

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

DEVELOPERS' CONTINUING DISCLOSURE STATEMENT

Attn: Keenan Rice
MuniCap, Inc.
8340 Governor Ridgely Lane
Ellicott City, MD 21043

In accordance with the Continuing Disclosure Agreement (the "Agreement") by and between the undersigned, LUK-MB1, LLC ("LUK-MB1"), LUK-MB2, LLC ("LUK-MB2"), and LUK-MB5, LLC ("LUK-MB5" and, collectively with LUK-MB1 and LUK-MB2, the "Developers") and MuniCap, Inc. (the "Administrator") dated October 19, 2006, the Developers hereby provide the following information as of June 30, 2009. All capitalized terms used but not defined herein shall have the meanings set forth in the Limited Offering Memorandum dated as of September 29, 2006 (the "Limited Offering Memorandum"). To the best of the respective knowledge of the undersigned:

Part I – CHANGES TO STREET NAMES

The Developers have been advised that a substantial number of the street names at the Market Common, Myrtle Beach have been changed. As of the date of the Developers' Continuing Disclosure Statement for the quarter ended March 31, 2009 (the "First Quarter Disclosure Statement"), all changes to street names in Phase I and Phase II (each as defined herein) were believed to have been finalized; however, Ordinance No. 2009-47, approved by the City of Myrtle Beach on June 23, 2009, contained changes to various street names in Parcel R-12 of Phase II. As of June 30, 2009, the streets have not yet been named in Phase IA (as defined herein).

Part II – PERIODIC REPORTS

LUK-MB1, LLC REPORT AS OF JUNE 30, 2009

1. Material Change in Form, Organization or Ownership of LUK-MB1 from that described in the section of the Limited Offering Memorandum entitled "THE MARKET COMMON DEVELOPMENT AND THE MARKET COMMON DEVELOPERS – The Market Common Developers and Key Development Team Members – LUK-MB1":

None

2. Status of Completion, including material changes to the plan of completion, of each of the following:

- a. Phase I of the Market Common Development and related improvements described in the sections of the Limited Offering Memorandum entitled "THE MARKET COMMON DEVELOPMENT AND MARKET COMMON DEVELOPERS – The Market Common Development" and "Phase I":

Since the date of closing on the Series 2006A Bonds, seven (7) amendments to the Master Plan for the Market Common, Myrtle Beach (the "Original Master Plan") have been adopted by the City of Myrtle Beach (the "City"); four (4) of which have resulted in changes to Phase I of the Market Common Development ("Phase I"). The Eighth Amended Master Plan (as defined in Part II, LUK-MB2 Report, Item 3c below) does not result in any changes to Phase I. Note, the Proposed Seventh Amendment continues to be pending as described in Part II, LUK-MB5 Report, Item 2a below.

Both the residential and retail, commercial and office portions of Phase I are open and operating.

The projected total cost for the Phase I private vertical improvements, excluding site acquisition costs, set out in the Limited Offering Memorandum ("Total Phase I Improvement Costs") was \$142,264,600. Based on construction costs determined as a result of the bidding process, the projected Total Phase I Improvement Costs were revised to \$149,585,713 (the "Phase I Improvement Cost Budget"). As a result of additional tenant improvement costs for existing Tenants that were not originally budgeted, the estimated Total Phase I Improvement Costs have been further revised to \$152,613,029 ("Actual Total Phase I Improvement Costs"). As of June 30, 2009, the portion of the Actual Total Phase I Improvement Costs that was both incurred and funded was \$150,367,171; of the remaining balance of the Actual Total Phase I Improvements Costs, \$2,021,088 had not yet been incurred and \$233,770 had been incurred but not yet funded. All of the Actual Total Phase I Improvement Costs that have not yet been incurred are for tenant improvement costs and related leasing commissions.

JP Morgan Chase Bank, N.A. (the "Agent"), the lenders that are parties to the Loan Agreement (as such term is defined in Part II, LUK-MB1 Report, Item 7 below) (the "Lenders") and LUK-MB1 are in ongoing negotiations regarding the terms of a modification to the Loan Agreement and Loan Documents (as such term is defined in Part II, LUK-MB1 Report, Item 7 below) and a cash management agreement (all as more thoroughly described in Part II, LUK-MB1 Report, Item 7 below). Until such negotiations are completed and the required documents executed by each of LUK-MB1, Agent and the Lenders, the Agent and Lenders may not advance any additional proceeds of the Senior Loan (as such term is defined in Limited Offering Memorandum) needed to

pay such remaining Actual Total Phase I Improvement Costs. There is no assurance that Agent, Lenders and LUK-MB1 will, in fact, reach agreement on the business points under discussion or finalize mutually acceptable agreements or that, assuming agreement on the terms of such agreements, that all of the requisite parties will, in fact, execute the agreements. Further, there is no assurance that the form of any agreements so negotiated and executed will contain any agreement on the part of the Agent and Lenders to fund the remaining Actual Total Phase I Improvement Costs from the proceeds of the Senior Loan. Until the conclusion of the ongoing negotiations and execution of negotiated agreements by all the requisite parties in a form containing such a provision, all remaining Actual Total Phase I Improvement Costs will need to be funded from the operating cash flow of LUK-MB1, which operating cash flow is derived entirely from the residential, retail, commercial and office spaces comprising Phase I. However, there is no certainty that the requisite operating cash flow will be available. See further discussion of LUK-MB1 operating cash flow under Part II, LUK-MB1 Report, Item 5a below.

As of June 30, 2009, Senior Loan proceeds in the amount of \$92,754,142, together with \$19,000,000 in proceeds of the Mezzanine Loan and \$38,464,690 in equity, had been expended on the Actual Total Phase I Improvement Costs. No advances under the Senior Loan or the Mezzanine Loan (as such term is defined in the Limited Offering Memorandum) have been made since June 30, 2009. The Mezzanine Loan proceeds have been completely disbursed.

- b. 2006 Redevelopment Projects to be financed, in part, with proceeds of the Bonds, as described in the Limited Offering Memorandum:

As described in Part II, LUK-MB1 Report, Item 2a above, the contractors substantially completed all of the Phase I 2006 Redevelopment Projects during the third quarter of 2008. The Phase I 2006 Redevelopment Projects were delivered and dedicated to the City during the fourth quarter of 2008. LUK-MB1 completed the remediation of the chipping and movement of some of the brick pavers on Howard Street and uneven grading and movement in a number of the sidewalk ramps during the first quarter of 2009 and, as of June 30, 2009, this work was accepted by the City. The City is requesting additional work be done to the sidewalk ramps to prevent movement and has held back \$50,000 of Series 2006A Bond proceeds to insure the work is completed by LUK-MB1; there is no assurance when and if this work will be completed or if the funds held back will be disbursed by the City.

LUK-MB1 was requested by the City to construct public bathrooms for Phase I as an additional Phase I 2006 Redevelopment Project. The construction of these public bathrooms was completed during the second quarter of 2009. The City agreed to disburse the Series 2006A Bond proceeds to pay for the cost of constructing these public bathrooms, which funds in the amount of \$69,057.46

were disbursed on July 13, 2009. Because of a combination of savings in other line items of the budget for the Phase I 2006 Redevelopment Projects and/or availability of additional Series 2006A Bond proceeds, there was no increase in the budget for the Phase I 2006 Redevelopment Projects notwithstanding the construction of this additional Phase I 2006 Redevelopment Project.

As of June 30, 2009, based on updated budget projections and information available to LUK-MB1, the aggregate anticipated cost of the Phase I 2006 Redevelopment Projects remains \$26,456,605. As of June 30, 2009, the aggregate anticipated cost of the 2006 Redevelopment Projects (including Phases I, II and IA) was \$38,949,592.

3. Status of Phase I of the Market Common Development:

a. Statement of Whether Ownership of any Phase I Parcel has Changed:

There have been no changes in the ownership of any parcel in Phase I during the second quarter of 2009.

b. Information regarding the Issuance of any Building Permit for any parcel in Phase I of the Market Common Development:

All required Phase I permits have been obtained. Construction by LUK-MB1 of each of the Buildings (except tenant spaces that LUK-MB1 is not obligated to build pursuant to the executed leases and tenant spaces that are not subject to executed leases) has been substantially completed and, where applicable, accepted by the Tenants.

LUK-MB1 has executed Leases with Tenants at various different times. LUK-MB1 has delivered retail, office and commercial spaces to the Tenants with leases executed prior to the end of the second quarter 2009 consistent with the terms of the Tenants' respective leases. The terms of the Leases vary in terms of the nature of the space to be delivered by LUK-MB1 (i.e., shell space, more complete fit-out); the balance of any finishing of space not required to be performed by LUK-MB1 under the applicable Lease will be completed by the applicable Tenant. After payment of tenant improvement allowances by LUK-MB1, the remaining costs of tenant fit-out for these spaces are to be paid by the Tenants; therefore, these costs are not included in the Actual Total Phase I Improvement Costs set out above.

LUK-MB1 delivered various retail, office, and commercial spaces prior to the second quarter of 2009, but did not execute any additional leases during the second quarter of 2009. If the Agent, Lenders and LUK-MB1 reach agreement as described above such that additional advances of funds under the Senior Loan will be made available to fund the remaining Actual Total Phase I Improvement Costs (see Part II, LUK-MB1 Report, Item 2a above and 7

below), LUK-MB1 will continue its efforts to execute additional leases during the third quarter of 2009 and deliver additional retail, office and commercial spaces thereafter. There is no assurance that the requisite agreement with the Agent and Lenders will be reached, which may impede LUK-MB1's ability to execute additional leases and deliver additional retail, office and commercial spaces since, if Senior Loan proceeds are not available to pay Actual Total Phase I Improvements Costs, operating cash flow will need to be made available to pay such costs and it is uncertain if such funds will be available.

c. Status of Approvals for Phase I of the Market Common Development:

There have been no changes to the approvals for Phase I as described in the following section of the Limited Offering Memorandum entitled "THE MARKET COMMON DEVELOPMENT AND THE MARKET COMMON DEVELOPERS – Zoning and Governmental Approvals" during the second quarter of 2009.

4. Statement of Zoning Classification Changes:

There have been no zoning classification changes for any parcel within Phase I during the second quarter of 2009.

5. Leasing, Contract and Closed Sale Information Regarding Phase I of the Market Common Development:

a. Office and Retail Leasing Status:

The estimated total retail, office and commercial rentable space of Phase I (the "Aggregate Rentable Square Footage") is approximately 386,761 square feet. As tenant fit-out continues and re-certification of square footage is completed, the Aggregate Rentable Square Footage may change. If the Agent and Lenders agree to make funds available to fund remaining Actual Total Phase I Improvement Costs, for which there is no assurance given the issues remaining to be resolved between the Agent, Lenders and LUK-MB1 (see Part II, LUK-MB1 Report, Item 2a above and 7 below for additional information), LUK-MB1 will continue its efforts to execute additional leases and deliver additional retail, office and commercial spaces during the third quarter of 2009.

As of June 30, 2009, LUK-MB1 had executed leases with Tenants for approximately 84.31%¹ of the Aggregate Rentable Square Footage; the majority of the Aggregate Rentable Square Footage that remained available

¹ Colorado Bag N Baggage vacated its space resulting in a decrease of 2,855 square feet of occupied space. Additionally, it was discovered that in the First Quarter Disclosure Statement, LUK-MB1 and MC Management were mistakenly both listed as Tenants for the management office; one for 3,328 square feet and one for 3,320 square feet. In fact, as of June 30, 2009, only LUK-MB1 occupied the management office resulting in a decrease of 3,320 square feet of occupied space.

was in the office components of Phase I. Additionally, as of June 30, 2009, LUK-MB1 had not obtained any additional executed letters of intent with prospective retail, commercial or office tenants. Including letter of intent negotiations, as of June 30, 2009, the status of retail, commercial and office leasing and lease negotiations (expressed as percentages of Aggregate Rentable Square Footage) could be summarized as follows:

Leases executed:	84.31%
Executed letters of intent:	0%
Letter of intent negotiations:	2.08%
Total Aggregate Rentable Square Footage committed:	86.39%
Total percentage of remaining Aggregate Rentable Square Footage:	13.61%

As of June 30, 2009, LUK-MB1 held executed leases from the following Tenants for the Phase I retail, commercial or office areas:

Tenant Name	Trade Name/Manager	Type of Use	Approximate Rentable Square Footage
Ann Taylor Retail, Inc. ²	Ann Taylor	Specialty Retail	4,495

² Through June 30, 2009, the Tenants identified by the footnote number 2 had sent letters to LUK-MB1 requesting rent relief in the form of reduced rent, conversion to rent as a percentage of sales, rent abatement and/or marketing or other financial assistance and there were a few Tenants that had indicated that they may have to cease operations regardless of whether rent relief is made available. Additionally, since that date, a number of Tenants have modified their requests for rent relief one or more times as they discovered that their establishments cannot operate under the rent relief they had previously requested. Many of the Tenants that have requested rent relief or modified rent relief have, notwithstanding the status of any actual documentation, started operating as if the requested relief had been granted and making payments (or lack thereof) accordingly. Generally, the majority of the Tenants who have sent letters requesting rent relief have indicated that they need the rent relief requested in order to remain open in Phase I. Subject to the discussion above, as of June 30, 2009, and continuing through the date of this Continuing Disclosure Statement, under the terms of their leases, the Tenants remained obligated to continue to pay rent; however, as of each such date, Victoria's Secret Stores, LLC ("Victoria's"), and Bath and Body Works, LLC ("Bath & Body Works"), each had the right to cease operations under the terms of its respective lease. The Senior Lender has considered and approved various requests for rent relief, has been informed by LUK-MB1 of all requests for modified rent relief and has been informed of the Tenants that are considering closing their establishments or that have the right to do so under the terms of their leases. LUK-MB1, with the approval of Senior Lender, is attempting to negotiate modifications to certain lease provisions with the various Tenants in exchange for granting the rent relief requested by such Tenants; four of the Tenants that have requested rent relief have executed rent relief agreements modifying the terms of their leases. There is no assurance that LUK-MB1 and the remaining Tenants that have requested rent relief or modified rent relief will reach an agreement as to the terms to be contained in modifications to the leases or the terms of rent relief agreements or that Agent and Lenders will approve such agreements; furthermore, if an agreement is reached between LUK-MB1 and any Tenant, there is no assurance that Tenants will be able to pay operating costs or the modified rent memorialized in writing.

Tenant Name	Trade Name/Manager	Type of Use	Approximate Rentable Square Footage
Anthropolgie, Inc.	Anthropologie	Fashion Retail	12,000
Banana Republic, LLC	Banana Republic	Fashion Retail	8,000
Barnes & Noble Booksellers, Inc.	Barnes & Noble	Books & Music	28,233
Bath and Body Works, LLC ²	Bath and Body Works	Specialty Retail	3,567
Big River Breweries, Inc.	Gordon Biersch	Restaurant/Bar	8,846
Finley & Bidly, Inc. ²	The Big Tuna	Specialty Retail	1,119
Blue Mer, Inc. ²	Blue Mer	Specialty Retail	2,693
Bobby Chan Retail at Myrtle Beach, LLC	Bobby Chan	Specialty Retail	3,752
Ferdon Brothers, Inc. ²	Booty Outdoor Wear	Specialty Retail	2,200
Bungalow Bailey's, Inc.	Bungalow Bailey's	Specialty Retail	2,000
Wee. R. Sweetz, Inc. ²	Canipes	Specialty Retail	986
Carlyle & Co. of Montgomery ³	Carlyle & Co.	Specialty Retail	2,750
Chico's FAS, Inc.	Chico's	Fashion Retail	4,432
Coastal Center for Cognitive Therapy, PA	Coastal Center for Cognitive Therapy, PA	Service	822
Coldstone Creamery Leasing	Cold Stone Creamery	Restaurant	1,300

Many of the leases for Phase I contain operating co-tenancy provisions which provide grounds for Tenants to either pay reduced rent or terminate their leases if: (i) other tenants occupying a certain percentage of gross leasable area in Phase I are not open and operating (the required occupancy percentages are set out in the terms of each lease), and/or (ii) specified Tenants ("Named Tenants") or a combination of Named Tenants are not open and operating. The Named Tenants that have requested rent relief are Ann Taylor Retail, Inc. ("Ann Taylor"), Tommy Bahama, Bath & Body Works, Victoria's, Divine Dining Group, Inc. (on behalf of Divine Prime and Roy & Sids), P&F, Inc. (on behalf of Copper Penny and Copper Penny Shooz), Retail Brand Alliance, Inc. (on behalf of Brooks Brothers Country Club). A cessation of operations by any one or a combination of these Named Tenants could allow certain Tenants grounds for paying reduced rent or terminating their leases. Additionally, all the Tenants that have sent rent relief requests are included in the overall leasable area of Phase I. If, subject to certain cure periods contained in the leases, the percentage of gross leasable area in Phase I falls below what is required to satisfy operating co-tenancy provisions of certain leases, those Tenants may have grounds for paying reduced rent or terminating their leases.

Discussions have also occurred with certain tenants that may be at risk for closure, during which discussions LUK-MB1 attempted to determine what is necessary for these establishments to remain in operation; however, there is no certainty as to whether these Tenants will continue operations.

The operating income of LUK-MB1 allocable to the retail, commercial and office elements of Phase I will decrease as rent relief is granted or taken by the Tenants, will further decrease if certain Tenants cease operations, and will further decrease if the amount of revenue generated from residential long term rentals and short term vacation rentals decreases (see further discussion of LUK-MB1 operating cash flow under Part II, LUK-MB1 Report, Item 5b below). Given the current economic conditions, it is possible that additional Tenants to those specified herein will request rent relief, that some Tenants will be unable to pay the reduced rent agreed to, or that others will cease operations; it is also possible that the amount of revenue generated from residential leases will decrease. In light of the foregoing, LUK-MB1 can make no assurances that it will be able to continue paying the operating costs of Phase I, including but not limited to, real estate taxes or other amounts assessed against the parcels comprising Phase I, and/or be able to pay interest payments owed on the Senior Loan the Mezzanine Loan, or, in each case, any modification thereof.

³ See Recent Developments, Part IV, infra.

Tenant Name	Trade Name/Manager	Type of Use	Approximate Rentable Square Footage
Company, Inc.			
Coldwater Creek, Inc.	Coldwater Creek	Fashion Retail	5,966
Cooperative Bank	Cooperative Bank	Specialty Retail	2,528
Divine Dining Group, Inc. ²	Divine Prime and Roy & Sids	Restaurant/Bar	7,782
Divine Dining Group, Inc. ²	Ultimate California Pizza	Restaurant/Bar	3,801
Dixie Divas, LLC ²	Dixie Divas	Fashion	2,881
Dulce Lusso, LLC	Dulce Lusso	Specialty Retail	3,500
Edward Jones	Edward Jones	Service	877
Fossil Stores I, Inc. ²	Fossil	Fashion Retail	1,320
Francesca's Collections, Inc.	Francesca's Collections	Fashion Retail	1,293
Handpicked, Inc.	Handpicked	Specialty Retail	1,558
Izzi-b, LLC ²	Izzi-b	Fashion Retail	1,809
Jake and Company, Inc. ²	Jake and Company	Specialty Retail	2,042
JUGO Juice ²	JUGO Juice	Fashion Retail	1,079
Justice Stores, LLC	Justice for Girls	Specialty Retail	4,162
King Street Grille – Myrtle Beach, LLC	King Street Grille	Restaurant/Bar	4,915
Lazy Gator	Lazy Gator	Specialty Retail	3,602
LUK-MB1, LLC	Management Office	Service	3,328
Market Common Cinema, LLC	Consolidated Theaters	Theaters	51,941
Nexsen Pruett	Nexsen Pruett	Service	5,787
P&F, Inc. ²	Copper Penny	Fashion Retail	1,901
P&F, Inc. ²	Copper Penny Shooz	Fashion Retail	1,584
P.F. Chang's China Bistro, Inc	PF Chang's China Bistro	Restaurant/Bar	7,005
Piggly Wiggly Holdings, LLC	Piggly Wiggly	Grocery	43,765
KDSH Enterprises, LLC ²	Random	Fashion	1,514
Resort Quest Myrtle Beach, LLC	Resort Quest	Specialty Retail	489
Resort Quest Myrtle Beach, LLC	Resort Quest	Specialty Retail	2,121
Retail Brand Alliance, Inc. ²	Brooks Brothers Country Club	Fashion Retail	2,225
Elkes Enterprises, Inc. ²	Rug Décor	Specialty Retail	3,480
Soma by Chico's, LLC	Soma by Chico's	Fashion Retail	2,617
Sunglass Hut Trading Corporation	Luxotica	Specialty Retail	900
Victoria's Secret Stores, LLC ²	Victoria's Secret	Specialty Retail	7,968
The Orvis Company	Orvis Sports	Specialty Retail	10,198
Tommy Bahama R&R Holdings, Inc. ²	Tommy Bahama's	Specialty Retail	12,458
Travinia Italian Kitchen at Myrtle Beach, LLC	Travinia Italian Kitchen	Specialty Retail	6,357
White House Black Market, Inc.	White House Black Market	Fashion Retail	3,000
Williams-Sonoma Stores, Inc.	Williams Sonoma	Specialty Retail	6,000
Williams-Sonoma Stores, Inc.	Pottery Barn	Fashion Retail	12,300
Withers Preserve Management Company, LLC ²	RWO Sales Center	Specialty Retail	1,505
X treme Surf Company, LLC ²	X treme Surf and Skate	Specialty Retail	1,311

b. Residential Leasing:

Marketing of the residential units in Phase I of the Market Common Development continued during the second quarter of 2009.

The number of apartment units comprising the Phase I residential continues to be the 195 apartments set forth in the Limited Offering Memorandum. Of the 195 apartment units, 81 were designated for short term vacation rentals and 114 were designated for long term rentals (i.e., lease terms of a year). Occupancy of the long term apartment units began in May 2008. As of June 30, 2009, 81 long term leases and 7 month to month leases⁴ had been executed and 86 of these tenants had commenced their occupancy. Due to the current economic conditions and competition in the area, various rent concessions have been made and will likely continue to be made available to tenants to induce them to execute new leases or renewals of existing leases; these concessions together with any attrition that may result from existing Tenants not renewing leases, will likely reduce the amount of revenue produced by the long term rentals, and LUK-MB1 can provide no assurance as to the amount of revenue that will be produced by the long term rentals.

A weighted average of 41% of the units designated for short term vacation rentals were rented and occupied during the second quarter of 2009. Occupancy of the short term vacation rentals began in June 2008. Due to the current economic conditions, the average daily rate has been discounted and average length of stay for the short term vacation rentals has decreased. While LUK-MB1 already has commitments for short term vacation rentals for the third and fourth quarters of 2009, given the circumstances described above as well as the more seasonal nature of the Myrtle Beach vacation rental market, LUK-MB1 can provide no assurance as to the amount of revenue that will be produced by the short term vacation rentals.

Any reduction in the amount of revenue generated by the long term rentals and/or the short term vacation rentals will reduce the amount of operating cash flow available to pay operating costs of Phase I, including but not limited to, real estate taxes or other amounts assessed against the parcels comprising Phase I, and LUK-MB1 can make no assurance that it will be able to continue to pay operating costs of Phase I, including but not limited to real estate taxes or other amounts assessed against the parcels comprising Phase I, and/or be able to pay interest payments owed on the Senior Loan and the Mezzanine Loan, or, in each case, any modification thereof. See further discussion of LUK-MB1 operating cash flow under Part II, LUK-MB1 Report, Item 5a above.

⁴ In the First Quarter 2009 Continuing Disclosure Statement, it was mistakenly reported that all executed long term leases were for one year. Subsequently, it was determined that a portion of the executed long term leases are month to month leases.

c. Lots Under Contract and Closed Sales:

No lots or parcels within Phase I are under contract and no sale transactions have been closed within Phase I for the quarter ended June 30, 2009.

d. Status of any Phase I Private Vertical Development Activity:

As of June 30, 2009, all Phase I private vertical development activity had previously been substantially completed.

6. Legislative, Administrative or Judicial Challenges:

To the actual knowledge of LUK-MB1, as of June 30, 2009, there had been no legislative, administrative or judicial challenges to the construction of Phase I or the validity of the duly recorded plat or other public approvals.

7. Notice of Default on Construction Loan:

The Agent sent a letter to LUK-MB1 dated April 23, 2009, described in detail in the Section entitled Recent Developments, Part IV, of the First Quarter Disclosure Statement (the "First Senior Loan Letter") regarding alleged defaults and breaches under the Construction Loan and Security Agreement between Agent and Lenders, dated October 10, 2006, as amended by that certain First Amendment to Construction Loan and Security Agreement dated January 8, 2008 (as amended, the "Loan Agreement") with respect to the Senior Loan. On May 5, 2009, LUK-MB1 sent a letter to Agent (the "Response Letter") 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).

On April 28, 2009, Agent sent an additional letter to LUK-MB1 (the "Second Senior Loan Letter") stating that, because a Default had occurred under the terms of the Loan Agreement, no withdrawals of funds from the development, money market and operating accounts of LUK-MB1 would be permitted without the consent of the Agent. The Response Letter 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 would hold Agent responsible for any resulting costs, expenses or damages. Notwithstanding the Second Senior Loan Letter, the Agent and LUK-MB1 have agreed to a process whereby, weekly, LUK-MB1, submits to the Agent a report including the name of the vendor and the amount owed, of outstanding operating and private construction invoices. The Agent reviews the report and either approves or rejects payment to the vendors listed. LUK-MB1 then pays approved invoices as and when there becomes cash available from operations. If there is insufficient cash available from operations, payment of approved invoices is delayed until operating cash is available. As of June 30, 2009, all operating expenses and construction costs which LUK-MB1 has requested Agent authorize have been approved and all checks submitted for payment by third parties

have been honored. However, LUK-MB1 has not been able to pay all operating invoices issued in connection with Phase I in a timely manner. As described above, revenue from the Phase I retail, commercial and office portions has been and likely will continue to be reduced due to rent relief extended to or taken by Tenants and the revenue generated from residential long term and short term rentals has and will likely continue to be decreased, reducing the operating income of Phase I and potentially impairing the ability of LUK-MB1 to pay the operating costs of Phase I, including but not limited to real estate taxes or special assessments, if any, assessed against Phase I, and/or be able to pay interest payments owed on the Senior Loan and the Mezzanine Loan, or, in each case, any modification thereof.

On May 6, 2009, Chase, as counterparty under the Swap Agreement, sent a letter to LUK-MB1 stating that LUK-MB1 had breached the interest rate swap under the 2002 Master Agreement (the "Swap Agreement"), between LUK-MB1 and JPMorgan Chase Bank, N.A. ("Chase"), in its capacity as counterparty, dated October 10, 2006, which Swap Agreement hedged LUK-MB1's interest rate exposure on the Senior Loan and hedged LUK-MB1 Holdings, LLC's ("Holdings") interest rate exposure on the Mezzanine Loan. On May 8, 2009, Chase sent a letter to LUK-MB1 stating that there had occurred an Event of Default under the Swap Agreement and the Swap Agreement would be terminated on May 11, 2009. On May 11, 2009, Chase sent an additional letter to LUK-MB1 demanding payment of \$7,642,516.64 (the "Early Termination Amount"). The Early Termination Amount is secured by the mortgage securing the Senior Loan and, according to the terms of the Swap Agreement and the Loan Agreement, failure by LUK-MB1 to pay the Early Termination Amount would result in a Default under the Loan Agreement, thereby granting 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 mortgage, and related security documents for the Senior Loan. LUK-MB1 did not pay the Early Termination Amount and, on May 12, 2009, Chase sent a letter to LUK-MB1 stating that an Event of Default occurred under the Swap Agreement and that such Event of Default also constituted a Default under the Loan Agreement. As of the date hereof, the Early Termination Amount remains unpaid and continues to accrue interest as provided in the Swap Agreement.

Following the events referenced above, throughout the balance of the second quarter of 2009, the Agent, the Lenders and LUK-MB1 have exchanged both written and oral communications regarding the terms of a cash management agreement that would control the deposit and disbursement of funds from LUK-MB1's project accounts and the process for approval of accounts payable and the terms of a modification of the Loan Agreement and the other Loan Documents (as such term is defined in the Loan Agreement) pursuant to which the parties to the modification would agree to: (i) forebear from pursuing remedies under the terms of the Loan Agreement and other Loan Documents due to the alleged defaults described above, for the time period prior to the October 10, 2009, maturity date of the Senior Loan (the "Maturity Date"); (ii) allow interest on the unpaid balance, including the Swap Agreement Early Termination Amount, to accrue at the rate that would have been applicable in the

absence of a default (“Non-Default Rate”) (unless a default occurs under the modification, under which circumstances, interest would accrue at the Default Rate, as such term is defined in the Loan Agreement); (iii) allow loan proceeds of the Senior Loan in the amount of \$2,245,858 to be disbursed to pay for Actual Total Phase I Improvement Costs, subject to applicable conditions contained in the Loan Agreement; (iv) allow LUK-MB1 to provide rent relief to certain Tenants⁵; (v) allow LUK-MB1 to pay interest, on a current basis, on the Senior Loan and make required deposits into a real estate tax escrow only to the extent of available net operating cash flow after payment of permitted operating expenses, and (vi) prohibit LUK-MB1 from paying any interest on the Mezzanine Loan until the Loan Balance plus the Early Termination Amount and any interest accrued thereon is paid in full.⁶ The current discussions between Agent, the Lenders and LUK-MB1 do not include a discussion of an extension of the Senior Loan beyond the Maturity Date. In addition, under the proposed modification, the unpaid principal of and accrued and unpaid interest on the Senior Loan (the “Loan Balance”) would be increased to include the Early Termination Amount in the amount of \$7,642,516.64, plus accrued interest on such amount through the date the modification referenced above is executed. As referenced above, *de facto* cash management measures have been put in place by LUK-MB1 and the Agent. The Agent has verbally agreed to terms of a cash management agreement and modification of the Loan Agreement and other Loan Documents, including but not limited to agreement of the terms contained in (i) through (vi) above; however, LUK-MB1 cannot give any assurances as to whether the terms above will be agreed to by the Lenders, when and if the terms of these agreements will be finalized and when and if final, written agreements will be executed.

As of June 30, 2009, Holdings continues to be in arrears with respect to its payments to LUK-MB LLC (formerly known as LUK-MB Corp.) (the “Mezzanine Lender”) under the Loan Agreement between Mezzanine Lender and Holdings dated October 10, 2006 (the “Mezzanine Loan Agreement”) and interest continues to accrue on the outstanding balance at the non-default rate. As of June 30, 2009, the outstanding principal balance of the Mezzanine Loan was \$19,000,000 and the accrued and unpaid interest (including both Base Interest and Accrued Interest (as such terms are defined in the Mezzanine Loan Agreement)) was \$1,077,282.60; Holdings has not paid interest due for the months of March through July 2009. Any future payment of interest must be paid from the operating cash flow of Phase I, and as discussed above, reductions in operating income of Phase I as a result of rent relief for Tenants and reduced revenue derived from residential long term and short term rentals could potentially impair the ability of LUK-MB1 to continue paying the operating costs of Phase I, including but not limited to real estate taxes or other amounts assessed against the parcels comprising Phase I, and/or be able to pay interest payments owed on the Senior Loan and the Mezzanine Loan, or, in each case, any modification thereof. As

⁵ The Senior Lender has agreed in writing, outside the terms of the modification, to allow LUK-MB1 to provide rent relief to certain tenants.

⁶ Every reference throughout this Continuing Disclosure Statement to payment of interest on the Mezzanine Loan will be modified by this prohibition if a modification of the Loan Agreement and other Loan Documents which includes this prohibition is executed.

discussed above, the foregoing discussion regarding payment of interest owed under the terms of the Mezzanine Loan, will be modified by any terms contained in the modification of the Loan Agreement and the other Loan Documents, if executed, that prohibit LUK-MB1 from paying interest on the Mezzanine Loan until the Loan Balance plus the Early Termination Amount and any interest accrued thereon is paid in full.

Under the terms of the Mezzanine Loan Agreement, failure to make payments of interest due pursuant to the terms of the Mezzanine Loan Agreement is an Event of Default; however, as of June 30, 2009, the Mezzanine Lender has not exercised any remedies to which it is entitled pursuant to the terms of the Mezzanine Loan Agreement by reason of the occurrence of an Event of Default. A default under the Mezzanine Loan Agreement will only result in a cross default under the Loan Documents for the Senior Loan if the Mezzanine Lender commences an exercise of remedies under the Mezzanine Loan Agreement. The Mezzanine Loan is also stated to mature on the Maturity Date, and if the unpaid principal plus accrued and unpaid interest ("Mezzanine Loan Balance") is not paid on the Maturity Date, the Mezzanine Loan Balance could thereafter accrue Default Interest (as such term is defined in the Mezzanine Loan Agreement).

LUK-MB1 further notes that, as a result of the operating cash flow issues described above and LUK-MB1's inability to pay interest on the Senior Loan (including, potentially, following any modification thereof) and the Mezzanine Loan, LUK-MB1's ability to satisfy the conditions set out in the Loan Agreement and the Mezzanine Loan Agreement for an extension of their respective maturity dates beyond the Maturity Date, including but not limited to, meeting debt service coverage ratio requirements, property valuation thresholds and the requirement that a Default have not occurred and be continuing (if Agent and Lenders are successful in proving their allegations of the defaults described above), will be jeopardized. Furthermore, if the conditions to the extension cannot be satisfied by LUK-MB1, both the Senior Loan and the Mezzanine Loan will mature on October 10, 2009, the Maturity Date, and if the principal balances plus accrued and unpaid interest are not timely paid, the respective loan balances (including, in the case of the Senior Loan, the Early Termination Fee), will thereafter accrue interest at the respective default rate. As a result of the foregoing, and in anticipation of the Maturity Date, LUK-MB1 intends to continue to explore all defenses available to it in connection with the allegations of the Agent, Lenders and Chase described above. 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 additional modifications of the Senior Loan and the Mezzanine Loan to provide for extension of the Senior and Mezzanine Loan and/or otherwise address the upcoming Maturity Date.

LUK-MB1 also notes that, while the City has continued to advance proceeds of the Series 2006A Bonds and to make advances under the Series 2006B Bond Purchase Agreement during the second quarter of 2009, LUK-MB1 may be obligated to initiate discussions with the City regarding the availability and disbursement of the remaining

proceeds. As of the date of this Developers' Continuing Disclosure Statement, the amount of Series 2006A Bond proceeds not yet disbursed, according to the City Project Manager, equals \$75,029 and the remaining Series 2006B Bond proceeds not yet disbursed equals \$1,210,165.

LUK-MB1 cannot give any assurances that it will be successful in reaching satisfactory agreement with the Agent and the Lenders or the Mezzanine Lender or whether it will also be successful in reaching any satisfactory agreement with the City.

8. Modification of Development Agreement, the Infrastructure Purchase Agreement and the TIF Agreement:

As of June 30, 2009, there had been no material amendments or supplements to the Development Agreement, Public Infrastructure Purchase Agreement ("PIPA") or the Tax Increment Financing Agreement ("TIF Agreement").

9. Statement of Default under the Development Agreement, the Infrastructure Purchase Agreement, and the TIF Agreement:

As of June 30, 2009, LUK-MB1 had not been informed of any default with respect to the Development Agreement, the PIPA or the TIF Agreement; however, if a Default under the Loan Agreement is deemed to have occurred either directly or through a cross default as described in Part II, LUK-MB1 Report, Item 7 above, the City could deem there to be a default under the PIPA and the TIF Agreement entitling it to exercise certain remedies set forth in the PIPA and TIF Agreement as further described under "Infrastructure Purchase Agreement" and "Tax Increment Financing Agreement" in the Limited Offering Memorandum. As of June 30, 2009, the City has not declared a default under the PIPA or the TIF and has continued disbursing proceeds of both the Series 2006A Bonds and Series 2006B Bonds as described above; however, there is no assurance that the City will continue disbursing the proceeds of the Series 2006A Bonds and Series 2006B Bonds.

10. Statement Regarding 2006B Bonds:

a. Amount Drawn under the 2006B Bond Purchase Agreement:

As of June 30, 2009, the total amount drawn under the 2006B Bond Purchase Agreement was \$8,789,835, of which amount, \$7,152,568 was drawn by LUK-MB2 and \$1,637,267 was drawn by LUK-MB1.

b. Default by City or Bond Purchaser under the 2006B Bond Purchase Agreement:

As of June 30, 2009, LUK-MB1 had not been informed of any default by the City or the bond purchaser under the 2006B Bond Purchase Agreement.

- c. Circumstances Materially Adversely Affecting the Making of Further Draws under the 2006B Bond Purchase Agreement:

See Part II, LUK-MB1 Report, Item 9 above, to the extent that the circumstances described therein could impact the ability of LUK-MB1 or LUK-MB2 to request additional draws under the 2006B Bond Purchase Agreement including, but not limited to, as a result of a default under the PIPA or the TIF Agreement.

LUK-MB2, LLC REPORT AS OF JUNE 30, 2009

1. Material Change in Form, Organization or Ownership of LUK-MB2 from that described in the section of the Limited Offering Memorandum entitled “THE MARKET COMMON DEVELOPMENT AND THE MARKET COMMON DEVELOPERS – The Market Common Developers and Key Development Team Members – LUK-MB2”:

None

2. Status of Completion, including material changes to the plan of completion, of each of the following:

- a. Phase II of the Market Common Development and related improvements described in the sections of the Limited Offering Memorandum entitled “THE MARKET COMMON DEVELOPMENT AND MARKET COMMON DEVELOPERS – The Market Common Development” and “Phase II”:

As described in Part II, LUK-MB1 Section, Items 2a above and Part II, LUK-MB2 Section, Item 3c below, since the date of closing on the Series 2006A Bonds, there have been several approved amendments to the Master Plan for the Market Common, Myrtle Beach (as amended through June 23, 2009, the “Eighth Amended Master Plan”) which impact Phase II of the Market Common, Myrtle Beach (“Phase II”). The following table shows the totals of Phase II housing units as of June 30, 2009, as further set out in the Eighth Amended Master Plan:

Type of Unit	According to the Limited Offering Memorandum	After Adoption of the First Through Eighth Amended Master Plans ⁷
Townhomes	866	812 ⁸
Condominiums	575	280
Single Family Homes	0	66

With regard to the Phase II North Parcels (which include Parcels 201 through 239), horizontal improvement work (the “Work”) for tracts R-4, R-6/C-5, including Sharpe Lane and R-5/C-3, is substantially completed. Civil design plans for tract R-1 have been submitted. Work has not yet commenced for tracts R-1, R-7/C-4, R-3/C-2 and R-2/C-1.

With regard to tract R-6/C-5 (Parcels 201 through 207), the water and sanitary sewer for tract C-5 (Parcels 201 and 202) was completed and dedicated to the City during the second quarter of 2007 which allowed LUK-MB2 to tie into the system. The street and storm sewer work for both tracts R-6 and C-5 was substantially completed during the third quarter of 2008, documents related to public dedication of this work have been reviewed and approved by the City, punchlist item requested by the City have been completed and approved, and a substantial completion certificate has been issued by the project engineer; however, public dedication will not occur until after the closing on the sale of tract R-6 to a third party purchaser. LUK-MB2 cannot predict when closing on such a sale will occur; see Part II, LUK-MB2 Report, Item 5a below.

The water and sanitary sewer for tract R-5/C-3 (Parcels 222, 223, 224 & 225) was dedicated to the City during the second quarter of 2008, which allowed LUK-MB2 to tie into the system. Street and storm sewer was dedicated to the City during the first quarter of 2009.

The water and sanitary sewer for tract R-4 (Parcels 209, 210, 211 & 212) was dedicated to the City during the fourth quarter of 2007 which allowed LUK-MB2 to tie into the system. Street and storm sewer was dedicated to the City during the first quarter of 2009.

Civil design plans which had been re-designed to reflect adjustments in the water and sewer design for tract R-1 (Parcel 239) were submitted to the City during the second quarter of 2008 and approved by the City during the third

⁷ The Proposed Seventh Amendment has not yet been adopted by the City, and if adopted, will not have any impact on Phase II or the number of townhomes, condominiums or single family homes in that Phase. See Part II, LUK-MB5 Report, Item 2a, *infra*.

⁸ This number was mistakenly reported in prior Continuing Disclosure Statements as 899 instead of 907 townhome units. The Eighth Amended Master Plan resulted in a deduction of 95 townhome units and an addition of 66 single family homes.

quarter of 2008. Permits necessary to complete construction of the horizontal improvements were issued during the third quarter of 2008. Work has not yet commenced for R-1.

With regard to the Phase II South Parcels (which include Parcels 240 through 273 and the Golf Holiday property acquired during the first quarter of 2008), the Work for tracts R-11 and R-8 is substantially completed, and revisions to the land plan for tract R-12 was submitted to the City and approved during the second quarter of 2009. Work has not yet commenced for tracts R-9, R-10, R-13 and Golf Holiday.

A contract for the horizontal work for tract R-8 (Parcel 255) was completed and the street and storm sewer was dedicated to the City during the first quarter of 2009.

The water and sanitary sewer for tract R-11 (Parcels 241, 242, 243 & 244) was dedicated to the City during the third quarter of 2007 which allowed LUK-MB2 to tie into the system. Streets and storm sewer for tract R-11 were dedicated to the City during the first quarter of 2009.

A land plan for tract R-12 (Parcels 259, 260, 261 & 262) was re-designed during the first quarter of 2009 to allow for the building of 66 detached single family homes on tract R-12 instead of 95 townhome units. In order to change the residential product as described above, LUK-MB2 is required to submit both a proposed amendment to the C-6 zoning ordinance and a proposed amendment to the Master Plan for the Market Common Development in order to permit single family homes on tract R-12. As discussed in Part II, LUK-MB2 Report, Item 3c below, a proposed amendment to the C-6 zoning ordinance was submitted and approved by the City during the first quarter of 2009 and the Proposed Eighth Amendment was submitted and approved by the City during the second quarter of 2009 which together allow for the building of 66 detached single family homes on tract R-12. Work has not yet commenced for R-12.

As of June 30, 2009, LUK-MB2 anticipated that as construction continues and additional contracts are awarded, there may be some change to the projected private costs of portions of Phase II due to re-design and unit composition changes to tracts R-1, R-8 and R-12 as a result of the Third and Fourth Amended Master Plans (as such terms are used in and as further described in the fourth quarter of 2007 Developers' Continuing Disclosure Statement) approved during the fourth quarter of 2007, the Eighth Amended Master Plan (as such term is described in Part II, LUK-MB2 Report, Item 3c below) and the Detached Single Family Home Zoning Ordinance Amendment (as such term is used in and further described in the First Quarter Disclosure Statement) approved during the first quarter of 2009, and any future amendments to the Master Plan. As of June 30, 2009, although a contract had been executed in

connection with tract R-8 for a cost that was higher than projected, because tracts R-1 and R-12 have not yet been bid, the impact on the overall private budget for Phase II continued to be unknown.

As described above, Work needs to be performed for a substantial number of tracts comprising Phase II. A portion of the costs for such Work is intended to be paid for with funds drawn under the 2006B Bond Purchase Agreement. However, given the circumstances described in Part II, LUK-MB1 Report, Item 9 above, there is no assurance that LUK-MB2 will be able to request additional draws under the 2006B Bond Purchase Agreement to pay for such Work; if additional draws are not funded to pay for the costs of such Work, private funds will be required to pay for these costs and there is no assurance that such funds will be available. The other portion of the costs for such Work is intended to be funded with private funds or from proceeds of lot sales; however, there is no assurance that such funds will be available. See also additional information regarding status of lot sales and contracts in Part II, LUK-MB2 Report, Item 5a below.

- b. 2006 Redevelopment Projects to be financed, in part, with proceeds of the Bonds as described in the Limited Offering Memorandum:

As of June 30, 2009, the development plan for the Phase II 2006 Redevelopment Projects had not changed since the adoption of the Second Amended Master Plan.

The Phase II North site work - which includes Iris Avenue (now known as Iris Street ["Iris"]), England Street (now known as Hendrick Avenue ["Hendrick"]) and Gunnery Street (now known as Carlson Lane ["Carlson"]), portions of Wainwright Avenue (now known as Johnson Street ["Johnson"], Howard Avenue and Hackler Street), in each case including, but not limited to, sanitary sewer, storm sewer, installation of water lines, utilities, road work, curbs and drainage structures is substantially completed and approved for use by the Department of Health and Environmental Control ("DHEC"). The water and sanitary systems have been dedicated to the City. The process of delivering and dedicating these public streets and the storm sewer systems to the City was completed during the first quarter of 2009.

With regard to the Phase II South A site work - which includes portions of Forrester Street (now known as Murray Avenue ["Murray"]), portions of Tillman Street (now known as Pancho Street ["Pancho"]) and portions of Johnson Avenue, and Kruzell Street), in each case, including, but not limited to, sanitary sewer, storm sewer, installation of water lines, utilities, road work, curbs and drainage structures is substantially completed and approved for use by DHEC. The water and sanitary sewer systems have been dedicated to the City. The process of delivering and dedicating these public streets and the

storm sewer systems to the City was completed during the first quarter of 2009.

With regard to the Phase II South B, C and D site work (which includes all roads in Phase II South except the roads adjacent to tract R-13 (known as Phase II South D) and those included in Phase II South A), a contract was awarded to Weaver during the fourth quarter of 2007 and construction commenced in the first quarter of 2008. The Phase II South B contract was substantially completed during the second quarter of 2009. Dedication of these public streets and storm systems to the City is expected during the third quarter of 2009. The construction to be performed under the Phase II South C contract and all punchlist items were substantially completed during the second quarter of 2009. Dedication of these public streets and storm systems to the City is expected during the third quarter of 2009. With regard to the Phase II South D site work (which includes all public roads adjacent to tract R-13), contracts have not yet been sought and Work has not yet commenced. The Phase II South D site work is intended to be paid for with funds drawn under the 2006B Bond Purchase Agreement. Given the circumstances described in Part II, LUK-MB1 Report, Item 9 above, there is no assurance that LUK-MB2 will be able to request additional draws under the 2006B Bond Purchase Agreement to pay for this Work. If additional draws are not funded to pay for the costs of such Work, private funds will be required to pay for these costs and there is no assurance that such funds will be available

As of June 30, 2009, based on the contracts awarded to such date, LUK-MB2 continued to anticipate a decrease of \$2,003,830 in the projected cost of the Phase II 2006 Redevelopment Projects against the estimate therefor contained in the Limited Offering Memorandum. As construction continues and additional contracts are awarded, the projected cost of the Phase II 2006 Redevelopment Projects may change.

3. Status of Phase II of the Market Common Development:

a. Statement of Whether Ownership of any Phase II Parcel has Changed:

There have been no changes in the ownership of any parcel within Phase II of the Market Common Development during the quarter ended June 30, 2009.

b. Information regarding the Issuance of any Building Permit for any parcel in Phase II of the Market Common Development:

As of June 30, 2009, no additional site permits had been received by LUK-MB2.

c. Status of Approvals for Phase II of the Market Common Development:

There have been no changes to the approvals for such portions of the Market Common Site as described in the following section of the Limited Offering Memorandum entitled "THE MARKET COMMON DEVELOPMENT AND THE MARKET COMMON DEVELOPERS – Zoning and Governmental Approvals"; however, during the second quarter of 2009, the Developers submitted an Eighth Amendment to the Master Plan for the Market Common, Myrtle Beach (the "Proposed Eighth Amendment"), which would allow for the building of 66 detached single family homes on tract R-12 rather than 95 townhomes. The Proposed Eighth Amendment was adopted by the City on June 23, 2009, by Ordinance No. 2009-47.

4. Statement of Zoning Classification Changes:

During the quarter ended June 30, 2009, there were no zoning classification changes in addition to the Detached Single Family Home Zoning Ordinance Amendment (as such term is defined as and further described in the First Quarter Disclosure Statement) adopted during the first quarter of 2009 for any parcel within Phase II, except the Detached Single Family Home Zoning Ordinance Amendment as described in Part II, LUK-MB2 Report, Item 3c above.

5. Contracts and Closed Sales:

a. Lots or Parcels under Contract and Closed Sales:

No new contracts for lots or parcels within Phase II of the Market Common Development were entered into during the first quarter of 2009.

The result of the previously-disclosed termination of the contract between RWO Acquisitions, LLC ("RWO") and MB Property Development III L.L.C. ("MB") (the "MB Agreement") is that there is no longer in place a contract for the purchase of tracts R-6 (Parcels 205, 206 and 207), R-7 (Parcels 226, 227 and 229) and C-4 (Parcels 230 and 232).

MB had previously purchased tract C-5 (Parcels 201 and 203) (the "C-5 Parcel"), which C-5 Parcel is intended to be improved with 128 condominiums. Under the terms of the MB Agreement, MB was obligated to commence construction of such condominiums on or before October 31, 2008. As of the date hereof, construction of these condominiums has not yet commenced. LUK-MB2 has no information with respect to MB's plans for tract C-5.

On January 31, 2008, LUK-MB2 entered into an Amended and Restated Lot Sale Agreement with Market Common Townhomes, Inc. ("MCTI") whereby

LUK-MB2 has agreed to sell MCTI seven hundred thirty-two (732) lots within Phase II (the "MCTI Agreement"). Under the terms of the MCTI Agreement, MCTI is obligated to purchase a certain number of lots every year from March to March. During the period from March 30, 2008, through March 29, 2009, MCTI did not purchase the required number of lots. LUK-MB2 is entitled to declare MCTI in default under the terms of the MCTI Agreement, but has not done so. Rather, LUK-MB2 has exchanged oral and written communication with MCTI regarding entering into a modification to and partial assignment of the Amended and Restated Lot Sale Agreement that would waive the default described above by MCTI, allow MCTI, or its affiliated entity, Dockstreet at the Market Common, Inc. ("Dockstreet") to purchase tracts R-6 and R-7, and would assign Dockstreet the right to purchase all lots, except tract R-13, currently under contract pursuant to the MCTI Agreement. Subject to conditions, including but not limited to pre-sale of units and limits on the maximum committed funds available at any one time, financing for the purchase and construction of vertical improvements of various lots pursuant to the terms of the modification to and partial assignment of the Amended and Restated Lot Sale Agreement, if the above-described modification is executed, may be provided by an affiliate of LUK-Myrtle Beach, LLC (the "Affiliate"). However, there is no assurance that funding will be available to MCTI or Dockstreet by the Affiliate or any other entity to purchase the lots currently under contract pursuant to the MCTI Agreement or additional lots pursuant to any modification thereof, if executed, or to construct vertical improvements.

As described in Part II, LUK-MB2 Report, Item 2a above, additional horizontal improvement work needs to be performed for a substantial number of tracts comprising Phase II. A portion of such costs were originally intended to be paid for with private funds or from proceeds of lot sales. As described in this Section, the pace of lot sales is slower than originally projected by LUK-MB2, in turn reducing the amount of revenue from lot sales available to LUK-MB2 to fund such costs. Accordingly, there is no assurance that funds will be available to fund such horizontal improvement costs or other expenses of LUK-MB2, including, but not limited to, real estate taxes or special assessments, if any, assessed against Phase II parcels owned by LUK-MB2.

b. Status of any Phase II Vertical Development Activity:

As of June 30, 2009, LUK-MB2 did not plan to do any vertical improvements in Phase II.

6. Legislative, Administrative or Judicial Challenges:

To the actual knowledge of LUK-MB2, as of June 30, 2009, there had been no legislative, administrative or judicial challenges to the construction of Phase II or the validity of the duly recorded plan or other public approvals.

7. Notice of Default on Construction Loan:

As of June 30, 2009, LUK-MB2 had not received formal written notice of its default under any construction loan that finances any part of the Market Common Development; LUK-MB2 is not party to any construction loan financing for any part of the Market Common Development. See, however, the information set forth in Part II, LUK-MB1 Report, Item 7 above with respect to LUK-MB1's construction loan financing for Phase I.

8. Modification of Development Agreement, Infrastructure Purchase Agreement or TIF Agreement:

As of June 30, 2009, there had been no material amendments or supplements to the Development Agreement, the PIPA or the TIF Agreement.

9. Statement of Default under the Development Agreement, the Infrastructure Purchase Agreement, and the TIF Agreement:

As of June 30, 2009, LUK-MB2 had not been informed of any default with respect to the Development Agreement, the PIPA or the TIF Agreement; however, if a Default under the Loan Agreement is deemed to have occurred either directly or through a cross default as described in Part II, LUK-MB1 Report, Item 7 above, the City could deem there to be a default under the PIPA and the TIF Agreement entitling it to exercise certain remedies set forth in the PIPA and TIF Agreement as further described under "Infrastructure Purchase Agreement" and "Tax Increment Financing Agreement" in the Limited Offering Memorandum. As of June 30, 2009, the City has not declared a default under the PIPA or the TIF and has continued disbursing proceeds of both the Series 2006A Bonds and Series 2006B Bonds as described above.

10. Statement Regarding 2006B Bonds:

a. Amount Drawn under the 2006B Bond Purchase Agreement:

As of June 30, 2009, the total amount drawn under the 2006B Bond Purchase Agreement was \$8,789,835, of which amount, \$7,152,568 was drawn by LUK-MB2 and \$1,637,267 was drawn by LUK-MB1.

b. Default by City or Bond Purchaser under the 2006B Bond Purchase Agreement:

As of June 30, 2009, LUK-MB2 had not been informed of any default by the City or the bond purchaser under the 2006B Bond Purchase Agreement.

Circumstances Materially Adversely Affecting the Making of Further Draws under the 2006B Bond Purchase Agreement:

See Part II, LUK-MB2 Report, Item 9 above, to the extent that the circumstances described therein could impact the ability of LUK-MB1 or LUK-MB2 to request additional draws under the 2006B Bond Purchase Agreement including, but not limited to, as a result of a default under the PIPA or the TIF Agreement.

LUK-MB5, LLC REPORT AS OF JUNE 30, 2009

1. Material Change in Form, Organization or Ownership of the LUK-MB5 from that described in the section of the Limited Offering Memorandum: "THE MARKET COMMON DEVELOPMENT AND THE MARKET COMMON DEVELOPERS – The Market Common Developers and Key Development Team Members – LUK-MB5":

None

2. Status of Completion, including material changes to the plan of completion, of each of the following:
 - a. Phase IA of the Market Common Development and related improvements described in the sections of the Limited Offering Memorandum entitled "THE MARKET COMMON DEVELOPMENT AND MARKET COMMON DEVELOPERS – The Market Common Development" and "Phase IA":

Since the date of closing on the Series 2006A Bonds, seven (7) amendments to the Master Plan for the Market Common, Myrtle Beach (the "Original Master Plan") have been adopted by the City; none of which have resulted in changes to Phase IA of the Market Common Development ("Phase IA"). On January 8, 2009, LUK-MB5 submitted a seventh amendment to the Master Plan for the Market Common, Myrtle Beach, proposing to amend the Master Plan to allow for 126 residential units (with an option for an additional 30 residential units) to be built on Phase IA (including some detached single family homes, a clubhouse and a swimming pool) in place of 175,000 rentable square feet of space for retail development (the "Proposed Seventh Amendment"). The City Council was scheduled to have its first reading of the Proposed Seventh Amendment; however, that hearing has been postponed pending resolution of concerns raised by the RDA (as defined in Part II, LUK-MB5 Report, 3a below) regarding the Proposed Seventh Amendment and LUK-MB5's further analysis of the impact of the conditions contained in the New Deed (as defined below) and the recording of the New Deed on the nature, scope, timing and viability of Phase IA and the viability of the 6.3 Acre Site. LUK-MB5 is unable to predict how and when final resolution of the concerns relating to the Proposed Seventh Amendment will be reached.

During the first quarter of 2009, a request to amend Section 1222.2.1 of Appendix A of the Zoning Ordinance was submitted which would allow, together with an approved amendment to the Master Plan, for the building of detached single family homes within the C-6 district (including Phase II and Phase IA) (the "Proposed Detached Single Family Home Zoning Amendment"). On March 24, 2009, the City adopted, by Ordinance No. 2009-16, the Detached Single Family Home Zoning Ordinance Amendment allowing for single family detached dwellings to be built on tract C-6, but only when included in an approved master plan.

As of June 30, 2009, vertical construction had not begun on Phase IA. The site plan of Phase IA will likely continue to change depending on market opportunities and conditions, the suitability and/or leasability of the 6.3 Acre Site and resolution of issues in connection therewith as discussed below. As of June 30, 2009, LUK-MB5 continued to be uncertain of the impact of the issues surrounding the 6.3 Acre Site and current market and economic conditions on the projected Phase IA development plan set forth in the Limited Offering Memorandum.

- b. 2006 Redevelopment Projects to be financed, in part, with proceeds of the Bonds as described in the Limited Offering Memorandum:

With regard to the E site work (the "E Site Work") which is part of the Phase IA 2006 Redevelopment Projects (known as the extension of Howard Avenue), a contract was awarded to Weaver during the fourth quarter of 2007 and construction commenced in the first quarter of 2008. The E Site Work contract and all punchlist items were substantially completed during the second quarter of 2009. Dedication of this public street and storm systems to the City is expected during the third quarter of 2009.

Under the terms of the PIPA, LUK-MB2 assumed the obligations of LUK-MB5 for the Phase IA 2006 Redevelopment Projects. Therefore, LUK-MB2 entered into the contract with Weaver to complete the E site work and LUK-MB2 had requested funds under the 2006B Bond Purchase Agreement to pay for a portion of this work. LUK-MB2 anticipates requesting additional funds under the 2006B Bond Purchase Agreement to pay for the remainder of this work; however, future requests under the 2006B Bond Purchase Agreement to pay for the balance of the E site work will be subject to favorable resolution of the matters discussed in Part II, LUK-MB1 Report, Item 7 above, including the availability of funding.

It was reported in the First Quarter Disclosure Statement that funds previously disbursed for E site work were mistakenly allocated to the Phase II 2006 Redevelopment Projects and that those funds will be reallocated to the Phase IA 2006 Redevelopment Projects in May 2009. It was subsequently determined that, because the LUK-MB2 was entitled under the PIPA to request

funds under the 2006B Bond Purchase Agreement to pay for this work and because the contract for construction of Phase II South B, C and E was bid for one price, reallocation to the Phase IA 2006 Redevelopment Projects is unnecessary.

As of June 30, 2009, LUK-MB5 does not anticipate any increase in the projected cost of the Phase IA 2006 Redevelopment Projects.

3. Status of Phase IA of the Market Common Development:

a. Statement of Whether Ownership of any Phase IA Parcel has Changed:

The 6.3 Acre Site was transferred by quitclaim deed dated March 19, 2008, ("New Deed") with land use control restrictions due to the environmental condition of the property from the United States of America to Myrtle Beach Air Force Base Redevelopment Authority (the "RDA") subsequent to the issuance of Finding of Suitability to Transfer ("FOST") by the Air Force Real Property Agency. The deed was recorded on April 4, 2008. On April 7, 2008, the RDA sent a letter setting a closing date for the purchase of the 6.3 Acre Site for May 19, 2008. Although the Purchaser under the purchase agreement (the "Purchaser") is entitled to close on the purchase of the 6.3 Acre Site, according to the terms of the purchase agreement, the Purchaser contends, and sent a letter to the RDA to that effect on May 9, 2008, that it is not required to purchase the 6.3 Acre Site unless such property is in an environmental condition acceptable to the Purchaser and after issuance of a FOST. Although a FOST has been issued as described above, the current environmental condition of the 6.3 Acre Site is not acceptable to the Purchaser, which fact Purchaser set forth in an email to the RDA on September 23, 2008; therefore, as of June 30, 2009, the Purchaser continued to refuse to purchase the 6.3 Acre Site and was considering whether or not to continue its lease of the 6.3 Acre Site until the environmental condition of the 6.3 Acre Site is remediated. There continues to be uncertainty as to how the situation with respect to the 6.3 Acre Site and the related impact on the remainder of Phase IA will be resolved, including whether the Purchaser will be able or will choose to lease the 6.3 Acre Site and whether either the Purchaser or the RDA will take any legal actions with respect to the situation. The Purchaser, as of the date hereof, is continuing to assess its legal, development, project and other options. However, as indicated above, LUK-MB5 continues to be uncertain of the impact of the conditions contained in the New Deed and the recording of the New Deed on the nature, scope, timing and viability of Phase IA and the viability of the 6.3 Acre Site.

During the second quarter of 2009, there have been no other changes in the ownership of any parcel in Phase IA.

- b. Information Regarding the Issuance of any Building Permit for any parcel in Phase IA of the Market Common Development:

LUK-MB5 has not sought or received any permits for Phase IA.

- c. Status of Approvals for Phase IA of the Market Common Development:

There have been no changes to the approvals for such portions of the Market Common Site as described in the following section of the Limited Offering Memorandum entitled "THE MARKET COMMON DEVELOPMENT AND THE MARKET COMMON DEVELOPERS – Zoning and Governmental Approvals". The Eighth Amended Master Plan does not affect Phase IA. As described in Part II, LUK-MB5 Report, Item 2a above, the Proposed Seventh Amendment is pending. As reported in the First Quarter Disclosure Statement, the Detached Single Family Home Zoning Ordinance Amendment was adopted on March 24, 2009, by Ordinance No. 2009-16.

- 4. Statement of Zoning Classification Changes:

There have been no zoning classification changes for any parcel within Phase IA, except the Detached Single Family Home Zoning Ordinance Amendment as described in the First Quarter Disclosure Statement.

- 5. Leasing, Contracts and Closed Sales:

- a. Retail Commercial or Residential Leasing Status:

As indicated in the Limited Offering Memorandum, commencement of Phase IA was not scheduled to occur until on or about the third quarter of 2008 and was projected to be largely driven by demand from third parties and, more recently, the Proposed Seventh Amendment described in Item 2a above, and the timing and manner of resolution of the issues surrounding the 6.3 Acre Site described in Item 3a above. As such, construction did not commence during the third quarter of 2008 and, based on current market conditions and the matters described in Part II, LUK-MB1 Report, Item 7, *infra*, development of Phase IA is not anticipated to commence until after approval of the Proposed Seventh Amendment, resolution of the issues surrounding the 6.3 Acre Site, any resultant changes in the development plan for Phase IA as a result of each of the foregoing, favorable resolution, if possible, of the issues described in Part II, LUK-MB1 Report, Item 7, above, and improvement of general economic conditions. As of June 30, 2009, LUK-MB5 was not marketing Phase IA.

- b. Lots Under Contract and Closed Sales:

No lots or parcels within Phase IA are under contract and no sale transactions have been closed within Phase IA.

c. Status of any Phase IA Vertical Development Activity:

Market conditions and opportunities at the time of the commencement of development of Phase IA will dictate whether LUK-MB5 will conduct any vertical development in Phase IA.

6. Legislative, Administrative or Judicial Challenges:

To the actual knowledge of LUK-MB5, there have been no legislative, administrative or judicial challenges to the construction of Phase IA or the validity of the duly recorded plan or other public approvals.

7. Notice of Default on Construction Loan:

As of June 30, 2009, LUK-MB5 had not received formal written notice of its default under any construction loan that finances any part of the Market Common Development; LUK-MB5 is not party to any construction loan financing any part of the Market Common Development. See, however, the information set forth in Part II, LUK-MB1 Report, Item 7, above with respect to LUK-MB1's construction loan financing for Phase I.

PART III - SIGNIFICANT EVENTS

None of LUK-MB1, LUK-MB2, or LUK-MB5 has actual knowledge of the occurrence of any Significant Event, as described in Section 5 of the Agreement, except to the extent that (i) the receipt of certain Notices of Default from the Agent, on behalf of the Lenders, or from Chase, with respect to the Swap Agreement, and (ii) the failure to pay interest on the Mezzanine Loan, each as more specifically set forth in Part II, LUK-MB1 Report, Item 7 above, may constitute a Significant Event.

PART IV – RECENT DEVELOPMENTS

1. Carlyle & Company of Montgomery (“Carlyle”) had previously advised LUK-MB1 that it intended to close its store in Phase I on approximately August 1, 2009. On July 20, 2009, LUK-MB1 received notification from Carlyle that their store would remain open through December 2009. Carlyle is included in the overall leasable area of the Phase I retail, commercial and offices areas as reported in this Continuing Disclosure Statement. For the impact of Carlyle on the co-tenancy provisions of certain leases, see Part II, LUK-MB1 Report, Item 5a, footnote 2.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, we have hereunto set our hands as of this 14th day of August, 2009.

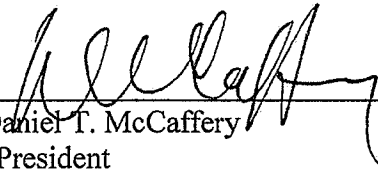
With respect to the Part I Periodic Report of LUK-MB1, LLC and Part II:

LUK-MB1, LLC,
a Delaware limited liability company

By: LUK-MB1 HOLDINGS, LLC,
Its Sole Member

By: McMYRTLE LLC,
Its Managing Member

By: McCAFFERY INTERESTS, INC.,
Its Manager



Name: Daniel T. McCaffery
Title: Its President

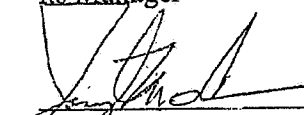
[ADDITIONAL SIGNATURE PAGE FOLLOWS]

With respect to the Part I Periodic Report of LUK-MB2, LLC and Part II:

LUK-MB2, LLC,
a Delaware limited liability company

By: LUK-MYRTLE BEACH, LLC,
Its Co-Managing Member

By: LUK-MB LLC,
Its Manager



Name: *Joseph M O'Connor*
Title: *Vice President*

By: McMYRTLE LLC,
Its Co-Managing Member

By: McCAFFERY INTERESTS, INC.,
Its Manager

Name: Daniel T. McCaffery
Title: Its President

[ADDITIONAL SIGNATURE PAGE FOLLOWS]

With respect to the Part I Periodic Report of LUK-MB2, LLC and Part II:

LUK-MB2, LLC,
a Delaware limited liability company

By: LUK-MYRTLE BEACH, LLC,
Its Co-Managing Member


By: LUK-MB LLC,
Its Manager

Name:

Title:

By: McMYRTLE LLC,
Its Co-Managing Member

By: McCAFFERY INTERESTS, INC.,
Its Manager



Name: Daniel T. McCaffery

Title: Its President

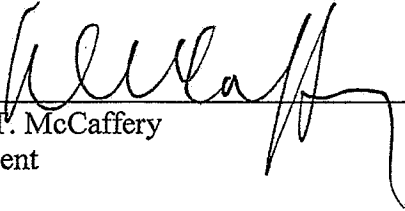
[ADDITIONAL SIGNATURE PAGE FOLLOWS]

With respect to the Part I Periodic Report of LUK-MB5, LLC and Part II:

LUK-MB5, LLC,
a Delaware limited liability company

By: McMYRTLE LLC,
Its Managing Member

By: McCAFFERY INTERESTS, INC.,
Its Manager



Name: Daniel T. McCaffery
Title: Its President