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July 30, 2007

Mr. Richard Ball
Director of Associations
Portofino Towers I, II, III
Master Homeowner Association
Ten Portofino Drive
Pensacola Beach, Florida 32561

Re: Portofino/Portofino Towers/Escambia County Property Appraiser
Our File No. EPF-04-0069

Dear Richard,

As you are aware, the tax challenges filed by the respective Portofino associations are currently before the First District Court of Appeal as to the Circuit Court's denial of our motion for summary judgment and granting of the Property Appraiser's motion for summary judgment.

In addition to the legal issues to be resolved on appeal, there remain several "practical" problems resulting from this improper taxation. I have attempted to address two recurring issues below.

MORTGAGE COMPANIES PAYING TAXES

Mortgages typically contain language requiring the borrower to promptly pay all property taxes. These mortgages also provide that in the event the borrower does not pay those taxes, the mortgage lender has the right to pay and to add that cost to the amount of the mortgage. In many instances, monthly mortgage payments include an amount that is held in "escrow," and then paid by the mortgage servicing company when tax bills are sent out.

We have heard reports from lessees of mortgage companies paying taxes, and then informing unit owners that the taxes are being "added" to the mortgage balance. This creates a problem for the unit owner in that there is no guarantee taxes paid will be refunded even if the tax is declared invalid and there is a strong likelihood that lessees who pay those taxes will be deemed to have waived their challenge to the validity of those taxes. In addition, it is important to note that the Circuit Court of Escambia County has issued an injunctive order prohibiting the collection of the disputed taxes until this matter is resolved, including all appeals. A copy of that order is enclosed.

Mortgage companies and other interested parties should be advised not to pay the disputed taxes. The challenged taxes do not create a lien upon the subject leaseholds. Thus, any security interest in the leasehold is not impaired and there is no valid reason for paying the taxes.

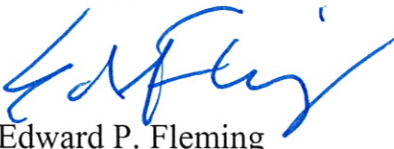

PROBLEMS WHEN ASSIGNING LEASEHOLD INTERESTS

Another problem leaseholders will encounter is title companies or law offices insisting taxes be paid prior to the issuance of title insurance.

I would recommend this problem be handled through escrowing the assessed taxes, together with anticipated interest, with the law firm closing the transaction. We have been successful in using this procedure.

As always, please feel free to call should you have questions regarding these matters.

Sincerely,


Edward P. Fleming


Encl. (Court Order)