

MEMORANDUM

Date: 26 June 2007

To: Brian O'Connell, Director of Community Development

From: Scott Fergus, President

Subject: Letter of Credit Participation by the City

Pursuant to our meeting this morning, this memo describes our request to the City of Racine to provide a partial guaranty for a \$3,600,000 Letter of Credit ("LOC") being provided by First Wisconsin Bank & Trust to Key Bridge Group, Inc.

OVERVIEW OF LOC

This LOC is required in order for the Pugh Coal Company shareholders to agree to hold back the final installment payment for the purchase of their company of \$3,600,000. This LOC will mature in 36 months with no default risk or payment risk prior to the expiration of this 36 month term.

SUMMARY OF CAPITAL PROVIDERS AND REPAYMENT

In summary, the different capital providers in this transaction and their priority of payments are as follows:

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|---|----------------|
| 1. Senior Debt Lender - Citigroup | \$50.6 million |
| 2. Senior Subordinated Lender | |
| i. Cambridge Partners | \$11.7 million |
| ii. Pugh Coal Company
(backed by Letter of Credit providers) | \$3.6 million |
| 3. Junior Subordinated Lender - Brownfields Capital | \$3.5 million |

Under the loan agreements, the Pugh Coal Note is subordinate only to Citigroup and it is fully expected that the cash proceeds from the sale of units at Pointe Blue will be sufficient to fully pay off this LOC. Further, the project's Investment Manager, Brownfields Capital, projects that the funds targeted for the payoff of the \$3,600,000 note with Pugh Coal Company is scheduled to be paid of by month 31 of the project. This projection is based on a conservative sales pace of 75 per year, which is 63% of the 119 annual sales projected by our market research firm, Tracy Cross & Associates from Chicago, IL.

REQUEST AND BORROWER

This request is for the City to provide a limited guaranty of up to \$750,000 of the \$3,600,000 Letter of Credit that provides the backing for the Pugh Coal Company Senior Subordinated Note. The borrower,

Key Bridge Group, Inc. has provided acceptable collateral of \$2,850,000 to First Wisconsin Bank and is requesting this limited amount from the City to fill the final piece of the collateral required for this LOC.

To date Key Bridge has invested over \$3,900,000 in cash to pay for earnest fund deposits and project costs. In addition to the LOC above, Key Bridge will be providing an additional Developer Standby to the Pointe Blue Lenders in the amount of \$2,700,000 as the first stop to fund any cost overruns should they occur.

IF FUNDS ARE DRAWN, HOW ARE THEY REPAYED:

Even though it is fully expected that the funds backing this limited guaranty by the City will never be used, in the event they are drawn these funds are then considered a loan to the project in the Senior Subordinated tranche and must be paid back prior to not only Key Bridge receiving any profits but also the Junior tranche lender, Brownfields Capital.

This limited guaranty is the last piece to put in place for the Pointe Blue project to be able to close and commence this long awaited and historic project for our City.

Please let me know if you have any questions.

As always, thank you.