

**BLACKBURNE & BROWN MORTGAGE
COMPANY, INC. AND AFFILIATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007**

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

September 30, 2008 and 2007

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Balance Sheets	2-3
Statements of Income and Retained Earnings	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-14

BODEN KLEIN & SNEESBY

Certified Public Accountants

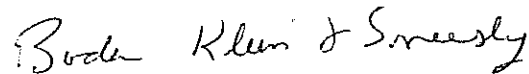
INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
Blackburne & Brown Mortgage Company, Inc.
and Affiliate
Sacramento, CA

We have audited the accompanying balance sheets of Blackburne & Brown Mortgage Company, Inc. and Affiliate as of September 30, 2008 and 2007 and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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



BODEN KLEIN & SNEESBY
Certified Public Accountants

December 9, 2008

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Balance Sheets
September 30, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 31,469	\$ 597
Receivables	22,070	36,409
Mortgage servicing rights	642,110	669,967
Prepaid expenses	14,072	13,533
Investments	<u>208</u>	<u>70,593</u>
Total current assets	<u>709,929</u>	<u>791,099</u>
Property and equipment, net	<u>91,183</u>	<u>57,226</u>
Other assets:		
Investment in partnership	103,237	88,694
Mortgage servicing rights - net of current portion	<u>672,537</u>	<u>901,454</u>
Total other assets	<u>775,774</u>	<u>990,148</u>
TOTAL ASSETS	<u>\$ 1,576,886</u>	<u>\$ 1,838,473</u>
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	<u>\$ 570,482</u>	<u>\$ 913,049</u>

See notes to financial statements.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Balance Sheets
September 30, 2008 and 2007

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2008</u>	<u>2007</u>
Current liabilities:		
Accounts payable	\$ 9,542	\$ 33,199
Other payable	598	-
Accrued expenses	53,863	56,314
Income taxes payable	977	261
Deferred income taxes	130,078	152,576
Line of credit	35,000	75,000
Notes payable - current portion	<u>32,005</u>	<u>5,000</u>
Total current liabilities	<u>262,063</u>	<u>322,350</u>
Non-current liabilities:		
Deferred income taxes - net of current portion	164,207	223,026
Notes payable - net of current portion	<u>57,968</u>	<u>-</u>
Total non-current liabilities	<u>222,175</u>	<u>223,026</u>
Total liabilities	<u>484,238</u>	<u>545,376</u>
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	100	100
Additional paid-in capital	312	312
Retained earnings	<u>1,092,236</u>	<u>1,292,685</u>
Total stockholders' equity	<u>1,092,648</u>	<u>1,293,097</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,576,886</u>	<u>\$ 1,838,473</u>
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	<u>\$ 570,482</u>	<u>\$ 913,049</u>

See notes to financial statements.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Statements of Income and Retained Earnings
For the Years Ended September 30, 2008 and 2007

Revenues:	2008	2007
Servicing fees	\$ 772,176	\$ 867,979
Amortization of mortgage servicing rights	(256,774)	127,465
Loan commissions	255,814	262,199
Arbitration & legal settlement fees	-	750
Fund management fees	118,508	130,500
Property management fees	104,274	132,590
Syndication fees	117,566	145,645
Software licensing fees	448,635	878,815
Video and manual sales	104,725	250,498
Total revenue	1,664,924	2,796,441
 Expenses:		
Salaries	633,283	818,082
Salaries - George Blackburne	355,586	433,881
Salaries - Francisca Blackburne	66,648	49,995
Marketing	196,242	461,177
Rents	84,633	84,627
Outside consultants	80,365	134,741
Payroll taxes	70,004	83,329
Legal	68,135	86,516
Retirement plan contributions	55,227	53,633
Office expense	46,789	51,677
Other expenses	45,994	27,483
Telephone and utilities	43,375	48,830
Employee benefits	39,213	49,736
Insurance	36,883	36,802
Tax and license	35,968	30,972
Loan arrangement fees	29,513	38,277
Travel	27,941	25,385
Depreciation	22,247	21,068
Automobile	18,640	14,397
Accounting	18,453	20,383
Bad debts	4,750	10,138
Maintenance and repairs	4,238	3,779
Education	-	1,214
Total expenses	1,984,127	2,586,122
Income (loss) from operations	(319,203)	210,319

See notes to financial statements.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Statements of Income and Retained Earnings
For the Years Ended September 30, 2008 and 2007

	2008	2007
Income (loss) from operations (continued)	\$ (319,203)	\$ 210,319
Other income (expense):		
Interest and dividend income	411	5,330
Interest expense	(4,234)	(5,731)
Income from partnership	14,543	16,457
Other fees and income	27,133	18,641
Gain (loss) on investments	(861)	12,465
Total other income (expense)	36,992	47,162
Income (loss) before income taxes	(282,211)	257,481
Income tax expense (benefit)	(81,762)	52,147
NET INCOME (LOSS)	(200,449)	205,334
Retained earnings, beginning of year	1,292,685	1,087,351
RETAINED EARNINGS, END OF YEAR	\$ 1,092,236	\$ 1,292,685

See notes to financial statements.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Statements of Cash Flows
For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income (loss)	\$ (200,449)	\$ 205,334
Adjustments to reconcile net income (loss) to net cash (used) in operating activities:		
Depreciation	22,247	21,068
Amortization & impairment of mortgage servicing rights	649,433	460,529
Additions to mortgage servicing rights	(392,659)	(587,994)
Income from partnership	(14,543)	(16,457)
Deferred income taxes	(81,317)	49,796
(Gain) on investments	861	(12,465)
Changes in operating assets and liabilities:		
Receivables	14,339	(13,833)
Prepaid expenses	(539)	489
Prepaid income taxes	-	2,090
Advances	-	1,500
Accounts payable	(23,657)	(80,993)
Other payable	598	(9,197)
Accrued expenses	(2,451)	(23,477)
Income taxes payable	716	261
Net cash (used) in operating activities	<u>(27,421)</u>	<u>(3,349)</u>
Cash flows from investing activities:		
Net proceeds (purchases) of investments	69,524	(5,296)
Net (purchase) of property and equipment	<u>(56,204)</u>	<u>-</u>
Net cash provided (used) in investing activities	<u>13,320</u>	<u>(5,296)</u>
Cash flows from financing activities:		
Net change in line of credit	(40,000)	5,000
Proceeds from note payable	89,973	
(Principal payments) on notes payable	<u>(5,000)</u>	<u>(15,000)</u>
Net cash provided (used) in financing activities	<u>44,973</u>	<u>(10,000)</u>
Net increase (decrease) in cash	30,872	(18,645)
Cash, beginning of year	<u>597</u>	<u>19,242</u>
CASH, END OF YEAR	<u>\$ 31,469</u>	<u>\$ 597</u>

See notes to financial statements.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES:

a. Organization -

Blackburne & Brown Mortgage Company, Inc. (the Company) was incorporated in 1980 in the State of California. The Company is engaged in the origination and servicing of real estate loans secured by deeds of trust throughout the United States.

b. Principles of consolidation -

The consolidated financial statements include the accounts of Blackburne and Brown Mortgage Company, Inc. and its affiliate, C-Loans, Incorporated. All material inter-company transactions have been eliminated in consolidation.

c. Standards of reporting -

The Company prepares its financial statements using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Loan servicing and origination revenue represents fees earned for servicing and originating mortgage loans. Servicing and origination revenue is recognized as earned, unless collection is doubtful.

d. Use of estimates -

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates based on future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

e. Financial instruments -

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values.

f. Cash equivalents -

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

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

g. Investments -

All securities are classified as trading securities and reported at fair market value in the balance sheet. Realized gains and losses are determined using the specific-identification method. Unrealized holding gains and losses are reported as income.

h. Mortgage servicing rights, amortization and impairment -

The Company recognizes as separate assets the rights to service mortgage loans for others based on their relative fair values. Amortization of mortgage servicing rights (MSRs) is based on the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the MSRs. Projected net servicing income is in turn determined on the basis of the estimated future balance of the underlying mortgage loan portfolio, which declines over time from prepayments and scheduled loan amortization. The Company estimates future prepayment rates based on current interest rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, interest rate stratification and recent prepayment experience. MSRs are periodically assessed for impairment, which is recognized in the statement of income during the period in which impairment occurs as an adjustment to the corresponding valuation allowance. For purpose of performing its impairment evaluation, the Company analyzes its portfolio on the basis of certain risk characteristics including loan type and note rate.

i. Property and equipment -

Property and equipment are stated at cost. The policy of the Company is to provide for depreciation over the estimated useful lives of the assets using the straight line method. The estimated useful lives range from five to seven years.

Maintenance and repairs are charged to expense when incurred. Expenditures for additions and improvements, where significant in amount, are capitalized.

j. Income taxes -

The Company follows the provisions of Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes." Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

k. Advertising -

The Company's policy is to expense advertising costs as they are incurred.

l. Borrower and investor custodial accounts -

Borrower and investor custodial accounts consists of trust fund cash accounts which are segregated from other corporate assets and maintained by the Company in accordance with Sections 2830 and 2834 of the Regulations of the California Real Estate Commissioner.

NOTE 2 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 37,674	\$ 37,674
Equipment	62,317	62,317
Computer equipment	33,293	33,293
Vehicles	134,189	134,189
Software	56,204	-
	<hr/>	<hr/>
Total	323,677	267,473
Less: accumulated depreciation	<hr/> 232,494	<hr/> 210,247
Net property and equipment	<hr/> <u>\$ 91,183</u>	<hr/> <u>\$ 57,226</u>

NOTE 3 - INVESTMENTS:

Investments consist solely of mutual funds at September 30, 2008 and 2007. The following is a summary of investment earnings recognized in income for each year.

	<u>2008</u>	<u>2007</u>
Realized gains (losses)	\$ (861)	\$ -
Unrealized gains (losses)	<hr/> -	<hr/> 12,465
	<hr/> <u>\$ (861)</u>	<hr/> <u>\$ 12,465</u>

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

NOTE 4 - MORTGAGE SERVICING RIGHTS:

The activity in MSR's was as follows:

	2008	2007
Balance at beginning of period	\$ 1,571,421	\$ 1,443,956
Additions	392,659	587,994
Scheduled amortization & reduction due to early loan payoffs	(649,433)	(460,529)
Reserve for impairment	-	-
 Mortgage servicing rights, net	 \$ 1,314,647	 \$ 1,571,421

The estimated fair value of recognized MSR's for the years ended September 30, 2008 and 2007 was \$1,314,647 and \$1,571,421, respectively. The fair value was determined by discounting estimated net future cash flows from mortgage servicing activities using appropriate discount and prepayment rates. The gross amount of expected future servicing revenue (net of related servicing costs) before applicable discounting for the years ending September 30, 2008 and 2007, respectively, was approximately \$2,375,000 and \$2,650,000.

NOTE 5 - LINE OF CREDIT:

The Company has a \$150,000 available line of credit with First Northern Bank, which is due February 28, 2009. Interest is payable monthly at prime plus 1.5 percent. The line is secured by receivables and equipment of the Company. The balance outstanding as of September 30, 2008 and 2007, respectively, was \$35,000 and \$75,000.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

NOTE 6 - NOTES PAYABLE:

Long-term debt consists of the following:

	2008	2007
Note due in monthly installments of \$3,077 including interest at 6.5%, maturing in May 2011	\$ 89,973	\$ -
Note secured by vehicle – due in monthly installments of \$1,250 plus interest stated at prime plus 2 percent, maturing in January 2008.	-	5,000
Less: current portion	32,005	5,000
Amount due after one year	\$ 57,968	\$ -

Future maturities of notes payable are as follows:

Year Ended September 30,

2009	\$ 32,005
2010	34,154
2011	23,814
Total	\$ 89,973

NOTE 7 - TRANSACTIONS WITH RELATED PARTY:

During the years ended September 30, 2008 and 2007, the Company received servicing revenue of \$246,714 and \$280,398, respectively, and collected management fees, including shared expenses, in the amount of \$118,500 and \$139,500 from Blackburne & Brown Mortgage Fund I (the Fund). The Fund is a California Limited Partnership, whose general partner is the Company. The Company's capital balance with the fund was \$ 103,237 and \$88,694 at September 30, 2008 and 2007, respectively, and is reflected on the balance sheet as Investment in Partnership.

Additionally, during the years ended September 30, 2008 and 2007, the Company paid \$30,600 and \$200,000 to the Fund for promotional interest. The promotional interest was paid, as the general partner of the Fund, to help ensure the Fund would meet its expected rate of return to investors.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

The Company received syndication fees of \$111,900 and \$145,645 from Blackburne & Brown Equity Preservation LLC (LLC) for the year ended September 30, 2008 and 2007, respectively. The Company, which has no ownership interest in the LLC, manages the LLC and receives various fees for services performed.

NOTE 8 - INCOME TAX EXPENSE (BENEFIT):

The provision for income tax expense (benefit) consists of the following components:

	<u>2008</u>	<u>2007</u>
Current		
Federal	\$ (445)	\$ 1,229
State	-	1,122
	<u>(445)</u>	<u>2,351</u>
Total current		
Deferred		
Federal	(49,388)	30,244
State	(31,929)	19,552
	<u>(81,317)</u>	<u>49,796</u>
Total deferred		
Total income tax expense (benefit)	<u>\$ (81,762)</u>	<u>\$ 52,147</u>

Deferred income taxes are recognized for tax consequences of "temporary differences" by applying enacted statutory rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities. The tax effects of temporary differences that give rise to the deferred tax liability results from the use of accelerated methods of depreciation of property and equipment for tax purposes and the cash basis of accounting for tax purposes.

NOTE 9 - COMMITMENTS:

The Company leases its main office space under an operating lease with monthly payments of \$3,458 expiring on April 1, 2009. Additionally the Company leases office space under an operating lease with the Company's sole shareholder in Indiana expiring in November 2010, with monthly payments of \$3,000. Operating lease office rental expense was \$79,113 and \$77,634, respectively for the years ended September 30, 2008 and 2007.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

The company also leases various office equipment under non-cancelable operating leases with total monthly payments of \$629.

The estimated minimum lease commitments for the succeeding years are as follows:

<u>Year Ended September 30,</u>	
2009	58,285
2010	36,000
2011	<u>3,000</u>
Total	<u>\$ 97,285</u>

NOTE 10 - RETIREMENT PLAN:

On October 1, 1993, the Company established a profit sharing plan that covers substantially all employees. The Company may contribute to the plan an amount designated by the Board of Directors to the extent permissible under the Internal Revenue Code. The Company contributed \$30,000 and \$25,000 to the plan for the years ended September 30, 2008 and 2007, respectively.

On October 1, 2006, the Company adopted a 401(k) defined contribution plan. The plan covers all employees meeting certain eligibility requirements. The Company contributes an amount, (i.e. safe harbor contribution) determined by the Internal Revenue Code. For the years ended September 30, 2008 and 2007, the Company contributed \$25,227 and \$28,633, respectively, to the plan.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK:

The Company originates and services loans secured by real estate. The Company performs credit evaluations of the potential borrowers and, generally, requires no additional collateral from them.

NOTE 12 - CASH FLOWS:

For purposes of the statement of cash flows, interest paid by the Company was \$4,234 and \$5,731 for the years ended September 30, 2008 and 2007, respectively.

Additionally, the Company paid \$2,978 and \$2,890 in income taxes for the years ended September 30, 2008 and 2007, respectively.

**BLACKBURNE & BROWN MORTGAGE COMPANY, INC.
AND AFFILIATE**

Notes to Financial Statements
September 30, 2008 and 2007

NOTE 13 - CONTINGENCIES:

The Company is involved in various lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made on the financial statements. Management believes that losses resulting from these matters, if any, would be covered under the Company's insurance policy and would not have a material effect on the financial position of the Company.