

Dear Investor or Interested Party,

I said in my last letter that I hoped to have \$60,000,000 by year end and we've reached that goal – as of December 31<sup>st</sup>, the Company had \$60,321,000 cash or cash equivalents (i.e. U.S. Treasury Notes) on hand.

While I'm extremely proud of the accomplishments, nothing would please me more than to be able to make at least a preliminary distribution. The Unsecured Creditors' Committee made a very strong request that I make a preliminary distribution, which virtually everyone in the case including myself would like to do. I have considered that request very carefully and have discussed it with their counsel and my counsel. Unfortunately, a preliminary distribution cannot be made at this time. No distributions to creditors can be made until the court has confirmed a bankruptcy plan. In order to accomplish that, we will need to have the secured vs. unsecured creditors issues behind us and the claims reconciliation process completed.

We will be filing shortly our first Omnibus objection to claims which will cover disputing any duplicative unsecured claims, claims wrongfully filed as priority claims, taking care of those unsecured claims that have subsequently been amended (the objections to those amended claims will be handled separately), late filed claims, unsecured claims which listed interest as being due (under the bankruptcy code these claims are not entitled to interest. Please note that we will also be filing objections to interest on the secured claims when we file our objections to those claims). Where interest was included in the claim, we will be requesting that the court only recognize the principal balance amount reflected in the debtor's books.

You will notice that this first objection does not deal with differences in principal amounts being claimed or in secured vs. unsecured status as these will be dealt with in separate objections at a later date.

I thought it would be helpful at this time to frame the accomplishments and costs by major category for the year.

For the year we actually operated at a profit. If you'll review the numbers below, you'll see that the administrative picture has brightened substantially with current operations running at approximately \$45,000 per month versus over \$200,000 per month in prior years. To some extent this represents a shift in expense from administrative to overhead. For example, while I might be considered CEO, my fees are included in the legal expense line.

The legal fees also include fees incurred in collection matters. Given that the Company, for at least two years, had no collection efforts in place and that the vast majority of loans were seriously delinquent, fees and collection efforts in those areas have produced substantial enhancements to the estate.

Approximately \$37,000,000 in principal has been collected during the time of the Trusteeship. I know some people are critical of fees and expenses, but you can't run a business without overhead. As you review the performance below, I think you'll see that overall the operation is not only well monitored, but operating efficiently and effectively given the hand we've been dealt.

I've broken the presentation down into three time frames – the month of January which was pre-receivership; February-March, which was during the receivership and April through December which was generally under the operation and oversight of the Bankruptcy Trustee. I would like to thank Mike Schwartz our acting Chief Financial Officer for his help in getting this information together

	(000's omitted)			
	<u>Jan</u>	<u>Feb - Mar</u>	<u>Apr - Dec</u>	<u>Tot Year</u>
Interest Income	\$ 278	\$ 776	\$ 5,670	\$ 6,724
Other Income	\$ 339	\$ 93	\$ 121	\$ 553
<b>Total Income</b>	<b>\$ 617</b>	<b>\$ 869</b>	<b>\$ 5,791</b>	<b>\$ 7,277</b>
Investor Interest	\$ 1,182	\$ -	\$ -	\$ 1,182
Admin	\$ 366	\$ 172	\$ 405	\$ 943
REO	\$ 32	\$ 88	\$ 198	\$ 318
Legal	\$ -	\$ 1,065	\$ 1,504	\$ 2,569
Surety Bond	\$ -	\$ 25	\$ 210	\$ 235
<b>Total Expenses</b>	<b>\$ 1,580</b>	<b>\$ 1,350</b>	<b>\$ 2,317</b>	<b>\$ 5,247</b>
<b>Net Income (Loss)</b>	<b>\$ (963)</b>	<b>\$ (481)</b>	<b>\$ 3,474</b>	<b>\$ 2,030</b>

We will continue to monitor expenses and operating efficiencies, but I must warn that although litigation is expensive, the alternative of not litigating is far more costly.

On the topic of litigation – Today I will be posting the upcoming court matters for the months of January and February on the Web Site. The only item of real import is the scheduling of the Caron Balkany trial which is now scheduled to begin on February 21, 2006.

Further, as a update on litigation, let's review the items which were pending last month –

**Receiver and Receiver's Attorneys' fees** – While we have reached a settlement with the receiver and his most recent counsel, subject to court approval. We have been unsuccessful at this point in bringing closure on the Broad and Cassel fee mediation. The mediator had a death in his family and we have agreed that the mediator would have one more conference with the Broad and Cassel counsel and one more conference with us and

based on the result of those conferences recommend either current continued mediation or declaring an impasse.

**Clancy's** – We have reached a settlement on this matter and the agreement is currently being drafted for presentation to the court.

**McMullin Creek** – We have reached an agreement on this matter and are working through some final issues which we feel are surmountable and should be handled shortly.

**Secured Creditor Litigation** – Except for now having a trial date of February 21, 2006, nothing has really changed on this matter and it does not appear that the matter will be settled, but must be litigated.

**Hidden Hills Equestrian Center, Team Awesome, Inc (Mastromarino)** – While the defendants in this foreclosure action have obtained new counsel, we have yet to have any meaningful settlement negotiations so are proceeding forward under the assumption that we will either foreclose or find a buyer for our note for full value, including all accrued interest.

**Westside Funeral Home** – This is the first time this has appeared on this list as generally I do not list items that I think will be resolved or that I do not feel will go to trial. Basically the situation here is that Brasota entered into a very favorable contract to sell this property as a part of a lease purchase agreement. The purchase price called for in the contract was less than \$500,000 which appears to be well below the market value, even as it existed at the time the contract was entered into. As Trustee, I have the power to set aside contracts and I will be attempting to have the court side with me in setting aside this contract as unconscionable and adverse to the interest of the Bankruptcy Estate.

**Thibodeau Litigation Regarding Connecticut Properties** - This litigation is on-going for the several properties located at Bridgeport, Connecticut. The Debtor has paid for every single expense these properties but which have been titled in other's name. I have filed a motion for summary judgment

Should you have questions or wish to contact me I can be reached at the Brasota offices (941) 746-6119 or by email at [jerry@brasota.com](mailto:jerry@brasota.com). Although I have been attempting to maintain a schedule that places me in Bradenton in the earlier part of the week, as we become more involved in litigation that becomes more difficult. If your e-mails go unanswered for any time in excess of one week, please contact Lynn at the Brasota office and I'll make arrangements to have your e-mails forwarded to me for answering.

Best Regards and Best Wishes for the New Year,  
Brasota Mortgage Company, Inc.

*Gerard A. McHale, Jr.*

Gerard A. McHale, Jr.  
Chapter 11 Bankruptcy Trustee

