

THE BROWN INVESTMENT FUND, L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2008

THE BROWN INVESTMENT FUND, L.P.

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MARKLE
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CERTIFIED PUBLIC
ACCOUNTANTS

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Independent Auditor's Report

To the Partners of The Brown Investment Fund, L.P.

We have audited the accompanying statement of assets and liabilities of The Brown Investment Fund, L.P. as of December 31, 2008, and the related statements of operations, changes in partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the General Partner of The Brown Investment Fund, L.P. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Brown Investment Fund, L.P. as of December 31, 2008, and the results of its operations, changes in its partners' capital and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Wilson Markle Stuckey Hardesty & Bott
Wilson Markle Stuckey Hardesty & Bott
Larkspur, California
March 23, 2009

THE BROWN INVESTMENT FUND, L.P.

Statement of Assets and Liabilities

December 31, 2008

ASSETS

Cash	\$ 202,828
Promissory notes receivable, net of allowance for uncollectible notes of \$2,669,641	21,430,871
Accrued interest receivable	4,653,311
Equipment (at cost, net of depreciation of \$12,095)	<u>3,456</u>
Total Assets	<u>\$ 26,290,466</u>

LIABILITIES AND PARTNERS' CAPITAL

Liabilities

Notes payable	\$ 878,200
Interest payable	109,762
Management fees payable	56,376
Deferred revenue	55,248
Professional fees payable	43,800
Other payables	<u>1,000</u>
Total Liabilities	1,144,386

Partners' capital

Total Liabilities and Partners' capital	<u>\$ 26,290,466</u>
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See accompanying notes

THE BROWN INVESTMENT FUND, L.P.

Statement of Operations

Year ended December 31, 2008

Income	
Interest	\$ 3,367,824
Gain on sale of promissory notes	<u>11,542</u>
Total income	3,379,366
Expenses	
Bad debt expense	5,344,636
Management fee	291,026
Professional fees	154,744
Interest expense	114,547
Loss on sale of promissory notes	14,939
Other expenses	5,179
Depreciation	<u>5,184</u>
Total expenses	<u>5,930,255</u>
Net loss	<u><u>\$ (2,550,889)</u></u>

See accompanying notes

THE BROWN INVESTMENT FUND, L.P.

Statement of Changes in Partners' Capital

Year ended December 31, 2008

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Partners' capital, beginning of year	\$ -	\$ 27,696,969	\$ 27,696,969
Capital contributions	-	-	-
Capital withdrawals	-	-	-
Allocation of net loss			
Pro rata allocation to all partners	-	(2,550,889)	(2,550,889)
Partners' capital, end of year	<u>\$ -</u>	<u>\$ 25,146,080</u>	<u>\$ 25,146,080</u>

See accompanying notes

THE BROWN INVESTMENT FUND, L.P.

Statement of Cash Flows

Year then ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (2,550,889)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation	5,184
Decreases (increases) in operating assets:	
Investments in promissory notes	3,326,341
Accrued interest receivable	(2,214,814)
Prepaid expenses	11,009
Increases (decreases) in operating liabilities:	
Interest payable	85,762
Management fee payable	51,026
Deferred revenue	(330,368)
Professional fees payable	2,800
Other payables	(600)
Net cash used for operating activities	(1,614,549)
Cash flows from financing activities	
Proceeds from notes payable	<u>278,200</u>
Net cash provided by financing activities	<u>278,200</u>
Net change in cash	(1,336,349)
Cash, beginning of year	<u>1,539,177</u>
Cash, end of year	<u>\$ 202,828</u>

See accompanying notes

THE BROWN INVESTMENT FUND, L.P.

Notes to Financial Statements

1. Nature of operations and summary of significant accounting policies

Nature of Operations

The Brown Investment Fund, L.P. (the "Partnership") was organized as a limited partnership on February 1, 2000 under the Delaware Revised Uniform Limited Partnership Act. The Agreement was amended on June 15, 2003 to change investment strategy and fee structure.

The term of the Partnership will continue until December 31, 2019, unless earlier terminated as provided for in the partnership agreement (the "Agreement").

The Partnership was organized for the purpose of investing in limited partnerships and other entities, which invest and trade in securities and other financial instruments. The Partnership is now engaged in the business of financing the acquisition of life insurance policies by lending money to persons who wish to acquire such life insurance policies.

Cash and Equivalents

Investments in short-term money market funds are considered cash equivalents. The Partnership is at risk to the extent that it maintains balances in excess of insured limits.

Income Taxes

The Partnership does not record a provision for income taxes because the partners report their share of the Partnership's income or loss on their income tax returns. The financial statements reflect the Partnership's transactions without adjustment, if any, required for income tax purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the General Partner to make estimates and assumptions that affect the amounts disclosed in the financial statements. Actual results could differ from those estimates.

THE BROWN INVESTMENT FUND, L.P.

Notes to Financial Statements, continued

1. Nature of operations and summary of significant accounting policies, continued

Promissory Notes Receivable

Investment in promissory notes are composed of promissory notes that are secured by underlying life insurance policies. The Partnership values the investments in promissory notes based on cost (which is generally equal to the principal amount of the promissory notes) plus accrued interest. There is no active market for the Partnership's investments in these promissory notes. The Partnership holds the promissory notes until the notes are either paid off or the underlying policy is sold. If a note matures before it is paid off or sold, the Partnership may continue to fund the policy until the policy is sold or paid off. In 2008, the Partnership made a policy decision to stop accruing interest on all matured notes receivables after the two-year anniversary date of the note financing date.

The life insurance policies are generally held for sale in the secondary insurance market. Upon sale in the secondary market, the Partnership receives principal repayment and participates in the profit or loss from the sale. Interest on promissory notes is recognized on the accrual basis. In the event that an insurance policy is sold, profit or loss on the sale is not recognized until after escrow closes. Due to the fact that all promissory notes are secured by underlying life insurance policies, in the event that an insurance policy lapses, the promissory note becomes worthless. As such, the cost plus accrued interest of that promissory note is written off as bad debt expense. During December 2008, two policies lapsed resulting in bad debt expense of \$2,674,995. In addition to the 2008 lapses, management is aware of four policies that have lapsed in 2009 prior to the March 23, 2009. Management has established an allowance for uncollectible notes receivable as of December 31, 2008 in the amount of \$2,669,641 relating to those four promissory notes whose underlying policies had lapsed in 2009.

As of December 31, 2008, promissory notes consisted of the following:

	<u>Principal Amount</u>
Secured promissory notes with interest at 9.95%, maturing during year 2008	\$ 5,790,922
Secured promissory notes with interest at 15%, maturing during year 2009	17,924,010
Secured promissory notes with interest at 15%, maturing during year 2010	385,580
	<u>24,100,512</u>
Less allowance for uncollectible notes receivable	<u>(2,669,641)</u>
Total promissory notes receivable, net of allowance	<u>\$ 21,430,871</u>

THE BROWN INVESTMENT FUND, L.P.

Notes to Financial Statements, continued

2. Partnership Agreement

Wood, Hat & Silver, L.L.C., a Delaware limited liability company, is the Partnership's General Partner. The General Partner is responsible for making all investment and operating decisions on behalf of the Partnership

The Partnership pays the General Partner a monthly management fee calculated at the rate of 1.0% per annum of the net assets of the Partnership. The General Partner, at its sole discretion, may waive or reduce the management fee with respect to any limited partner. The management fee in 2008 amounted to \$291,026, of which \$56,376 was payable at year-end.

In accordance with the Partnership Agreement, profits and losses of the Partnership are allocated to partners according to their respective interests in the Partnership.

The Partnership is responsible for paying all of its operating and administrative expenses. The General Partner is responsible for its own overhead and administrative expenses.

Capital contributions to the Partnership may be made at the beginning of each month, or at the General Partner's discretion. Each partner may withdraw all or any part of its capital account on the last day of any calendar quarter upon 30 days prior written notice to the General Partner, or at the General Partner's discretion.

3. Related party transactions

In 2008, the Partnership borrowed \$722,700 from three entities affiliated with the General Partner. These three notes accrue simple interest at 12%, consistent with the interest rate accrued on all other notes payable. Two of these three notes were paid in full during 2008. As of December 31, 2008, the one note payable with an affiliate of the General Partner had an outstanding balance of \$95,200 with accrued interest payable of \$952.

THE BROWN INVESTMENT FUND, L.P.

Notes to Financial Statements, continued

4. Subsequent events

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in the financial markets and banking system. These and other economic events have had an adverse impact on investments. As a result, a significant amount of the Partnership's promissory notes receivables have matured and have not been repaid or sold. Management is unable to determine the impact or collectibility of these notes, as there is no active market for these notes.

The Partnership has continued to fund, through additional premium payments, some of the underlying life insurance policies that collateralize these notes. However prior to March 23, 2009, management is aware of four insurance policies that have lapsed in 2009 with no additional premiums made. The combined notes receivable balance on these notes was \$2,669,641. Management has established an allowance on the statement of assets and liabilities as of December 31, 2008 equal to the known uncollectible balance of these four worthless promissory notes.

If this trend continues, the Partnership will recognize significant bad debt expense on worthless promissory notes receivables in 2009.