

March 12, 2007

Dear Investor or Interested Party,

As we move through what inevitably will be a relatively long process, I will endeavor to keep you up to date on current events via a monthly newsletter. Each month I will attempt to produce, online, this letter updating the investors, creditors and other interested parties as to what has occurred most recently in the Trans Continental Companies/Louis J. Pearlman matters.

Virtually everyone reading this letter knows I was appointed receiver for Trans Continental Airlines, Inc. and two other Pearlman entities on February 2nd, 2007. Since that time, other companies have come under the receivership blanket; however, not all Pearlman companies are currently included. Further, it might be that certain entities have more liabilities (without assets) and we may not want them as part of the receivership. As stated in the general mailing to the investor/creditor group, the purpose of the receivership is primarily to preserve the assets of the companies, if any, and make sure they are available for the benefit of the creditors and investors. In this case, it does not appear that there will be anywhere near enough funds to cover the creditor group.

The scope of this fraud is massive and pervasive. Part of the financial failure appears to be by design; part of it simply because the entities failed to follow typical business protocol or, in some instances, the cause was general sloppiness.

On this website we also maintain significant court filings. We do not attempt to put in all court filings for many are mundane and strictly procedural in nature. These particular postings are just so the investor/creditor group will have a means to follow some of the court proceedings. The posting of an item to the webpage does not indicate that we agree with, or endorse, the particular filing. The posting is only so that the readers might have a better understanding of current events.

The initial focus of the receivership is "operational". At the beginning of the receivership there were no employees in Trans Continental Airlines. I have hired a receptionist who previously worked for Talent Rock and has some rudimentary understanding of the companies. Also, I have retained the prior information technology person who takes care of our website. That additionally provides me some limited background knowledge into the companies. I have a paralegal from my law firm and myself. This constitutes the entire operating group at this time.

It is a major undertaking just to keep up with the incoming mail, lawsuits, vendor telephone calls, and banking relationships without even considering the myriad of calls from investors. It has become evident that it is virtually impossible to answer all the mail and/or phone calls. For that reason, if financial resources permit, we will be establishing a telephone call-in number where you can leave your message. Please do **not** call this point. Also, please, do not ask us to verify account balances, account numbers and addresses or any of the like. If it becomes apparent that there will at some point be a recovery, we will then get to that stage of the receivership and request the information it will be required to make distributions. Further, many of the actual files are no longer in our possession but in the possession of the federal and state investigators. These authorities have promised to share the information but it is a time-consuming process and we would have to contact them in advance and coordinate the review.

At this point, spending money on that end of the operation only takes away from time and money that could be better spent in pursuing assets. I do not want to sound like I'm lecturing, as I really am not. I am trying to help the reader understand the magnitude of this undertaking. There are approximately 1800 investors and with that many investors if I spent just one half hour on each investor, it would take me nine hundred hours to complete that task.

We have not yet really begun the "asset recovery" phase of the operation. Having been through more than a few of these "Ponzi scheme" type ventures, I can assure you that the asset recovery phase will be time-consuming, frustrating and expensive.

Let's take a look at what we might potentially, and I emphasize potentially, be dealing with here: first, cash - I've circulated our orders to all the banks where we knew that there were active accounts and we are in the process of gathering up that cash right now. I would be very surprised if we succeed in gathering up \$100,000.

Offshore cash -- allegations have been made that there was some \$40 million in a German bank account and "offshore". Any information we have regarding offshore accounts, and at this point there is not much information, we are forwarding to the appropriate federal agencies.

The recovery of "offshore assets" is a cumbersome and time-consuming and expensive process. This case will be further complicated by the simple fact that Mr. Pearlman seldom used the same entity for more than one business. Accordingly, monies generally transferred to companies will need to be "traced" to that company and, in turn, traced to a "target" company. And then we must determine if the "target" company does in fact have funds. If it does, litigation will ensue for the recovery of those funds.

Real estate -- we are just in the embryonic phase of tracking down the real estate holdings. While holdings may appear "vast," debt on those holdings appears even "more vast". Thus, Pearlman highly leveraged the real estate with debt and apparently took out most of the equity before he left.

The receivership court approved the sale of the "smaller house" at 12564 Park Ave., Windermere at a hearing last Thursday. Pearlman bought the property for approximately \$1,750,000 2 years ago. It has a \$1.5 million mortgage, which is in arrears and under foreclosure, past due property taxes and it will be necessary to pay a commission to outside brokers. That commission has been negotiated to 5%. I would anticipate that the receivership estate should be able to realize \$150 - \$200,000 from this sale.

The Pearlman Mansion is currently listed for \$12,500,000. That listing was commenced on February 8, after I was appointed receiver. It was not authorized by me but by a person representing themselves to be Mr. Pearlman's representative. Be that as it may, the property currently has approximately \$15 million in debt and I'm not certain that I want to pursue doing anything on that property (other than being there to collect the cash if in fact a sale can be achieved for a high enough amount to retire all of the debt on the property).

The Church Street Station property has debt against it totaling about \$33 million. There had been a proposed purchaser for the property at \$40 million in the bankruptcy of F.F. Station, the entity that was utilized by Pearlman to hold this property. Unfortunately, the purchaser backed off his commitment in the bankruptcy court. The process only now requires that any purchaser of the property must produce a minimum bid of \$34 million (which is only slightly more than the amount of the debt against that property).

Technically that property, while owned indirectly by one of the properties that I have the receivership, is in bankruptcy. That entity, F.F. Station, is actually being operated as a "debtor-in-possession". Bank of America sought the appointment of receiver in its foreclosure action prior to the bankruptcy. As a receiver, this didn't really bother me for a number of reasons. We couldn't do anything more with the property than the other receiver. Additionally, we were extremely hampered by not having any real income from the property. The rents of the property do not even cover the current operating expenses. We are hoping that we will be able to find another purchaser for the property and hopefully realize some decent equity out of that property. I think all of the investors at this point need to understand that even if the property were to hypothetically

yield \$10 million (net to the estate), that amount would in turn yield less than three cents on the dollar to an investor.

A number of properties and or businesses were bought and sold in the last quarter of 2006. All of these transactions will be reviewed for their propriety.

Vehicles - the 2004 Rolls-Royce Phantom had a significant lien against it by Bank of America. The Bank of America car payment was \$6,600 per month and approximately \$130,000 of debt is still owed on the car. The government seized this car in late February. I have written to the government requesting the release of that vehicle to the receivership. I have not yet found the 1985 Rolls-Royce. It had been alleged that this car was wrecked in an accident, however, at this point, I have really been unable to confirm that. We have recovered the 2005 Cadillac limousine and two Trans Continental trucks. We are aware of two Prevost touring buses. These are allegedly in Gatlinburg. When we better understand the cash available to the receivership estate from these assets, we will make arrangements to have those touring buses returned Orlando or sold where they currently are located.

The only airplanes that we have located are fully encumbered, non-operational or have been repossessed prior to my appointment as receiver.

There has been much talk about the royalties from the "boy bands", such as the Backstreet Boys. Virtually all of these royalties have been pledged as collateral for bank loans. One might ask "what will happen to these royalties after the banks are paid off?" -- I wouldn't worry too much, it doesn't look like the banks will ever be paid off.

A number have asked about the group "US 5" who currently are purported to be a large hit in Germany. We will need to get German counsel to represent us in establishing that funds used to develop this group came from Pearlman Enterprises, and are owned or controlled by same.

Our preliminary investigation indicates that there may be past due royalties that are unencumbered from certain record companies. Here, a number of hurdles will need to be jumped. First, we must establish ownership interest in the royalties; second, we must determine if the royalties were pledged as collateral for other bank loans; third, even if the first two hurdles are successfully bridged, negotiations with the various companies will be required, using some attorneys familiar the scope of the relationships which generated the initial agreements and certainly a depth of knowledge in the recording industry.

To add to the complications, certain banks have filed involuntary petitions in bankruptcy against Pearlman himself and Trans Continental Airlines, Inc. and certain investors filed an involuntary against Trans Continental Records, Inc. As a group, the banks have asked the bankruptcy court to appoint a chapter 11 trustee. The investors have requested the appointment of a chapter 7 trustee. While the trustee could be me, the indications that we now have are that the banks who filed the involuntary proceeding would prefer to have a new person appointed.

In summary, we are faced with an arduous task. I know everyone would like this to be "cleaned up" and "justice done". Unfortunately, white-collar crime is such that prosecution is costly and time-consuming. I hope in reading this introductory letter, the scope of the undertaking becomes slightly more clear.

Best regards,

Trans Continental Airlines, Inc. and related companies

*Gerard A. McHale, Jr.*

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Court Appointed Receiver