Honorable Karen A. Overstreet
November 9, 2007; 9:30 a.m.

IN THE UNITED STATES BANKRUPTCY COURT FOR THE
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

In re: COURT REPORTING INSTITUTE, INC., Debtor(s).	Chapter 7 Bankruptcy No. 06-14202
BANKRUPTCY ESTATE OF COURT REPORTING INSTITUTE, INC., by and through Michael B. McCarty, Bankruptcy Trustee, Plaintiff, v. ALEN JANISCH, a single man; and KAI MOLDSKRED and JOYCE MOLDSKRED, husband and wife, and the marital community comprised thereof, Defendants.	Adversary No. 07-01167 DECLARATION OF RICHARD GINNIS

The undersigned makes the following statement under penalty of perjury:

1. I am over 18 years of age, am competent to testify to the statements herein and make the statements herein based on facts personally known to me.

2. I am a certified public accountant at the Seattle firm of Ginnis & Chalhoub, LLC. I have experience working for trustees in bankruptcy cases, having been the accountant to the trustee in over 2,000 cases since the early 1980's.

3. I was appointed as the accountant in the above-captioned matter on January 22, 2007.

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4. Since that date I have reviewed the debtor's business records, including its 2004 and 2005 tax returns. I have also reviewed the debtor's Financial Statements and Independent Auditor's Reports for Years Ending December 31, 2004 and 2005, a true and accurate copy of which is attached hereto as Exhibit "A."

5. The trustee, through his attorney, requested that I determine whether or not the debtor became insolvent at any point prior filing bankruptcy. I began this specific analysis with the December 31, 2005 balance sheets. I adjusted this balance sheet by reducing the value of certain assets from the stated book value to the fair market value of such assets.

6. I conducted the same analysis for the monthly balance sheets for the months of January 2006 to August 2006.

7. It is my opinion that the debtor was insolvent on December 31, 2005, and for the entire period of January 1, 2006 through the end of August 2006. The debtor was also insolvent at the time it filed bankruptcy on November 27, 2006.

8. The December 31, 2005 tax return and the independent auditor's report both indicate that the debtor held a note receivable from Alen Jansich in the amount of $295,000 as of December 31, 2004, and $137,000 as of December 31, 2005. Those documents also reflect that there was no promissory note or loan owed to Alen Janisch by the debtor at the stated times.

9. Alen Janisch did pay $110,000 to the debtor during April 2006, $30,000 during May 2006, and $25,000 during June 2006. He was credited $4,500 on August 31, 2006. The debtor recorded these transactions as contributions to his capital account.

DATED this 10th day of October, 2007.

/S/ *Richard Ginnis*

Richard Ginnis

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COURT REPORTING INSTITUTE, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

RG

CONTENTS

Todd W. Resch, CPA, PS

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report on Financial Statements

June 14, 2006

Board of Directors
Court Reporting Institute, Inc.
Seattle, Washington

I have audited the accompanying balance sheets of Court Reporting Institute, Inc. as of December 31, 2005 and 2004, and the related statements of earnings, stockholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Court Reporting Institute, Inc. as of December 31, 2005 and 2004, 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.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Note E on the Company's calculation of its Title IV 90/10 revenue test and Note C on related party transactions are required by the U.S. Department of Education and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated April 18, 2006 on my consideration of the Company's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Todd W. Resch

Todd W. Resch, CPA, PS

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Todd W. Resch, CPA, PS
CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

June 14, 2006

Board of Directors
Court Reporting Institute, Inc.
Seattle, Washington

I have audited the financial statements of Court Reporting Institute, Inc. for the year ended December 31, 2005, and have issued my report thereon dated June 14, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Court Reporting Institute's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Court Reporting Institute's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I

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noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Todd W. Resch, CPA, PS

COURT REPORTING INSTITUTE, INC.

BALANCE SHEETS

ASSETS

	December 31, 2005	December 31, 2004
CURRENT ASSETS:		
Cash	$424,328	$292,830
Tuition contracts receivable (Note B)	179,001	265,312
Advances to employees	1,380	1,000
Inventories	17,251	33,550
Prepaid expenses	35,468	35,426
TOTAL CURRENT ASSETS	657,428	628,118
RENTAL EQUIPMENT, at cost	63,800	44,235
Less accumulated depreciation	43,828	41,260
	19,972	2,975
PROPERTY AND EQUIPMENT, at cost (Note D):		
Furniture and equipment	883,361	815,427
Software and tapes	160,800	160,176
Leasehold improvements	159,868	141,872
	1,204,029	1,117,475
Less accumulated depreciation	932,870	830,204
	271,159	287,271
OTHER ASSETS:		
Restricted certificate of deposit (Note G)	62,000	62,000
Note receivable from stockholder (Note C)	137,000	295,000
Lease deposits	22,433	22,433
Accreditation cost, net	10,868	16,298
	232,301	395,731
	$1,180,860	$1,314,095

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS EQUITY

	December 31, 2005	December 31, 2004
CURRENT LIABILITIES:		
Accounts payable	$29,688	$65,142
Tuition refunds payable	34,769	36,557
Unapplied Federal and state student assistance funds	57,029	82,595
Accrued payroll taxes and amounts withheld from employees	2,977	2,373
State and local excise taxes payable	4,449	4,711
Accrued salaries	49,523	68,238
Prepaid tuition	661,880	787,863
Current maturities on long-term debt	43,223	39,386
TOTAL CURRENT LIABILITIES	883,538	1,086,865
LONG-TERM DEBT, less current portion (Note D)	23,368	29,523
STOCKHOLDERS EQUITY:		
Common stock, stated value $1 a share– Authorized, 100,000 shares Issued and outstanding, 2,000 shares	2,000	2,000
Additional paid-in capital	89,536	89,536
	91,536	91,536
Retained earnings	182,418	106,171
	273,954	197,707
	$1,180,860	$1,314,095

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF EARNINGS

	Year ended December 31 2005	2004
REVENUE:		
Net tuition and fees	$3,413,188	$3,513,107
Bookstore and vending machine income	133,665	148,135
Equipment rental income	55,862	57,575
Interest, finance charges and late fees	44,364	41,883
Gain on disposal of assets	11,936	14,306
Other income	15,538	17,587
	3,674,553	3,792,593
COSTS AND EXPENSES:		
General and administrative	1,054,385	1,120,307
Instruction	842,673	910,184
Occupancy	530,824	460,253
Student recruitment	484,681	642,693
Bad debts	233,224	187,433
Depreciation and amortization	107,523	125,192
Cost of bookstore and vending sales	100,262	134,499
Interest expense	18,067	20,682
	3,371,639	3,601,243
NET EARNINGS	$302,914	$191,350

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF STOCKHOLDERS EQUITY

YEAR ENDED DECEMBER 31, 2005 AND 2004

	Common Stock		Additional Paid–In	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance, January 1, 2004	2,000	$2,000	$89,536	$250,298	$341,834
Net earnings				191,350	191,350
Distributions				(335,477)	(335,477)
Balance, December 31, 2004	2,000	2,000	89,536	106,171	197,707
Net earnings				302,914	302,914
Distributions				(226,667)	(226,667)
Balance, December 31, 2005	2,000	$2,000	$89,536	$182,418	$273,954

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

	Year ended December 31 2005	Year ended December 31 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$302,914	$191,350
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities–		
Depreciation and amortization	107,523	125,192
(Gain) on disposal of assets	(11,936)	(14,306)
(Increase) decrease in tuition contracts receivable	86,311	(42,877)
(Increase) decrease in inventories	16,299	(5,987)
(Increase) decrease in prepaid expenses	(42)	7,426
Increase (decrease) in accounts payable	(35,454)	24,494
Increase (decrease) in accrued salaries	(18,715)	3,423
Increase (decrease) in prepaid tuition	(125,983)	213,386
Increase (decrease) in other current liabilities	(27,012)	59,742
NET CASH FROM OPERATING ACTIVITIES	293,905	561,843
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposals of rental equipment	18,115	16,203
Accreditation cost	5,430	4,458
Advances to employees	(380)	3,738
Restricted certificate of deposit		3,000
Lease deposits		873
Purchases of property and equipment	(39,705)	(114,523)
Advances to stockholder	158,000	(38,500)
Purchases of rental equipment	(28,033)	(2,252)
NET CASH FROM INVESTING ACTIVITIES	113,427	(127,003)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions	(226,667)	(335,477)
Principal payments on long–term debt	(49,167)	(51,627)
NET CASH FROM FINANCING ACTIVITIES	(275,834)	(387,104)
INCREASE IN CASH	131,498	47,736
CASH, beginning of year	292,830	245,094
CASH, end of year	$424,328	$292,830

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005 AND 2004

NOTE A– DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of business

Court Reporting Institute, Inc. is a closely held State of Washington corporation. The Company operates a private career training school with campus facilities in the cities of Seattle, Washington (since 1988), San Diego, California (since 1993), Boise, Idaho (since 1996) and Tacoma, Washington (2005). The Company's administrative office is in Seattle. The school offers its 30–month court reporting program at all of its campuses. Its 9–month microcomputer applications and computer networking programs and 6–month sales and marketing program are offered at its Seattle and Boise campuses.

Court Reporting Institute, Inc. is an accredited postsecondary education institution and is a participant in the Federal Student Financial Assistance programs under Title IV of the Higher Education Act.

A total of 391 and 415 students were enrolled and attending the College as of December 31, 2005 and 2004, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue recognition

Tuition revenue is recognized as earned ratably over the lengths of the respective programs. Non–refundable registration fees are recorded as earned upon enrollment and class attendance.

Revenue earned on tuition contracts in excess of payments received is reported as tuition contracts receivable in the accompanying financial statements. Payments on tuition contracts in excess of revenue earned is reported as prepaid tuition.

Inventories

Inventories are stated at the lower of cost (first–in, first–out method) or market.

Student recruitment

Indirect student recruitment and advertising costs are expensed as incurred. Student recruitment and advertising costs for 2005 and 2004 was $484,681 and $646,210, respectively.

Direct response recruitment and advertising costs are capitalized and amortized over the estimated benefit period. Student recruitment and advertising costs deferred as of December 31, 2005 and 2004 amounted to $15,299.

Accreditation cost

Costs in connection with the renewal of the Company's accreditation with its accrediting agency "Accrediting Council for Independent Colleges and Schools" are capitalized and amortized over the renewal period. In 2004, the Company's accreditation was renewed for a four–year period ending in December, 2007.

Property and equipment

Expenditures for renewals or improvements are capitalized. Ordinary maintenance and repairs are charged to expense as incurred. The cost of assets sold, retired, or abandoned and the related accumulated depreciation are removed from the accounts. Gains or losses on such sales or retirements are included in income.

Stenograph machines held for rental to students are classified as rental equipment in the accompanying financial statements.

Depreciation of property and equipment and rental equipment is computed using the straight–line method over estimated useful lives of five to ten years. Leasehold improvements are amortized over the shorter of the estimated useful life or lease period.

Capital leases

Equipment leases having the substance of financing transactions have been capitalized and the related discounted lease obligations included in long–term debt. The leased assets are being depreciated over their estimated useful lives, as described above.

Income taxes

The Company, with the consent of it's shareholders, has elected under the Internal Revenue Code to be an S Corporation for U.S. income tax purposes. The states of California and Idaho, which have income tax statutes, also recognize the Company's S Corporation status. However, the Company is subject to a franchise tax on its operations in both California and Idaho. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for U.S. or State income taxes has been included in the accompanying financial statements.

Supplemental disclosures of cash flow information

	Year ended December 31	
	2005	2004
Interest paid during the year	$18,067	$24,036
Equipment acquired on capital leases	46,849	

NOTE B– TUITION CONTRACTS RECEIVABLE:

Tuition contracts receivable consist of the following–

	December 31,	
	2005	2004
Fully earned accounts	$202,771	$195,288
Earnings on tuition contracts in progress in excess of payments received	88,230	180,059
	291,001	375,347
Less allowance for doubtful accounts	112,000	110,035
	$179,001	$265,312

Unearned revenue on tuition contracts in progress at December 31, 2005 and 2004 amounted to $1,079,718 and $1,167,507, respectively.

NOTE C– NOTE RECEIVABLE FROM STOCKHOLDER:

The 5% note receivable from stockholder is secured by real and personal property owned by the Company's sole stockholder with a current value of $137,000 and $295,000 at December 31, 2005 and 2004, respectively. Interest earned on the note amounted to $10,250 and $12,825 for the years ended December 31, 2005 and 2004, respectively.

NOTE D– LONG–TERM DEBT:

Long–term debt consists of the following–

	December 31, 2005	December 31, 2004
10.9% to 21.2% capital lease obligations, payable in aggregate monthly installments of $4,237 and $4,200.	$66,591	$68,909
Less current portion	43,223	39,386
	$23,368	$29,523

Equipment leases in which the Company is lessee are considered to be equivalent to installment purchases for purposes of accounting presentation. The cost of the equipment at December 31, 2005 and 2004 of $147,311 and $123,541, less accumulated depreciation of $59,824 and $42,487, is included in property and equipment. The related discounted lease obligation is included in long–term debt.

Aggregate annual payments on long–term debt for years subsequent to December 31, 2005 is summarized below–

	Principal	Interest	Total
2006	$43,223	$8,133	$51,356
2007	16,899	3,370	20,269
2008	6,469	288	6,757
	$66,591	$11,791	$78,382

NOTE E– CONCENTRATIONS (U.S. TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS):

The Company, as an eligible postsecondary institution of higher education, participates in the U.S. Title IV student financial assistance programs authorized under the Higher Education Act of 1965, as amended. The U.S. Department of Education is the Federal agency responsible for administration and oversight of the programs. The Company acts in both an administrative and fiduciary capacity for the funds disbursed and guaranteed by the United States government to eligible student recipients attending the Institution. The proceeds are used by the student to pay tuition costs at the school and to cover certain allowable personal living expenses.

Under the Regulations governing the Federal programs, the percentage contribution of Federal Title IV program funds to the Company's revenues from educational programs is limited to 90% for continued participation in the programs. Federal program contributions were as follows:

	Year ended December 31	
	2005	2004
Net proceeds from Federal programs	$1,850,574	$2,466,805
Education related revenues (cash basis)	3,336,079	3,795,961
Percentage contribution of Federal funds	55%	65%

The Company returned tuition refunds to the Federal programs totaling $259,250 and $279,601 for the year ended December 31, 2005 and 2004, respectively. Federal funds disbursed to students for eligible personal living expenses amounted to $1,053,383 and $1,051,618, respectively.

The Company is currently approved for participation in the Federal Title IV programs through September 30, 2006.

NOTE F– LEASE COMMITMENTS:

At December 31, 2005, aggregate net minimum rental commitments under noncancellable operating leases on facilities having an initial or remaining term of more than one year are as follows–

	Seattle Campus	Tacoma Campus	San Diego Campus	Boise Campus	Total
2006	$146,772	$80,208	$142,368	$118,128	$487,476
2007	146,772	81,504	146,592	120,492	495,360
2008		84,096	151,032	122,901	358,029
2009		86,676	155,784	125,355	367,815
2010		87,972		95,427	183,399
2011		90,564			90,564
	$293,544	$511,020	$595,776	$582,303	$1,982,643

The accompanying financial statements for the year ended December 31, 2005 and 2004 include rent expense of $455,622 and $384,664 on the Company's facility leases.

NOTE G– RESTRICTED CERTIFICATE OF DEPOSIT:

As of December 31, 2005 and 2004, the Company had a restricted certificate of deposit of $62,000 under a standby letter of credit agreement with the U.S. Department of Education as the named beneficiary. The letter of credit is required by the U.S. Department of Education as a condition for the Company's continued participation in the U.S. Title IV Higher Education Act (HEA) student financial assistance programs. The letter of credit requirement was imposed as a result of the Company's late payment of tuition refunds to the Title IV HEA programs.

The letter of credit requirement will be removed by the U.S. Department of Education when the Company can show it has been in compliance with the timely payment of refunds requirement for a period of time that is acceptable to the Department.

NOTE H– CONTINGENCIES:

The Company is involved in administrative appeals from decisions of the State of Washington Workforce Training and Education Coordinating Board (Board). The Company has been ordered to pay refunds in the approximate amount of $100,000 to students from the Seattle campus. In the opinion of legal counsel several of the appeals brought by Court Reporting Institute will be successful. However, it is probable that the Company will have to refund the tuition for some of the students. At this time the discovery process has not been completed. Legal counsel's best estimate of tuition that may have to be refunded is $35,000, and that amount will likely change as discovery progresses. The estimate of legal fees to litigate the administrative hearings is $5,000 to $15,000. The administrative hearings are set for September, 2006.

On January 6, 2006, the Company was served with a summons and complaint for damages. The suit was brought by seven former students at the Seattle campus alleging breach of contract. Legal counsel, with the assistance of management, has filed an answer denying all claims. According to legal counsel, the allegations are unsupported by facts on several issues. The matter is currently pending with a trial date of June 18, 2007.

Legal counsel is of the opinion that the most probable risk of this litigation is $25,000 with attorney fees to litigate this matter between $5,000 and $15,000.

On June 6, 2006, the Company received a copy of a complaint for unfair business practices filed by a former student at the Seattle campus. Management, with the assistance of legal counsel, is preparing a response. There are discussions with the complainant regarding possible settlement.

Legal counsel is of the opinion that the most probable risk of this matter if the Company does not settle is $5,000, including attorney fees.

The Region X Office of the U.S. Department of Education (DOE) conducted a program review at the Seattle campus in September–October, 2003 to assess the Institution's administration of financial aid programs authorized by Title IV of the Higher Education Act of 1965, as amended, for the 2001–2002 and 2002–2003 award years. The DOE subsequently issued a preliminary report of its findings on June 2, 2005 and representatives of the Institution continue to work with the Region X office to resolve all remaining areas of concern. No liability has been assessed by DOE at this time.