

SUMMARY OF PROPOSED PURCHASE TERMS WITH CAPTAIN'S COVE GROUP YACHT CLUB, LLC

May13, 2009

Along with Bob Warfield and Captain's Cove Group, LLC ("CCG"), the Captain's Cove Board of Directors has agreed to jointly present a formal proposal to the Bankruptcy Court which, if approved, would prohibit PNC, CCG's lender, from foreclosing on the Marina Club and CCUC and allow CCGYC to purchase those assets utilizing financing provided by CCG at a very favorable rate with no money down. All payments made would go to an account monitored by the Bankruptcy Court that is open to inspection by CCGYC, and subject to periodic accounting reviews. This procedure will insure that the payments made by CCGYC are credited to our purchase of the assets.

The Board of Directors was faced with a difficult decision for several reasons: (1) CCG has enough votes to remove the current board and take control of the board if an agreement was not reached. (2) allowing a foreclosure to occur would not be in the best interests of CCGYC, because we risked losing control of both the Marina Club and CCUC to third parties and having no control over the future development of Captain's Cove and (3) in order to secure ownership of these critical assets CCGYC would have had to use much of the reserves and obtain a bank loan at current commercial rates which is 7.5% or more.

It is important for CCGYC to own the utility company. By doing so we are in control of our own destiny in terms of water and sewer and we can decide the best way to extend service to all areas of the Cove. We will be operating it as a non-profit – not a taxable entity which is allowed to make a profit, which would be the case if CCUC is acquired by an outside party. This also allows CCGYC to apply for state and federal low interest loans and grant money in order to make needed repairs and extend service, which a for-profit corporation cannot do. In addition, dealing with the regulators is easier when a utility is operated by the community as a non-profit enterprise. The State Corporation Commission, the Virginia Department of Health and Department of Environmental Quality are all familiar with CCUC, and all three have indicated that they are ready to work with CCGYC.

The proposal is structured so that CCGYC, in exchange for the Marina Club, CCUC and other significant assets needed by this community, will make payments for the next 5 years without using any Association funds for a down payment. At that point we will have proven our ability to handle the payments and should be able obtain our own

financing. This also allows us to keep our cash reserves and use them, if necessary, to continue to make improvements to the Cove.

The basic terms of the proposal are as follows:

In exchange for certain assets listed below, CCGYC will pay \$10,000,000 to CCG, which will allow CCG to submit a re-organization plan to the Bankruptcy Court. The Board negotiated this price based on the appraised value of the assets and the value to the Cove of controlling utility and development rights.

1. These assets include the following:
 - a) The Marina Club building and the surrounding contiguous property, free and clear of all mechanics liens or encumbrances related to the construction of the building;
 - b) All the issued and outstanding stock of CCUC, including all rights of way, easements and title to the site of the treatment plant and all well sites, free and clear of all liens and encumbrances;
 - c) All common areas such as parks and open spaces as set out in the original declarations of restrictive covenants and as designated on the recorded subdivision plats;
 - d) All roads as set out in the original declarations of restrictive covenants and as designated on recorded plats;
 - e) All easements, rights of way, cable franchise rights, and development rights reserved to the developer in the declarations of restrictive covenants and as designated on the recorded plat(s).
2. If this proposal is approved by PNC and other third parties, CCG has agreed to reduce its right to vote from three votes per lot down to one vote per lot. This would permanently eliminate the ability of any developer to control the CCGYC board in the future.
3. The purchase price of \$10,000,000 will be divided into two parts:
 - a) payment for the Marina Club and the development rights. The payment for the Marina Club and the development rights will be \$6,243,000.00 plus the two small pieces of ground at the entryway on either side of the drive. (CCGYC will still have the right to maintain the sign and landscape the area.) CCGYC will also pledge the member assessments in order to guarantee payment, just like we will have to do when we get a bank loan after 5 years.

b) payment for CCUC. The payment for CCUC will be \$3.7 million. This equals the money that CCG has loaned CCUC for operations and maintenance, for water permit applications and for construction of the new water tower, which by itself was over \$1 million. Showing that GGCYC is paying money for CCUC will also make CCGYC more eligible for state and local funding, because one of the conditions of those programs is that the community has to have an investment in the utility in order to be eligible for public money.

There are three conditions that will have to be met before the proposal becomes final. First, CCG has agreed that this proposal will have to be approved by a majority vote of the members of CCGYC before they can move forward. Second, the state regulatory agencies also have to formally approve the change of ownership from CCUC to CCGYC. Third, there will be a hearing in the Bankruptcy Court within the next 60 to 90 days, so that CCG can present the reorganization plan and PNC can comment on it. Ultimately, the Bankruptcy Court will have final say over the proposal.

The Board is working with the lawyers and the engineer to develop a preliminary business plan for CCUC and get approval from the regulatory agencies for an ownership change. There is a membership meeting scheduled for May 20, 2009 so that lot owners can vote on the proposal. The Board believes that this is an opportunity for Captain's Cove to move ahead with completion of the community and protect itself from outside control.