

Dear Interested Party,

This is the second monthly newsletter since I've become the Chapter 11 Trustee. I had thought that it would be rather brief, but the month has been both busy and, I think, productive. I will highlight the areas that have been the focus of our attention during the month and also try to give some indications of where we're headed.

Cash – This has been an extremely good month. We began the month with a cash balance of \$26,394,000 and ended the month with approximately \$34,000,000 cash on hand. This cash is generally kept at Wachovia bank in an interest bearing money market accounts.

Many have asked about the possibility of a distribution. Two problems must first be overcome and we are currently addressing each of these problems. First, the extent and type of claims which exist must be established. Although a claims bar date (i.e. the last date for which a claim may be submitted for adjudication) has not been set. We anticipate that we will be in a position to establish September 30th as the last date for filing claims. After the claims have been filed it will be necessary for the court to make findings as to which claims are secured and which are unsecured.

These two steps must be undertaken before any distributions can occur. Even having \$34,000,000 cash on hand would not be adequate to make distributions to unsecured creditors at this time if the court were to find that in excess of \$34,000,000 in secured debt did exist.

On the topic of the claims bar date, if you have filed a claim with the bankruptcy court in Tampa, nothing further is required on your part. If you filed a claim with the receiver **only**, and not with the Bankruptcy Court in Tampa, please file a claim in that court.

For your convenience I have added a proof of claim form on the website under a separate tab. The court is the **Middle District of Florida** and the case is **Brasota Mortgage Company, Inc., Case No. 8:05-bk-06215-KRM**

Claims forms should be filed with:

Clerk of the Bankruptcy Court
United States Bankruptcy Court, Middle District of Florida
Sam M. Gibbons United States Courthouse
801 North Florida Street, Suite 707
Tampa, Florida 33608

**PLEASE, IF YOU HAVE FILED A FORM WITH THE BANKRUPTCY COURT,
YOU DO NOT NEED TO REFILE.**

Mortgages Receivable – Of all the disappointments that we’ve encountered, certainly the total lack of accounting controls in the mortgage reporting and collections area has caused us the most grief and concern. As stated in the past, the Company records of payments, tracking mortgage balances and past due items was totally inadequate and in many cases, non-existent. This month alone we have had to adjust downward our outstanding mortgage balances by \$2,600,000 to reflect payoffs of loans which were made to the Company, received and deposited by the Company and for which the Company properly gave satisfactions of mortgages, but for which the loans had never been relieved from the active account listings and still were reflected as being due to the Company.

How much more of this we’ll find, I can’t be sure. All I can say is that it is a time consuming and tedious process and we’re moving through the process one file at a time.

On the positive (?) side, as we make our way through the files, we are dealing with collection problems -- again on a file by file basis. For this month, we have forwarded 40 files to the Abel, Band law firm in Sarasota for collection. These 40 files totaled slightly less than \$5.8 Million dollars and I think it’s conceivable that we will continue to turn files over to them for collection at the rate of about 10 files per week.

Because of the plight of the Brasota investors, we will generally not be seeking to have these loans “brought current,” but rather have them paid off immediately or foreclose on the borrowers. We have already brought a number of foreclosure suits and these actions will rise dramatically as we progress in the “clean-up” process.

Real Estate Owned (“REO”) – The REO Portfolio stands at an approximate market value of \$6.1 million dollars, down from \$6.3 Million at the beginning of the month. This comes from the closing of three properties during the early part of the month. I actually anticipate that the REO will decrease for about the next two or three months but will then begin to increase because of foreclosure actions. Some beneficiaries have been critical of my handling of the REO portfolio in that I have not given any “listings” on the properties to any brokers. I would urge all beneficiaries to review our REO portfolio on the website under the link “Property List” and if they desire to make an offer for any of the properties, please do so. The list is not an “offering sheet” so if you do want to make an offer, please be aware that offers, even at the amounts indicated on the “Property List” may be rejected and that all offers will also be submitted to the Creditor’s Committee and the US Trustee’s office for their review.

Other Litigation

Retainer Litigation - The attorney for Gloria Morrison has returned the \$100,000 that was paid by the Company just prior to the receivership. The attorneys for Bob Coey, Carolyn Thibodeau and Mo Hottman, each of whom received \$35,000, have not returned their retainers and accordingly, our litigation against them is going forward.

Clancy's – we have had meaningful discussions with the owners of Clancy's and their attorney's and appear to be moving toward settlement on that matter. The settlement will be our favor and we will not settle for anything less than the net proceeds of sale.

McMullin Creek and M.O.R.U.P.S. – As we move through the individual loan files we find that on more than one occasion Mr. Morrison appears to have used Company funds for “personal” endeavors and in many cases the Company funds appear to be the only funds that were used in those endeavors. Use of funds in this manner can create a “Constructive Trust”, which pretty much means that although Morrison may have held the appearance of ownership that he held it only in a fiduciary capacity for the Company.

I anticipate that further suits like this will be forthcoming as we move forward in the proceedings.

Preferential and Fraudulent Transfer Litigation – The trustee has the right, and indeed the obligation, to seek return of certain funds expended by the Company for 90 days, and in certain instances up to four years prior to the filing of the bankruptcy. Those suits will generally involve officers and directors of the Company. I anticipate that the first of these suits will be filed in the upcoming month.

Receiver and Receiver Attorney Fees – I have received a good deal of correspondence, both as to the dollar amount of the fees and the effectiveness of the representation given the Company. At this time, suffice it to say that fee matters will be heard by the Bankruptcy Court in August and every indication is that the fees will be opposed by the Creditors' Committee, the U.S. Trustee's Office, myself, as Chapter 11 Trustee and also by a number of creditors who have retained outside counsel distinct from the creditors' committee counsel.

Claims Trading

Claims trading is the purchase and sale of claims within the bankruptcy proceeding and there is nothing illegal about the activity. In some instances, it may even serve a valid business reason for a seller of a claim -- for example, the generation of a tax loss within a given period or the generation of cash when absolutely no other source is available.

I've been made aware of that there are presently at least three different claims traders active in acquiring outstanding Brasota claims. These claims traders receive no inside information and must make their decisions using the same information available to you. I would urge creditors to read that section of this website that deals with purchase of Claims and is included under the tab “Special Interest to Investor /Creditors”

I would like to take this opportunity to thank the investors/creditors for their input and responses to date. Where I have received emails at jerry@brasota.com I have attempted to answer those daily and even when I'm not in Bradenton have tried to respond within one week. I do try and answer the “difficult” questions, when answers exist. However, I also avoid speculation or the rendering of answers based on opinion and not fact.

I'm painfully aware that not all investor/ creditors will be pleased, or even in agreement with, decisions that I make as I go forward, but I do try and make those decisions in a well reasoned manner. I wish you all well.

Best Regards,
Brasota Mortgage Company, Inc.

Jerry McHale

Gerard A. McHale, Jr
Chapter 11 Trustee