

Dear Investor or Interested Party,

As we enter the New Year, I thought this might be a good time to sit back and reflect on what has transpired in the last year for the Brasota operations since the bankruptcy was originally filed.

Since my original appointment at the end of April, 2005, we have generated slightly in excess of \$11.6 million in income. The bulk of that income was a result of mortgage interest collections of approximately \$7 million and interest earned on our investments of \$3.3 million. The balance of approximately \$1.3 million consisted of rental income, gains on sale of real estate owned and successes in litigation, offset by approximately \$650,000 in mortgage collection losses.

On the operating expense side, general and administrative expenses, including my fees, totaled \$3.2 million. Another significant expense is the legal expense and professional fees. Net of recoveries, these expenses for the two years totaled \$2.9 million.

The bottom-line is that during the period, the overall status of the bankruptcy estate improved by \$5.5 million (before the recognition of noncash write-downs required to correct errors in the balances recorded in the original Brasota record). After such write-downs, the improvement was in the \$4 million range. Total distributions to investors amounted to \$56 million. Loans and other assets liquidated (collected) also totaled approximately \$56 million. Virtually all funds received from the liquidation of hard assets have been returned to the investors and **all** operating expenses were funded through income of the bankruptcy estate. As of year end, we had cash on hand of approximately \$25.3 million. Current cash on hand is slightly higher than the cash on hand with which we started at the commencement of the case.

Taking a look at some of the accomplishments achieved by the staff of professionals, I think we can all have some sense of pride. Major accomplishments were as follows -

- The challenge of the "Balkany Group" was settled and approved by the creditors committee and the court
- Along with the settlement of the "Balkany Group" claims, we achieved the classification of all creditors being in one class -- "unsecured". This allowed us to continue with our distribution program unimpeded by additional litigation or the necessity to hold back funds for potential distributions in the unlikely event that anyone was found to be "secured".
- A favorable settlement was completed and paid in the Sara Denton/Clancy's litigation improving the Bankrupt estate by approximately \$1 Million.
- The Bridgeport properties were converted to Brasota's name and sold at a gain. I say this with some pride as these were extremely difficult, rent-controlled, low income properties in a less than desirable section of Bridgeport, Connecticut.
- We successfully accomplished the payoff of the loan on the Budget Motel in Bradenton averting what would have been lengthy litigation. With accrued interest this loan paid off well over \$2 Million.
- We successfully foreclosed on the Try-Mor mobile home park, and although the sale produced a book loss, again lengthy litigation was avoided and the price received for the property was extremely fair.

- After years of litigation originally brought by Brasota prior to our involvement, we successfully and amicably settled a lawsuit with the town of Longboat Key and successfully sold the property at a gain. Here again, the bankruptcy estate was enhanced by over \$1Million.
- The McMullen Creek property has been successfully transferred to Brasota and current negotiations are underway that hopefully will lead to the sale of the property.
- The Morrison estate was opened and, for the time being, trustee McHale is also serving as curator of that estate until a personal representative is named by the court.
- Of the original loan portfolio, over 80% of the loans have been collected with the collection loss of less than 4%. Given the nature of these loans, I would say that the results are nothing less than spectacular. When we first came into this case, most bulk loan purchasers were offering much less than \$.50 on the dollar in the aggregate for all the Brasota loans.
- Most importantly, we are in the final stages of working out the final details of the plan and disclosure statement and hope to get that filed with the court sometime in the next 60 days.

I am sure that most of you have seen or read about the real estate downturn in the nation in general and in Florida in particular. This is making our collection efforts more difficult and we are expecting that the remaining portfolio collections will be somewhat less fruitful than last year. Some of the concerns being voiced by the national press are a reflection of our Brasota situation. There has been considerable hand-wringing over the rapid rate of increases in foreclosures. The Tampa-St. Petersburg area is #25 nationwide and Manatee-Sarasota is #53 nationwide. This equates to 1 household in 394 in foreclosure!

A recent New York Times article quotes that "one in five subprime mortgages made in the last two years are likely to go into foreclosure. A subprime loan is made to borrowers with unfavorable credit history". As you all know, Brasota was a subprime lender and all of our remaining portfolio of borrowers are in this category. This same article continues "that risky lending practices (such as subprime) could lead to the worst foreclosure crisis in the modern mortgage market". This current atmosphere is causing our collection efforts to be severely tested and expectations are being tempered. At the same time, I think the results that have been achieved are truly indicative of the professional manner in which our collection efforts have been handled.

A Wall Street Journal article about Distressed Real-Estate cites "discounts are likely to be larger in areas where recent home purchase prices have soared" and in particular, certain areas of Florida. That same article stresses that "REO" portfolios (again Florida is used as an example) will be very active in the next 12 months, and banks are rushing to sell REO homes as quickly as possible".

2006 will be recorded as a year of major significance in the real estate finance industry. The arrival of the real estate housing downturn not only severely impacted the related mortgage markets, but had a major impact on the National economy that is still going on. I am sure that 2007 will bring with it of unique set of noteworthy economic events. Hopefully, we can continue along the liquidation road unimpeded and thankfully we have been successful enough with our liquidation to date that the liquidation of our remaining real estate owned and mortgage balances -- even if further impacted by the downturn in the real estate markets -- won't greatly affect our recoveries by any significant amounts.

Going forward we have nine major items for consideration --

1/ Resolution of our last major outstanding construction loans. Loans totaling about \$3 million to one developer hopefully will be paid off in the next 10 days. If this is not done, we will be facing the necessity to proceed with foreclosures.

2/ Resolution of the Hidden Hills Equestrian Center/Team Awesome foreclosure. As you're aware, these entities filed for bankruptcy when we began our foreclosure proceedings. During the month of December the court, realizing that there was no practical method for reorganization of these debtors' ordered that the entities be turned over to a Chapter 7 trustee for liquidation. We will be moving forward in the next few weeks in either cooperating with the trustee on the sale of the properties or seeking relief from the Chapter 7 bankruptcy filing so that we can proceed with our foreclosure and obtain title to the properties so that we can achieve a sale.

3/ Resolution of matters related to Gloria Morrison and the estate of William Morrison. To date, negotiations with Ms. Morrison to date are continuing but if negotiations prove to be unsuccessful, I am fearful that litigation may be required.

4/ While Negotiations for sale of the McMullen Creek property are underway, the current prices being offered are below what we would like to achieve. given the market.

5/ Resolution of non-developer loans both current and noncurrent, which are not in final foreclosure or litigation, will need to be achieved in relatively short order. As of year end, our portfolio had 10 current loans with outstanding principal balance of approximately \$888,000. Although these loans are all current and "paying as agreed," only \$40,000 matures during the year 2007. The balances of maturities extend into 2008 and 2009, certainly longer than we anticipate this procedure taking. For that reason we may be looking to sell these loans in the near future. Additionally, at this time we have 16 delinquent loans with outstanding balances totaling approximately \$1.8 million. Here again, the maturity dates on these loans for the most part extend into 2008 and 2009 with one actually maturing in December of 2024. We are also currently considering these loans for resale.

6/ Resolution of items remaining in the REO portfolio must be accomplished - where appropriate, we will be listing the remaining properties with a local broker with the thought that what is not sold after a reasonable period of time will be auctioned.

7/ Remaining distributions cannot be made until after the plan and disclosure statement are approved by the court and favorably voted on by the creditors. Subject to Court approval, we would anticipate that there will be one major distribution hopefully in the first quarter of the current year of a substantial portion of the remaining funds on hand. After that point, minor distributions will be made generally for only a few percent. The timing of those distributions will be dependent strictly on miscellaneous receipts of cash by the bankruptcy estate.

8/ Resolution of remaining issues with developer loans will still require additional fact gathering. Developments in the third and fourth quarter of last year as uncovered by our forensic accountants indicate that there is a possibility that certain loans which Brasota had no record of being paid off, despite developers indicating that they had been paid, may actually still be outstanding. The Brasota mortgages were not released on these properties and further investigation is required to determine actions which may have to be taken against current property owners, their title companies, closing agents and developers. The amount involved exceeds \$1 million.

9/ The litigation over Broad and Cassel's fee applications and related litigation is another item which must be addressed. Mediation was unsuccessful and there is a deadline to file objections and suits against the prior law firm for the Receiver by mid-January. We intend to comply with the deadline.

I know that many are frustrated by the length of time that liquidation proceedings take -- a seemingly endless stream of paperwork, etc., -- but unfortunately, there are no "magic pills". Looking at the progress that has been made in this bankruptcy and given the complexity of the underlying problems in overall condition of the Brasota recordkeeping infrastructure; we feel tremendous strides have been made at what most people in the bankruptcy environment would consider to be an extremely rapid pace.

I continue to assure you that our two main objectives are to A/ achieve the maximum return for each and every investor and at the same time B/ bring closure to the Brasota saga as expeditiously and economically as possible.

As always, should you have any questions, certainly feel free to contact me using my Brasota e-mail address Jerry@brasota.com. Happy New Year!

Brasota Mortgage Company, Inc.

Gerard A. McHale, Jr.

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Chapter 11 Bankruptcy Trustee