Frequently Asked Questions
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Since you now have over $35 million, why don't you make a distribution to the creditors?

At first blush, this appears to be an easy question, but let's take a look at the processes that must be accomplished before a distribution can be made.

First, it is absolutely imperative that the status of the "secured" versus the unsecured creditors be adjudicated. There are currently approximately $35 million in creditors who might take a posture that they are in fact, "secured". The unsecured creditors certainly do not agree with this position. I think the only way that this can be resolved is through the rendering of a decision by the court.. We anticipate that the claims bar date (the date by which all claims must be filed) will be September 30. We will be taking the posture that all claims will be challenged. If no proof of claim is filed, that investor or creditor's status may in fact be disallowed.

If the "secured" creditors are found to be in fact "secured" it would be necessary for the bankruptcy estate to have the liquidity to pay the claims before any distributions are made to the unsecured creditor class. If for no other reason, this would preclude any distribution prior to the court determining the status of the "secured" creditors.

Second, any distribution made would have to be made pursuant to a confirmed bankruptcy plan. Such a plan requires a disclosure statement and a vote of the creditors. The plan requires court approval, and generally all major items, such as the status of the secured versus the unsecured, must be approved by the court before such a plan could be achieved.

When can I expect to see a payment?

Unfortunately, the process is somewhat time-consuming. We would anticipate that it will not be necessary to totally complete the bankruptcy before any distributions can be made, and we would hope that preliminary distributions can be made within the next 12 calendar months.

How much will I be receiving?

Again, without beating a "dead horse" that actually cannot be determined until the status of the "secured" creditors is determined. For example, if there were $50 million available to distribute and $35 million was required for the "secured" creditor group, the unsecured would receive $15 million or approximately $.15 on the dollar. If this secured are determined to in fact be unsecured, then the $50 million would be distributed to all creditors, or approximately 37 cents on the dollar. **Please, do not take the above numbers to be actual projections. They are used only so that one might understand the mechanics of the process as opposed to the actual dollars involved.**

How was the unsecured creditors committee selected?

That committee is selected by the US trustee's office. It consists of unsecured creditors. Those creditors are generally owed in excess of $350,000 per investment unit. Their claims are not aggregated in arriving at that number, and each claim stands on its own with no credit for family members, trusts, et cetera.

Was it proper for Brasota to fund legal fees for its officers and for Mr. Morrison's wife?

We think the payments were entirely improper. When we discussed the matter with Gloria Morrison and her attorneys, they quickly returned the $100,000 that had been advanced to them.

The other three attorneys, representing Mr. Coey, Ms. Hottman and Ms.Thibodeau have not returned the funds. Each had been advanced $35,000 and we are proceeding with litigation for recovery of those funds.

Is Mr. Fendrick, the attorney for the creditors committee, available to investors so that they can obtain legal advice from him?

Mr. Fendrick represents the unsecured creditors group as a class and not the individual creditors within the group. While he looks after the interest of all creditors in the group, he cannot answer specific questions with respect to any one individual investment. His charge is to provide the best representation possible for all unsecured creditors, however cannot answer specific questions with respect to any specific transaction that one investor may have engaged in.

Why are so many attorneys and accountants and related persons eroding Brasota's asset base?

Certainly some of the fees being expended are those that are required just to fulfill the statutory requirements provided for in the bankruptcy code. The majority of the fees being incurred currently are not related to the statutory requirements, but rather to the recovery of assets for the benefit of the creditors.

For example, we are currently pursuing over $7 million in delinquent loans, the recovery of certain assets that appear to have been improperly acquired by Mr. Morrison, the recovery of certain transactions with insiders that occurred within four years of the date of the filing of the bankruptcy and a myriad of asset protection and recovery matters. Before any funds are expended in litigation, the matter is reviewed to determine the amount of potential recovery, the likelihood of success, the time which must be expended to achieve that success, the availability of the records to proceed and the overall time that might be required to achieve that success.

The trustee is aware that there are many possibilities for incurring fees in "chasing rabbit trails". We attempt not to do that and firmly believe that the dollars that are expended for asset recovery provide a good return for the investor group.

Where is money going with is currently received?

All moneys received from property sales and mortgage payoffs are being held in a separate interest-bearing escrow account. Funding of the day-to-day operations is generally through the recurring mortgage collections and to a lesser extent, from the rentals received from the real estate owned portfolio.

Why is the company in Chapter 11, and not being liquidated under Chapter 7 of the bankruptcy code?

Actually, the company is being liquidated in a "liquidating Chapter 11". This differs from a Chapter 7 liquidation as I had at age a will. I was the latest hurdle is both a it allows the company to move forward on the collection of receivables, individual sales of property, and an organized wind down of operation. Under the Chapter 7 scenario, the company would be liquidated, as it stands, and still it would be necessary to determine the before the distributions were made. An excellent sample for keeping this in a Chapter 11 is the current proceedings against the $7 million in delinquent loans. If these loans were sold in a Chapter 7 proceeding in all probability, they would bring no more than $3 million. We're comfortable that in the Chapter 11 liquidation, a number closer to $6 million can be achieved.

There are other assets that still need to be brought in to the company. That would be virtually unsalable in a Chapter 7 liquidation.

Are the delinquent borrowers receiving a discount to pay off their loans or bring the notes current?

No, we see no reason for discounting, and since the liquidation is ongoing we are not under any artificial pressure to capitulate to any decisions that do not make strong ongoing business sense. While certainly some of the mortgages, we have are marginal, for many loans, the value of the underlying collateral is such that the borrowers have a strong incentive to keep its current and pay off the loans.

Am I required to send anything back to the court to protect my position?

If you have filed a proof of claim with the Federal Bankruptcy Court (not with the receiver), no further filing is necessary. In fact, such a filing only confuses and adds additional cost to an already costly situation. The court will set a "claims bar date, and all creditors will be notified of that date. If you have not filed a proof of claim, please do so. Failure to filed a proof of claim may prevent your participation in distributions.

Can I deduct my losses for tax purposes?

Generally, you losses are not deductible until they are "realized". This means that the loss is not deductible until such point as the amount is fixed. The nature of the loss in some instances may be determined by your status as a taxpayer, the nature of your other income and other personal factors. For this reason, it would be advisable to visit with your tax adviser as to the nature and timing of any losses incurred with this investment.

Can we collect more on properties than the balance due on the mortgage plus interest, costs and fees?

As long as the mortgages stay current, the only recovery would be limited to the actual mortgage amount, and the accrued interest per the original note. The only way that we would be entitled to receive more is if in fact, we were to foreclose on the property and actually take title to the property and resell it. The strong real estate market, while that enhances our potential for collection, does not enhance our return on the existing mortgages.

I have a large investment in Brasota. My question is since I must suffer the loss of my capital for earnings, then if they cannot repay me in cash I should as an injured creditor have the option before anyone else (including tthe public or realtors) to decide if I would accept property in lieu of the cash. There is no conflict since my capital funded these purchases. Rights of ownership lead directly back to me and other investors and it should be our decision to accept or reject property in lieu of cash. This would allow us to try and recoup some of the lost interest since Jan.

First, let me indicate that the chances of your ever recovering the lost interest since January are remote. In reality, the situation isn't, such that we are evaluating how much of the lost interest can be repaid; we are really looking at what type of return on principle might be available. With respect to the injured creditor's having an option to accept property in lieu of cash, while it might seem logical, has more than a few pitfalls. First and foremost, the investor is not entitled to a refund of his entire investment in cash; this being the case, likewise, the investor is not allowed to apply 100% of his investment to the acquisition of a parcel of property. Certainly all investors have the option to purchase

the property, however, not before "anyone else,", but rather at what the market will bear. Secondly, and also problematic, would be the administration of a program such as that proposed. The bottom line is that all investors do in fact have the opportunity to buy what real estate is owned by Brasota, just as anyone else. The proceeds of that sale will then be distributed among all creditors in accordance with their status as determined by the court.

Have all mortgages been researched to determine which are valid and which have been paid?

This certainly has been one the most frustrating areas facing our investigation. The records in Brasota were so poor that it was impossible to determine, with any reliability, the status of the mortgages. All work has had to be done in a file by file basis. We have found instances where mortgages were paid off and satisfied and never removed from the books; instances where it appears the mortgages were satisfied, but we're having our current difficult time tracing the actual payment, and other instances where we have found mortgages that were never recorded on the books. There were no controls over mortgage collections, no past due notices, trial balances of existing loans or any of the standard internal controls that one would expect to see in an operation such as this. Of the approximate 300 open files, fewer than half are current. To this point we have turned over in excess of 50 files totaling over $7 million for collection to be Able, Band law firm in Sarasota.