

Captain's Cove Members:

Recently, you received a letter from Wilbur Bowden that discussed the bankruptcy of the community's developer, Captain's Cove Group, LLC. It is important for you to know that the letter was not sent by, or at the direction of, the Board of Directors. Instead, it was a personal letter from Mr. Bowden, and perhaps, some other unnamed individuals. Despite the claim that Board of Directors authorized the letter, the letter was neither discussed nor voted on at a properly noticed meeting of the Board of Directors. Absent a proper meeting of the Board, the actions of Mr. Bowden are not properly those of the Board.

Virginia law and the documents governing the Captain's Cove Golf and Yacht Club, Inc. provide that a Board of Directors must act as a unit at properly noticed meetings, attended by a quorum of Directors. Minutes of these meetings must be maintained and all votes must be public. Notice of meetings must be sent to all members of the Board of Directors and posted so as to inform members of upcoming meetings. Minutes of past meetings must be available to the members.

Since the beginning of this year, the current Board of Directors has failed to properly meet, consider and/or act upon significant issues affecting this community. Certain members of the Board may have had informal meetings (prohibited by Virginia law) and private discussions with attorneys. It has been suggested to Captain's Cove Group, LLC that these members have spent \$80,000 of Association funds on attorneys in recent months. Captain's Cove Group, LLC has been denied access to these records and so has not been able to verify the amount or purpose of these expenditures.

What Captain's Cove Group, LLC does know is that it presented an offer to the Board at its meeting in December 2008. The offer was designed to allow the membership to assume full control of the community and prevent any outside interference in the wake of Captain's Cove Group, LLC's bankruptcy. After the Board failed and/or refused to respond in any way to the initial proposal, Captain's Cove Group, LLC on March 9, 2009, presented another proposal that would share responsibility and control between the Association and Captain's Cove Group, LLC. The proposal provided for the Association to purchase the Marina Building and Captain's Cove Utility Company, Inc. from Captain's Cove Group, LLC.

The Board, as a legal unit, has never met, considered, debated, voted on, or responded to either of Captain's Cove Group, LLC's proposals. Captain's Cove Group, LLC does not know why the Board has failed to act, but is concerned that the Board's inaction will have serious negative consequences for the community.

As most, if not all of you know, Captain's Cove was initially developed in the 1970's. After a promising start, the development languished through the 80's and 90's and property values dropped considerably – to say the least. Many lots were virtually valueless, and hundreds of owners simply stopped paying dues. In 2004, Captain's Cove Group, LLC acquired the development from the original developer and began investing millions of dollars in the community. Property values have risen dramatically and the quality of life in the community has improved.

Unfortunately, as a result of the recent national financial troubles, that are well known to us all, the bank has declined to extend the necessary financing to complete the development as envisioned by Captain's Cove Group, LLC. Captain's Cove Group, LLC's plan of development required a long term commitment. As part of that commitment, Captain's Cove Group, LLC has reinvested every dollar it retained from lot sales back into the community. Unfortunately, this long term commitment was not

shared by the developer's bank. After PNC Bank acquired Mercantile Peninsula Bank, PNC made the decision to cease financing this real estate development. Despite the fact that Captain's Cove Group, LLC had made all required periodic payments on its loans, PNC refused to extend Captain's Cove Group, LLC's financing and called all of the loans due and immediately payable. As a result, Captain's Cove Group, LLC was forced to file for bankruptcy protection in order to reorganize and develop alternatives. If Captain's Cove Group, LLC is not successful in its reorganization and/or cannot structure an agreement with the Association, then its assets may be sold off, piecemeal, to the highest bidder. These assets include the Marina Building, Captain's Cove Utility Company, Inc., several commercial properties, and approximately 1,370 residential lots.

Captain's Cove Group, LLC believes that allowing these assets to be purchased by outside entities at a foreclosure sale will, in the long term, be a detriment to the community and cost far more than the dues increases required for the Association to acquire these assets as part of a plan of reorganization. Projections indicate that, if no action is taken by the Association, dues could increase by \$600 to \$1,000 per year per lot. In addition to these higher dues, if an outsider purchases the Marina Building there is no question that the new owner would operate the Marina Building for profit, charging additional membership fees and/or dues. Utility fees would also increase if Captain's Cove Utility Company, Inc. were acquired by an outside entity since a different owner would increase fees to guarantee itself profits.

Some have suggested that the community should allow Captain's Cove Group, LLC to fail, and thereafter simply acquire the Marina Building and perhaps Captain's Cove Utility Company, Inc. at auction – presumably at a bargain price. This suggestion is shortsighted. If Captain's Cove Group, LLC's assets are sold in liquidation, it is likely that a bidder would acquire selected assets for a quick profit, leaving less desirable assets behind. For instance, Captain's Cove Group, LLC currently owns approximately 1,370 lots. However, only approximately 350 of those lots are currently buildable due to location and access to utilities. Making the non-buildable lots buildable will require a significant investment to construct roads and extend utilities. If a bidder purchased Captain's Cove Group, LLC's lots, it could sell off the buildable lots, keep the profits from those sales and abandon the non-buildable lots. Unfortunately, there are also many individual owners of lots that are currently non-buildable. If no one commits to extending roads and utilities to these areas the value of these lots will drop dramatically. As occurred in the past, the owners of these devalued lots would cease paying Association dues and as a result, the dues on the remaining members would increase significantly. Captain's Cove Group, LLC has prepared projections, which are available on its website, that demonstrate that dues could increase by up to \$1,000 per year per lot. The loss in revenue from forsaken lot owners would more than offset the "bargain" price paid for the Marina Building and Captain's Cove Utility Company, Inc. (assuming that the Association is successful in its foreclosure sale bid).

Captain's Cove Group, LLC's most recent proposal requires a dues increase of less than \$1 per day. Details of this proposal, and Captain's Cove Group, LLC's projections, are available on its website. The proposal provides for the Association to purchase the Marina Building and Captain's Cove Utility Company, Inc., allowing Captain's Cove Group, LLC to continue with the development of the community as a whole, which is critical to retaining the value for all lot owners.

It is important to note that it has always been the plan for the Association to acquire the Marina Building from Captain's Cove Group, LLC. The original agreement, negotiated in 2004, called for Captain's Cove Group, LLC to exchange the Marina Building for the 231 lots owned by the Association (which had been abandoned by previous owners when lot prices plummeted). Unfortunately, because of PNC's refusal to extend financing, Captain's Cove Group, LLC can no longer accept the lots as payment for the Marina Building. Instead, Captain's Cove Group, LLC has structured a proposal which calls for the

Association to make monetary payments, over time, to acquire the Marina Building. The Association will retain title to the 231 lots and can sell them to defray the costs of the Marina Building acquisition.

Captain's Cove Group, LLC believes that its proposals warrant due consideration and discussion by the Association's Board of Directors. The Board's attorney has indicated that the Board has not considered any other proposals and has no other suggestions on a course of action. Contrary to the assertion of Mr. Bowden, Captain's Cove Group, LLC has not pressured the Board to accept either of its proposals. Rather, Captain's Cove Group, LLC has repeatedly requested that the Board meet, discuss, and respond to the proposals in some productive manner. If after due consideration the proposals were considered not acceptable, then the Board was invited to propose alternatives. The Board failed to consider and/or act upon the proposals or to propose any alternatives.

Mr. Bowden claims that the Board has ordered appraisals and is undertaking "due diligence" on Captain's Cove Group, LLC's proposals. However, the Board's meeting minutes are silent on either of these activities. Furthermore, even assuming that an appraisal would be required before consummation of a transaction, the absence of an appraisal should by no means prevent productive discussion on the many non-monetary terms of the transaction.

The only unacceptable condition is inaction. The current Board has taken no action whatsoever over the past 4 months. Deadlines for action are rapidly approaching, and if no action is taken, the community, as a whole, is subject to considerable risk.

Captain's Cove Group, LLC has called for a special meeting of the members of the Association to take place at 9:00 a.m. on April 27, 2009. The meeting was called for by members holding more than one fourth of the total votes of the membership and properly noticed as required by the governing documents. The purpose of the meeting is to discuss the inaction of the current board and consider removing those directors opposed to action and appointing a board that will consider and act upon a course of action in the best interests of the community. Your attendance and input are requested.

For more information, and to read or download additional documents pertaining to this matter, please visit: www.captainscoveva.com then click on the link to Homeowner's Association News.