

March 31, 2008

Dear Member,

We hope you'll take the time to read this important letter.

First, the management of the Harbor Bay Club would like to acknowledge that we understand how important the Club is to your quality of life. As the creators of the Harbor Bay Community, we take pride in our work and are deeply committed to not only preserving the quality of life provided by the Club but whenever and wherever possible to improve upon it. We regard the Club as a critical component of the Harbor Bay Isle/Bay Farm Island/East Alameda community, offering a wide range of facilities and programs for both adults and families.

It's no secret that we've been searching for an appropriate location within or near Harbor Bay on which to build a new Club. To date, we've been unsuccessful in securing a site, so we will continue to improve our existing facility and operations and assume that we'll be here forever.

I'm sure you've noticed the improvements recently completed – the remodeling and reconfiguration of the Fitness Center to provide additional space, adding new cardio equipment, new dumbbells, additional new circuit equipment, and TVs on all the new cardio equipment and some of the existing cardio equipment. We have also renovated the outdoor locker rooms. Based on the positive response to the new TVs, we will be adding TVs to substantially the rest of the cardio equipment. In the upcoming months we will recarpet the Clubhouse and Bar. The Proshop will be converted to provide some space for spa pedicures and manicures, retaining the existing operations and reservations, spa reception and spa products. The space outside the studios will be a wireless Internet Café with a free coffee bar for a few hours in the mornings. We will also be performing expensive maintenance and upgrades on a number of building systems that are not visible to the members.

Despite these improvements, for the members who do not play tennis, your dues structure will remain unchanged.

In the spirit of openness and cooperation, we would like to share that while these improvements are continuing economic forces are being brought to bear that affect all of

us. I'm sure you have noticed how everything costs more. The Club is experiencing significant increased costs. To further complicate the situation, the mortgage on the Club comes due in October and we will have to refinance. The "credit crunch" you have read so much about is making this very difficult. **In order to refinance, we will have to demonstrate to the new lender that the Club is self-sustaining from a cash flow standpoint.**

In the course of preparing the necessary Financials for the new lender, we have completed an in depth analysis of every Club department's operations, allocated operating costs and overhead to each department, as well as analyzing members' dues. We found that the two departments losing the most money are the Bar, and the tennis facilities and programs.

We are attempting to promote more use of the Bar, so if you enjoy this amenity please stop by to show your support.

We then did market research on comparable tennis clubs in the region. We compared facilities and pricing. We found that Harbor Bay Club dues are significantly less than most other comparable facilities, and that most clubs charge much higher initiation fees than paid by the current members of the Club.

Thus, effective May 1, 2008, we are creating a new Tennis class of membership. We are increasing the dues for Tennis members by \$30 per month, which will still be less than tennis memberships at other clubs. This is a one-time correction that reflects the disparity between Tennis memberships and regular memberships. We will also be instituting new procedures for court reservation and sign in, to allow the most efficient use of the courts and to monitor usage, and to assure the courts are available to Tennis members only.

Additionally, beginning May 1st 2008, all **new** members, regular or Tennis, will pay higher dues than current members (including the cost of a Tennis membership after the dues increase).

Our Club has 19 tennis lighted courts occupying about 6 acres, which is the majority of the land for the entire Club. Because we now have only one class of membership, and use of the tennis facilities has not required reservation or sign in, we currently do not know how many active tennis players we have, and whether the tennis courts are under-utilized. We believe we have the lowest ratio of active tennis players to number of courts in the region. Based on the number of Tennis member applications we receive in the next few months, and court usage by those members, we intend to evaluate whether some of the land currently allocated to tennis could be put to better use.

If you would like to obtain a Tennis membership, you must apply for it. Please read the attachment for pertinent information on how to obtain a Tennis membership application, rules and regulations and other information you'll find useful.

The dues for non-Tennis members will remain unchanged. Unlike many other clubs, all members will have access to racquetball facilities. Any future dues increases will be spread across all types of memberships.

Last but not least, we'd like to share with the members with school age children that we're aware of the impending crises resulting from California's cut back on educational funding. This is expected to affect sports, music, drama and other school programs. The Harbor Bay Club will be working cooperatively with the School District, City and community leaders to address various solutions to these problems, and to explore ways in which the Club can help to backfill the gaps from school cutbacks. We are committed that the Club will continue to serve as a center of the community.

Thank you for your time and attention.

Sincerely,

Ronald H. Cowan
Timothy Hoppen
Stephen K. Brimhall
Lisa Franzel