

CAPTAIN'S COVE GOLF & YACHT CLUB, INC.

**OPPORTUNITY TO BECOME THE DEVELOPER OF
CAPTAIN'S COVE**

PREPARED BY CAPTAIN'S COVE GROUP, LLC

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CAPTAIN’S COVE GOLF & YACHT CLUB, INC. BECOMES THE DEVELOPER
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I. Executive Summary

Captain's Cove Golf & Yacht Club, Inc. (CCGYC) is in a unique position to become the Developer of Captain's Cove and to control its future for the first time in its existence. The benefits to CCGYC of becoming the Developer far outweigh the costs with the ultimate goal of CCGYC being able to operate without charging any homeowner association dues to its members.

CCGYC is being offered all of the 1,370+/- lots currently owned by Captain's Cove Group, LLC (CCG) in addition to retaining the 230+/- lots that have been pledged to CCG in the 2004 Option Agreement. Additionally, CCGYC is being offered the Marina building that cost over \$8MM, the 4+ acres of commercial property at the front entrance, the real estate office building on that commercial property that cost nearly \$800,000, and ownership of Captain's Cove Utility Company, Inc. (CCUC). CCGYC would be in a position to determine the future of Captain's Cove if it accepts this opportunity, the likes of which will likely never be offered again. CCGYC will be able to dictate the pace of growth that it desires, will finally have a voice in the development schedule, and the quality and quantity of water and sewer operations will be under the complete control of CCGYC. These assets are being valued now and are expected to appraise for more than \$25MM at today's prices while the future sell-out of the 1,600+/- lots is projected to exceed \$76MM. CCUC is included in this transfer of assets although no value has been attributed to CCUC in the foregoing numbers.

CCGYC is being offered these assets for \$20MM, the estimated amount that the current Developer owes to its creditors, to be funded by borrowing from a lender or lenders to be determined. The impact of CCG being liquidated by the bankruptcy court could force an eventual increase in costs to members of \$800 to \$1,300 per lot in addition to a dramatic increase in water and sewer fees if CCUC is taken over by Accomack County or the Commonwealth of Virginia. Costly litigation over conflicting ownership claims will force further increases to members' dues. On the other hand, if CCGYC becomes the Developer, the likely scenario includes an average dues increase of \$260 and a worst-case scenario of \$575 average dues increase over the 20 year term of the financing agreement. Lot sales would provide the funds to retire the \$20MM loan and the estimated \$20MM that it will cost to complete the subdivision. At the end of 20 years, in excess of \$40MM will have accumulated from lot sales and excess reserves. These funds can either be returned to lot owners, if permitted by law, or invested for the interest to fund the operating budget, potentially ending the need to ever charge dues again. The balance of this presentation details how CCGYC becoming the Developer is really the best and only option to pursue.

II. Potential Results of Captain's Cove Group, LLC Liquidation

CCG has been unsuccessful in attracting investors and unable to find a lender willing to refinance its loans. As a result, CCG is rapidly approaching the point of entering into voluntary liquidation or having involuntary liquidation forced upon it by the bankruptcy court if a realistic plan of reorganization cannot be developed. There are numerous negative ramifications to CCGYC from the liquidation of CCG. It has been difficult to determine the logic of the actions of CCG's creditors over the previous months. In the likely event that creditors are not made whole in a liquidation, there is every reason to believe that they may try to make themselves whole by extending their claims to third parties and demanding concessions, warranted or not.

A. Auction of Marina building

The Marina building will likely be auctioned off as part of this liquidation. Bidders will be interested in the building for the potential of being able to charge fees for its use. Prospective buyers will envision charging CCGYC members annual fees for use that could range from \$500 per year for limited use by individuals up to \$1,000 per year for unlimited use by families. Different types of memberships could be created for use of the exercise facility, indoor pool, outdoor pools, etc. They would likely desire to sell outside memberships to whoever would be willing to pay to use the facilities either on a daily basis or for seasonal or year round use. Potential bidders would calculate what they would be willing to pay for the Marina by applying a multiple to the amount of the gross user fees that are estimated to be generated. For example, if a bidder thinks it can generate 1,000 equivalent annual memberships at an average of \$500 each and desires a 10% return, they would be willing to pay \$5MM for the property and would operate the facility in such a way as to cover the operating costs of the building through food and beverage operations just as CCGYC hopes to do. Additional sources of income could come from building and either selling or leasing the new boat slips that CCGYC hopes to build, renting out parking spaces to boaters and others, requiring minimums to be paid to support food and beverage operations, and potentially booking so many profitable private events as to limit non-scheduled use by others. Operating and using the Marina building as described may put the new owner at odds with CCGYC's membership potentially precipitating costly legal action to enforce perceived and actual violations of covenants and restrictions.

CCGYC's claim to the land that is the footprint of the former Marina building could prove to be another area of contentious litigation with CCG's creditors. One possible outcome would be the determination that CCGYC would be compensated from the Marina building auction

proceeds in an amount equal to the appraised value of the footprint which may be roughly equal to the value of a waterfront lot (perhaps \$250,000 or so) after an extended legal exercise.

B. Creditor ownership claim to golf course improvements

Creditors may assert a claim of ownership to the \$3.5MM+ of golf course improvements as a result of the judgments that have been recorded against the assets of CCG. This third area of contentious litigation could be used as a means of extracting concessions from CCGYC in other areas whether their ownership claim is valid or not. CCGYC may have to choose between being forced into costly litigation and settling at some price.

C. Auction of CCG real estate holdings

CCG's real estate holdings including the 1,370+/- lots, the commercial real estate office building, and other undeveloped commercial real estate at the front entrance would also be sold at auction. Included in the 1,370+/- lots owned by CCG are 350+/- completed lots that are ready to be built on without incurring any additional development costs. CCG competed against a number of other real estate developers when it acquired the real estate holdings of the original Developer. Certain of these other developers stated their intent at the time to sell off all of the completed lots and then to walk away from Captain's Cove with a sizable profit. This is even more likely to occur now. For example, the successful bidder could almost double its money if it paid \$5MM for the 1,370+/- lots and then sold off the 350+/- completed lots for as little as \$30,000 each. If all of the completed lots are sold in this fashion, the likelihood of the undeveloped areas ever being developed becomes more and more remote.

The main reason that CCGYC has been able to collect dues on lots that cannot be built on yet can be summarized in one word: hope. All these non-buildable lot owners have held out hope that the Developer will eventually complete the subdivision, many for more than thirty years. If this hope is ever totally lost, as it would be if the foregoing scenario plays out, CCGYC needs to be prepared to increase dues substantially, operate this community on a greatly reduced budget, or both. The 1,070+/- currently non-buildable lots represent more than 1/3 of the 3,170+/- total lots being charged dues. The likely risk exists that these non-buildable lot owners will stop paying dues and walk away from their investments, as happened in the past, as they become aware that the prospect of their lots becoming buildable has been lost. How many buildable lot owners would follow suit and stop paying their dues if dues are increased without any perceived benefit and hope for the community that has been promised is gone?

D. Operations of CCUC

It is unlikely that a private bidder would purchase CCUC at auction. Therefore, ownership of CCUC would likely end up with either Accomack County or the Commonwealth of Virginia. Control of CCUC by either of these government organizations would provide them with the opportunity of fulfilling their long-standing goal of ensuring that Captain's Cove is never fully developed. CCGYC can anticipate continual and substantial increases in water and sewer fees as the inefficiencies and poor fiscal management skills of either of these organizations are passed on to CCUC.

E. Financial impact on CCGYC

It is difficult to estimate the financial impact that all of the foregoing would have on CCGYC's membership but it is easy to predict that dues would have to increase to continue to provide the existing level of services. Some combination of both dues increases and service decreases would undoubtedly be necessary. If a third of the lot owners that are being charged dues gradually lose hope and walk away from their investments, a \$600,000 reduction in dues would result. For the existing budget to be maintained, a dues increase of nearly \$300 per year would have to be passed on to the remaining lot owners. Additionally, enjoyment of the Marina building and amenities could cost residents between \$500 and \$1,000 per year. Unavoidable litigation over the Marina land, Marina building operations, and the golf course improvements would prove costly and all have the potential for unfavorable outcomes. The increase in water and sewer fees that would result from County or Commonwealth ownership will be substantial. And, finally, the decline in the value of lots and homes in the community that results from the foregoing combined impacts may take generations to begin to reverse.

F. Ultimate decline in the quality of life in Captain's Cove

Ultimately, the negative financial impact on the membership will translate into a decline in the quality of life in Captain's Cove. And reversing this decline may not be achievable if hope for the future is lost. The tremendous gains that Captain's Cove has made over the last 10 years would be reversed and the risk exists that CCGYC would again be visited with the challenges of the past when it struggled to pay its bills. Captain's Cove's ambitions to play a major role in the future of the region would end as the limited growth that this development would be capable of generating would not be sufficient to support the levels of services and amenities required to sustain a prosperous community.

III. Benefits to Captain's Cove Golf & Yacht Club, Inc. of Becoming the Developer

None of the foregoing has to occur. The extraordinarily negative financial times that have been encountered are the only reason that CCGYC is being provided with this unparalleled opportunity. The benefits to CCGYC of becoming the Developer outweigh the costs and risks by a margin that is not even close as the following clearly demonstrates.

A. First time in history that CCGYC controls its future

For the first time in the history of CCGYC, the Association will completely control its future. It is being offered both the chance and the resources to take advantage of this opportunity. Once the arrangements are in place, CCGYC should not have to incur any additional expenses that have not been provided for and should not have to expand its newly-owned infrastructure until it has sold sufficient lots to pay for the next phase of growth. CCGYC will no longer be dependent on the Developer to sell lots to expand its dues base. CCGYC will control its own Utility Company and can dictate the quality and quantity of service to be provided instead of being dictated to by others. These are opportunities that are unique in our experience and are unlikely to ever repeat themselves if CCG is liquidated.

B. Ownership of Marina building

Ownership of the entire \$8MM Marina facility would be undisputed. Control of its operation and use would reside solely with CCGYC, for the sole benefit of CCGYC's membership, in the manner in which the facility was intended to be used. No third parties would be in a position to interfere with the rights and privileges of CCGYC's membership and costly litigation would be avoided altogether.

C. Ownership of 1,370+/- lots

The 1,370+/- lots owned by CCG would be transferred to CCGYC as part of this arrangement. Obtaining these lots is the cornerstone to the future of CCGYC. These lots provide the potential of generating a vast amount of cash over the next 20 years. Equally as important, these lots provide CCGYC with the means to protect its membership from opportunistic bidders who would conceivably sell off the 350+/- buildable lots and abandon the rest of the development. CCGYC would control the conversion of these non-dues-paying lots into dues-paying lots, potentially adding over \$13MM to the Association's coffers if the modest sales pace inherent in this proposal is achieved. This opportunity presents CCGYC with the means over time to

accumulate great wealth, fulfill the long awaited promise to its membership to be able to build on their lots, and avert devastating financial outcomes that might otherwise result. These lots are projected to generate over \$65MM in sales to CCGYC over the next 20 years and are the single biggest reason why CCGYC needs to take advantage of this opportunity.

D. Continued ownership of 230+/- lots from Option Agreement

The 230+/- lots pledged to acquire the Marina facility and other improvements from the Option Agreement entered into in 2004 would not have to be transferred to CCG. These lots would remain the property of CCGYC to be used to support the operations of the Association. These lots are projected to generate nearly \$11MM in sales to CCGYC over the next 20 years.

E. Ownership of commercial real estate office building

The 4,000 square foot commercial office building residing on the land at the main front entrance to the community will transfer under this arrangement, too. This building cost nearly \$800,000 to build, is leased to Coldwell Banker's Eastern Shore operation, and generates annual rental income of \$36,000 in a triple net lease.

F. Ownership of undeveloped commercial real estate at front entrance

Ownership of the 4+ commercial acres that straddle the main front entrance will also be included in the assets to be transferred. This land can be developed by CCGYC or sold. The preliminary site plans that CCG developed that were approved by the County will also transfer. These plans contain 20,000 square feet of retail and office space that can be built. Ownership of this land provides CCGYC will the ability to ensure that whatever is built at the gateway to its community meets the approval of its membership and prevents whoever the otherwise successful auction bidder may be from constructing something deemed tasteless or not in the character of the community. On the other hand, with the right restrictions, proceeds from the sale of the remaining commercial land and the office building by CCGYC could be used to reduce the amount of the dues increase necessitated by this agreement or used to reduce the outstanding loan balance thereby reducing future interest costs.

G. Ability to build 40+ new boat slips

Taking advantage of this opportunity will allow for the timely construction of the 40+ new boat slips at the Marina facility. Concern over expiring construction permits will disappear as the

construction could commence prior to their expiration. And these new slips will be owned by CCGYC, for the sole benefit of CCGYC's membership, in the manner in which the slips were intended to be used.

H. Ownership of CCUC

And finally, ownership of CCUC will also be transferred to CCGYC, which is the second biggest reason that CCGYC needs to take advantage of this opportunity. Control of the extension of water and sewer service is critical to whoever completes the development of the community. The auction scenarios envisioned by this presentation will more than likely lead to different ownership of the Utility Company and the 1,370+/- lots. And dissimilar ownership of the Utility Company and the lots would almost guarantee that the new owner of the lots would sell off the buildable lots and abandon the rest since the new owner would have no control over future water and sewer expansion.

CCG has been approached by parties interested in purchasing CCUC, but the true value of this operation will not be realized until the community approaches build-out and the number of its customers is maximized. The value of a private utility company with 4,000+/- customers is significant. Changes must be made to increase cash flows but the operation has solid, knowledgeable employees and is positioned to add value to the community.

IV. Risks to Captain's Cove Golf & Yacht Club, Inc. of Becoming the Developer

As demonstrated throughout this presentation, the benefits to CCGYC of the likely outcomes of this opportunity far outweigh the costs. In addition to weighing the cost-benefit of an opportunity, one must also understand the maximum amount of risk an opportunity possesses if the likely outcome is not achieved and the opportunity proves riskier than anticipated. A worst-case scenario must be developed to make sure that the benefits of this riskier opportunity still outweigh the costs if the least favorable possible circumstances are encountered. CCGYC will be making a financial commitment to repay \$20MM over 20 years plus interest. This commitment presents financial risks to CCGYC that include interest rate risk and principal repayment risk.

A. Interest rate risk

Interest rate risk is the risk of interest rates rising to the point that costs would outweigh the benefits of this opportunity. The 6% interest rate used in these projections has been calculated

at today's prime rate of 4% plus a 2% margin. Increasing dues by \$400 per year and maintaining this \$400 increase for the first 13 years of the loan period provides sufficient funds to pay \$15.6MM in interest on the outstanding principal balance even assuming that no lots are sold during the entire 20 year loan term. The risk exists that dues would have to be increased further if interest rates increase and there are no or insufficient lot sales during the 20 year loan term. However, even in its worst year, CCG sold more than \$1MM worth of lots in 2008 and over \$3MM in 2005.

Assuming that lots are sold as modestly projected, a cushion against the interest rate risk is created from the \$400 in dues that will be charged to each lot CCGYC sells that can be used to pay interest and is projected to generate an additional \$5.4MM over the life of the loan. Sufficient funds would still exist without further dues increases even if interest rates rise 2% in the early years of the loan or as much as 4% half way through the loan term.

Three means to lessen interest rate risk are to negotiate a better interest rate than prime plus 2% which is very likely achievable (CCG is paying prime), negotiating some period of time during which the interest rate is fixed, and negotiating interest rate increase caps over the life of the loan. Obtaining a lower initial interest rate but increasing dues to cover the higher 6% rate would be another means of providing additional interest rate reserves to cover potential future interest rate increases.

B. Principal repayment risk

Principal repayment is predicated on their being sufficient lot sales to make the required \$1.3MM principal payments beginning in year 6 of the loan term. Increasing dues by \$420 per year and maintaining this \$420 increase for the last 15 years of the loan period provides sufficient funds to repay \$20MM in principal assuming that no lots are sold during the entire 20 year loan term.

Dues would be increased by \$400 per year and this \$400 increase would have to be maintained for the first 13 years of the loan period costing lot owners a total of \$5,200 for interest. The worst case scenario would be that no lots are sold over the life of the loan. This would result in dues increasing by \$420 per year and maintaining this \$420 increase for the last 15 years of the loan period costing lot owners an additional \$6,300 for principal repayment.

C. Comparison of financial impacts

The likely average annual dues increase over the 20 year loan term if CCGYC becomes the Developer is \$260 (\$5,200/20 years). The worst-case average annual dues increase would be \$575 (\$11,500/20 years). Note that these dues increases from CCGYC becoming the Developer are temporary and that these increases can be eliminated once the loan has been repaid.

Compare these numbers to the estimated \$300 dues increase necessitated by lot owners losing hope and not continuing to pay, plus whatever the successful auction bidder decides to charge as annual fees to use the Marina facility, say \$500 to \$1,000 per year, plus an unknown amount of costs to litigate the various issues, plus significant increases in water and sewer fees and the conclusion appears obvious that even the worst-case scenario of CCGYC becoming the Developer yields far better results than the alternative of CCG being liquidated. Note that the dues and fee increases from CCG being liquidated are permanent and CCGYC will not be able to eliminate these increases if taking advantage of this opportunity is rejected.

V. Additional Potential Benefits of Conversion to Municipality

This opportunity presents benefits in addition to those already being discussed that relate to CCGYC converting to a Municipality. CCGYC needs to include all of the following variables in its analysis of whether to become a Municipality.

A. Income tax savings

The payment of income taxes has not been factored into this presentation. As a homeowner's association, CCGYC could be subjected to significant income taxes as a result of the transactions contemplated by taking advantage of this opportunity. If CCGYC were to convert to a Municipality, considerable income tax savings may be realized. The income tax implications of becoming the Developer both as a homeowner's association and a Municipality need to be determined by CCGYC.

B. Benefits of CCGYC as a Municipality owning CCUC

Significant savings could be realized if the cost to fully expand the water and sewer infrastructure could be funded with low-interest subsidized loans and grants. There are no significant sources of low-interest loans or grants made available to privately-owned utility companies in the Commonwealth of Virginia. CCGYC owning CCUC as a Municipality has the

potential to make CCUC eligible to receive Federal and Commonwealth of Virginia funds under a number of programs not currently available to CCUC. Additionally, Accomack County could serve as a local government pass-through entity to assist CCGYC in procuring funding in programs that the County qualifies to participate in that CCGYC and CCUC may not qualify. The benefits of owning CCUC as a Municipality need to be determined by CCGYC.

C. Refinancing bank loans with bonded debt or revenue bonds

In addition to low-interest loans and grant funds, CCGYC owning CCUC as a Municipality may qualify CCUC and/or CCGYC to refinance any bank loans that it may have with bonded debt or revenue bonds at lower interest rates than banks charge. The possibilities offered by refinancing bank loans with bonded debt or revenue bonds need to be determined by CCGYC.

VI. Conclusion

CCGYC is in a position to be able to control its destiny for the first, and most likely the last, time in its existence. If this opportunity is taken advantage of, the entire community stands to benefit. The benefits to CCGYC of becoming the Developer far outweigh the costs and all of the negative implications of a liquidation of CCG can be avoided. And liquidation will be unavoidable if CCG cannot develop a realistic plan of reorganization. The ultimate goal of this opportunity is to fund the operations of Captain's Cove with the interest earnings on the funds that it accumulates and never having to charge homeowner association dues again.

One obvious question is why will this strategy work for CCGYC when it did not work for CCG? Extraordinary market conditions prevented CCG from meeting lot sales projections. CCG's lender called CCG's loans when it determined that it was not willing to risk relying on the limited assets of CCG's owners if lot sales proved insufficient to repay the outstanding principal balances. The reason that this will not be a risk to CCGYC's potential lenders is that CCGYC does not have to rely solely on lot sales and has two sources of funds from which to repay the loans: lot sales and dues.

A second obvious question is why not just wait for the auction and then try to buy some or all these assets for less than the proposed \$20MM? First, it is often impossible to determine in advance what is going to happen once bidding starts. Multiple bidders can run prices up to appraised values and beyond so the individual assets auctioned off separately may indeed sell for more than the proposed price. Second, finding a lender to offer financing in order to be

able to bid on individual assets would present a serious challenge. Third, it would be difficult if not impossible to obtain any required membership approval in advance of the auctions since no one can state with any certainty what bids will be successful. Bidding on and obtaining only a portion of these assets may not protect Captain's Cove from predatory developers and will not provide the means to secure the community's future. The only certain way to control the future of Captain's Cove is to utilize all of the assets being offered thereby preventing the untimely liquidation of CCG.

CCG needs a letter of intent from CCGYC to become the Developer in order to provide the basis for a plan of reorganization and to start the negotiations with its creditors and obtain approval from the bankruptcy court. Obviously, any such letter would contain language making it subject to membership approval, new lender approval, existing creditor and/or court approval, the completion of full, independent appraisals, full financial and other disclosures, successful due diligence by CCGYC and others, and resolution of any issues that arise as a result of legal review of the transactions contemplated by this agreement. CCGYC is being presented with the means to secure the future of its membership if it chooses to take advantage of this truly unique opportunity.

EXHIBITS