

Dear Investor,

We are about to enter the next phase of the continuing saga of the Brasota Mortgage Company, Inc. bankruptcy. In this phase, we will be dealing with the distribution of funds to the creditor group.

Needless to say, much progress has been made since our last newsletter. While much work remains to be done, the progress over the last month has been very gratifying.

Most importantly, we have filed a motion to allow a preliminary distribution of 10% to all of those unsecured creditors whose claim is in agreement with the Brasota records and uncontested (if there is a difference between the amount on Brasota's books versus the filed claim amount, the lower of the two shall prevail in the distribution.) A hearing on obtaining approval of this preliminary distribution motion will be held on March 17th at 10:00 a.m. at the Federal Sam M. Gibbons Federal Court House in Tampa, 801 North Florida Avenue, Tampa, FL 33602, in the courtroom of Judge May located on the 9th floor, Courtroom 9B. If you haven't attended a hearing before, this might be an opportunity to experience the courts. The calendar for that day does have a number of lesser items schedule (See <http://www.brasota.com/marchcourt.pdf>) for a listing of all of the items being considered. Certainly, the single most important item on the list, however, is the preliminary distribution request.

If the distribution is approved by the court, the mechanics and timing of the distribution will be greatly influenced by the court's decisions and the timing of those decisions. For example, if approved, the entry of the court order on the official case docket is required before any action may be taken.

Although the task seems to be simple (i.e. write checks), it is greatly complicated by determining which claims are proper, the correct amount of those proper claims, the mechanics and timing of distributions, the necessity for Court approval, and resolution of any objections.

Omnibus Objection #1, which we characterized as a "Clean up" objection necessary to void duplicate filings, claims filed as priority claims in error, late filed claims and similar mistakes has been routinely processed and of the 208 claims "objected to" all but one claim has been resolved. The one claim which was not resolved is scheduled for hearing by the court on the same March 17 calendar. As to the rest of the claims on Omnibus Objection #1, an order was already entered resolving these issues.

During the Month, we filed Omnibus Objection #2 in which we objected to all secured claims and any claims filed listing a portion of the outstanding claim as being secured and part unsecured. As part of that filing, any investor who is in this category received correspondence from the court requesting wither further documentation of the secured nature of their claim or requesting that the claimant waive any interest as a secured creditor and allow their claim to be classified as unsecured.

Although this package has been out for only two weeks, to date, of the 537 objected to claims, approximately 181 claimants or over 34% have opted to become part of the unsecured creditor class. These 181 waivers will allow us to increase the amount being distributed under the preliminary distribution motion by approximately \$2.3 Million.

To aid in dealing with both the preliminary distribution and Omnibus Objection #2 questions, we have updated the Frequently Asked Questions (FAQ's) portion of the web site with FAQ #3 dealing with the preliminary Distribution and FAQ #4 dealing with Omnibus Objection #2.

In that both question and answer sessions deal with the most important features related to both areas, we will not repeat them in this cover page. If after reading the material you have additional questions, please e-mail the questions to me. To the extent that the questions have general applicability, we will add them to the question and answer lists. If the questions do not have general applicability, we will attempt to provide answers directly to you. My e-mail address is jerry@thereceiver.net.

We are now in the process of preparing Omnibus Objection #3, which will deal with all claims where the Brasota records and the records of the investors seem to differ. In this objection we will be seeking to have investors listed in this objection provide additional information regarding the timing of their investments, specific dollar amounts, copies of checks and similar information which will allow us to reconcile the investor records to those maintained by Brasota. Generally, we have found that the record keeping for investor funds has been quite good. (This is almost always the case in any good Ponzi scheme). This part of the process is still, nonetheless, expected to be quite time consuming because of the massive volume of transactions that have occurred (and not having the investor's side of the transaction when we first review an account).

As far as day-to-day operations, at month end we had \$62,960,000 cash on hand and currently have built that cash balance up to \$65,466,000. We expect to have an additional \$1,011,000 in cash this month from the Sara Denton settlement.

Litigation continues to be the most expensive administrative costs and to that end we continue to litigate where the probability of financial success far outweighs the cost.

A quick update on the litigation is as follows:

Receiver and Receiver's Attorney's Fees – The receiver's fees issues have been resolved and we will be receiving a check for approximately \$300,000 as a return of fees from the receiver. His total fees charges to the estate were slightly less than \$500,000, so the overall settlement appeared reasonable and the cost of any continued litigation would not be beneficial.

The receiver's attorney fees issues are still unresolved and while we continue to discuss settlement possibilities it might be that this matter will have to be resolved by the court towards the end of the bankruptcy case.

Clancy's – The court has approved the final settlement in this matter and as discussed above, we will be receiving \$1,011,000 shortly and an additional \$269,000 in a note payable within one year, with interest being paid monthly.

Secured Creditor Litigation – During the month of February and in early March, two hearings were held in the litigation dealing with partial motions for summary judgment and a motion by us to disqualify counsel for the secured creditor group in that litigation. The judge has reserved rulings on the issues and has requested both parties to submit memorandums of law in support of their respective positions.

Generally, the issues argued at the summary judgment hearing were whether any persons in that group were technically “insiders” and had potential to influence Company decisions; whether the possession of a note is one of the requirements for a secured creditor status; and whether an attorney representing themselves, *pro se* (i.e. without counsel), would be allowed to represent others in that creditor group; as well as procedures required on examination of witnesses in the event of a *pro se* litigant appearing at trial.

We will also have hearings on the 17th of March as to whether the Company will be allowed to obtain expert witness testimony from an expert in Ponzi schemes.

We should point out, that while all of the above move forward, we continue to attempt to mediate a settlement so as to allow the clean up of this matter (which at some point might be the last impediment to a major distribution).

Hidden Hills Equestrian Center, Team Awesome, Inc. (Mastromarino) -- we're still proceeding under the assumption that we will either foreclose or find a buyer for our note. We did have a meeting with the borrower and their counsel during February and are waiting on a proposal for settlement from the borrower.

Westside Funeral Home—at this point it would appear that we will be litigating this matter; however mediation is being arranged in an attempt to resolve our differences in a manner which would be mutually satisfactory. The basic disagreement is to the price of a piece of property on a contract (which was entered into prior to the Bankruptcy).

Thibodeau Litigation Regarding Connecticut Properties – During the month, certain documents were presented which do indicate that the ownership of the properties were not as clear as either party would have liked. This being the case, we are working towards a peaceful resolution to the problem. The problem is further complicated because of the nature of the individual properties which are low income housing properties with serious Building Code violations and tax delinquencies. (Nobody said this was going to be easy).

Rutherford – During the month of March, we did reach a settlement with the Rutherford's whereby they would return approximately \$20,000 of funds received by them shortly before the filing of the bankruptcy and would waive any claim in the bankruptcy case.

Other Bankruptcy Litigation – other adversary proceedings are continuing, and if not settled, will be set for trial (Coey, Budget Inn of Bradenton, LLC, Hathorn and Hattaway). We do have a Motion for Summary Judgment set on the Hattaway matter for March 15th.

As always, if you wish to contact me, I can be reached at the Brasota offices (941) 746-6119 or by e-mail at Jerry@brasota.com. Since the filing of the motions for preliminary distributions and Omnibus Objection #2 emails and telephone calls have been overwhelming, but we are working our way out from behind the 8-Ball on these, generally on nights and weekends. Please be patient, I'm still attempting to respond to all email within 10 working days.

Best regards,
Brasota Mortgage Company, Inc.

Gerard A. McHale Jr.

Gerard A. McHale Jr.
Chapter 11 Bankruptcy Trustee