria listed in Fair Financial Services section on page 4.*

13. *An Investor is not purchasing an ownership interest in the Corporation.* The holders of the Investment Certificates have the status of a creditor of Fair. They have no rights to vote for members of the Board of Directors, nor do they have any rights to appoint or change Fair's management of the Company.

14. *An investor should also consider the reduction in finance receivable portfolio held by Fair when making an investment decision. Over the past two years, Fair's finance receivable portfolio has been reduced significantly. Due to the recent economic downturn, Fair has felt it necessary to liquidate a large portion of its finance receivable portfolio in order to provide sufficient funds to pay investor interest and to redeem certificates as they become due. Although Fair deemed this to be a prudent business practice, the investor should review the financials to evaluate whether the reduced level of finance receivables can generate sufficient income to satisfy Fair's obligations created by the investment certificates.*

15. *The largest single debtor of Fair is Fair Holdings, Inc. and an investor should consider the financial status of Fair Holdings, Inc. and its ability to repay loans made by Fair.* An investor should also consider the financial status of Fair Holdings, Inc. as it relates to the ability of Fair Holdings, Inc. to repay the loans made by Fair under the Line of Credit, the principal balance including unpaid interest of which was approximately \$160,533,200 as of September 30, 2009. The Line of Credit imposes no restrictions on the use of the proceeds of these loans by Fair Holdings, Inc., nor does it contain any covenants restricting the business

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Deleted: *the financial health of Fair Holdings, Inc. when making an Investment decision.* Fair Holdings, Inc. is an Ohio Corporation that was formed in December, 2001. It has no prior operating history.

Its major asset is the common shares of Fair, although it also operates as a financing company, independent of Fair. Should Fair Holdings, Inc. default in certain obligations to its creditors, those creditors will have recourse against the assets of Fair. However, should Fair default under the terms of the Subordinated Investment Certificate, holders of Subordinated Investment Certificates will have no recourse against the assets of Fair Holdings, Inc. (See the Consolidated Financial Statement for Fair Holdings, Inc. that accompanies this Offering Circular).

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or financial affairs of Fair Holdings, Inc. The Line of Credit does not require the payment by Fair Holdings, Inc. of interest or principal or unpaid interest until the maturity date of the Line of Credit on January 8, 2012. The lack of a requirement to make payments may create a greater credit risk to Fair than if interim payments were required. However, voluntary periodic payments are made to Fair by Fair Holdings, Inc. Any payments made are first applied to accrued interest and any remaining funds are applied to reduce principal. Similarly, the amount of the loans that have been made to Fair Holdings, Inc., and the fact that the proceeds of those loans have been re-loaned to other related parties, may create a greater credit risk for Fair than if Fair had used those funds to make loans to a larger and more widely diversified group of unrelated borrowers.

16. ***Fair has agreed to guarantee a credit facility entered into by Fair Facility I, LLC.*** In February, 2008, Fair Facility I, LLC, a wholly owned subsidiary of Fair, entered into a credit facility with Fortress Credit Corp. Under this arrangement, Fair sells finance receivables to Fair Facility I, LLC. Fair Facility I, LLC uses the finance receivables to collateralize a loan from Fortress Credit Corp. The loan proceeds are then paid to Fair, as payment for the receivables. The proceeds from the sale were intended to be utilized to purchase additional finance receivables. This credit facility was established to borrow a maximum of \$50,000,000. The initial credit facility was reduced on June 17, 2009 to \$35,000,000. Both Fair Facility I, LLC and Fair are guaranteeing the repayment of this credit facility. Although Fortress Credit Corp. is only secured to the finance receivables that form the collateral for the credit facility, Fair's guarantee must be considered by the investor when determining the suitability of this investment.

17. ***There are no financial or managerial covenants upon Fair Holdings, Inc.*** As sole shareholder of Fair, Fair Holdings, Inc. has the ability to encumber the assets of Fair, at its discretion. There are no agreements between Fair Holdings, Inc. and Fair that would restrict Fair Holdings, Inc. from entering into agreements which will affect the assets of Fair.

18. ***The amount of interest that Fair will be required to pay upon redemption of a security may increase in amount, based upon the maturity length of the certificates purchased by investors.*** The Certificates being offered have various stated maturities. The interest rate set for each maturity will increase as the length of the Certificate increases. Therefore, when evaluating this investment, the

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Investor should understand that Fair's obligation to pay interest upon redemption will increase in amount, should other investors choose to purchase Certificates with longer maturities.

19. *When reviewing the financial statements of the Company, an investor should be aware that in the past, Fair has entered into transactions with related parties, including Shareholders, Officers and Directors.* In addition to the related party loans between Fair, its parent, Fair Holdings, Inc. and between Fair and related companies, the Investor should be aware that over the past year, Directors of Fair participated in the sale of finance receivables owned by Fair which were sold to a company which is affiliated with CLST Holdings, Inc. These Directors are also shareholders of CLST Holdings, Inc. This agreement was structured so that a portion of the finance receivable portfolio was first purchased by the Directors and immediately resold to the ultimate purchaser as part of a larger sale of finance receivables from Fair to the buyer. The Directors involved in the transaction received no monetary benefit from the transaction and all funds received by them were paid into Fair to reduce the Directors indebtedness to Fair with respect to the purchase finance receivables. The investor should understand that the entire transaction created a conflict of interest on the part of the Directors even though the Directors took every precaution, including independent evaluations of the portfolio, to assure that the transaction was equitable to both sides. This transaction was approved by the disinterested director of Fair Finance.

20. *An investor shall be aware that loans and lines of credit made by Fair to its Shareholder, Officers and Directors prior to June, 2006 were approved by Directors who had a direct or indirect interest in the loans or lines of credit.* All loans and lines of credit made available to the shareholder, officers and directors of Fair have been made with the approval of the Board of Directors. Prior to June 2006, the Board of Directors' approval was not made by a majority of disinterested directors. The Board of Directors was increased in June 2006 to include two disinterested directors. The other three directors are major shareholders of Fair Holdings, Inc. and one individual who is related by marriage to one of the shareholders. Subsequent to the date of election of the disinterested directors, there have been additional extensions of credit to Fair Holdings, Inc. These extensions of credit have been approved by the disinterested directors based upon a bona fide business purpose. The directors who could be considered as having an interest in the extension of credit to Fair Holdings, Inc. abstained from the directors' actions regarding the additional extensions of credit.

21. *The Company incurred a substantial loss in 2008 due to an increase in Finance Receivable Reserves.* The Company's income statement for the year ending December 31, 2008 shows an operating loss of \$1,788,064. This loss was generated as a result of management re-evaluating its Finance Receivable Reserves and increasing its loss reserve account by \$2,000,000. Without the increase of loss reserves, the Company would have shown a profit of \$211,936. Management is of the opinion that the country's economic climate created the potential for a larger number of defaults in finance receivables. As a result, it was not possible to calculate the magnitude of the rate of default over the level of defaults that the Company has historically experienced.

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Therefore, management determined that it would be prudent to increase the Finance Receivable Reserves, effective December 31, 2008. **It must be noted, however, that to date, Fair has not experienced any notable increase in defaults and it is increasing its Finance Receivable Reserves as a precautionary measure.** As of September 30, 2009, the Company has not experienced any significant change in the level of defaults and intends to reexamine its loss reserve policy at the end of this calendar year.

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USE OF PROCEEDS

A portion of the net proceeds from the sale of the Subordinated Investment Certificates will be utilized to replace maturing Variable Rate Certificates that are expected to be redeemed within the next 12 months. A portion of these proceeds has also been and will continue to be used to make loans to the parent Company of Fair, Fair Holdings, Inc., as previously discussed in this Offering Circular. Finally, a portion of these proceeds will also be used for expenses of Fair and to expand the working capital to be used for future growth purposes.

At the present time, Fair has not yet identified a sufficient number of accounts to purchase, or other suitable investments, should investors elect to subscribe to all of the Certificates offered through this Offering. Fair reserves the right to reject any subscription for its Certificates at any time that Fair determines that it will be unable to profitably invest the subscription amount within a reasonable time.

PLAN OF DISTRIBUTION

The Variable Rate Subordinated Investment Certificates which are offered through this Circular will be sold in multiples of \$0.01 with a minimum purchase of \$1,000.00. The Company has established a policy to limit subscriptions to \$200,000 per individual in the aggregate, without specific approval of management. This policy is based upon Fair's belief that an investor should not concentrate excessive portions of his net worth in a single investment vehicle. In the event an investor wishes to purchase more than \$200,000, in the aggregate, Fair's ownership reserves the right to request that the investor demonstrate to Fair Finance that an investment in excess of \$200,000 will not create an excessive concentration of available funds in Fair Finance.

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The maximum amount of the subscription for this offering will be reduced by the amount of outstanding Variable Rate Subordinated Certificates that were purchased by an investor in a prior offering. The Company defines an "individual" as an Ohio resident and any grantor trust established for the benefit of that Ohio resident. The Variable Rate Subordinated Investment Certificates are available only to Ohio residents.

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PAYMENT OF INTEREST

The rate of interest payable for each of the Variable Rate Subordinated Investment Certificates offered through this Offering is determined by the directors of Fair Finance Company. Rates are subject to change at the discretion of Fair Finance Company dba Fair Financial Services.

PAYMENT AT MATURITY

Certificates shall mature and become due on the date stated on the face of each Certificate. No Certificate can automatically renew. If any Certificate is not redeemed within five days after the stated maturity date Fair shall mail a check to the registered owner for all interest earned through the date of maturity. The Certificate shall then commence to bear interest at the rate of interest payable for Fair's V-6 Six Month Variable Rate Investment Certificate. Interest shall continue to be calculated on the original face value of the Certificate. The revised rate shall be in effect as of the maturity date and shall continue in effect until the earlier of the date that the holder redeems the Certificate or six months after the original maturity date. The rate of interest shall be revised every six months thereafter until the Certificate is redeemed. The revised rate of interest shall be the rate then offered by Fair for its V-6 Variable Rate Investment Certificate.

Fair shall have the right to limit the amount of aggregate payments to investors on its Investment Certificates in any one calendar month to an amount not exceeding 10% of its net cash collections of the previous calendar month, and all subject, moreover, to the prior payment of senior indebtedness. In the event that any such limitations are applied or invoked by Fair, full payment of any matured Certificate (including interest calculated to the date of payment at the Certificate's rate of interest), not made by virtue of such limitations, shall be made not later than 60 days from the date of maturity of the Certificate in the order that written request for payment shall have been received by Fair.

The investor should be aware that over the past year, Fair has, at times, exercised its right to delay the repayment of principal on matured certificates for a period of 60 days. Fair cannot predict when this policy of delaying payment at maturity will be modified and the investor should understand that it may have to wait an additional 60 days, to receive its investment together with interest to date of payment.

PAYMENT PRIOR TO MATURITY

Except in situations in which an owner or co-owner of an Investment Certificate dies, there are no specific provisions that would enable an owner to receive back the principal amount of the Investment Certificate prior to its maturity date. However, Fair reserves the right to permit an owner to redeem a Certificate prior to its maturity date. In the event that Fair permits an early redemption of an Investment Certificate, Fair will reduce the amount of interest paid to the owner based upon the early redemption penalty schedule below. Fair shall reduce the number of days of interest earned for the Investment Certificate by the appropriate number of interest penalty days upon redemption. If the owner has elected to redeem prior to

the date of maturity, Fair shall pay to the owner, upon early redemption, the face value of the Investment Certificate plus interest earned at the initial rate for the actual number of days invested, less the appropriate penalty days of interest. In the event that the number of days of interest is equal to or less than the interest penalty days, the owner will receive the face value of the Investment Certificate only.

Early Redemption Penalty Schedule

Subordinated Investment Certificate Interest Penalty

| | |
|---------------------------|-------------------|
| Series V-6 Variable Rate | 30 Days Interest |
| Series V-12 Variable Rate | 90 Days Interest |
| Series V-18 Variable Rate | 120 Days Interest |
| Series V-24 Variable Rate | 180 Days Interest |

If Fair has been paying interest to the owner prior to maturity, Fair will reduce the remaining interest due to the owner by an amount equal to the difference in the amount of interest earned based upon the stated rate of the Investment Certificate and the applicable number of interest penalty days. Should it be determined by Fair that the amount of interest already paid out to the owner exceeds the remaining amount of interest to which the owner was entitled (based upon the early redemption penalty schedule) Fair shall reduce the principal amount payable to the owner of the redeemed Certificate by the amount equal to the unearned interest payments made to the owner since the date of purchase of the Certificate.

REDEMPTION

Fair may, at its option, redeem all or part of any Variable Rate Investment Certificate at par, together with interest thereon to the redemption date. The Board of Directors of Fair may redeem, at its discretion, any outstanding Variable Rate Certificates prior to their maturity date. Fair shall give written notice of the calling of each Certificate for redemption at least thirty (30) days prior to the date set for redemption of said Certificate. Any notice so given shall stop the further running of interest on the Certificate beyond the next succeeding interest date. The investor shall have no redemption privileges on any Variable Rate Subordinated Investment Certificate prior to its maturity date, except in the event of death of the registered owner or any joint owner of the Variable Rate Subordinated Investment Certificate. Fair shall pay the principal amount of any Variable Rate Subordinated Investment Certificate, together with accrued interest to the date of redemption to the personal representative of any deceased owner or to the

Party entitled to receive the proceeds of the Certificate in the event of the death of the registered owner or any joint owner. Any request for early redemption of a Variable Rate Subordinated Investment Certificate based upon the death of an owner or any joint owner shall be made not later than one hundred twenty (120) days after the date of death of the registered owner or joint owner.

ASSETS AS OF
September 30, 2009

| | |
|---|----------------|
| Cash | \$ 1,801,676 |
| Finance Receivables | 23,963,056 |
| Loans Receivable, Related Parties | 176,560,264 |
| Other Notes | 24,315,189 |
| Reserve for Credit Losses | (10,197,533) |
| Loan Servicing Rights | 5,385,986 |
| Purchase Discount on sold Finance Receivables | |
| Finance and Loan Receivable, net | \$ 220,026,962 |
| Prepaid expenses & other assets | 7,523,585 |
| Property and Equipment, net | 1,606,853 |
| Goodwill & Intangible Assets | 11,866,255 |
| Total Assets | \$242,825,331 |

CAPITALIZATION AS
OF September 30, 2009

| | |
|--|--|
| Senior Debt | |
| NP Banks | 18,175,295 |
| NP Other | |
| Total Senior Debt | 18,175,295 |
| Subordinated Investment Certificates | |
| V6 | 61,264,626 |
| V12 | 20,959,887 |
| V18 | 18,589,225 |
| V24 | 84,640,275 |
| V36 | 1,824,083 |
| V48 | 3,113,262 |
| V60 | 6,854,972 |
| Total Subordinated Investment Certificates | 207,246,329 |
| Total Senior and Sub Debt | 225,421,624 |
| Shareholder's Equity | 5,555,773 |
| Debt: Equity | 17:1 |
| Ratio at 9/30/09 | (LT portion of sub-debt + LT sr debt/Equity) |

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Note #1: On February 11, 2008, Fair Facility I, LLC, a wholly owned subsidiary of Fair Finance Company, entered into a credit facility with Fortress Credit Corp., for the purpose of obtaining additional working capital. Fair is a guarantor of this credit facility. Total amount available under the credit facility is \$50,000,000. The total amount of the credit facility has been reduced, by agreement of the parties, to \$35,000,000. The current amount withdrawn by Fair Facility I, LLC as of September 30, 2009 is \$18,041,814.

A copy of the credit facility, any collateral agreements and any term sheet for the credit facility are available for review at any office of Fair upon request. Any investor may also review the current and past financial statements of Fair Holdings, Inc. at any office of Fair.

MANAGEMENT

Following is a list of officers and directors of FAIR FINANCIAL:

Mr. James F. Cochran, Chairman/Director, Mr. Cochran purchased the Company in 2002 and is responsible for Company policy and direction. Mr. Cochran is also an officer and director of Fair Holdings, Inc., the parent of the Company. Mr. Cochran has 27 years in the finance industry, including positions with US Leasing Corporation, GE Credit and Carpenter Financial, Inc. His experience includes financial sales, credit analysis, investment tax leases, corporate direction and policy. Mr. Cochran holds a Bachelor of Science in Business Administration from Southwest University.

Mr. Timothy S. Durham, Chief Executive Officer/Director, joined the Company in 2002. Mr. Durham is also an officer and director of Fair Holdings, Inc., the parent of the Company. Timothy S. Durham attended college at both DePauw University and Indiana University, where he graduated in 1984 with a B.A. degree in mathematics. He then attended Indiana University School of Law where he graduated in 1987 summa cum laude. In 1987, Mr. Durham accepted a position as an attorney with Ice Miller Donadio and Ryan in Indianapolis. In 1990 he accepted a position with Carpenter Manufacturing, a school bus maker in Mitchell, IN, where under his leadership as President, the company grew from \$47 million in revenues in 1991 to over \$85 million in 1997. In 2000, Mr. Durham organized his current company, Obsidian Enterprises, where he serves as Chairman and Chief Executive Officer. Obsidian is known both nationally and internationally as a company that invests in diverse businesses ranging from manufacturing to transportation. It acquires various companies and employs investment strategies to maximize profits. Obsidian presently operates through five subsidiaries. In addition, Mr. Durham also has major interests in Fair Finance, Car Collector Magazine and several other entities around the world.

Mr. Durham is an active participant in the Indianapolis community and is a supporter of many organizations and events including: Indianapolis 500 Festival, Oak's Academy, Brooke's Place, Jewish Community Center, Cystic Fibrosis Foundation, and the Leukemia and Lymphoma Association. In 2002, Mr. Durham was recognized by the Leukemia and Lymphoma Society of Kentucky as its "Person of the Year." In 2006, Mr. Durham gave back to his hometown by becoming one of the active supporters of the new building program for Girls, Inc. Mr. Durham is a member of the Board of Directors of the Auburn Cord Deussenburg Museum. He has served on the Boards of the Indianapolis Symphony as well as the Indiana Historical Society. Currently, Mr. Durham assumed the reigns of National Lampoon as President and CEO.

Mr. Carl Brizzi, Director, was elected Director in 2009. Mr. Brizzi is not affiliated in any other manner with Fair Financial. Mr. Brizzi is currently the Marion County Prosecutor, State of Indiana, elected in 2002, re-elected in 2006. Mr. Brizzi brought to the Prosecutor's office his belief in victim-centered prosecution. He has been named a "40 Under 40" by the Indianapolis Business Journal, "Outstanding Young Alumnus" by Valparaiso School of Law, and he was included from 2004 to 2009 in the Howey Political Report's Top 50 Most Influential People in Indiana Politics. Mr. Brizzi is the father of four children.

Mr. William L. McCrary, III, Director was elected Director in 2009. Mr. McCrary is not affiliated in any other manner with Fair Financial. Mr. McCrary was the former Chairman and C.E.O. of Phoenix Oil Company, Augusta, Georgia, founded in 1919 and sold in 1986. Mr. McCrary is now retired and living in Augusta, Georgia.

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Deleted: Mr. Daniel S. Laikin, Director, was elected Director in 2006. Mr. Laikin is not affiliated in any other manner with Fair Financial. He is the largest Shareholder and Director of National Lampoon since 2000 and was employed as its Chief Operating Officer from May 17, 2002 until February 1, 2005, when he became the Chief Executive Officer. Mr. Laikin served as Co-Chairman of Biltmore Homes, Inc., an Indiana based home building and real estate development company until 2000. He has also served as a partner of Four Leap Partners, LLC, a closely held investment company, concentrating on the start up and financing of high tech and internet related companies. He is also on the Board of Directors of Obsidian Enterprises, Inc. and SPPN Images, Inc. -

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Deleted: Mr. Jeffrey L. Eglon, Director, was elected Director in 2006. Mr. Eglon is not affiliated in any other manner with Fair Financial. Mr. Eglon is currently Vice President of Strategy for Digonex Technologies. Mr. Eglon has been with Digonex Technologies since December, 2004. Prior to December, 2004, Mr. Eglon -

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Mr. Keith E. Schaffter, President, joined the Company in 1973 and is active in the management of the Company.

Mr. Rick D. Snow, Chief Financial Officer, joined the Company in 2002 and is active in the management of the Company.

Mr. Douglas F. DeRose, Vice President/Controller and Assistant Secretary, joined the Company in 2003 and is active in the management of the Company.

Mr. Robert Letham, Vice President/Director of Operations and Assistant Secretary, joined the Company in 1996 and is active in the management of the Company.

Ms. Maria Yankovich, Secretary and Administrative Assistant, joined the Company in 1981.

Mr. ~~Keith A. Kuczma~~, Assistant Secretary and Investor Relations Manager at our 815 E. Market St., Akron, Ohio office, joined the Company in 2008.

Ms. Lauren Futo-Assistant Secretary at our 815 East Market St., Akron, Ohio office, joined the Company in 1977

Ms. Stephanie Brogan – Assistant Secretary at our 815 East Market St., Akron, Ohio office joined the Company in 2008.

Mrs. Deborah Morton – Assistant Secretary at our 1500 Canton Rd. Akron, Ohio branch office, joined the Company in 2001

Mrs. Rona Morehead – Assistant Secretary at our 1500 Canton Rd., Akron, Ohio branch office, joined the Company in 1985

Mr. Eric McCoy – Assistant Secretary at our 1500 Canton Rd, Akron, Ohio branch office, joined the Company in 2001

Mrs. Kelly Nellis – Assistant Secretary at the 1753 State Road, Cuyahoga Falls, Ohio branch office, joined the Company in 1996

Ms. Laura Capron – Assistant Secretary at our 1753 State Rd, Cuyahoga Falls, Ohio branch office, joined the Company in 1995

Mrs. Cynthia Glunt – Assistant Secretary at our 1753 State Rd, Cuyahoga Falls, Ohio branch office, joined the Company in 1981

Ms. Janice Lutz –Assistant Secretary at our 1753 State Rd, Cuyahoga Falls, Ohio branch office, joined the Company in 1997

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Ms. Dawn Hunt – Assistant Secretary at our 1753 State Rd., Cuyahoga Falls, Ohio branch office, joined the Company in 1998

Mrs. Tiffany Oldaker – Assistant Secretary at our 136 S. Market St, Wooster, Ohio branch office joined the Company in 1989

Mr. Matthew Ogden – Assistant Secretary at our 136 S. Market St., Wooster, Ohio branch office, joined the Company in 2008

Ms. Melissa Fath – Assistant Secretary at our 136 S. Market St, Wooster, Ohio branch office, joined the Company in 2007

Mrs. Judith Schulte – Assistant Secretary at our 849 N. Court St., Medina, Ohio branch office, joined the Company in 1993

Ms. Freda Ingle – Assistant Secretary at our 849 N. Court St., Medina, Ohio branch office, joined the Company in 1994.

Mr. Donald Clifford – Assistant Secretary at our 4675 Dressler Rd NW, Canton, Ohio branch office, joined the Company in 2003.

Mrs. Kimberly Schweyer – Assistant Secretary at our 25 Amberwood Pkwy., Ashland, Ohio branch office, joined the Company in 1996.

Ms. Rachel Morgan – Assistant Secretary at our 191 Great Oaks Trail, Wadsworth, Ohio branch office, joined the Company in 2009.

The Company gives extra attention to the sharing of management responsibilities such that in the event of the untimely loss of key personnel, operations will continue profitably and without interruption.

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REMUNERATION AND PRINCIPAL HOLDERS OF SECURITIES

The common stock ownership of the Company is detailed below:

| | <u>Shares Owned</u> |
|----------------------|---------------------|
| Class A (Non-Voting) | |
| Fair Holdings, Inc. | 1,333 |
| Class B (Voting) | |
| Fair Holdings, Inc. | 29 |

Aggregate annual remuneration of all directors and Officers is ~~\$1,648,353~~. The three highest remunerated officers of the Company are:

| | | |
|-----------------|-----------------------|------|
| John Head | \$ 272,776 | *(1) |
| Rick Snow | \$ 202,329 | * |
| Keith Schaffter | \$ 141,588 | |

*These individuals receive additional compensation From Fair Holdings, Inc.

(1) Former President

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LITIGATION

In the normal course of business, the Company becomes involved in legal matters, most of which involve consumer complaints filed by individuals who owe money to Fair for the finance receivables. All of these cases have been resolved, prior to trial. Over the past 16 months, the Company has been a party to two lawsuits which require disclosure.

On July 16, 2007, the Company was sued by FCS Advisers, Inc. dba Brevet Capital Advisors (hereinafter referred to as "Brevet"). Brevet alleged that it entered into a contract with Fair for the purpose of securing a secured loan facility, for which Fair would pay a commission to Brevet. The Complaint alleged that Fair violated this agreement and was subject to liquidated damages of \$1,500,000. Although Fair Finance denies that it defaulted under this agreement, the United States District Court for the Southern District of New York disagreed and awarded Brevet the amount requested plus interest. This matter is currently under appeal in the United States Court of Appeals for the Second Circuit.

On March 2, 2009 a lawsuit was filed in the District Court of Dallas County, Texas. Although Fair was not named as a Defendant, one of the causes of action contained in the lawsuit, which was in the nature of a Shareholder's derivative action was an attempt to overturn the sale of finance receivables entered into on February 13, 2009 between Fair, and CLST Asset III, LLC. A hearing was recently held on this matter, resulting in the Court dismissing those causes of action which would have affected the sale.

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LEGAL OPINIONS

I have reviewed the details provided to me by Fair with regard to the Offering of its Series V-6 Variable Rate Six-Month Subordinated Investment Certificates, Series V-12 Variable Rate Twelve-Month Subordinated Investment Certificates, Series V-18 Variable Rate Eighteen-Month Subordinated Investment Certificates, Series V-24 Variable Rate Twenty-Four-Month Subordinated Investment Certificates.

I have also reviewed the minutes and proceedings of the Corporation to date. Based upon this information, it is my opinion that assuming all Certificates are offered in the manner set forth in accordance with their intended purpose, the securities offered with respect to this Offering, when issued, shall be valid and binding indebtedness of the Corporation. In addition, all such securities are exempt from registration and filing requirements of the U. S. Securities and Exchange Commission by virtue of Section 3(a) (11) of the Securities Act of 1933.

Ronald O. Kaffen

Attorney at Law

~~Kaffen, Zimmerman, DiCaudo & Yoder~~

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EXPERTS

Legal services are provided to the Company by Kaffen, Zimmerman, DiCaudo & Yoder, Attorneys-at-Law, 520 South Main Street, Akron, Ohio. The Company utilizes the services of other law firms for specialized matters and the collection of defaulted consumer contracts.

SOURCES OF FUNDS

SENIOR DEBT

| | Authorized Line of Credit | Drawn at 9/30/09 | Interest Rate |
|---------------------------------|---------------------------------|---------------------|-----------------------|
| Fortress Credit Corp. (1) | \$35,000,000 | \$18,041,814 | ↓ Mo LIBOR + 6.25% |
| Other Notes | | 133,481 | Various |
| Total Senior Debt | | \$18,175,295 | |

SUBORDINATED DEBT

| | Current Authorization | Amount* Outstanding 9/30/09 | Amount Available for Sale at 9/30/09 |
|-----|--------------------------|-----------------------------------|---|
| V6 | | 61,264,626 | |
| V12 | | 20,959,887 | |
| V18 | | 18,589,225 | |
| V24 | | 84,640,275 | |
| V36 | | 1,824,083 | |
| V48 | | 3,113,262 | |
| V60 | | 16,854,972 | |
| | \$ 250,000,000 | \$ 207,246,329 | \$ 24,110,553 |

Senior and
Subordinated Debt \$ 225,421,624

*-Includes amounts sold through prior authorizations

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FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidated Financial Statements
(Unaudited)
Years Ended December 31, 2008 and 2007



815 E. Market Street
Akron, OH 44305
P: 330.376.8171
F: 330.376.2527
www.fairfinance.com

October 29, 2009

I, Timothy S. Durham, Chairman and CEO of Fair Holding, Inc. hereby certify that the accompanying consolidated balance sheet, income statement, stockholders' equity and cash flows for the twelve months ended December 31, 2008 and 2007 are, to the best of my knowledge, information and belief, true and correct.

As disclosed in Note 18 to the financial statements, a new standard was issued by the FASB and accounting principles generally accepted in the United States of America require the primary beneficiary of a variable interest entity to present consolidated financial statements. The complete effect on the consolidated financial statements has not been determined. Management believes we may not be required to perform additional consolidation and furthermore, due to the extensive work necessary to accumulate this information and extraordinarily large expense therewith, we have prepared these statements as we have historically. This treatment may or may not be in compliance with generally accepted accounting principles under newly adopted FIN 46(R). However, we believe these statements more clearly reflect the performance and operations of Fair Finance Company and Fair Holdings, Inc.

In addition, accounting principles generally accepted in the United States requires consideration of impairment of notes receivable other loans and good will. Interest income on impaired loans can be accrued to the extent projected future cash flows or collateral indicates the amounts will be collectible it is believed that its allowance for losses and collateral is adequate at the present time. If significant changes occur in the future financial position, this could give rise to partial or potentially complete impairment.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy S. Durham", written over a horizontal line.

Timothy S. Durham
Chairman and CEO

FAIR HOLDINGS, INC. AND SUBSIDIARY

TABLE OF CONTENTS

Financial Statements

| | |
|--|---|
| Consolidated Balance Sheets (Unaudited).....Page | 1 |
| Consolidated Statements of Income (Loss) (Unaudited)..... | 2 |
| Consolidated Statements of Stockholders' Equity (Unaudited)..... | 3 |
| Consolidated Statements of Cash Flows (Unaudited)..... | 4 |
| Notes to Consolidated Financial Statements..... | 5 |

Supplementary Information

| | |
|---|----|
| Consolidating Balance Sheet, December 31, 2008 (Unaudited)..... | 18 |
| Consolidating Balance Sheet, December 31, 2007 (Unaudited)..... | 19 |
| Consolidating Statement of Income (Loss), Year Ended December 31, 2008 (Unaudited)... | 20 |
| Consolidating Statement of Income, Year Ended December 31, 2007 (Unaudited)..... | 21 |

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FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets (Unaudited)
December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,317,083 | \$ 2,091,294 |
| Finance loan and service receivables: | | |
| Finance receivables | 49,050,441 | 37,727,451 |
| Unearned charges | (3,933,471) | (4,531,240) |
| Loans receivable, related parties | 158,414,768 | 124,026,719 |
| Reserve for credit losses | (10,103,188) | (8,045,276) |
| Other loans receivable | 22,263,924 | 20,238,760 |
| Loan servicing rights | 10,054,845 | 27,075,670 |
| Purchase discount on sold finance receivables | - | 2,098,369 |
| Finance loan and service receivables, net | <u>225,747,319</u> | <u>198,590,453</u> |
| Lease receivables, net | 12,833 | 14,925 |
| Other receivables | - | 6,818,821 |
| Prepaid and other assets | 6,994,030 | 4,719,229 |
| Property and equipment, net | 1,887,252 | 2,179,416 |
| Goodwill | 10,808,912 | 10,808,912 |
| Intangible assets, net | 1,163,797 | 1,305,735 |
| | <u>\$ 250,931,226</u> | <u>\$ 226,528,785</u> |
| Liabilities and Stockholders' Equity | | |
| Notes payable | \$ 32,632,782 | \$ 194,553 |
| Accounts payable, trade and accrued expenses | 5,605,002 | 4,325,373 |
| Dealers' reserves and holdbacks | 4,505,636 | 4,706,306 |
| Subordinated debt | 192,471,985 | 182,777,843 |
| Servicing liability | 10,054,845 | 27,075,670 |
| Total Liabilities | <u>245,270,250</u> | <u>219,079,745</u> |
| Stockholders' Equity | <u>5,660,976</u> | <u>7,449,040</u> |
| | <u>\$ 250,931,226</u> | <u>\$ 226,528,785</u> |

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Income (Loss) - (Unaudited)
For the Years Ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|---------------------|
| Finance charge revenue | \$ 31,885,865 | \$ 27,231,686 |
| Interest expense: | | |
| Bank debt | (4,400,184) | (4,177,681) |
| Subordinated debt | <u>(15,919,776)</u> | <u>(14,127,814)</u> |
| | <u>(20,319,960)</u> | <u>(18,305,495)</u> |
| Net finance revenues, before provision for finance credit losses | 11,565,905 | 8,926,191 |
| Provision for finance credit losses | <u>(2,477,705)</u> | <u>(127,470)</u> |
| Net revenues, after provision for finance credit losses | 9,088,200 | 8,798,721 |
| Nonfinance income: | | |
| Investment and other income | 102,214 | 62,085 |
| Nonfinance expenses: | | |
| Operating expenses | <u>(10,978,478)</u> | <u>(8,620,651)</u> |
| Net Income (Loss) | <u>\$ (1,788,064)</u> | <u>\$ 240,155</u> |

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Years Ended December 31, 2008 and 2007

| | | Common Stock | | | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholders' Equity |
|----------------------------|-------------------------|-----------------------|----------|----------------------------------|---|----------------------|----------------------------------|
| | Comprehensive Income | Shares Outstanding | Amount | Additional Paid-in Capital | | | |
| Balance, December 31, 2006 | | 1,000 | \$ 1,000 | \$ 6,096,398 | \$ (1,074,776) | \$ 2,186,263 | \$ 7,208,885 |
| Net Income | 240,155 | | | | | 240,155 | 240,155 |
| Total Comprehensive Loss | <u>\$ 240,155</u> | | | | | | |
| Balance, December 31, 2007 | | 1,000 | \$ 1,000 | \$ 6,096,398 | \$ (1,074,776) | \$ 2,426,418 | \$ 7,449,040 |
| Net Loss | (1,788,064) | | | | | (1,788,064) | (1,788,064) |
| Total Comprehensive Income | <u>\$ (1,788,064)</u> | | | | | | |
| Balance, December 31, 2008 | | 1,000 | \$ 1,000 | \$ 6,096,398 | \$ (1,074,776) | \$ 638,354 | \$ 5,660,976 |

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows (Unaudited)
For the Years Ended December 31, 2008 and 2007

| | 2008 | 2007 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$ (1,788,064) | \$ 240,155 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Provision for credit losses on finance receivables | 2,867,029 | 127,470 |
| Depreciation and amortization | 1,133,140 | 1,268,257 |
| Net proceeds from sale of finance receivables | - | 21,821,709 |
| Decrease (increase) in: | | |
| Prepaid and other assets | (603,796) | 1,535,146 |
| Accounts payable, trade and accrued expenses | 1,855,148 | 703,377 |
| Dealer reserves and holdbacks | (200,670) | 990,309 |
| Net cash provided by operating activities | 3,262,787 | 26,686,423 |
| Cash Flows from Investing Activities | | |
| Finance receivables originated or purchased | (86,161,264) | (85,628,231) |
| Finance receivables repaid | 72,657,416 | 70,987,900 |
| Capital expenditures | (498,992) | (465,062) |
| Payments to acquire Fair Finance | - | (50,000) |
| Net advances on third party loans | - | (583,603) |
| Net advances on related party loans | (28,075,370) | (15,883,255) |
| Net repayments on lease loans | - | 16,597 |
| Net cash used in investing activities | (42,078,210) | (31,605,654) |
| Cash Flows from Financing Activities | | |
| Net borrowing on line of credit | 32,474,794 | - |
| Proceeds from issuance of subordinated debt | 46,678,714 | 47,060,494 |
| Repayment of subordinated debt | (36,984,572) | (25,229,470) |
| Debt issuance costs | (1,091,159) | - |
| Net repayments on debt | (36,565) | (17,024,316) |
| Net cash provided by financing activities | 41,041,212 | 4,806,708 |
| Increase (decrease) in Cash | 2,225,789 | (112,523) |
| Cash and Cash Equivalents, Beginning of Period | 2,091,294 | 2,203,817 |
| Cash and Cash Equivalents, End of Period | \$ 4,317,083 | \$ 2,091,294 |
| Supplemental Schedules of Noncash Investing and Financing Activity: | | |
| Supplemental Cash Flow Information: | | |
| Cash paid for interest | \$ 21,901,641 | \$ 17,302,009 |

During the year, fully depreciated assets having an original cost of \$1,051,569 were written off.

See accompanying notes to consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies:

Nature of Operation

Fair Holdings, Inc. ("Fair Holdings") and its subsidiary, Fair Finance Company ("Fair Finance"), collectively referred to as "the Company," is engaged in providing consumer financing services through purchasing and servicing of consumer contracts from a variety of businesses wishing to provide financing for their customers, and the Company provides commercial financing through lines of credit and interest lease loans, real estate, and equipment under capital leases including for related and third parties, as discussed in Note 6.

The consolidated financial statements include the operations of Fair Holdings and Fair Finance for the years ended December 31, 2008 and 2007. All significant intercompany transactions and balances have been eliminated in consolidation.

Fair Holdings is a wholly owned subsidiary of DC Investments, LLC ("DC Investments").

Use of Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined. Significant estimates used in preparing these financial statements include those assumed in computing the reserve for finance credit losses, lease receivables, depreciation, amortization of intangible assets, and collateral on advances and loans to related parties. Actual results could differ from those estimates.

Revenue Recognition

Net finance charges on third-party retail installment notes are credited to unearned finance charge accounts and transferred to income on an individual account basis as collections are made in diminishing monthly amounts proportionate to the decreasing balances of the receivables. Finance income is recognized on related-party finance receivables on the interest method applied to the outstanding balance of each loan. Also see below and Notes 3 and 6. Premiums and discounts on purchased receivables are considered as yield adjustments. The unamortized balance is included in finance receivables and the associated amortization is included in finance charge revenue. Receivables for nonrefundable, origination, and commitments fees, if charged to the customer, generally are deferred and amortized as interest income over the life of the related loan as an adjustment of the yield. Also see Notes 3 and 4, for discussion regarding the nonaccrual status of contractually delinquent assets.

Income for capital leases is recognized on the interest method. Income on operating leases is recognized on a straight-line basis over the lease term. Operating lease equipment is carried at cost, less accumulated depreciation, and is depreciated to estimated residual value using the straight-line method over the lease term or projected economic life of the asset.

Accounting for Transfers and Servicing of Financial Assets and Liabilities

The Company has service-only contracts on installment finance receivables as a service to, and related to, its dealer agreements. The Company also has service contracts relating to a sale of various contracts, more fully described in Note 3. As the Company has retained some benefits and risks associated with the transaction, it has recognized a servicing asset and servicing liability in an amount equal to the principal amount of the contracts sold. Income from these contracts is recognized under the amortization method as it is received. It is expected this amortization will be recognized into income over the next 18 to 24 months. It is the belief of management this best estimates the potential future benefits and risks under the agreement.

Note 1 – Summary of Significant Accounting Policies (Continued):

Loan servicing fee income represents fees earned for servicing loan owned by the dealers. The fees are calculated on the outstanding principal balance of loans serviced. Fees are recorded as income when the service is performed and, therefore, earned. (also see Note 3).

Property, Equipment, and Depreciation

Property and equipment are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Depreciation expense for 2008 and 2007 was approximately \$732,000 and \$786,000, respectively.

Marketable Securities

The Company's investments in marketable equity securities have been classified as available-for-sale and are stated at fair value. Unrealized holding gains and losses are reported in other comprehensive income, a component of stockholders' equity. Realized gains and loss are included in earnings and are derived using the specific identification method for determining the cost of the securities. Marketable securities are included in the consolidated balance sheet under the caption "Prepaid and other assets".

Fair Value of Financial Investments

The carrying amounts of cash and cash equivalents, accounts payable, and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying amounts of finance, loans, and lease receivables approximates fair value, as the effective rates for these instruments are comparable to market rates at year end. The carrying amount of subordinated and bank debt approximates fair value, as a result of the current interest rates paid on the Company's borrowings being at market. None of the financial instruments are held for trading purposes.

Income Taxes

Fair Holdings' parent company, DC Investments, elected at inception to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under such provisions and similar provisions of state law, the parent company does not pay corporate income taxes on its taxable income. Instead, the shareholders are liable for individual income taxes on the Company's taxable income. Fair Holdings and its subsidiary are consolidated into the filings of DC Investments, and as such, no provision for income taxes is include in these financial statements.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

Advertising costs

The Company's policy is to expense all advertising costs in the current period. Advertising expense was approximately \$133,000 and \$95,000 in 2008 and 2007, respectively.

Capitalized Debt Issuance Costs

Capitalized debt issuance costs in the amount of \$1,091,159 in 2008 are associated with establishing the Company's line of credit. Debt issuance costs are being amortized over the life of the line of credit which is five years under the straight-line method.

Note 1 – Summary of Significant Accounting Policies (Continued):

Goodwill and Intangible Assets

Goodwill and other intangibles with indeterminate lives are assessed for impairment at least as often as annually and more frequently as triggering events may occur. In making the assessment, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and market place data. Any impairment losses determined to exist are recorded in the period the determination is made. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment. Since management's judgment is involved in performing goodwill and other intangible assets may be overstated or understated. For the years ended December 31, 2008 and 2007, management has determined there was no impairment of the goodwill.

Note 2: Change in Accounting Principles:

During 2008, the Company began to recognize revenue from all finance receivables under the interest method which provides for a constant effective rate of interest on the contract by recording a purchase discount or premium and amortizing that discount or premium over the life of the receivable. Prior to 2008, revenue from third party finance receivables was recognized as collections were made in diminishing monthly amounts proportionate to the decreasing balances of the receivables. The change was not applied retrospectively as management feels that it is both immaterial and it is not practicable without unreasonable efforts.

Note 3 – Finance and Service Receivables:

Contractual maturities of retail installment notes are required by the industry audit guide for finance companies are presented in the following table, which estimates the maturities on a weighed average basis considering the prepayments discussed below. In the event of the portfolio being liquidated, Fair Finance would receive 125% and 116% of the portfolios' carrying value as of December 31, 2008 and 2007, respectively. The above data should not be regarded as a forecast of future repayments.

The finance receivables include interest-bearing assets of \$31,002,500 in 2008 and \$ 31,208,100 in 2007 and do not include unearned charges. Interest-bearing assets have an average annual yield of 18.2% in 2008 and 2007.

The Company also has service-only contracts, which it services for dealers, with outstanding balances of \$10,358,700 and \$13,380,425 as of December 31, 2008 and 2007, respectively. These accounts are not recorded in the Company's balance sheet. Fee revenue is recognized on these accounts as services are performed and earned.

The Company has service contracts arising from sold contracts which are recorded on the balance sheet in the amount of \$1,839,000 and \$29,174,000 under the caption of loan servicing rights as of December 31, 2008 and 2007 respectively. Interest is recognized based upon an amount greater than the stated contract amount pursuant to the third party agreement. In addition, fee revenue is recognized monthly based upon a flat rate times the number of contracts open on the 15th of each month.

Fair Finance maintains a line of credit for one of its dealers. The principal balance on the line of credit shall not exceed 50% of the outstanding balance of its current accounts being serviced by Fair Finance with a maximum of \$2,500,000. Fair Finance's advances on the credit line carry an interest rate of 1.0% over prime and are due November 2011. Fair Finance's collateral for the outstanding advances included the dealer receivables and any amounts owed by Fair Finance to the dealer. The outstanding advances totaled approximately \$375,000 and \$533,067 as of December 31, 2008 and 2007 respectively.

Note 3 – Finance and Service Receivables (Continued):

The following tables describe third-party finance and service receivables, including maximum terms and estimated maturities as of December 31, 2008 and 2007. As the Company continues to hold certain benefits and risks of those finance and service receivables which have been sold, those amounts are included in the table.

2008

| Maximum Terms In Months | 0-1 Years | 1-3 Years | 3-5 Years | 5-10 Years | Amount |
|--|--------------|--------------|--------------|-------------|--------------|
| Third-party retail installment notes: | | | | | |
| 36 | \$5,508,000 | \$16,120,247 | - | \$ 1,865 | \$21,630,112 |
| 48 | - | - | \$ 16,826 | - | 16,826 |
| 60 | 6,566,907 | 6,274,629 | 5,686,699 | 3,196 | 18,531,431 |
| 84 | 1,242,057 | 4,338,503 | 7,954,502 | 1,226,264 | 14,761,326 |
| 108 | 612,743 | 2,527,851 | 532,881 | 555,446 | 4,228,921 |
| Subtotal | 13,929,707 | 29,261,230 | 14,190,908 | 1,786,771 | 59,168,616 |
| Dealer notes (1) | 396,673 | - | - | - | 396,673 |
| Subtotal | 14,326,380 | 29,261,230 | 14,190,908 | 1,786,771 | 59,565,289 |
| Less discounts and unearned charges (2) | (525,052) | (3,836,890) | (538,149) | (8,999) | (4,909,090) |
| Total third-party finance receivables | \$13,801,328 | \$25,424,340 | \$13,652,759 | \$1,777,772 | \$54,656,199 |

2007

| Maximum Terms In Months | 0-1 Years | 1-3 Years | 3-5 Years | 5-10 Years | Amount |
|--|--------------|--------------|--------------|-------------|--------------|
| Third-party retail installment notes: | | | | | |
| 36 | \$ 3,726,457 | \$18,121,488 | \$ - | \$ 1,958 | \$21,849,902 |
| 48 | 1,992 | - | - | - | 1,922 |
| 60 | 6,492,438 | 12,043,281 | 2,252,421 | 4,792 | 20,792,933 |
| 84 | 867,951 | 4,186,074 | 6,628,498 | 1,730,024 | 13,412,547 |
| 108 | 524,911 | 3,550,677 | 3,424,095 | 1,246,063 | 8,745,747 |
| Subtotal | 11,613,749 | 37,901,521 | 12,305,014 | 2,982,837 | 64,803,121 |
| Dealer notes (1) | 563,364 | - | - | - | 563,364 |
| Subtotal | 12,177,113 | 37,901,521 | 12,305,014 | 2,982,837 | 65,366,485 |
| Less discounts and unearned charges (2) | (547,182) | (4,074,720) | (1,093,907) | (11,433) | (5,727,242) |
| Total third-party finance receivables | \$11,629,931 | \$33,826,801 | \$11,211,107 | \$2,971,404 | \$59,639,243 |

See accompanying notes to consolidated financial statements.

Note 3 – Finance and Service Receivables (Continued):

- (1) notes for the period ended December 31, 2008 and 2007 were \$375,079 and \$533,067, respectively and are included in the consolidated balance sheets under the caption "other receivables".
- (2) Discounts for the period ended December 31, 2008 and 2007 were \$975,619 and \$1,196,033, respectively and are included in the consolidated balance sheets under the caption "Dealers' reserves and holdbacks".

Note 4 – Allowance for Losses on Finance and Service Receivables:

The Company is exposed to the risk that borrowers or counterparties may default on their obligations to the Company. These transactions create credit exposure that is reported on-balance sheet. On-balance sheet credit exposure includes such items as third-party finance receivables and loans, related-party loans, and leasing receivables. The Company has no off-balance sheet credit risk with regard to its servicing-only contracts. In addition, the Company has arrangements with certain dealers to exchange performing service-only contracts for on-balance sheet contractually delinquent contracts. The Company uses this concept to partially manage its overall credit risk as discussed above.

The Company's Risk Committee has developed policies to manage the level and composition of risk in its credit portfolio and reviews the Company's performance relative to those policies. The objective of this credit risk management process is to quantify and manage credit risk on an aggregate portfolio basis for the third-party finance receivables, as well as to reduce the risk of loss resulting from an individual customer or dealer default. Corporate

Risk Management works with lending officers and line of business personnel involved in credit decision-making and is involved in the implementation, refinement, and monitoring of the Company's credit policies and procedures. Credit limits are subject to varying levels of approval by senior line of business management and Corporate Risk Management.

The Company maintains an allowance for losses on third-party finance receivables at an amount that it believes is sufficient to provide adequate protection against losses in the portfolios.

The allowance is determined principally on the basis of historical loss experience and reflects management's judgment of additional loss potential considering future economic conditions, future expected payments, credit grading, and the nature and characteristics of the underlying finance receivables. The allowance is managed on an aggregate basis considering the relationship of the allowance to net finance receivables and net credit losses. Allowances on related-party notes and loans receivable are evaluated on a loan-by-loan basis. Additions to the allowance are generally charged to the provision for finance credit losses while charge offs decrease the allowance.

Finance charge accruals are suspended (placed on nonaccrual status) on third-party accounts when they become 60 days contractually delinquent and reach 100 days recency. The accrual is resumed when the loan becomes contractually current. Accrual is suspended on related party loans and leases when collection of all contractual principal and interest is deemed doubtful and is not adequately collateralized. Interest on interest-bearing finance receivables, extension fees, and late charges is credited directly to income when collected.

Finance receivables are charged to the allowance for losses generally when they are deemed to be uncollectible. Additionally, the company's policy provides for charge-offs of various types of accounts on a contractual basis. Consumer direct and other installment receivables are charged to the allowance for losses when collection efforts and the dealer holdback and reserve have expired. All other finance receivables are charged to the allowance for losses when any of the following conditions occur: (i) the related security has been converted or destroyed; (ii) the related security has been repossessed and sold; or (iii) the related security has not been repossessed and the receivable has become significantly delinquent. A contractually delinquent account is one on which the customer has not made payments as contractually agreed.

Note 4 – Allowance for Losses on Finance and Service Receivables (Continued):

Extensions are granted on receivables from customers with satisfactory credit and with prior approval of management. Recoveries on losses previously charged to the allowance are credited to the allowance at the time the recovery is collected.

At December 31, 2008 and 2007, respectively, net third-party finance receivables on which revenue was not accrued approximated \$1,979,500 and \$2,248,000. The interest income that would have been recorded in 2008 and 2007, if these nonaccruing receivables had been current, was approximately \$172,700 and \$204,800, respectively. During 2008 and 2007, the average recorded investment in contractually delinquent loans was approximately \$1,000,000 and \$984,500, respectively.

As of December 31, 2008 and 2007, the Company had established reserves for credit losses of \$10,103,188 and \$8,045,276 respectively, for finance receivables and related-party loans receivable.

An analysis of the transactions in the reserve for finance credit losses is as follows:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------|----------------------|---------------------|
| Balance, beginning of period | \$ 8,045,276 | \$ 8,512,253 |
| Add provision charged to operations | <u>2,867,029</u> | <u>492,929</u> |
| | 10,912,305 | 9,005,182 |
| Deduct losses on accounts charged off | <u>(809,117)</u> | <u>(959,906)</u> |
| Balance, December 31 | <u>\$ 10,103,188</u> | <u>\$ 8,045,276</u> |

The ending reserve for finance credit losses represents additional reserves above the amounts withheld from dealers for "dealer reserves and holdbacks." The dealers' reserves and holdbacks represent reductions of the original amounts advanced to dealers or loans acquired. Such amounts are recorded as liabilities on the consolidated balance sheet as they are contractually payable to the dealers in the event portfolio credit risk criteria are met.

A two million dollar additional reserve has been recorded for any potential unknown losses during December 31, 2008. Although the allowance for losses on finance and loan receivables reflected in the Company's consolidated balance sheet at December 31, 2008 and 2007 is considered adequate by the Company's management, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses in connection with the Company's finance and loan receivables. This allowance may prove to be inadequate due to unanticipated adverse changes in the economy or discrete events adversely affecting specific customers or industries. The Company's results of operations and financial condition could be materially adversely affected to the extent that the Company's allowance is insufficient to cover such changes or events.

In addition, a portion of the related-party loans have been classified as contractually delinquent and are also classified as collateral-dependent. Such loans are collateralized by assets under the control of related parties and affiliated companies. In addition, stockholders of the Company have guaranteed and pledged assets against significant amounts of these receivables. Certain guarantees and pledges are in turn collateralized by various assets, including stock of publicly traded companies, whose stock value can be volatile and, in some cases, thinly traded. Also see Notes 1 and 6.

Note 5 – Sale of Finance Receivables

During 2007, the Company entered into a contract whereby certain finance receivable contracts were sold to a third party at a discounted rate of 92.25% of the balance of the receivable. The Company has retained an interest in various fees and rate increases, as well as a contingent liability for contract defaults. In addition, the Company continues to service those contracts for a fixed monthly fee per contract. As the Company has transferred the contracts, it has recognized a servicing asset and liability equal to the principal amount of the contracts transferred. As collections occur, the Company recognizes income based upon the amortized value of the payments received, reduced by the discount on sold contracts. There were no Contracts sold under this arrangement in 2008 and \$42,019,200 during 2007. Servicing fees earned under this agreement totaled \$643,000 in 2008 and \$370,600 during 2007.

Note 6 – Related-Party Transactions:

The Company makes advances and conducts other business transactions with the parent company DC Investments and other related entities to Fair Holdings and Subsidiary under various loan and lease agreements. These loans bear interest ranging from 10% to 12% and mature at various dates through 2012. The principal and accrued interest balance on those loans was \$158,414,768 at December 31, 2008 and \$124,026,719 in 2007. The interest earned for the year ended December 31, 2008 was \$8,979,637 and \$9,881,872 in 2007 and is included in "Finance charge revenue" on the Company's statement of operations.

Note 7 – Marketable Securities:

The Company's marketable securities consist of the stock of Obsidian Enterprises, Inc. ("Obsidian Enterprises"), a related party. These marketable securities have been recorded on the balance sheet at fair market value at December 31, 2008 and 2007, respectively. Dividends on marketable equity securities are recognized in income when declared. Realized gains and losses, including losses from declines in the value of specific securities determined by management to be other than temporary, are included in income. Related gains and losses are determined on the basis of average cost of securities sold.

As the market value of Obsidian Enterprises shares are readily available, the Company has valued these shares at \$1.85 a share, the stock price at December 31, 2008 and 2007, respectively. This resulted in marketable securities of \$445,921 as of December 31, 2008 and 2007. The net change in the unrealized holding gain (loss) on available-for-sale is included in the determination of other comprehensive income.

Note 8 – Property, Equipment, and Depreciation:

Property and equipment consist of the following:

| | <u>December 31,</u> | |
|--|---------------------|--------------------|
| | <u>2008</u> | <u>2007</u> |
| Buildings and land | \$ 150,000 | \$ 150,000 |
| Leasehold improvements | 912,918 | 1,005,482 |
| Office equipment | <u>4,681,862</u> | <u>5,002,695</u> |
| | 5,744,780 | 6,158,177 |
| Less: Accumulated depreciation and amortization | <u>(3,857,528)</u> | <u>(3,987,335)</u> |
| | 1,887,252 | 2,170,842 |
| Equipment on operating leases, net of accumulated depreciation of \$143,324 for 2007. | <u>-</u> | <u>8,574</u> |
| Property and equipment, net | <u>\$1,887,252</u> | <u>\$2,179,416</u> |

Note 9 – Prepaid Items:

Included in "Prepays and other assets" are intangible assets with net unamortized cost of \$30,400 which relate to items such as new web site development costs, an enhanced company logo and marketing costs in an attempt to expand Company\ operations geographically. The company is amortizing the costs over a 30 month period.

Also included in "Prepays and other assets" are debt issuance costs with an original cost of \$1,091,159 and accumulated amortization of \$200,046. The costs are being amortized over the five year life of the line of credit to which they relate. Amortization expense during 2008 of \$200,046 is included in operating expenses.

Note 10 – Intangible Assets:

Intangible assets consist of the following at December 31, 2008:

| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Carrying Value</u> |
|-----------|---------------------|-------------------------------------|---------------------------|
| Goodwill | \$10,808,912 | \$ - | \$10,808,912 |
| Tradename | 2,129,076 | (965,279) | 1,163,797 |
| | <u>\$12,937,988</u> | <u>\$ (965,279)</u> | <u>\$11,972,709</u> |

Intangible assets consist of the following at December 31, 2007:

| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Carrying Value</u> |
|-----------|---------------------|-------------------------------------|---------------------------|
| Goodwill | \$10,808,912 | \$ - | \$10,808,912 |
| Tradename | 2,129,076 | (823,341) | 1,305,735 |
| | <u>\$12,937,988</u> | <u>\$ (823,341)</u> | <u>\$12,114,647</u> |

Amortization expense for 2008 and 2007 was \$141,938 and \$141,938, respectively; estimated amortization expense for each of the ensuing years through December 31, 2011, is \$141,938 respectively.

Note 11 – Notes Payable:

Notes payable at December 31, 2008 consists of two capital leases, both payable to GE Capital and collateralized by the equipment purchased under the leases. One bears interest at 7.552% and is due in quarterly principal and interest payments of \$10,056 until April 2011. Another bears interest at 5.77% and is due in quarterly principal and interest payments of \$1,412 until April 2011. Annual principal payments due under both arrangements total \$37,115 for 2009, \$40,039 for 2010, and \$21,190 in 2011.

Note 12- Line of Credit:

The Company has a \$50,000,000 Warehouse line of credit, bearing a variable rate of interest at LIBOR + 6.75%, 8.18125% at December 31, 2008. The line of credit is secured by all the assets of the consolidated subsidiary of the company which consist of finance receivables meeting defined criteria under the terms of the agreement. The outstanding balance of the line of credit was approximately \$32,466,000 at December 31, 2008. Interest incurred under this agreement totaled approximately \$1,831,000 in 2008.

Note 13 – Significant Concentrations:

Fair Finance is primarily engaged in purchasing uncollateralized retail sales contracts through independent dealers. The Company performs ongoing credit evaluations of its customers' financial condition. As of December 31, 2008 and 2007, the Company's gross receivables from these customers totaled \$45,180,000 and \$59,639,243 respectively.

In addition, Fair Holdings and Fair Finance have net advances to related parties of \$158,414,768 and \$124,026,719 respectively, as of December 31, 2008 and 2007. Collateral for these advances consists primarily of second security interests in assets owned by such related parties, certain marketable securities, and other assets.

The Company maintains cash and cash equivalents in accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company does not believe it is exposed to any significant credit risk on its cash and cash equivalents.

Fair Finance receives a significant amount of funding for the purchase of sales contracts and granting of loans through the issuance of variable rate investment certificates as discussed in Note 14. The issuance of these certificates is subject to the authorization and oversight of the State of Ohio Securities Department. Accordingly, a change in securities laws or regulations or failure of the Company to satisfy current requirements could result in a reduction of the Company's ability to issue such certificates. Inability to raise additional funds to replace certificates that become due would have a material adverse impact on the Company's future operations.

Note 14 – Subordinated Debt:

The subordinated debt is registered with the Ohio Division of Securities ("the Division"). The Division acknowledges, through the issuance of a Certificate of Acknowledgement, an aggregate amount of \$250,000,000 of Subordinated Investment Certificates covering a period expiring November 2009. The Certificate of Acknowledgement neither approves nor disapproves the certificates for investment nor does it pass upon the accuracy of the information presented in the Offering Circular of the certificates. Under the Ohio Securities Act, the Division has continuous jurisdiction over the registration.

The debt is subordinated to any superior indebtedness issued to any bank, trust company, insurance company, institution or lending agency. With the consent of all holders of superior indebtedness, the Company may redeem the subordinated debt in whole or in part at any time prior to maturity at par with accrued interest thereon. In addition, the Company retains the right to limit redemption of the certificates based on cash flow.

The variable rate investment certificates are due 6, 12, 18, 24, 36, 48 and 60 months from the date of issues and, unless redemption is requested within five days after the maturity date, are adjusted automatically to the current six-month rate. The variable rate investment certificates outstanding, excluding accrued interest, and rates offered as of December 31, 2008 and 2007 are in the following table. The 36, 48 and 60 month certificates are no longer offered, therefore, no rate information is given, however, there are still outstanding certificates for those series.

| | December 31, 2008 | | December 31, 2007 | |
|-------------|-----------------------|-------|-----------------------|-------|
| | Amount | Rate | Amount | Rate |
| Series V-6 | \$ 54,076,407 | 8.25% | \$ 44,455,086 | 8.50% |
| Series V-12 | 34,748,946 | 8.50% | 40,664,489 | 8.75% |
| Series V-18 | 12,439,703 | 9.00% | 12,136,116 | 9.00% |
| Series V-24 | 65,778,209 | 9.25% | 44,134,868 | 9.25% |
| Series V-36 | 4,981,486 | -- | 20,253,866 | -- |
| Series V-48 | 3,113,262 | -- | 3,124,262 | -- |
| Series V-60 | 17,333,972 | -- | 18,009,156 | -- |
| | <u>\$ 192,471,985</u> | | <u>\$ 182,777,843</u> | |

See accompanying notes to consolidated financial statements.

Note 15 – Description of Leasing Arrangements:

The Company's operations are conducted at various facilities, some of which are under noncancelable leases expiring on various dates through 2020 with renewal options thereafter. Minimum rentals, exclusive of renewal options and taxes, insurance, and maintenance expense for leases with initial terms in excess of one year at December 31, 2008, are as follows:

| <u>Year Ending December 31,</u> | |
|---------------------------------|---------------------|
| 2009 | \$ 483,747 |
| 2010 | 412,187 |
| 2011 | 353,907 |
| 2012 | 278,226 |
| 2013 | 273,876 |
| Thereafter | <u>1,625,148</u> |
| | <u>\$ 3,427,091</u> |

Rental expense on noncancelable leases totaled \$380,324 and \$434,062 in 2008 and 2007, respectively.

The Company has automobile leases which are classified as operating leases. Minimum lease payments due under these arrangements are \$18,456 for 2009, \$10,606 for 2010 and \$7,071 for 2011. Rental expense under these leases was \$23,583 in 2008.

In connection with the lease of office space for the Company's corporate offices entered into during 2002, the Company was required to obtain a letter of credit in the amount of \$221,448. The amount of the letter of credit will decrease 20% per year over the first four years of the lease term, with the remaining 20% being in effect until the lease expiration (2020).

Note 16 – Pension and 401(k) Plan:

The Company has a 401(k) Participating Retirement Plan. Under the plan, all employees who have completed one year of service and are over 18 years of age may participate. The Company's matching contributions are discretionary and may not exceed 5% of the participants' salary. In addition to the matching contributions, the Company can make a discretionary profit sharing contribution. Participants may make voluntary contributions to the plan up to 15% of their compensation but may not exceed an amount determined by the Internal Revenue Service. Employer contributions to this plan were \$180,322 and \$193,714 in 2008 and 2007, respectively.

Note 17 – Commitments and Contingencies:

In the normal course of business, the Company has been involved in legal matters that management has aggressively defended. Management believes the likelihood of any material adverse outcome to be remote.

Note 18 – Implementation of Financial Accounting Standards Board Interpretation No. 46(R):

In December 2003, the FASB issued FIN 46(R), *Consolidation of Variable Interest Entities*. This interpretation explains the concept of a variable interest entity and requires consolidation by the primary beneficiary where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. This interpretation applies immediately to variable interest entities created after December 31, 2003, and applies to the first reporting period beginning after December 15, 2004 to variable interest entities created before December 31, 2003.

The Company qualifies as a variable interest entity under the interpretation and therefore, these financial statements are not intended to present the financial position and results of operations of the consolidated company under generally accepted accounting principles and do not do so.

Note 19 – Subsequent Event

Subsequent to the balance sheet date, the Company entered into a contract whereby certain finance receivable contracts were sold to a third party for cash, notes receivables, and shares of stock of the third party. None of the finance receivables sold were included in the collateral associated with the line of credit described in Note 12. The Company did not retain any interest in the assets sold, nor does it carry any contingent liability in association with those sold finance receivables.

Supplementary Financial Information

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidating Balance Sheet (Unaudited)
December 31, 2008

| | <u>Fair Finance Company</u> | <u>Fair Holdings, Inc.</u> | <u>Consolidating Entries</u> | <u>Consolidated</u> |
|---|---------------------------------|--------------------------------|----------------------------------|-----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 4,317,083 | \$ - | \$ - | \$ 4,317,083 |
| Finance, loan and service receivables: | | | | |
| Finance receivables | 49,050,441 | - | - | 49,050,441 |
| Unearned charges | (3,933,471) | - | - | (3,933,471) |
| Loans receivable, related parties | 205,889,702 | 99,080,325 | (146,555,259) | 158,414,768 |
| Reserve for credit losses | (7,044,937) | (3,058,251) | - | (10,103,188) |
| Other loans receivable | 22,220,270 | 43,654 | - | 22,263,924 |
| Loan servicing rights | 10,054,845 | - | - | 10,054,845 |
| Purchase discount on sold finance receivables | - | - | - | - |
| Finance loan and service receivable, net | <u>276,236,850</u> | <u>96,065,728</u> | <u>(146,555,259)</u> | <u>225,747,319</u> |
| Lease receivables, net | - | 12,833 | - | 12,833 |
| Other receivables | - | - | - | - |
| Prepaid and other assets | 2,205,666 | 4,788,364 | - | 6,994,030 |
| Property and equipment, net | 1,652,953 | 234,299 | - | 1,887,252 |
| Goodwill | - | 10,808,912 | - | 10,808,912 |
| Intangible assets, net | - | 21,941,494 | (20,777,697) | 1,163,797 |
| | <u>\$ 284,412,552</u> | <u>\$ 133,851,630</u> | <u>\$ (167,332,956)</u> | <u>\$ 250,931,226</u> |
| Liabilities and Stockholders' Equity | | | | |
| Notes payable, bank | \$ 32,570,314 | \$ 62,468 | \$ - | \$ 32,632,782 |
| Notes payable, related parties | - | 146,555,259 | (146,555,259) | - |
| Accounts payable, trade and accrued expenses | 5,170,145 | 434,857 | - | 5,605,002 |
| Dealers' reserves and holdbacks | 4,505,636 | - | - | 4,505,636 |
| Subordinated debt | 192,471,985 | - | - | 192,471,985 |
| Servicing liability | 10,054,845 | - | - | 10,054,845 |
| Total Liabilities | <u>244,772,925</u> | <u>147,052,584</u> | <u>(146,555,259)</u> | <u>245,270,250</u> |
| Stockholders' Equity | <u>39,639,627</u> | <u>(13,200,954)</u> | <u>(20,777,697)</u> | <u>5,660,976</u> |
| | <u>\$ 284,412,552</u> | <u>\$ 133,851,630</u> | <u>\$ (167,332,956)</u> | <u>\$ 250,931,226</u> |

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidating Balance Sheet (Unaudited)
December 31, 2007

| | <u>Fair Finance Company</u> | <u>Fair Holdings, Inc.</u> | <u>Consolidating Entries</u> | <u>Consolidated</u> |
|---|---------------------------------|--------------------------------|----------------------------------|-----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,091,294 | \$ - | \$ - | \$ 2,091,294 |
| Finance, loan and service receivables: | | | | |
| Finance receivables | 37,727,451 | - | - | 37,727,451 |
| Unearned charges | (4,531,240) | - | - | (4,531,240) |
| Loans receivable, related parties | 167,594,594 | 61,097,013 | (104,664,888) | 124,026,719 |
| Reserve for credit losses | (5,583,842) | (2,461,434) | - | (8,045,276) |
| Other loans receivable | 20,238,760 | - | - | 20,238,760 |
| Loan servicing rights | 27,075,670 | - | - | 27,075,670 |
| Purchase discount on sold finance receivables | 2,098,369 | - | - | 2,098,369 |
| Finance loan and service receivable, net | <u>244,619,762</u> | <u>58,635,579</u> | <u>(104,664,888)</u> | <u>198,590,453</u> |
| Lease receivables, net | - | 14,925 | - | 14,925 |
| Other receivables | 6,766,279 | 52,542 | - | 6,818,821 |
| Prepaid and other assets | 595,056 | 4,124,173 | - | 4,719,229 |
| Property and equipment, net | 1,886,764 | 292,652 | - | 2,179,416 |
| Goodwill | - | 10,808,912 | - | 10,808,912 |
| Intangible assets, net | - | 22,083,432 | (20,777,697) | 1,305,735 |
| | <u>\$ 255,959,155</u> | <u>\$ 96,012,215</u> | <u>\$ (125,442,585)</u> | <u>\$ 226,528,785</u> |
| Liabilities and Stockholders' Equity | | | | |
| Notes payable, bank | \$ 140,483 | \$ 54,070 | \$ - | \$ 194,553 |
| Notes payable, related parties | - | 104,664,888 | (104,664,888) | - |
| Accounts payable, trade and accrued expenses | 4,052,477 | 272,896 | - | 4,325,373 |
| Dealers' reserves and holdbacks | 4,706,306 | - | - | 4,706,306 |
| Subordinated debt | 182,777,843 | - | - | 182,777,843 |
| Servicing liability | 27,075,670 | - | - | 27,075,670 |
| Total Liabilities | <u>218,752,779</u> | <u>104,991,854</u> | <u>(104,664,888)</u> | <u>219,079,745</u> |
| Stockholders' Equity | <u>37,206,376</u> | <u>(8,979,639)</u> | <u>(20,777,697)</u> | <u>7,449,040</u> |
| | <u>\$ 255,959,155</u> | <u>\$ 96,012,215</u> | <u>\$ (125,442,585)</u> | <u>\$ 226,528,785</u> |

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidating Statement of Income (Loss)-(Unaudited)
For the Year Ended December 31, 2008

| | Fair Finance Company | Fair Holdings, Inc. | Consolidating Entries | Consolidated |
|---|---------------------------------|--------------------------------|----------------------------------|-----------------------|
| Finance charge revenue | \$ 22,906,228 | \$ 8,979,637 | - | \$ 31,885,865 |
| Interest expense: | | | | |
| Bank debt | (4,394,756) | (11,200,958) | 11,195,530 | (4,400,184) |
| Subordinated debt | (15,919,776) | - | - | (15,919,776) |
| | <u>(20,314,532)</u> | <u>(11,200,958)</u> | <u>11,195,530</u> | <u>(20,319,960)</u> |
| Net finance revenues, before provision for finance credit losses | 2,591,696 | (2,221,321) | 11,195,530 | 11,565,905 |
| Provision for finance credit losses | <u>(1,879,705)</u> | <u>(598,000)</u> | <u>-</u> | <u>(2,477,705)</u> |
| Net revenues, after provision for finance credit losses | 711,991 | (2,819,321) | 11,195,530 | 9,088,200 |
| Nonfinance income: | | | | |
| Investment and other income | 11,297,744 | - | (11,195,530) | 102,214 |
| Nonfinance expenses: | | | | |
| Operating expenses | <u>(9,576,484)</u> | <u>(1,401,994)</u> | <u>-</u> | <u>(10,978,478)</u> |
| Net Income (Loss) | <u>\$ 2,433,251</u> | <u>\$ (4,221,315)</u> | <u>-</u> | <u>\$ (1,788,064)</u> |

See accompanying notes to consolidated financial statements.

FAIR HOLDINGS, INC. AND SUBSIDIARY
Consolidating Statement of Income (Unaudited)
For the Year Ended December 31, 2007

| | Fair Finance Company | Fair Holdings, Inc. | Consolidating Entries | Consolidated |
|---|---------------------------------|--------------------------------|----------------------------------|---------------------|
| Finance charge revenue | \$ 17,349,814 | \$ 9,881,872 | \$ - | \$ 27,231,686 |
| Interest expense: | | | | |
| Bank debt | (2,809,593) | (14,276,888) | 12,908,800 | (4,177,681) |
| Subordinated debt | (14,127,814) | - | - | (14,127,814) |
| | <u>(16,937,407)</u> | <u>(14,276,888)</u> | <u>12,908,800</u> | <u>(18,305,495)</u> |
| Net finance revenues, before provision for finance credit losses | 412,407 | (4,395,016) | 12,908,800 | 8,926,191 |
| Provision for finance credit losses | <u>(127,470)</u> | <u>-</u> | <u>-</u> | <u>(127,470)</u> |
| Net revenues, after provision for finance credit losses | 284,937 | (4,395,016) | 12,908,800 | 8,798,721 |
| Nonfinance income: | | | | |
| Investment and other income | 12,970,885 | - | (12,908,800) | 62,085 |
| Nonfinance expenses: | | | | |
| Operating expenses | <u>(7,001,226)</u> | <u>(1,619,424)</u> | <u>-</u> | <u>(8,620,650)</u> |
| Net Income | <u>\$ 6,254,596</u> | <u>(6,014,440)</u> | <u>\$ -</u> | <u>\$ 240,156</u> |

See accompanying notes to consolidated financial statements.

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