

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA,)	
)	
Plaintiff,)	Civil Action No. 1:03-CV-12219-DPW
)	
v.)	
)	
FAIRBANKS CAPITAL CORP.,)	
FAIRBANKS CAPITAL HOLDING CORP.,)	
and THOMAS D. BASMAJIAN,)	
)	
Defendants.)	
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ALANNA L. CURRY ET AL.,)	
individually and on behalf of all)	
others similarly situated,)	
)	Civil Action No. 1:03-CV-10895 DPW
Plaintiffs,)	
)	
v.)	
)	DECLARATION OF JEFFREY A.
FAIRBANKS CAPITAL CORP.,)	JOHNSON, CPA IN SUPPORT OF
)	MOTION FOR FINAL APPROVAL
Defendant.)	OF CLASS ACTION SETTLEMENT
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I, Jeffrey A. Johnson, declare as follows:

1. I am a Certified Public Accountant ("CPA") specializing in the area of forensic accounting and damage analysis. I hold an active CPA license in the State of California and have performed forensic accounting in California and most Bay Area counties since 1981. During this time I have served as an expert witness in civil litigation matters providing both deposition and trial testimony. I have testified at deposition and/or trial in matters before U.S. District Court, U.S. Bankruptcy Court, California State Courts (various counties), The American Arbitration Association, J.A.M.S. and Pro-Tem Judges. I am a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

2. I am frequently appointed as an expert in accounting issues in civil litigation cases. Matters for which I have offered testimony include: business valuations, business damages, lost profits, employee/management fraud, trusts and estates, wrongful termination, wrongful death, dissolution of marriage and punitive damages. I have considerable investigative experience for companies in many industries including: financial institutions, construction, technology, and real estate. My curriculum vitae is attached as Exhibit A to this declaration.

3. Mr. McCarthy, and his firm Cotchett, Pitre, Simon & McCarthy, as the attorneys for certain plaintiffs in this action retained me to perform various tasks including an investigation as to the financial state of Fairbanks Capital Corporation. In performing my investigation, I have relied upon my general expertise in the field of accounting and experience regarding accounting issues for financial institutions. In addition, I have relied upon the documents as provided to me in the course of this litigation. I have personal knowledge of the facts as set forth herein and if called upon to do so, I could and would testify truthfully as to these matters.

4. I have reviewed various financial documents related to Fairbanks Capital Corporation ("Fairbanks") including: audited financial statements for the years 1999, 2000 and 2001, internal budgets and financial projections provided by Fairbanks as of May 30, 2003 and August 31, 2003 which included comparisons to results from operations for the year 2002. I have also reviewed the March 31, 2004 deposition of Matthew Lee Hollingsworth regarding the financial condition of Fairbanks Capital Corporation. In addition, I have obtained and reviewed information, from Internet-related sources (e.g., National Mortgage News); concerning the size of Fairbanks' loan portfolios for various periods and downgrades in Fairbanks' servicing ratings.

5. From my review of documents, I have determined the following:

- a) Fairbanks' loan servicing portfolio, which is the mainstay of their operations, has grown significantly over the last several years, from approximately 40,000 loans being serviced as of the end of 1999 to approximately 556,000 loans being serviced by the end of 2002. The size of Fairbanks' loan servicing portfolio has leveled off over the last two years and shows no signs of increasing at the current time. In fact, Fairbanks' loan servicing portfolio is decreasing in size since it is currently unable to acquire new loans (see subparagraph c, below). It should be noted that the increase in Fairbanks' loan servicing portfolio was primarily achieved through acquisition of servicing rights.
- b) Fairbanks' results from operations have grown from a loss of (\$1,589,000) in 1999 to positive after-tax net income of approximately \$12MM in 2000, \$11MM in 2001 and \$48MM in 2002. It should be noted that 2002 was by far the best year for Fairbanks' in which they reaped the benefits of their loan servicing portfolio acquisitions, from a revenue standpoint, prior to increasing their personnel and facilities costs to meet the needs of servicing such a large portfolio which did not fully affect the income statement until 2003.

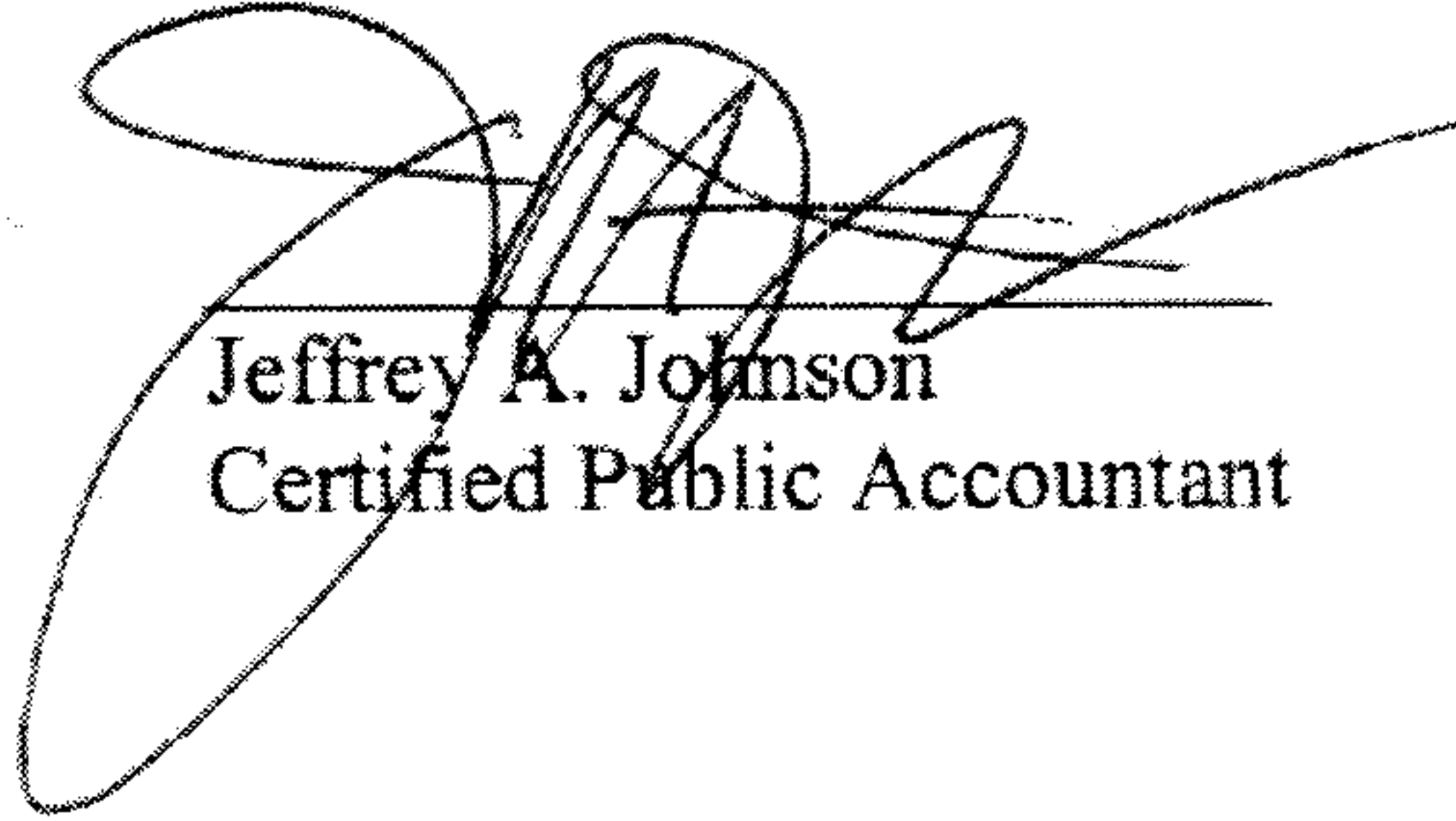
- c) Per the internal Fairbanks budgets and projections for the year 2003, Fairbanks was projecting a net income after taxes of \$16MM (per the May 30, 2003 report) and has revised this amount downward (per the August 31, 2003 report) to approximately \$6.7MM. As stated in the deposition of Matthew Hollingsworth, the COO of Fairbanks Capital Corporation, the actual operations for the year 2003 resulted in a net loss of approximately (\$45MM). The primary factors for the dramatic difference between projected net income and the substantial actual net loss for 2003 was Fairbanks' inability to increase their loan servicing business, including the acquisition of new servicing portfolios, due to the downgrading of their servicer ratings by several large rating organizations such as Fitch Ratings, Standard & Poors and Moody's. Thus, Fairbanks' revenue continued to decline as the size of their existing portfolio declined. In addition, Fairbanks' ratings have not improved as of the date of Mr. Hollingsworth's deposition.
- d) In addition to experiencing net operating losses, Fairbanks' debt has increased significantly from 1999 through 2003. Fairbanks' is projecting approximately \$362MM in debt by the end of 2003, assets of \$555MM and equity of \$193MM. Some portion of Fairbanks' debt is clearly long-term while other debt appears to be continually rolled-over (refinanced). These projections, however, are likely too optimistic given the (\$45MM) actual net loss that Fairbanks experienced in 2003.

6. Taking all of the Fairbanks financial information into consideration it is clear that this company has reached a maturity point where, at present, they are unable to increase their revenue base. In fact, the opposite is occurring. Fairbanks' is now losing money and cannot, due to their low ratings, acquire additional business. Considering Fairbanks' large net loss in 2003, downgrades in their ratings and their ever increasing debt load, I would expect Fairbanks to experience net losses in 2004 and succeeding years.

7. As I reported to counsel, it is my opinion that at the middle of the year 2003 it appeared that Fairbanks had somewhere in the range of \$13MM to perhaps as much as \$25MM of "free cash" when one considers its operational and debt servicing needs based on the projections put forth at that time. Put another way, Fairbanks should have been able to continue to operate without using this "free cash" for normal operational costs. However, as Fairbanks moved forward from mid-2003, the dramatic downturn in revenue caused by the factors stated above likely caused Fairbanks to use up this cash to fund the shortfall in their operations. Clearly, the (\$45MM) net loss for 2003 had to have been funded from sources other than revenue. As their cash has dwindled during 2003 and likely continues to do so in 2004, Fairbanks is unlikely to have much cash, if any, with which to fund a settlement in the current litigation.

8. Overall, while Fairbanks had a few good years recently, from a net income perspective, it is unlikely, without further loan servicing acquisitions, that Fairbanks will continue to be a profitable company. Per Mr. Hollingsworth's deposition, it does not appear that Fairbanks will soon be able to increase their loan servicing portfolio. I would expect continued net losses for 2004 and beyond. Fairbanks may not be at a point where they have a "going concern" problem but I would expect that if their net losses continue over the next year or two that Fairbanks' outside auditors will have to strongly consider "going concern" as an audit issue and a business reality.

I declare, under penalty of perjury pursuant to the laws of the State of California, that the foregoing is true and correct to the best of my knowledge based on the documents reviewed and procedures performed. Signed this 27th day of April, 2004 at Mill Valley, California.



Jeffrey A. Johnson
Certified Public Accountant

Curriculum Vitae

Overview

Certified Public Accountant with more than 22 years experience in both public accounting and private industry. Extensive experience providing comprehensive litigation consulting, forensic accounting, fraud and general investigative services to attorneys and clients in hundreds of cases as follows:

- Provision of services includes both civil litigation (business disputes) and marital dissolution matters;
- Litigation services for business disputes encompasses a wide variety of issues, industries, and business types;
- Considerable experience with a multitude of marital dissolution issues and the application of accepted case law as it relates to accounting for community and separate property;
- Expert witness testimony at deposition and/or trial in matters before the California Superior Court (various counties), U.S. District Court, and U.S. Bankruptcy Court;
- Expert witness testimony at ADR proceedings at JAMS, American Arbitration Association and before Pro-Tem Judges;
- Court-appointed neutral accountant and Joint Accounting Expert;
- Other accounting and financial experience includes development of integrated business plans, internal controls, IT/EDP issues, general accounting and taxation.

Education / Certification

- B.S., Accounting, San Francisco State University, 1981
- C.P.A., State of California, 1984
- M.B.A., Information Systems, San Francisco State University, 1986
- Over 80 hours Bi-annual Continuing Professional Education

Professional History

- Jeffrey A. Johnson, Certified Public Accountant, Owner, 2002 to Present
- Vice President, Finance, Webprint, Inc., 2000 to 2002
- Seiler & Company, LLP, Certified Public Accountants, 1993 to 2000
- Johnson Consulting, Owner, 1991 to 1993
- Harry, Evans & Degnan, Certified Public Accountants, 1990 to 1991
- Kenneth Leventhal & Company, Certified Public Accountants, 1989 to 1990
- Hemming Morse, Inc., Certified Public Accountants, 1981 to 1989

Professional / Community Activities

- American Institute of Certified Public Accountants (AICPA), Member
- California Society of Certified Public Accountants (CSCPA), Member
- CSCPA Litigation Section, San Francisco Chapter, Member
- CSCPA State EDP Committee and Microcomputer Certification Task Force
- CSCPA Litigation Services Conference, Committee Member
- CSCPA Computer Services Conference, Chairman and Committee Member
- Over 30 Professional Presentations, Speeches and Articles
- Member/Former Member of Various Non-Profit Boards of Directors
- Church of Our Saviour, Mill Valley, Treasurer