

Dear Investor or Other Interested Parties:

May was a landmark month in our efforts to speed up the settlement processes and distributions to the parties. During the month, we were able to distribute in excess of \$12,000,000 to the investor claimants and additionally reached the most significant individual settlement in the case with the one potentially secured creditor group -- at what I feel is an extremely advantageous settlement for the bankruptcy estate. Also (although not yet finalized) we have entered into a contract for the sale of the Connecticut Section 8 housing properties which, if completed, will also allow a more expedient wind-down of operations.

DISTRIBUTIONS:

While the first distribution is not yet totally complete, we are working on the remaining claims to attempt to finalize the creditor list. To that end, we just filed with the court or will file within days our Third Omnibus Objections to Claims in which we attempt to deal with unsecured claims where the claimant has listed amounts due which for one reason or another exceed the Brasota recorded balances. Generally, these fall into three separate classes.

The first are those people who appear to have included some type of interest or interest factor into their claim amount – these should be disallowed by the court, with the claimant only receiving what has been recorded in the Brasota records or the principal amount.

The second group consists of the claimants who in all probability, failed to take into consideration any amounts that were withdrawn by them (not the monthly "interest" returns, but actual return of invested amounts or "principal" withdrawals). If the investor still feels that the amount they've reflected is correct, they will need to forward any additional information to my counsel at the Brasota offices so that the claim might be further investigated **as well as** filing an objection with the court.

The third group is generally those who have IRA or retirement accounts and have listed the total amount reflected in their IRA or retirement account rather than just the portion of the account that had been invested in Brasota (that is, they typically included the "cash" portion of their account statement). Here again, the claims will be adjusted to the amounts reflected in the Brasota records.

Additionally, a number of claimants had incorrectly filed their claims as "priority" claims, a designation specific in the Bankruptcy Code for which investors would not qualify. We are requesting these claims be re-designated as unsecured claims.

In this objection, we are also addressing those claimants who filed duplicate or amended claims and we are requesting the court only recognize one claim.

UNRESOLVED SECURED CREDITOR LITIGATION

Still to be resolved (outside this omnibus objection) are our objections to any remaining claimants who feel they have a secured claim. As of this writing, there are only approximately 30 such claimants remaining with a total aggregate dollar amount of less than \$3,500,000 in claims. These will be dealt with on a case-by-case basis and those claimants will be required to present their case to the Bankruptcy judge for adjudication. Should these parties desire to continue litigation with us, our litigation costs should be relatively and comparatively insignificant compare to the litigating with the settled "secured" group (as discussed later in this letter). This is because much of the work that might be required in any litigation with these 30 or so creditors has already been undertaken in preparing for that recently settled secured creditor litigation.

FUTURE DISTRIBUTIONS

While I recognize the entire process is time consuming (and frustrating), by getting the creditors list finalized it will put us in a position to expedite check writing and distribution in the future.

Where we have reached agreement as to type of claim and amount, (subject to court approval) I hopefully anticipate making a 2nd distribution in the later half of July of approximately an additional 20% (Bringing the combined total return to 30%). Further amounts will be distributed later in the year dependent on timing of settlements and payoff of mortgages.

SETTLEMENT OF THE SECURED GROUP LITIGATION

During the month, we did reach a settlement with the only creditor group which we felt had even a remote chance to be held to be a secured creditor. That group which totaled 14 creditors, had through the lead investor in the group, arguably performed some "due diligence" and in certain instances actually had an escrow agreement where attorneys were instructed to hold and did hold the actual borrower notes to Brasota as collateral security for the assigned mortgages.

Under terms of the settlement, that group will receive \$3,750,000 for claims which totaled \$5,200,000 and which, if they were successful in the litigation could have exceeded \$5,800,000. In addition, that group will not pursue attorney fees for successfully bringing the Company into bankruptcy, a move which benefited all creditors.

If we were totally successful in pursuit of the case, we still would have had to pay the group approximately \$3,400,000 as unsecured creditors. Additionally, I am certain that if litigation were to have continued, the fees related thereto would have continued to increase. More importantly (because of the magnitude of the dollar amounts involved), any decision of the court would certainly have been appealed by the unsuccessful party -- causing additional expense and delay.

The settlement also provides, among other things, that all work product will remain confidential, that certain expert witnesses may not be retained by any other parties and that the finalized settlement be paid at the time permitted after approved by the court. This typically means the entry of a court order and the expiration of any appeal period to that order.

In arriving at the decision to settle, external items were also considered. Most importantly, when the original suit was brought, there was potential for approximately \$38,000,000 in investors claiming secured status (which would have drastically reduced the overall distribution to all unsecured investors). Additionally, the necessity to hold funds back for potential distribution to this group would have caused any significant distribution to be held up for an indeterminate length of time. As previously stated, that amount is now less than \$3,500,000.

The bottom line here is that -- in weighing all the business factors, even with what we felt were legal factors heavily on our side, it was in the best interest to settle.

THIBODEAU SETTLEMENT

A third significant event during the month was achieving a settlement with George Thibodeau's widow. This allowed us to clear up certain potential title issues with the Connecticut properties. Almost simultaneously we were able to enter into a contract for the sale of those properties which will net the estate an estimated \$700,000. If this contract does close, it will remove from our portfolio one of the most difficult assets that we've had to deal with. The properties consist of five (5) low income housing units in Bridgeport, Connecticut -- which operationally have been a nightmare. Let's hope this contract closes.

Typically, I give an update of the various litigation proceedings at this point in the newsletter, but rather than doing that, since June 2nd was a major hearing date involving virtually all major litigation issues, I thought it might be best to report on what transpired at that hearing. With the help of Angelina Lim, one of our bankruptcy counsels, the following sets out the major items covered.

JUNE 2 HEARING

Balkany Settlement Approved

The judge approved the settlement of disputes with Brasota's group of creditors who were claiming that they had a secured claim. The settlement was approved over the objections voiced by the Official Committee of Unsecured Creditors and Gloria Morrison. In summary, the estate will pay this group \$3.75 million in complete settlement of their claims. As a group, they had asserted a claim of \$5.3 to \$5.6 million. This group claimed to have better documentation and a different arrangement than other investors. The Trustee believes that the settlement with this group will allow a speedier

administration of the estate. There still appears to be approximately 30 creditors who still wish to contest the estate for a secured claim.

Thibodeau Settlement Approved and Sale of Connecticut Properties Approved

The settlement with A. Claire Thibodeau (George's widow) and the Thibodeau Family Trust ("Thibodeau") was also approved. The estate will pay Thibodeau \$160,000 and Thibodeau will immediately deed over certain low-income rental real estate located in Bridgeport, Connecticut and withdraw her claim (initially filed in this case for \$121,000). The sale of these properties was also approved for \$936,000 (with the Trustee agreeing to credit \$36,000 towards the closing costs). There are also tax liens on these properties and a variety of problems associated with building code violation issues.

Motion to Quash Subpoena by Gloria Morrison

The Motion filed was settled. The Trustee agreed to limit his inquiries to dates prior to February 8, 2005.

Fees:

The creditors who filed the involuntary petition with the Balkany group to force Brasota into bankruptcy court were granted fees for their filings. The creditors are Buyak, Kirsch and Wedge, none of whom were in the Balkany group. The Bankruptcy Code allows such fees so as to encourage creditors to file involuntary petitions when the situation warrants. Buyak was allowed fees and costs of \$6,352.65; Kirsch was allowed fees and costs of \$7,433.11 and Wedge was allowed fees and costs of \$5,382.36.

The Trustee and his professionals' fee applications were approved for the time frame of October 2005 through March 2006. The Trustee's fees for the six month period was \$126,740.63 plus expenses of \$8,622.56; Trustee's counsel – Johnson, Pope, Bokor, Ruppel & Burns – had fees of \$707,599 and costs of \$34,522.55 approved; Trustee's accountant – Rivero, Gordimer – had fees of \$99,750 approved; Trustee's Problem Asset Specialist – Syntagma, Inc. – had fees of \$152,250 and costs of \$17,726.53 approved. In this case, seventy-five percent (75%) of the fees and 100% of the costs have already been paid pursuant to a court order regarding fee procedures.

Motion for Relief From Stay

GMAC Mortgage Corp. filed a motion for relief from stay. Brasota had held the second mortgage on a loan and GMAC held the first mortgage. We agreed to the motion provided it withdrew its claim against Brasota. This action has no impact whatsoever on Brasota.

Transfer of Claim Voided

Beverly Comstock, a creditor in this case contested the sale of her claim to Debt Acquisition. The Court sided with Ms. Comstock and voided her sale.

Coey Adversary Proceeding

We informed the Court that the matter was set for mediation on June 13, 2006.

Hattaway Adversary Proceedings

The Hattaways' Motion for Reconsideration of Partial Summary Judgment was denied and they agreed to allow the Trustee to amend his answer so as to proceed with the pending litigation and foreclosure on the Hattaway properties.

On the matter of Hidden Hills Equestrian Center, nothing was scheduled for this hearing but we are moving forward in the foreclosure process.

In closing, we will continue to pursue collection matters with the objective of getting the bulk of funds collected as quickly as possible to allow us to efficiently continue the liquidation and distribution processes. As always, should you have any questions, please feel free to contact us at Brasota or via email at jerry@brasota.com.

Best Regards,
Brasota Mortgage Company, Inc.

Gerard A. McHale, Jr

Gerard A. McHale, Jr.
Bankruptcy Trustee