

Dear investor or interested party,

The month of July was a very busy month, but the primary undertakings were those in preparation for what is shaping up to be an extremely busy August. I believe the first thing that we all are interested in is the second distribution to the investor group. We are currently scheduled for a hearing on Monday, August 7 at 1:30 P.M. covering a number of items. The most important is the request for the approval of a second distribution of 20% of principal to those investors who have filed an unsecured claim or whose claim has been agreed to with the Trustee. If approved, the distribution may be made 10 days after the judge signs the order. This would mean that we may be making a distribution, if approved, on Friday, August 18 and your checks should be to you sometime in that following week. The total distribution will be slightly in excess of \$25 million. This will bring total distributions to greater than \$42 million.

This will **not** be the last distribution, as I would anticipate making another distribution in the 20 to 25% range before December 31 of this year. Also, I would anticipate that the current distribution will go slightly smoother than the prior distribution. At this point Brasota's record of addresses and investors should be fairly well "scrubbed" through the procedures that we used in the first interim distribution. If you should use a transient address during the year please advise the Brasota office. We do our best to stay on top of address changes and do try to accommodate reasonable requests for check handling.

It is my intent to have 50 to 55% of the principal returned by year-end. After that point, the remaining 10% plus or minus (dependent on collection successes) will be over a longer period of time. Unfortunately, many of the collection issues will be matters of litigation and, as such, could take considerable time. This does not mean that the Brasota offices and staff would have to remain at the same location or current levels, but only that I can't give a predictable timeline of events for those collections and subsequent distribution of those funds. At the same time I can reasonably state that current staffing levels or physical facilities would not be required for those tasks.

A good deal of time during the month of July was spent on the handling of "late filed" claims. The bankruptcy court set a deadline for filing claims of October 31, 2005. Fortunately, there were not too many late filed claims (less than 30). The bankruptcy code provides that late filed claims may be allowed if the claimant can show "excusable neglect". In certain instances, this was relatively easy. Many of these claimants found that their claim had not been filed only when they didn't receive a distribution. Subsequent follow-up with the Tampa bankruptcy court, mail service providers such as UPS or FedEx and with attorneys representing those parties, clearly indicated that they had filed claims however the claims were either not received by the bankruptcy court or misfiled in other cases in the court system. Another category which proved to be an easy fit for "excusable neglect" is for those who have passed away and their heirs were not aware of the investment and/or of the deadline for filing proofs of claims. These claims were allowed in full. Another group constituted those who did not file a claim on time. About the only generalization that can be made with respect to this group is that they "didn't understand". This leaves us with a delicate balancing act dealing with the

"equities" of the situation. Most of the people who fit in this category had relatively minor investments (less than \$100,000) and were advanced in age. Rather than litigating each of these items we offered those who had what appeared to be "excusable neglect" an opportunity to still be recognized claimants in the estate to the extent of 50% of their principal balance. In effect, this means that they will receive one half of what they would have received had they filed on time. For the most part, all have accepted the compromise and those "late claim" issues that are still outstanding are clearly immaterial to the overall process.

Some follow ups on last month's newsletter --

The Thibodeau Connecticut properties are now scheduled for sale on Wednesday, August 9. We are really hoping that this closing comes to pass in that these are extremely difficult properties, especially trying to manage them from 1200 miles away. The sale had been postponed because of water pipes bursting in one of the units causing extensive damage. As I said in prior letters, this is one where, if and when we can get these properties sold and closed, we'll all be better off.

Those creditors who chose to continue the pursuit of "secured creditor" status are now scheduled for hearing on August 21. Since the last newsletter the amount of these claims has been reduced by over \$500,000 by investors agreeing to accept an "unsecured" position. There are currently less than \$2 million in creditors still attempting to pursue "secured status".

We have completed the foreclosures on the two "Hattaway" properties. The court auction of the personal residence, held July 20 at the courthouse in Tampa, had no bidders so we successfully became owners of that property, a single-family detached dwelling in Palmetto, Florida which should have a value somewhere in the \$400,000 range. The sale of the second Hattaway property, a commercial property on US 41, just north of Palmetto, is scheduled for August 17. The proceeds from this sale should slightly exceed the current investment in this asset.

On the Hidden Hills Equestrian Center property, bankruptcy court hearings in the Hidden Hills bankruptcy have been scheduled for August 31st to hear our motions for either the dismissal of their bankruptcy as a "bad faith filing" or, in the alternative, allowing us to go forward seeking relief from stay and foreclose on the property. At the time of the Hidden Hills bankruptcy filing on June 19, 2006, with accrued interest, the loan now totaled approximately \$4.2 million. This is a significant item to us and we will be relentless in the collection effort.

On August 7, we also have scheduled in the court, procedures to be followed for the sale of the Longboat Key lots. We anticipate that the procedures, which call for a bid that would net Brasota no less than \$1 million, will be approved.

Although I do attempt to focus on the larger items in these letters, I would be remiss if I did not point out that during the month the staff successfully achieved the collection of

one of our more problematic accounts for approximately \$400,000 with absolutely no loss of principal, accrued interest or attorney fees and mediated a favorable settlement with an insurance carrier on a long outstanding fire loss issue for approximately \$65,000.

This month I would like to focus on another of our "unsung heroes". Mike Schwartz is our acting chief financial officer. He had been employed by our forensic accountants, but in light of the necessity for a full-time CFO, Mike was kind enough to join us and has now been with us for over one year. Mike takes care of virtually all the financial details that go on "behind the scenes". Also, through his CPA training and background, provides a level of internal control an understanding of procedures allowing us to expedite settlements, payoffs, distributions, etc..

Again, I hope that during the month we can achieve the second distribution and hopefully bring the Hidden Hills matter into focus for a short range solution. As of this writing, I know that all e-mails to the Brasota address, www.brasota.com, have been answered so again, should you have questions, please feel free to contact me.

Best Regards,
Brasota Mortgage Company, Inc.

Gerard A. McHale, Jr.

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Chapter 11 Bankruptcy Trustee