

**\$30,795,000 CITY OF MYRTLE BEACH, SOUTH CAROLINA  
TAX INCREMENT BONDS  
(MYRTLE BEACH AIR FORCE BASE REDEVELOPMENT PROJECT AREA)  
SERIES 2006A**

**Significant Event Notice**

Pursuant to Section 5 of the Continuing Disclosure Agreement among LUK-MB1, L.L.C., LUK-MB2, L.L.C., and LUK-MB5, L.L.C., (collectively the "Developers" ) and MuniCap, Inc (the "Administrator"), for the above referenced Bonds, the Developers hereby report the occurrence of significant events, as more fully described below.

**A) Loan Related Defaults**

As of May 15, 2009, the Developers reported that, JPMorgan Chase Bank, N.A. (the "Agent"), on behalf of itself and the Lenders, sent a Notice of Default to LUK-MB1 (the "First Senior Loan Letter") on April 23, 2009 stating that LUK-MB1 breached the Loan Agreement by entering into the Fifth Amendment to the lease between LUK-MB1 and Piggly Wiggly Holdings, LLC ("Piggly Wiggly") without first obtaining the consent of the Agent and that, if this breach is not cured within thirty (30) days from the date of the letter, LUK-MB1 shall be in default under the terms of the Loan Agreement with respect to the Senior Loan. The Agent further advised in the First Senior Loan Letter that a Default has occurred under the terms of the Loan Agreement because LUK-MB1 had failed to complete the Residential Space (195 apartment units in Phase I of the Market Common Development) by May 31, 2008, as required under the terms of the Loan Agreement.

The Developers also reported that LUK-MB1 sent a letter to the Agent (the "Response Letter") on May 5, 2009 advising that it vigorously disputes that there is any breach or Default under the terms of the Loan Agreement or the Loan Documents (as such term is defined in the Loan Agreement). It is noted that, if a Default under the Loan Agreement is deemed to have occurred, either directly or through a cross default as described below, the City of Myrtle Beach could deem there to be a default under the Public Infrastructure Purchase Agreement ("PIPA") and the Tax Increment Financing Agreement ("TIF") entitling the City of Myrtle Beach to exercise the remedies set forth in the PIPA and TIF as further described under "Infrastructure Purchase Agreement" and "Tax Increment Financing Agreement" in the Limited Offering Memorandum. LUK-MB1 intends to explore all defenses available to it and intends to continue to dispute the allegations of the Agent in the First Senior Loan Letter; LUK-MB1 is also exploring all options and remedies available to it, including, but not limited to, a bankruptcy filing by LUK-MB1, efforts to negotiate a modification of the Loan Agreement and Loan Documents with the Agent and Lenders, and discussions with the city relating to the availability of the remaining funds for construction of the 2006 Redevelopment Projects to permit ongoing development of the Market Common Development.

As of May 15, 2009, the Developers reported that the Agent sent an additional Notice of Default to LUK-MB1 (the "Second Senior Loan Letter") on April 28, 2009 stating that because a Default has occurred under the terms of the Loan Agreement, no withdrawals of funds from the development, money market and operating accounts of LUK-MB1 will be permitted without the consent of the Agent, as those accounts constitute collateral for the Senior Loan. LUK-MB1 sent the Response Letter (described above) to the Agent, which further advised that freezing LUK-MB1 's accounts and dishonoring checks and other payments issued for operations is inappropriate and wrongful, and further stated that LUK-MB1 will hold the Agent responsible for any resulting costs,

expenses or damages. Notwithstanding the Second Senior Loan Letter, and the Agent's dishonoring of checks and other payments issued by LUK-MB1 to pay operating expenses and construction costs of Phase I of the Market Common Development, on May 10, 2009, the Agent agreed to honor checks and other payments issued and requested by LUK-MB1 to pay operating expenses and construction costs for the time period prior to May 6, 2009, which checks and other payments the Agent and Lenders reviewed and approved. Discussions have occurred between the Agent, Lenders and LUK-MB1 regarding the process for continuing to make funds available to pay bills for completed construction and operation of Phase I of the Market Common Development in the ordinary course of business. There is no assurance, however, that an agreement will be reached which will continue to permit such funds to be so used. If an agreement cannot be reached between the parties, LUK-MB 1 intends to explore all defenses and remedies available to it and intends to continue to dispute the actions of the Agent in connection with the Second Senior Loan Letter.

As of May 15, 2009, the Developers reported that Chase, as counterparty under the Swap Agreement, sent a letter to LUK-MB1 ("First Chase Letter") on May 6, 2009, stating that LUK-MB1 had breached the Swap Agreement by failing to make the monthly periodic payment due under the Swap Agreement on May 5, 2009. On May 8, 2009, Chase sent an additional letter to LUK-MB1 ("Second Chase Letter") stating that there had occurred an Event of Default under the Swap Agreement and that pursuant to the Swap Agreement, Chase had designated the Swap Agreement to be terminated on May 11, 2009, with any accelerated payments owed by LUK-MB I pursuant to the terms of the Swap Agreement ("Early Termination Amount") to be calculated as of May 11, 2009.

The Developers also reported that Chase sent another letter to LUK-MB1 ("Third Chase Letter") on May 11, 2009, demanding payment on May 12, 2009 of the Early Termination Amount, which Chase had calculated to be \$7,642,516.64. Pursuant to the terms of the Swap Agreement, the Early Termination Amount is secured by the Senior Loan Mortgage and a failure by LUK-MB1 to pay the Early Termination Amount will result in a Default under the Loan Agreement, thereby granting the Agent and Lenders, subject to various notice and cure periods which may be applicable, certain remedies, including rights of foreclosure, as provided under the Loan Agreement, the Senior Loan Mortgage, and related security documents for the Senior Loan. LUK-MB1 has not paid the Early Termination Amount and has no intention of paying such amount to Chase.

As of May 15, 2009, the Developers reported that the Agent sent an additional Notice of Default to LUK-MB1 (the "Third Senior Loan Letter") on May 12, 2009 stating that an Event of Default occurred and is continuing under the terms of the Swap Agreement and that this Event of Default also constitutes a Default under the Loan Agreement. LUK-MB1 is exploring all options and remedies available to it, including, but not limited to, a bankruptcy filing by LUK-MB I, efforts to negotiate a modification of the Loan Agreement and Loan Documents with the Agent and Lenders to address this cross-default issue, and discussions with the city relating to the availability of the remaining funds for construction of the 2006 Redevelopment Projects to permit ongoing development of the Market Common Development.

As of May 15, 2009, the Developers reported that Holdings is in arrears with respect to its payments to LUK-MB LLC (formerly known as LUK-MB Corp) (the "Mezzanine Lender") under the Mezzanine Loan. A failure to make payments under the Mezzanine Loan could result in a default under the Mezzanine Loan. A default under the Mezzanine Loan will only result in a cross default with the Senior Loan if the Mezzanine Lender commences an exercise of remedies as a result of such default. LUK-MB1 intends to consider all options and remedies available to it in connection with the Senior Loan, the Mezzanine Loan, the termination of the Swap Agreement by Chase, the Agent's declaration of the Default under the Loan Agreement as a result of the Event of Default under the Swap Agreement, and the Tenants' requests for rent relief. LUK-MB1 also intends to have discussions with the city relating to the availability of the remaining funds for construction of the

2006 Redevelopment Projects to permit ongoing development of the Market Common Development and intends to continue discussions with all other parties regarding the resolution of all matters between them including, but not limited to, the alleged defaults, the frozen accounts, the demand for payment of an Early Termination Amount and the Agent's declared cross-default to the Loan Agreement, and rent relief requests by the Tenants. However, LUK-MB1 cannot give any assurances that it will be successful in reaching satisfactory agreement on each such item with the Agent, the Lenders, the Mezzanine Lender, the city, Chase and the Tenants. LUK-MB1 further notes that the recent developments may jeopardize LUK-MB1's ability to satisfy the conditions set out in the Loan Agreement for an extension; without regard to such an extension, the Senior Loan matures on October 10, 2009.

The Developers further advise that, while the situation described in the preceding paragraph relate primarily to obligations of LUK-MB1, to the extent that the defaults, or alleged defaults, thereunder may result in defaults under the PIPA or the TIF, the city may exercise remedies in a manner which could impact the ability of LUK-MB1 and LUK-MB2 to access funds for ongoing funding of costs of the 2006 Redevelopment Projects and/or impact the ability of LUK-MB1 and LUK-MB2 to access funds under the 2006B Bond Purchase Agreement. As indicated above, the Developers intend to engage in conversations with respect to these matters with the city.

#### **B) Lease Related Defaults**

As of May 15, 2009, the Developers reported that Colorado Bag 'N Baggage, LLC ("CBNB") defaulted under the terms of its lease by vacating its leased premises on or around April 16, 2009. LUK-MB1 intends to pursue all of its rights and remedies under the lease to recover the monies due and owing from CBNB. Many of the leases for the Center contain operating co-tenancy provisions which provide grounds for Tenants to either pay reduced rent or terminate their leases if a certain percentage of Tenants in the Center are not open and operating, therefore, ceasing of operations by CBNB, together with other tenants ceasing their operations, could have a material adverse impact on the Center. CBNB is included in the overall leasable area of the Center.

As of May 15, 2009, the Developers reported that Ann Taylor Retail, Inc. ("Ann Taylor") sent an email to LUK-MB1 on April 6, 2009, requesting rent relief in the form of a rent abatement. LUK-MB1 intends continue to consider this request during the second quarter of 2009; however, there is no assurance that LUK-MB1 will agree to this request. Many of the leases for the Center contain operating co-tenancy provisions which provide grounds for Tenants to either pay reduced rent or terminate their leases if a certain percentage of Tenants in the Center are not open and operating, or in some leases, if certain Tenants (for example, Ann Taylor, Tommy Bahama, Bath & Body Works, Victoria's Secret, Divine Prime, Copper Penny, Copper Penny Shooz or a combination of those Tenants with other Tenants that have not sent rent relief letters) are not open and operating; therefore, cessation of operations by Ann Taylor, together with other tenants ceasing their operations, could have a material adverse impact on the Phase I retail, commercial and office portions of the Market Common Development. Ann Taylor is included in the overall leasable area of the Center.

Additional information regarding status of development, leases and recent developments is provided in the Developers' continuing disclosure for the quarter ending March 31, 2009, which is provided under a separate cover.

**May 18, 2009**

**MuniCap, Inc., Administrator**