Dear Investor or Interested Party,

With the end of the first half of the year, I think we've made a number of major achievements in getting toward the finish line in the Brasota story. Most importantly, we have settled the matter with Ms. Balkany and the investor group she represented. Although I reported in detail on this in last month's newsletter, the actual payment has now been made and we can proceed forward in the liquidation and payout process. This settlement should pave the way for extinguishing those other claimants who sought secured creditor status. Certainly, if the Balkany group, after expending a great deal of effort and money and having had arguably better documentation than any of the other investors who sought secured creditor status, chose to settle, it should be a strong indicator of where the balance of those claimants will ultimately wind up.

The first distribution has now been completed except for a very few investors who either a) cannot currently be found or b) are still hoping to achieve secured creditor status. The next distributions should go easier in that address changes and the like have generally been flushed out with distribution number one and the mailing matrix is now populated with more current data.

I will be petitioning the court to allow a second distribution in the amount of 20% to any uncontested claimant. Hopefully this distribution can be accomplished in late July or early August.

As of this writing there are now currently fewer than 25 individuals seeking secured creditor status and, for those, total claims are for less than $2,500,000. At a court hearing held on Friday, June 30th, the Court instructed us to file a Motion for Summary Judgment outlining the stipulated facts for each of the investors and explaining the legal basis on which we contest their claim of "secured" status. There is a threshold question as to whether the law in this case will be that anyone claiming secured status must hold in their possession the original actual note from the borrower to Brasota in which the investor was assigned an interest. If it is determined that the investor must possess the original note to Brasota or have an escrow agreement with a third party escrow agent to hold that note on there behalf, then, as a matter of law, the investor will be determined to be unsecured.

This motion will be filed by July 10th. The court has then given the claimants (i.e. those seeking secured status) 30 days to respond to our motion. The court has then set a hearing date of August 21st to hear any additional arguments on any responses filed. EVEN IF AN INVESTOR IS FOUND TO BE "SECURED", THE EXTENT OF THEIR SECURITY WILL STILL BE LIMITED TO THE VALUE OF ANY EXISTING UNDERLYING COLLATERAL.

One of the things that became evident at the June 30th hearing was that many of the claimants did not or do not understand that being in a "secured" position, in and of itself, does not necessarily give them a full return of their investment. In many instances a secured creditor may yield no higher return than they would receive as unsecured

creditors. To the extent that the property allegedly securing their interest is less in value than the amount secured, the investor would only be entitled a secured interest to the extent of collateral value. Any investment amounts over that value would still be unsecured. For example, there are a number of claimants who contend that they are secured investors where the underlying loan was paid off in the past. To that extent, even if an investor were "secured", since the underlying collateral is zero, the secured investor would have only an unsecured claim.

There are also approximately 30 "late filed" claims – that is, claims filed after the claims bar date. Total claims in this category are approximately $1,300,000 and reasons for the late filings are varied. Rather then schedule individual hearings on these claims, the court will hold a global preliminary hearing on July 17th and a global final hearing on these matters on August 21st.

During the month two of our problem loans came closer to resolution. We have obtained the court's permission hold foreclosure sales on two properties owned by Mr. Hattaway. The outstanding principal amount of those loans totaled $355,000. Virtually no payments had ever been made on the loans which originated in 2001 and 2002. We have a foreclosure sale on one of the properties set for July 20th and working to establish the sale date for the second property.

Great progress has also been made on the Hidden Hills Equestrian Center and Team Awesome loans which have a combined principal amount outstanding of $3,300,000. . Currently with interest and attorney fees, in excess of $4,100,000 is now due on these loans. As in the case of the Hattaway loans, virtually no payments were ever made on these loans. Both entities (Hidden Hills Equestrian Center and Team Awesome) filed petitions for Bankruptcy in late June. We immediately filed a motion for dismissal of these Bankruptcies as having been filed in "bad faith". There are a number of factors to be weighed by the court in determining whether a bankruptcy can be dismissed for a "bad faith" filing. Among those factors are whether the filing was made on the eve of foreclosure proceedings, whether the assets of the debtor could be considered to be a "single asset", whether the underlying actions arise primarily from a two party dispute, whether the debtor has an ongoing business with employees, etc. It seems that many of the "Indicators" of a bad faith filing seem to exist in these two cases. Additionally, in an abundance of caution, we have filed a motion to allow us to "lift bankruptcy stay" which would allow us to proceed with foreclosures against the properties even if the bankruptcy petitions are not dismissed for "bad faith" filing. Tentatively the court has set aside July 17th for a status conference on the matter.

As of this writing we have distributed $16,600,000 to investors and have cash on hand totaling $57,500,000. The proposed 20% distribution would require approximately $26,000,000. We still have roughly $25,000,000 in assets that we're working on collecting. Presently we have 30 files with attorneys for collection matters. The ultimate realization that might be achieved on these assets is presently unknown and more importantly, the timing of the collection or realization through resale of foreclosed property in many instances is subject to forces which are beyond our control. For

example, items such as the Hidden Hills Bankruptcy petition which, while it certainly won't thwart our collection effort, may cause an inconvenient delay.

We are still anticipating total recovery on the Brasota engagement to be in the 65% range for all investors.

On the Coey Adversary proceeding, we did have a mediation that seemed to be working towards a successful conclusion on June 13th; Unfortunately, litigation brought against Mr. Coey by individual investors outside the Bankruptcy court precluded a settlement.

Also, although not totally catastrophic, one of the 5 buildings in Connecticut that we had under contract for sale suffered severe water damage when an internal water pipe burst prior to the closing on the sale of that property. The other four units are still scheduled to close and we will be working out the details of the fifth unit with the insurance adjusters and the prospective purchaser.

Although I usually at this point outline the various litigation areas in process, this month all of the major litigation items have been covered in the basic letter.

We will continue to work at resolution to both collection problems and resolution of the remaining investor problems though the summer months. If you have any questions, comments or suggestions, certainly feel free to contact us at Brasota or me directly at jerry@brasota.com.

Best Regards,
Brasota Mortgage Company, Inc.

Gerard A. McHale, Jr.

Gerard A. McHale, Jr.
Chapter 11 Bankruptcy Trustee