

HK&C

HART, KING & COLDREN

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July 5, 2007

Our File Number: 35762.001/463

PERSONAL & CONFIDENTIAL

VIA FACSIMILE and U. S. MAIL
(949) 263-8414

Steven P. Rice, Esq.
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Re: Request for Investigation

Dear Mr. Rice:

We are receipt of your letter dated June 22, 2007, responsive to my letters of May 10, 2007 and June 1, 2007. You will recall that I had generally requested that you identify precisely the transactions about which your clients had concerns especially as they related to any alleged breach of fiduciary duties by a GRF Board of Directors. This letter is intended to serve as a response on behalf of only the GRF Board.

In your recent letter, you alleged that it is a "further breach of duty" for GRF not to immediately undertake to investigate and report on essentially all of its past actions, as well as "future transgressions, acts and omissions," etc. Setting aside for a moment all encompassing and/or speculative nature of your demand, let me assure you that the Board is aware of its fiduciary duties of loyalty and care. The Board is certainly aware of the fact that they are charged with the responsibility to act in the best interests of the corporation and the shareholders while contemplating and/or taking any action that would effect those interests. The Board is also aware of the statutory rights of members under Section 1365.2 of the Davis-Stirling Act entitling them to obtain certain categories of records. However, there appears to be no duty on the part of the Board, pursuant to Davis-Stirling or case law, that would require the Board to undertake a comprehensive retrospective investigation and analysis of (in your words) "all past transactions, acts, and omissions" over many years responsive to a demand by a few of its members.

Rest assured that the Board has considered the substantial open-ended time and expense that would need to be committed to respond to all of the demands that you have made on behalf of your clients and weighed that anticipated expenditure of time and money against the benefit to be gained therefrom. In exercising its business judgment, the Board has determined that such an open-ended expenditure of time and expense given the broad and speculative nature of your demands would be unwarranted and imprudent.

Please be assured that the Board, in exercising its discretion under the Business Judgment Rule, carefully reviewed and considered each of the 11 demands made to the Board in your last correspondence and considered the anticipated time and expense that would be incurred by Board members, committee members, staff members and attorneys in attempting to investigate,



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analyze and opine on all of your demands. Further, the Board noted that most of your demands are of a broad and nonspecific nature without limitation to specific documents, a specific timeframe and/or specific Board actions that your clients believe are in some way suspect. In addition, a number of your requests seek investigation and analysis of "future acts or omissions" which would presumably require the Board, its staff and attorneys to engage in some speculative analysis about such actions of which the Board is presently unaware.

The Board did request that I clarify for your client what appears to be a fundamental misapprehension on their part concerning the governing documents that apply to GRF's activities. GRF does not have CC&Rs that govern its activities. At your request, we did carefully review the recorded documents referenced in the Stewart Title report and have been unable to identify any recorded documents that are inconsistent with any particular Board action. Perhaps if you can identify a specific GRF governing document that your clients believe is inconsistent with some specific Board action, then that might allow the Board to focus its analysis in a cost effective way.

The Board remains ready, willing and able to consider a specific request for investigation and analysis so long as that request is sufficiently focused so as to allow the Board to balance the time and cost of pursuing such an investigation against the likelihood of an outcome beneficial to the corporation and a majority of its members.

Thank you for your attention to this matter.

Very truly yours,

HART, KING & COLDREN

William R. Hart

WRH/dr