

**BLACKBURNE & SONS REALTY CAPITAL  
CORPORATION AND AFFILIATE  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
AND AFFILIATE**

September 30, 2011 and 2010

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## INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors  
Blackburne & Sons Realty Capital Corporation  
and Affiliate  
Sacramento, CA

We have audited the accompanying balance sheets of Blackburne & Sons Realty Capital Corporation and Affiliate as of September 30, 2011 and 2010 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 & Sons Realty Capital Corporation and Affiliate as of September 30, 2011 and 2010, 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*

BODEN KLEIN & SNEESBY  
Certified Public Accountants

December 21, 2011

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
AND AFFILIATE**

Balance Sheets  
September 30, 2011 and 2010

**ASSETS**

	2011	2010
Current assets:		
Cash	\$ 2,933	\$ 1,146
Mortgage servicing rights	560,265	504,742
Prepaid expenses	19,712	23,176
Prepaid income taxes	783	-
Investments	191	199
Total current assets	583,884	529,263
Property and equipment, net	45,278	54,603
Other assets:		
Investment in partnerships	114,944	116,554
Intangible asset	94,444	-
Mortgage servicing rights - net of current portion	373,719	486,148
Total other assets	583,107	602,702
<b>TOTAL ASSETS</b>	<b>\$ 1,212,269</b>	<b>\$ 1,186,568</b>
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	\$ 729,854	\$ 912,453

See notes to financial statements.

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
AND AFFILIATE**

Balance Sheets  
September 30, 2011 and 2010

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	2011	2010
Current liabilities:		
Accounts payable	\$ 39,016	\$ 12,343
Other payable	162	95
Accrued expenses	26,821	53,938
Income taxes payable	2,786	3,035
Deferred income taxes	106,243	98,654
Line of credit	105,000	75,000
Notes payable - current portion	35,921	23,992
Total current liabilities	315,949	267,057
Non-current liabilities:		
Deferred income taxes - net of current portion	91,216	117,363
Notes payable - net of current portion	59,712	-
Total non-current liabilities	150,928	117,363
Total liabilities	466,877	384,420
Stockholders' equity:		
Common stock - no par value, authorized, issued and outstanding, 100 shares	100	100
Additional paid-in capital	312	312
Retained earnings	744,980	801,736
Total stockholders' equity	745,392	802,148
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,212,269</b>	<b>\$ 1,186,568</b>
Borrower and investor custodial accounts (segregated in special accounts - excluded from corporate assets)	\$ 729,854	\$ 912,453

See notes to financial statements.

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
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Statements of Income and Retained Earnings  
For the Years Ended September 30, 2011 and 2010

Revenues:	2011	2010
Servicing fees	\$ 654,781	\$ 735,058
Property management fees	241,946	264,362
Loan commissions	207,247	214,436
Software licensing fees	95,211	101,148
Fund management fees	139,123	96,785
Video and manual sales	13,975	20,900
Amortization of mortgage servicing rights	(56,906)	24,645
Total revenue	1,295,377	1,457,334
 Expenses:		
Salaries	493,063	493,155
Salaries - George Blackburne	250,488	250,488
Salaries - Francisca Blackburne	53,328	53,332
Marketing	75,577	79,733
Outside consultants	74,432	39,761
Employee benefits	57,023	48,245
Payroll taxes	56,199	55,865
Office rent	52,200	68,080
Other expenses	42,176	38,659
Tax and license	34,910	33,775
Insurance	35,034	38,572
Office expense	32,453	32,668
Telephone and utilities	31,477	33,326
Legal	28,221	34,421
Retirement plan contributions	22,316	52,257
Depreciation	18,793	14,702
Loan arrangement fees	18,453	17,592
Accounting	14,722	25,469
Maintenance and repairs	10,324	9,184
Automobile	10,020	8,665
Travel	6,406	7,961
Education	1,852	2,557
Equipment lease	1,712	1,752
Bad debts	-	22,476
Total expenses	1,421,179	1,462,695
(Loss) from operations	(125,802)	(5,361)

See notes to financial statements.

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
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Statements of Income and Retained Earnings  
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
(Loss) from operations (continued)	\$ (125,802)	\$ (5,361)
Other income (expense):		
Interest expense	(10,236)	(5,920)
Income from partnership	16,504	29,155
Other fees and income	48,043	18,311
Gain (loss) on investments	<u>(7)</u>	<u>(7)</u>
Total other income (expense)	<u>54,304</u>	<u>41,539</u>
(Loss) income before income taxes	(71,498)	36,178
Income tax (benefit) expense	<u>(14,742)</u>	<u>19,913</u>
<b>NET (LOSS) INCOME</b>	(56,756)	16,265
Retained earnings, beginning of year	<u>801,736</u>	<u>785,471</u>
<b>RETAINED EARNINGS, END OF YEAR</b>	<u>\$ 744,980</u>	<u>\$ 801,736</u>

See notes to financial statements.

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
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Statements of Cash Flows  
For the Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net (loss) income	\$ (56,756)	\$ 16,265
Adjustments to reconcile net (loss) income to net cash provided (used) in operating activities:		
Depreciation	18,793	14,702
Amortization & impairment of mortgage servicing rights	321,460	421,411
Additions to mortgage servicing rights	(264,554)	(446,056)
Income from partnerships	1,610	(10,080)
Deferred income taxes	(18,558)	15,077
Loss on disposal of assets	1,171	-
Loss on investments	7	7
Changes in operating assets and liabilities:		
Receivables	-	15,118
Prepaid expenses	3,464	(9,278)
Prepaid income taxes	(783)	1,001
Accounts payable	26,673	(42,558)
Other payable	67	(3,854)
Accrued expenses	(27,117)	8,958
Income taxes payable	(249)	3,035
Net cash provided (used) in operating activities	5,228	(16,252)
Cash flows from investing activities:		
Net (purchase) of property and equipment	(105,082)	(1,803)
Net cash (used) in investing activities	(105,082)	(1,803)
Cash flows from financing activities:		
Net change in line of credit	30,000	45,000
Proceeds of long-term debt	125,000	-
(Principal payments) on notes payable	(53,359)	(34,072)
Net cash provided by financing activities	101,641	10,928
Net increase (decrease) in cash	1,787	(7,127)
Cash, beginning of year	1,146	8,273
<b>CASH, END OF YEAR</b>	<b>\$ 2,933</b>	<b>\$ 1,146</b>

See notes to financial statements.

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
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Notes to Financial Statements  
September 30, 2011 and 2010

**NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES:**

a. Organization -

Blackburne & Sons Realty Capital Corporation (formerly 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 & Sons Realty Capital Corporation 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.

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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 accounts for income taxes under generally accepted accounting principles, which require recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities result from temporary differences in reporting for tax purposes and financial purposes. Deferred tax assets and liabilities are identified separately as current or noncurrent based on the classification of the related asset or liability. A deferred tax asset or liability not

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associated with an asset or liability for financial reporting purposes is classified as current or noncurrent according to the expected reversal date of the temporary difference.

The Company adopted accounting for uncertainty in income taxes as of October 1, 2010 and thereafter recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There was no impact to the Company's financial statements as a result of the implementation of this principle.

The Company files tax returns in the United States federal jurisdiction and in the state of California. The Organization's federal income tax returns for the tax years 2007 and forward remain subject to examination by the Internal Revenue Service. The Company's California income tax returns for the years 2006 and forward remain subject to examination by the Franchise Tax Board.

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.

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**NOTE 2 - PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following:

	2011	2010
Furniture and fixtures	\$ 37,674	\$ 37,674
Equipment	56,847	62,317
Computer equipment	31,473	35,097
Vehicles	134,189	134,189
Software	55,832	55,642
 Total	 316,015	 324,919
 Less: accumulated depreciation	 270,737	 270,316
 Net property and equipment	 \$ 45,278	 \$ 54,603

**NOTE 3 - INVESTMENTS:**

Investments consist solely of mutual funds at September 30, 2011 and 2010. The following is a summary of investment earnings recognized in income for each year.

	2011	2010
Realized gains (losses)	\$ (7)	\$ (7)
Unrealized gains (losses)	-	-
 Total	 \$ (7)	 \$ (7)

**NOTE 4 – INTANGIBLE ASSET:**

Intangible asset consists of an internet domain name with a cost of \$100,000. Management reviews the intangible asset for impairment annually. Impairment losses are recorded in other expense on the income statement.

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Notes to Financial Statements  
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**NOTE 5 - MORTGAGE SERVICING RIGHTS:**

The activity in MSRs was as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of period	\$ 990,890	\$ 966,245
Additions	264,554	446,056
Scheduled amortization & reduction due to early loan payoffs	(321,460)	(421,411)
Reserve for impairment	<u>-</u>	<u>-</u>
Mortgage servicing rights, net	<u>\$ 933,984</u>	<u>\$ 990,890</u>

The estimated fair value of recognized MSRs for the years ended September 30, 2011 and 2010 was \$933,984 and \$990,890, 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, 2011 and 2010, respectively, was approximately \$1,718,000 and \$1,634,000.

**NOTE 6 - LINE OF CREDIT:**

The Company has a \$150,000 available line of credit with First Northern Bank, which is due March 5, 2012. Interest is payable monthly at the bank's base commercial loan rate (4.75% at September 30, 2010) plus 1.25 percent. The line is secured by receivables and equipment of the Company. The balance outstanding as of September 30, 2011 and 2010 was \$105,000 and \$75,000, respectively.

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Notes to Financial Statements  
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**NOTE 7 - NOTES PAYABLE:**

Long-term debt consists of the following:

	2011	2010
Note due in monthly installments of \$3,077 including interest at 6.5%, maturing in May 2011.	\$ -	\$ 23,992
Note due in monthly installments of \$1,999 including interest at 6.5%, maturing in November 2013.	48,143	-
Note due in monthly installments of \$1,409 including interest at 6.0%, maturing in October 2014.	47,490	-
Total	95,633	23,992
Less: current portion	35,921	23,992
Amount due after one year	\$ 59,712	\$ -

Future maturities of notes payable are as follows:

Year Ended September 30,

2012	\$ 35,921
2013	38,261
2014	20,049
2015	1,402
Total	\$ 95,633

**NOTE 8 - TRANSACTIONS WITH RELATED PARTY:**

During the years ended September 30, 2011 and 2010, the Company received servicing revenue of \$166,879 and \$182,714, respectively, and collected management fees, including shared expenses, in the amount of \$91,098 and \$96,785, respectively 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 \$106,734 and \$109,443 at September 30, 2011 and 2010, respectively, and is included on the balance sheet as Investment in Partnerships.

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The Company received management fees of \$48,025 and \$0, from Blackburne & Brown Equity Preservation Fund, LLC (LLC) for the years ended September 30, 2011 and 2010, respectively. The Company, which has a profits and loss ownership interest in the LLC, manages the LLC and receives various fees for services performed.

**NOTE 9 - INCOME TAX EXPENSE (BENEFIT):**

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

	2011	2010
Current		
Federal	\$ 2,225	\$ 2,579
State	1,591	2,257
Total current	3,816	4,836
Deferred		
Federal	(11,271)	9,157
State	(7,287)	5,920
Total deferred	(18,558)	15,077
Total income tax (benefit) expense	\$ (14,742)	\$ 19,913

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 10 - COMMITMENTS:**

The Company leases its main office space under an operating lease with monthly base payments of \$2,812 expiring on March 31, 2013. Additionally the Company leases office space in Indiana under a month to month lease with the Company's sole shareholder, with monthly payments of \$1,200. Office rent expense was \$60,962 and \$72,180, respectively for the years ended September 30, 2011 and 2010.

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Notes to Financial Statements  
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The Company subleases a portion of its Indiana office to unaffiliated parties. Sublease income was \$8,762 and \$4,100 for the years ended September 30, 2011 and 2010, respectively. Sublease income is netted with office rent expense in the income statement.

The company also leases various office equipment under non-cancelable operating leases with total quarterly payments of \$528 expiring in June 2012.

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

<u>Year Ended September 30,</u>	
2012	\$ 35,328
2013	<u>16,872</u>
Total	<u>\$ 52,200</u>

**NOTE 11 - 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 \$0 and \$30,000 to the plan for the years ended September 30, 2011 and 2010, 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, 2011 and 2010, the Company contributed \$22,316 and \$20,882, respectively, to the plan.

**NOTE 12 - 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.

**BLACKBURNE & SONS REALTY CAPITAL CORPORATION  
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Notes to Financial Statements  
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**NOTE 13 - CASH FLOWS:**

For purposes of the statement of cash flows, interest paid by the Company was \$10,236 and \$5,920 for the years ended September 30, 2011 and 2010, respectively.

Additionally, the Company paid \$4,623 and \$2,636 in income taxes for the years ended September 30, 2011 and 2010, respectively.

**NOTE 14 - 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 in 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.

**NOTE 15 – SUBSEQUENT EVENTS:**

Management has evaluated the potential for subsequent events through the available for issuance date of the financial statements, December 21, 2011.