

April 15, 2009

Members of Captain's Cove:

In January, the Captain's Cove Board of Directors and I notified you by email and in the *Chronicles* of the fact that Captains Cove Group ("CCG"), primarily owned by Mr. Warfield, the Cove Developer had filed for bankruptcy. Since then the Board and I have been investigating all the options that were available to us to both protect the integrity and uniqueness of the Cove and to safeguard the interests of property owners. As I will discuss below, we have been in negotiations ever since then with Mr. Warfield in order to come up with a solution that will allow him to satisfy the primary lien holder, PNC Bank and still protect the interests of all property owners in Captain's Cove. These negotiations have continued right up until Friday, April 10, 2009, when the Mr. Warfield, his attorney, our attorneys and I all met to continue these negotiations and lay the groundwork for a mutually agreeable plan.

Unfortunately, it appears that just prior to that meeting, Mr. Warfield had prepared a notice to be posted in the Saturday, April 11 issue of the local paper calling for a special meeting of the members of Captain's Cove Golf and Yacht Club (CCGYC) for the purpose of removing the entire Board of Directors of the CCGYC, except for himself and his business partner, Mr. Roger Young. This meeting is deliberately scheduled at the same time as the regular monthly board meeting, presumably to cause confusion. Needless to say, we did not know this before we spent the time the day before the notice ran attempting to negotiate in good faith. Based upon the advice of our attorneys, and as President of the Board, and with the full support of those Board members who do not have a financial stake in the bankruptcy, it is our position that this meeting is improperly called and is not legally binding on the membership. As your Board, we have no choice but to take legal action to stop this meeting, and we encourage you NOT to attend because we do not think that the meeting has any legal significance. Please DO attend the regular monthly board of directors meeting at the marina building on April 27 at 9:00 am if you have questions or concerns.

I would now like to update the members on the negotiations that have been going on from January to April, and the steps that the Board has taken to come up with realistic values for the marina building and the utility company, the two main assets which the Board has considered purchasing. Mr. Warfield, through Captain's Cove Group is currently involved in bankruptcy proceedings. This requires him to either come up with a re-organization plan by late May that is acceptable to PNC Bank or face liquidation of all CCG assets. These assets include the marina building, the Cove utility, and around 1380 undeveloped lots. The primary concern of your Board has been to make sure that the marina building and the Cove utility continue to be operated and managed by and for the property owners of the Cove, and that whoever the developer is, they put a plan in place to insure that the community is successfully built out.

Two days after I became Board President, Mr. Warfield presented the Board with the first proposal which was to sell *all* the CCG Cove assets to the CCGYC for 20 million

dollars. Even if the Board could have found financing for such a sum, this would have required almost doubling the membership dues to service the debt. In addition, the Cove membership would have to further increase dues by an undetermined amount to pay for necessary capital upgrades to the Cove utility, and to pay for professional real estate management services to continue to market the undeveloped lots.

This initial offer did not seem realistic to your Board, so we started discussions through the attorneys to explore the possibility of just purchasing the Cove utility and the marina building, because both of them are so key to maintaining the quality of life in the Cove. The first step, however was to obtain independent third party appraisals of both the Cove utility and the marina building, so that we would have some idea of their value and what future improvements would have to be made to the Cove utility. As a Board, we knew that we could not make a sound financial decision without having this information, even though Mr. Warfield continued to pressure us to agree to his terms without having this information in hand. We also made it very clear to Mr. Warfield that any agreement would have to eliminate the voting majority of 3-1 that Mr. Warfield currently holds. It made no sense to borrow money and indebt the property owners of the Cove so long as Mr. Warfield or any other developer could control the Board because of that voting majority. While we have been waiting for the evaluations, we continued general discussions through the attorneys on that issue. As of the date of this letter, we have received the evaluation of the utility and are in the middle of completing the appraisal of the marina club facility.

Three weeks ago, the CCG delivered a second proposal that essentially mirrored the first, except that Mr. Warfield would retain ownership of the 1380 lots. This proposal offers to sell the marina building and the Cove utility to the CCGYC for around 12 million dollars and would require Mr. Warfield to carry the loan for 5 years before the Board would have to seek outside financing and balloon the debt. Unfortunately, this offer did NOT eliminate the 3-1 voting majority. In addition, Mr. Warfield continued to pressure us to accept this offer or to make a counter-offer without having the appraisal on the marina building completed. He also began threatening to have this Board removed so that he could replace it with a Board that would accept this offer.

Even though we, as a Board, did not feel that we had enough information to make a formal counter-offer, we still agreed to meet on Friday, April 10, 2009, in order to keep the channels of communication open and attempt to move ahead with negotiations. At the end of that meeting, we agreed to come up with the outline of a counter-offer that would be conditioned on getting final appraisal numbers for the marina building and Mr. Warfield agreed to eliminate the 3-1 voting majority, provided the other terms were worked out. We also made it clear to Mr. Warfield that we, as a Board would seek input from the membership before we could commit to such a large financial undertaking that would impact the entire future of the community. Such a decision would have an impact in membership dues as well as utility rates, and as members of the community ourselves, we are highly aware of our responsibility to decide on the best course of action for the benefit of the community.

Unfortunately, rather than respect the fiduciary responsibility of this Board, and honor the statements he made during the meeting, Mr. Warfield has opted to attempt to remove the 5 Board Members who will not agree to a blanket proposal that is not in the best interests of all of the membership. This leaves us no choice but to attempt to legally enjoin the members meeting he is attempting to call for April 27, 2009. We encourage you to boycott this illegal meeting. We are still pursuing the evaluation of the marina building and we will be in a position to negotiate with Mr. Warfield, the bankruptcy judge, or PNC Bank in order to protect the interests of the membership.

Sincerely yours,

Wilbur Bowden
President CCGYC Board of Directors.