



Dear Interested Party,

This is my third monthly newsletter in the series since becoming Chapter 11 trustee on April 15, 2005. As in past letters, I will attempt to highlight the areas that were the focus of our attention during the current month and at the same time attempt to clarify where we are headed going forward. The format of the letter will be similar to the prior month's so that a reader can track progress being made by area. Additionally, at the time of posting this to the web page, I'll also be posting under the **Frequently Asked Questions** area -- **Volume Two**. I would encourage readers to review that area closely, as the questions are generally questions which have come up through telephone calls, e-mails or communications with investors.

Cash -- Again, we have had an extremely good month and ended the month with a cash balance of \$39,600,000. This is an increase of almost \$5.6 million over the prior month end. I am happy to report that by August 3rd we had crossed over the \$40 million level.

We are still attempting to establish September 30 as a last date for filing claims and are working on a process to simplify objections to claims procedures so as to hold court time and litigation costs to a minimum. You will receive a notice from the bankruptcy court outlining procedures that are required to be followed to protect your claims. Again, I would first urge you to make sure that your claim is filed with the bankruptcy court (see last month's letters for details) and, if you have filed a proof of claim with the bankruptcy court, it is not necessary to file another claim as the filing of duplicative claims only adds additional overhead to the estate in the claims administration process.

If your claim was only filed with Mr. Ray, the state court receiver, then it is necessary to file the bankruptcy claim as the state court filings may not be allowed in the federal case.

Mortgages Receivable -- This is the area that consumes the majority of our time and at the same time is the single area that can produce the most benefit to the recovery process. As of month end, we have approximately \$54,000,000 in mortgages receivable. Of that amount, only \$8.8 million is current. During the month we forwarded an additional 15 delinquent files to our attorneys for collection. These files totaled approximately \$2.4 million, bringing the total files in collection or foreclosure to slightly over \$8,200,000. We currently have \$35 million in developer type loans receivable. In the past, the company's procedure had been to allow these loans to accrue interest with no payment until the final payoff of the loan. During the month we sent letters to all of the developers indicating that the loan documents provided for the current payment of

interest and we were expecting to be paid interest currently. We have given the developers until August 31 to bring their loans current or face potential foreclosure. We have been working with many of the developers to attempt to find alternate financing which would allow them to pay off their Brasota debt.

As pointed out in prior correspondence, internal controls and bookkeeping procedures in this area were abysmal. We continue to work in this area in a file by file, payment by payment basis. Too frequently we find situations where mortgages have in fact been paid off, but remained on the Company's records as being collectible receivables. In light of the Company's records and the extent of the delinquencies, it is extremely difficult to project what type of recovery might be anticipated on the portfolio.

Real Estate Owned (" REO") -- As of month end we have approximately \$5.2 million in real estate owned. As stated previously, I would actually anticipate this number will grow as foreclosure actions accelerate.

Other Litigation

Retainer Litigation -- We did have a preliminary hearing with respect to the three criminal attorney retainers that were paid from the corporation (\$105,000 in total). As it now stands, these three cases are scheduled for summary judgment hearings on September 1 and, if necessary, for trial on November 7.

Clancy's -- Since last month, we have obtained additional records related to both Clancy's Clearwater and Clancy's Bradenton. After reviewing these records we will determine what course of action we want to take, however, we still will not settle for anything less than the net proceeds arising from the Clancy's Clearwater sale.

McMullen Creek -- this month we will be meeting with the attorney for the individual who was a 50% partner with Morrison in this transaction. In that this may be a legitimate partnership between Morrison and that individual, we will be seeking to work out a distribution program reflective of the capital contributed by both parties to this venture.

M.O.R.U.P.S. -- it appears that three and possibly four condominiums were acquired by this entity using funds from Brasota. The condominiums have a value of an excess of \$100,000 each and, depending on the facts and circumstances for each transaction, we will be seeking turnover or payment for the property.

Preferential and Fraudulent Transfer Litigation -- During the month we did bring an action against Mr. Coey, a former vice president of the company for recovery of \$400,000 in preferential or fraudulent transfers. This suit will neither be the only, nor the last, of these types suits which will be brought against certain individuals and insiders who received funds from the company either within 90 days of the filing of the bankruptcy or in certain instances up to four years prior to the filing of the bankruptcy.

Receiver and Receiver Attorney's Fees -- Although originally scheduled to be heard by the court on August 11, all parties have agreed to a 30 day extension of time wherein it is hoped that settlements might be achieved. Obviously, the trustee, the creditors committee, the US trustee's office and the number of individual creditors plan to file objections to those fees.

Secured Creditor Litigation -- During the month we did have mediation with the largest potentially secured creditors. This group of approximately 10 people had invested over \$5.3 million in the scheme and have allegedly received documents which they feel place them in a superior position to all of the other claimed secured and unsecured creditors. While the mediation did last for in excess of 10 hours, ultimately it was unsuccessful, at least for that day. Both parties have agreed to continue the mediation process in the future, with both retaining their rights to continue forward with any legal avenues available to them.

Overall, I'm quite pleased with the progress that has been made for the month. For the upcoming two months I'm really hoping to focus on bringing the developer related mortgage balances down. Obviously these currently are our single biggest exposure area and also, at the same time, the area that provides us the most potential recovery.

Before I wrap up, I do want to apologize for getting this on the net so late. I did take a four-day vacation for the first four days of August. For those of you who contact me by e-mail, I do attempt to respond to all e-mail generally within seven days of its receipt. My current schedule usually has me in Bradenton Monday through Wednesday and accordingly sometimes when e-mail is received late Wednesday it will not be responded to until the following Monday. My e-mail address is jerry@brasota.com.

As a last note, again I would urge all interested parties to review **Frequently Asked Questions Volume Number Two**.

Best Regards,
Brasota Mortgage Co., Inc.

Jerry McHale

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Chapter 11 Trustee