

Dear Investor or Creditor,

Thirty days seems like a wink of an eye when it comes to putting these investor letters together, but I'm certain that from the investors'/creditors' perspective it seems like an eternity.

With last weekend's Superbowl, it really marks the anniversary of the uncovering of the Brasota problem. I thought therefore that this would be a good time to summarize the achievements made during the year and the challenges faced for the year ahead.

In order to do this, I'm presenting below a "Big Picture" synopsis of where we currently stand vs where we were last year. Unfortunately, when we first took over management the company's mortgage records were totally unorganized and seriously deficient. Although we took over on April the 14th it took the month of May to bring any semblance of order to the chaotic state, hence the presentation below beginning on June 4th. In taking over it was necessary to re-create the records in their totality.

During this first month we still managed to collect approximately \$5 million so that as of June 4th, we had \$26.3 million on hand even though as of the time of the filing of the bankruptcy only \$21.5 million was available.

The comparison to where we stand now is presented below:

Classification	June 4 th , 2005		February 3 rd , 2006	
	Beginning of Week		End of Week	
	File Count	Est Principal Balance	File Count	Est Principal Balance (See Note 1)
Mortgage Loans				
REO	33	6,360,600	27	4,997,200
Current	119	10,472,560	40	2,580,003
Delinquent	57	6,676,596	32	4,492,562
Litigation	25	2,227,971	51	11,494,004
Developer	145	48,517,225	53	11,687,638
Nontraditional	1	394,868	8	2,733,191
	380	\$ 74,649,820	211	\$ 37,984,599
Charge Offs	31	-	84	
Paid Off	45	-	174	-
	456	\$ 74,649,820	469	\$ 37,984,599
Cash		26,394,005		62,169,520

Note 1 – The amounts reflected as principal balances may be difficult to collect and the above does not indicate a representation of collectible amounts.

Moving through the various categories I would offer the following insight:

REO—we have reduced the real estate owned portfolio by \$1.3 million. Actually during the interim period, we had taken other real estate into the portfolio through foreclosure and also sold off some of the real estate that was in the original portfolio. We will be accelerating the sale of this property over the next 60 to 90 days. As was pointed out in the beginning of this liquidation process, the REO was a relatively insignificant portion

of the assets to be liquidated and, more importantly was not as subject to deterioration as the balance of the asset portfolio.

The reduction in the current mortgage loans from 119 loans to 40 loans was not due primarily to collections but rather to inaccurate records maintained by Brasota. A good portion of these loans now appear in the litigation classification. Likewise the delinquent loans have been brought down by \$2.2 million through a combination of collection efforts and moving some of these loans to litigation.

You'll see that the loans in litigation have gone up from \$2.2 million to \$11.4 million. I know many ask about the fees in the administration of the bankruptcy. This line typifies the problems that we encounter. The likelihood that any of this \$11.4 million would ever be collected without the litigation and foreclosure actions would be extremely unlikely. Even if the fees in this area were \$50,000 per month (that would only be \$1000 per month per file and some of this litigation is extremely complex), by pursuing the litigation our recoveries in this area should be in the \$8-\$10,000,000 range. No small amount, but one which would not be achieved without the fees involved.

The next category, developer loans, is one that I'm particularly pleased with, and again one which could not been achieved without the quality of the individuals we have involved in the mortgage analysis and collection process. As we investigated the files on the \$48.5 million dollar portfolio of loans, we found at least \$6 million of loans that had actually been paid off, some more than three years earlier. Also, we found that most developer loans required no current payments and the developers had generally been told that they were not required to make payments until the loan came due or a release was required. The loan documents did provide for monthly payments and we used that provision to essentially call all those loans "in default", and accelerate the payments due under those notes and mortgages.

The last category, nontraditional loans, represents unusual items which were discovered as we proceeded with our analysis of the loan files. Included in this category are such unusual items as loans against annuities, certain joint venture situations, loans on life lease estates and a myriad of other small items that just don't fit into any of the other categories. A few of these have no collateral at all (unsecured loans). Again collections or recoveries in this area could be problematic.

Lastly is the line that I'm absolutely most pleased with. We currently have cash on hand of slightly in excess of \$62 million. This is an increase of \$41 million during the year.

The most common questions being asked are, "When might I receive a distribution and how much?" Both of these are certainly fair questions. They deserve a straightforward answer, but at this point, the answers are dependent on outside events which are beyond my control and are even beyond the court's control.

Let's first go through the claims reconciliation process. During the month we took the first major step in the claims processing procedure which, although cumbersome, is vital in working our way to making any distributions. We filed what is referred to as an "Omnibus Objection" to certain classes of claims. It is referred to as an omnibus objection in that there are many claimants who are similarly situated and can be resolved in one global objection rather than individual (and costly) objections.

This first omnibus objection is relatively routine and generally is used to “clean up” the creditor list for obvious mistakes made by persons who filed claims - for example we objected to (1) duplicate claims with a proviso that one of the claims be allowed; (2) claims filed as unknown; (3) priority claims are objected to with the proviso that, assuming the Company records agree in amount, the claim be allowed and processed as an unsecured claim; (4) late filed claims; (5) and other similar mistakes.

In this process we “objected to” **208** claims out of a total of **1788** claims filed in this case.

This will not be our only omnibus objection and we will shortly be filing our second omnibus objection (hopefully in the next few weeks) which will include our objection to all secured creditors claims and claims filed indicating partially secure or priority status. This will involve **537** claims encompassing a total of slightly over \$45 million. If we are successful in our objection it would not necessarily eliminate those claims but would have the effect of reducing secured claims by \$19 million, converting them to unsecured claims. I should point out that this does not include the claims of the one major secured investor which totaled \$5.2 million. As you know, we are litigating these claims separately.

When this objection is filed anyone who made claims in these categories will receive a packet requesting additional information, or allowing those creditors to opt for unsecured status. Due to a clerical mistake at the courthouse early in the case, these packets were prematurely mailed. Many of you will recognize these packages. To the extent that your information has previously been provided to my office in Bradenton or to the bankruptcy court in your claim filing, please just so advise when you respond to the objection.

Having said that, we have yet to receive any responses or indications that any of the secured claimants have in their possession the actual note issued by the Brasota BORROWER which was assigned as security for their assignment of mortgage. THIS IS IMPERATIVE. We feel that the court will rule that the lack of the possession of that note or an escrow agreement proving that the note be held by a party totally independent of Brasota will be sufficient for Brasota to disallow your secured claim and have you declared an unsecured creditor.

After this process is complete, we will still need to sort out those claims where the amounts claimed differ from the amounts reflected in the Brasota investor records. These will be handled separately and most likely on a claim by claim basis.

Under provisions of the bankruptcy code, we are generally required to file any bankruptcy plan and disclosure statement before any distributions can be made. We are currently working on that plan however, it is not an easy task given the uncertainty of the status of the alleged secured creditors. Even if we do accomplish the filing of a plan, the plan must be approved by the various creditor groups. Generally approval of the plan requires that no less than 50% in number or two-thirds in value of persons voting in each class vote favorably for the plan provisions.

I had initially drafted a rather lengthy section dealing with fees and the necessity for same. After going through the accomplishments and processes outlined above, I don't think anyone really will have any questions regarding why the fees are what they are.

Briefly, I would like to cover the ongoing litigation.

Receiver and Receiver's Attorney's fees—the continued mediation is still in progress. If we do have an impasse, we will suggest that the ultimate decision be made by the court on these fees closer towards the end of the case.

Clancy's—the final agreement with Clancy's has been worked out and will be filed with the court in the next few days. In conjunction with that we will be receiving slightly in excess of \$1 million in cash immediately and an additional \$269,000 in one year with interest being paid monthly.

Secured Creditor Litigation—although the trial was originally scheduled to begin on February 21, 2006, the creditor requested and received an extension. At this point, the trial has been continued to May 18 through May 22. We are still attempting to mediate a settlement.

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. The borrower has requested a meeting with us and we will be meeting tentatively in late February.

Westside Funeral Home—at this point it would appear that we will be litigating this matter (but mediation is still an option) which involves our desire to reject a contract entered into by Brasota for the sale of this property at well below market value. As covered in previous letters, I have the power to set aside contracts and have been attempting to have the court set aside this contract as being unconscionable and adverse to the interest of the bankruptcy estate.

Thibodeau Litigation Regarding Connecticut Properties—on Monday, February 13th, we have a court hearing requesting a summary judgment on a portion of this claim. Our position is that since Brasota paid all the expenses related to the Connecticut property, it should be entitled to ownership of that property.

Other Bankruptcy Litigation – other adversary proceedings are continuing and if not settled will be set for trial (Coey, Rutherford and Hattaway).

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. During the holidays and the first few weeks of January I had been traveling and sometimes my responses to e-mails were delayed. However, with the upcoming litigation schedules I'll be spending more time at the Bradenton office and will attempt to be timelier in my responses.

Best regards,
Brasota Mortgage Company, Inc.

Gerard A. McHale Jr.

Gerard A. McHale Jr.
Chapter 11 Bankruptcy Trustee